

**CITY OF VISALIA
TRANSPORTATION DEVELOPMENT ACT FUNDS AND
MEASURE R TRANSPORTATION FUNDS**

FINANCIAL STATEMENTS

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2021
WITH COMPARATIVE TOTALS**

**CITY OF VISALIA
TRANSPORTATION DEVELOPMENT ACT FUNDS AND
MEASURE R TRANSPORTATION FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021
WITH COMPARATIVE TOTALS**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Tulare County Association of Governments
Visalia, California

To the City Council
City of Visalia
Visalia, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure R Special Revenue Fund (the Measure R Fund) and the Local Transportation Special Revenue Fund and the Transit Enterprise Fund (collectively, the Transportation Development Act (TDA) Funds) of the City of Visalia (the City), as of and for the fiscal year ended June 30, 2021, and the related notes to the fund financial statements, which collectively comprise the City's Measure R Fund's and TDA Funds' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Measure R Fund and the TDA Funds of the City, as of June 30, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, these financial statements present only the Measure R Fund and the TDA Funds and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2021, or the changes in its financial position for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted Management's Discussion and Analysis, Budgetary Comparison Schedules, Schedule of the City Transit Enterprise Fund's Proportionate Share of the City's Net Pension Liability, and the Schedule of Contributions that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

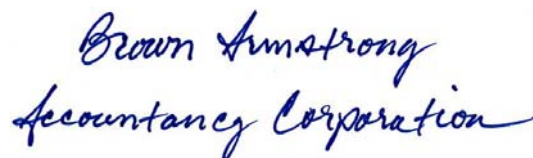
Report on Summarized Comparative Information

The June 30, 2020 summarized comparative information has been derived from the 2020 financial statements and is included for additional analysis only. We have previously audited the City's financial statements related to the Measure R Fund and the TDA Funds, and our report dated March 25, 2021, expressed an unmodified opinion on those audited basic financial statements. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2020, is consistent in all material respects, with the audited basic financial statements from which it was derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2022, on our consideration of the City's internal control over financial reporting relating to the Measure R Fund and the TDA Funds and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance relating to the Measure R Fund and the TDA Funds and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance relating to the Measure R Fund and the TDA Funds. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance relating to the Measure R Fund and the TDA Funds.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive, flowing style.

Bakersfield, California
March 22, 2022

**CITY OF VISALIA
LOCAL TRANSPORTATION SPECIAL REVENUE FUND
BALANCE SHEET
JUNE 30, 2021
WITH COMPARATIVE TOTALS**

	2021	2020
ASSETS		
Cash and cash equivalents	\$ 860,779	\$ -
Restricted cash and cash equivalents	603,143	784,651
Accounts receivable	-	15,922
Due from other governments	3,490,759	2,406,685
TOTAL ASSETS	\$ 4,954,681	\$ 3,207,258
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable	\$ 324,736	\$ 332,486
Due to other City funds	-	300,426
TOTAL LIABILITIES	324,736	632,912
FUND BALANCE		
Restricted by:		
Laws and regulations of other governments	4,629,945	2,574,346
FUND BALANCE	4,629,945	2,574,346
TOTAL LIABILITIES AND FUND BALANCE	\$ 4,954,681	\$ 3,207,258

The accompanying notes are an integral part of these financial statements.

**CITY OF VISALIA
LOCAL TRANSPORTATION SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2021
WITH COMPARATIVE TOTALS**

	<u>2021</u>	<u>2020</u>
REVENUES		
Local transportation funds	\$ 1,458,911	\$ 275,000
Other grants	4,502,934	3,852,542
Other revenues	49,161	15,923
Interest	<u>5,407</u>	<u>36,811</u>
 TOTAL REVENUES	 <u>6,016,413</u>	 <u>4,180,276</u>
 EXPENDITURES		
Construction and maintenance	3,960,567	3,979,718
Administration	<u>247</u>	<u>361</u>
 TOTAL EXPENDITURES	 <u>3,960,814</u>	 <u>3,980,079</u>
 Net change in fund balance	 <u>2,055,599</u>	 <u>200,197</u>
 Fund balance, beginning	 <u>2,574,346</u>	 <u>2,374,149</u>
 Fund balance, ending	 <u><u>\$ 4,629,945</u></u>	 <u><u>\$ 2,574,346</u></u>

The accompanying notes are an integral part of these financial statements.

**CITY OF VISALIA
 MEASURE R SPECIAL REVENUE FUND
 BALANCE SHEET
 JUNE 30, 2021
 WITH COMPARATIVE TOTALS**

	2021	2020
ASSETS		
Cash and cash equivalents	\$ 6,888,779	\$ 5,127,373
Due from other governments	1,948,827	2,717,087
TOTAL ASSETS	\$ 8,837,606	\$ 7,844,460
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable	\$ 554,131	\$ 640,535
Due to other City funds	521,921	2,128,312
TOTAL LIABILITIES	1,076,052	2,768,847
FUND BALANCE		
Restricted by:		
Laws and regulations of other governments	7,761,554	5,075,613
FUND BALANCE	7,761,554	5,075,613
TOTAL LIABILITIES AND FUND BALANCE	\$ 8,837,606	\$ 7,844,460

The accompanying notes are an integral part of these financial statements.

**CITY OF VISALIA
 MEASURE R SPECIAL REVENUE FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE
 FOR THE FISCAL YEAR ENDED JUNE 30, 2021
 WITH COMPARATIVE TOTALS**

	2021	2020
REVENUES		
Measure R transportation funds	\$ 3,400,598	\$ 2,786,017
Measure R trailway and special projects funds	3,221,666	2,509,037
Other revenue	35,950	2,062
Interest	25,367	139,459
	6,683,581	5,436,575
EXPENDITURES		
Local program	1,908,298	1,663,256
Trailway	201,324	739,713
Special projects	1,888,018	2,362,306
	3,997,640	4,765,275
Net change in fund balance	2,685,941	671,300
Fund balance, beginning	5,075,613	4,404,313
Fund balance, ending	\$ 7,761,554	\$ 5,075,613

The accompanying notes are an integral part of these financial statements.

**CITY OF VISALIA
TRANSIT ENTERPRISE FUND
STATEMENT OF NET POSITION
JUNE 30, 2021
WITH COMPARATIVE TOTALS**

	2021	2020
ASSETS		
Current assets		
Cash and cash equivalents	\$ 35,141,450	\$ 27,707,394
Accounts receivable	294,588	236,188
Due from other governments	10,276,267	13,974,770
Total current assets	45,712,305	41,918,352
Capital assets		
Non-depreciable	4,712,853	4,615,865
Depreciable	57,846,059	58,157,145
Accumulated depreciation	(30,040,027)	(27,742,708)
Total capital assets, net	32,518,885	35,030,302
TOTAL ASSETS	78,231,190	76,948,654
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension	308,589	324,988
LIABILITIES		
Current liabilities		
Accounts payable	1,720,193	4,193,688
Grant advances	2,756,439	3,768,625
Total current liabilities	4,476,632	7,962,313
Noncurrent liabilities		
Compensated absences	46,393	44,781
Net pension liability	2,245,631	2,171,872
Total noncurrent liabilities	2,292,024	2,216,653
TOTAL LIABILITIES	6,768,656	10,178,966
DEFERRED INFLOWS OF RESOURCES		
Deferred pension	42,541	65,448
NET POSITION		
Net investment in capital assets	32,518,885	35,030,302
Restricted	39,209,697	31,998,926
TOTAL NET POSITION	\$ 71,728,582	\$ 67,029,228

The accompanying notes are an integral part of these financial statements.

**CITY OF VISALIA
TRANSIT ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2021
WITH COMPARATIVE TOTALS**

	2021	2020
OPERATING REVENUES		
Fares	\$ 603,730	\$ 1,371,242
Other operating revenues	2,083,203	2,766,809
Total operating revenues	2,686,933	4,138,051
OPERATING EXPENSES		
Maintenance and operations	13,196,351	13,566,686
Salaries and employee benefits	991,233	1,038,028
Depreciation	2,720,394	3,077,510
Total operating expenses	16,907,978	17,682,224
Operating loss	(14,221,045)	(13,544,173)
NONOPERATING REVENUES (EXPENSES)		
State Transit Assistance	880,357	1,183,235
Local transportation funds	6,681,615	5,283,409
Measure R	-	783,200
Federal Transit Assistance	8,635,838	7,945,185
Other grants	210,592	2,083,783
Rental of facilities	241,681	249,698
Interest income	142,875	718,296
Other income	738,915	736,283
Other expenses	(353,215)	(121,406)
Total nonoperating revenues (expenses)	17,178,658	18,861,683
CAPITAL REVENUES		
Federal Transit Assistance	1,741,741	2,504,257
State of Good Repair (SGR) Grant	-	216,246
Total capital revenues	1,741,741	2,720,503
Change in net position	4,699,354	8,038,013
Net position, beginning	67,029,228	58,991,215
Net position, ending	\$ 71,728,582	\$ 67,029,228

The accompanying notes are an integral part of these financial statements.

**CITY OF VISALIA
TRANSIT ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021
WITH COMPARATIVE TOTALS**

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Cash receipts from customers	\$ 5,314,850	\$ 2,616,766
Cash disbursements to suppliers for goods and services	(15,669,846)	(11,090,073)
Cash disbursements to employees for services	<u>(922,370)</u>	<u>(884,588)</u>
Net cash used in operating activities	<u>(11,277,366)</u>	<u>(9,357,895)</u>
Cash flows from noncapital financing activities		
State Transit Assistance funds	880,357	1,399,481
Measure R	-	783,200
Other grants	15,528,045	15,312,377
Other income	<u>627,381</u>	<u>864,575</u>
Net cash provided by noncapital financing activities	<u>17,035,783</u>	<u>18,359,633</u>
Cash flows from capital and related financing activities		
Capital grants	1,741,741	2,504,257
Acquisition and construction of capital assets	(455,437)	(1,584,942)
Proceeds from sale or disposal of capital assets	246,460	55,798
Repayments of debt	<u>-</u>	<u>(17,227)</u>
Net cash provided by capital and related financing activities	<u>1,532,764</u>	<u>957,886</u>
Cash flows from investing activities		
Interest income	<u>142,875</u>	<u>718,296</u>
Net increase in cash and cash equivalents	7,434,056	10,677,920
Cash and cash equivalents, beginning of the year	<u>27,707,394</u>	<u>17,029,474</u>
Cash and cash equivalents, end of the year	<u>\$ 35,141,450</u>	<u>\$ 27,707,394</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF VISALIA
TRANSIT ENTERPRISE FUND
STATEMENT OF CASH FLOWS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2021
WITH COMPARATIVE TOTALS**

	2021	2020
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (14,221,045)	\$ (13,544,173)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	2,720,394	3,077,510
Changes in assets and liabilities:		
(Increase) Decrease in accounts receivable	(58,400)	152,249
(Increase) Decrease in due from other governments	3,698,503	(555,071)
Decrease in deferred outflows of resources - pension	16,399	37,424
(Decrease) in deferred inflows of resources - pension	(22,907)	(12,468)
Increase (decrease) in accounts payable	(2,473,495)	2,476,613
(Decrease) in grant advances	(1,012,186)	(1,118,463)
Increase in compensated absences	1,612	530
Increase in net pension liability	73,759	127,954
Net cash used in operating activities	\$ (11,277,366)	\$ (9,357,895)

The accompanying notes are an integral part of these financial statements.

**CITY OF VISALIA
TRANSPORTATION DEVELOPMENT ACT FUNDS AND
MEASURE R TRANSPORTATION FUNDS
NOTES TO THE FUND FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021
WITH COMPARATIVE TOTALS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Measure R Special Revenue Fund (the Measure R Fund) and the Local Transportation Special Revenue Fund and the Transit Enterprise Fund (collectively, the Transportation Development Act (TDA) Funds) of the City of Visalia (the City) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting policies of the City are described below.

Measure R

The Tulare County Transportation Authority (the Authority), a component unit of the Tulare County Association of Governments, California, was established on August 7, 2006. The primary purpose of the Authority is to impose within the incorporated and unincorporated territory of Tulare County a retail transaction and use tax for transportation purposes in accordance with the provisions as provided in Division 19 (commencing with Section 180000) of the California Public Utilities Code and Part 1.6 (commencing with Section 7251) of Division 2 of the California Revenue and Taxation Code.

The tax rate shall be one-half of one percent (0.5%) per dollar for a period of thirty (30) years commencing on the operative date of this ordinance (Measure R). This tax shall be in addition to any other taxes authorized by law, including any existing or future state or local sales tax or transactions and use taxes.

The revenue derived from the tax shall be used for transportation purposes only and may include, but is not limited to, the administration of the Measure R Expenditure Plan. These purposes include expenditures for planning, environmental review, engineering and design costs, related special and expert consulting costs, and related right-of-way acquisition and associated administrative and legal costs.

A. Reporting Entity

The financial statements are intended to reflect the financial position, results of operation, and compliance of the Measure R Fund and the TDA Funds allocated for non-transit and transit purposes of the City with the laws, rules, and regulations of the TDA, Measure R, certain bond act requirements, and the Tulare County Association of Governments. They do not present fairly the financial position and results of operations of the City in conformity with accounting principles generally accepted in the United States of America.

B. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity or net position, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into two generic fund types and two broad fund categories as follows:

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting (Continued)

Governmental Fund Types

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The Local Transportation Fund and Measure R Fund are Special Revenue Funds.

Proprietary Funds

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through use charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accounting ability, or other purposes. The Transit Fund is an Enterprise Fund.

C. Measurement Focus and Basis of Accounting

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under the accrual basis of accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

D. Cash and Cash Equivalents

The City pools cash from all sources and all funds except Cash with Fiscal Agents so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time. Investments are carried at fair value.

E. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The City categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 – reflect unadjusted quoted prices in active markets for identical assets.

Level 2 – reflect inputs that are based on a similar observable asset either directly or indirectly.

Level 3 – reflect unobservable inputs.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets

Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

As the City acquires additional capital assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs, which are amounts essentially spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimates. In the case of donations, capital assets are valued at their estimated fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	25 to 50 years
Improvements other than buildings	10 to 20 years
Machinery, equipment, and vehicles	3 to 10 years

G. Use of Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Accordingly, actual results could differ from those estimates.

H. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position or balance sheet will report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of net position or balance sheet will report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

I. Compensated Absences

Compensated absences comprise unused vacation leave, vested sick pay, and certain compensated time off, which are accrued as earned. The amount recorded at June 30, 2021 and 2020, for the City's Transit Enterprise Fund was \$46,393 and \$44,781, respectively.

J. Net Position/Fund Balance

The financial statements for the enterprise fund utilize a net position presentation. Net position is categorized as follows:

Net investment in capital assets – This category represents the portion of net position which is represented by the current net book value (net of depreciation) of the City's Transit Enterprise Fund's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted net position – This category represents the portion of net position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, enabling legislation, or other restrictions which the City cannot unilaterally alter.

Unrestricted net position – This category represents net position of the fund, not restricted for any project or other purpose.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Net Position/Fund Balance (Continued)

The City adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Accordingly, governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the City is bound to honor constraints on how specific amounts can be spent.

Nonspendable fund balance – amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted fund balance – amounts with constraints placed on the use of the resource that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance – amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision making authority (the City Council).

Assigned fund balance – amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Intent can be either expressed by the City Council or by a body or an official designated by the City Council.

Unassigned fund balance – the residual classification for the City's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes. For purposes of these basic financial statements, unassigned fund balance category does not apply as the City reports only special revenue funds.

The City Council establishes, modifies, or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, followed by the unrestricted committed, assigned, and unassigned resources as they are needed. The City does not have a fund balance policy that would dictate the level of financial resources required to be in the funds at year-end. The City also does not have a formal fiscal stabilization policy.

K. Implementation of New Accounting Standards

The following Governmental Accounting Standards Board (GASB) Statements have been implemented for the fiscal year ended June 30, 2021.

GASB Statement No. 84 – *Fiduciary Activities*. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The City implemented this change with no impact to the financial statements of the City's Measure R Fund and TDA Funds.

GASB Statement No. 90 – *Majority Equity Interests—an Amendment of GASB Statements No. 14 and No. 61*. The requirements of this statement are effective for periods beginning after December 15, 2019. There was no effect on the financial statements as a result of implementing this statement.

GASB Statement No. 93 – *Replacement of Interbank Offered Rates*. The requirements of this statement are effective for periods beginning after June 15, 2020; except paragraph 11b, which is effective for reporting periods beginning after December 31, 2021, and paragraphs 13 and 14 are effective for reporting periods beginning after June 15, 2021. There was no effect on the financial statements as a result of implementing this statement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Implementation of New Accounting Standards (Continued)

GASB Statement No. 98 – *The Annual Comprehensive Financial Report*. The requirements of this statement are effective for the periods ending after December 15, 2021. Early application is encouraged. This statement establishes the term annual comprehensive financial report and its acronym ACFR. The new term and acronym replaces instances of comprehensive annual financial report and its acronym in accounting principles generally accepted in the United States of America for state and local governments. There was no significant effect on the financial statements as a result of implementing this statement.

L. Recently Released Accounting Standards Applicable to Future Years

GASB Statement No. 87 – *Leases*. The requirements of this statement are effective for reporting periods beginning after June 15, 2021. The City has not fully judged the impact of implementation of GASB Statement No. 87 on the financial statements.

GASB Statement No. 91 – *Conduit Debt Obligations*. The requirements of this statement are effective for periods beginning after December 15, 2021. The City has not fully judged the effect of implementation of GASB Statement No. 91 as of the date of the financial statements.

GASB Statement No. 92 – *Omnibus 2020*. The requirements of this statement are effective as follows:

- The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
- The requirements related to intra-entity transfer of assets and those related to applicability of GASB Statements No. 73 and No. 74 are effective for reporting periods beginning after June 15, 2021.
- The requirements related to the application of GASB Statement No. 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.

The requirements related to measurement of liabilities (and assets, if any) associated with asset retirement obligations in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021. The City has not fully judged the effect of implementation of GASB Statement No. 92 as of the date of the financial statements.

GASB Statement No. 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The requirements of this standard are effective for reporting periods beginning after June 15, 2022. The City has not fully judged the effect of implementation of GASB Statement No. 94 as of the date of the financial statements.

GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements*. The requirements of this standard are effective for reporting periods beginning after June 15, 2022. The City has not fully judged the effect of implementation of GASB Statement No. 96 as of the date of the financial statements.

GASB Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an Amendment to GASB Statements No. 14 and No. 84 and a Supersession of GASB Statement No. 32*. The requirements in paragraph 4 as they apply to defined contributions plans, defined contribution other postemployment benefit (OPEB) plans, and other employee benefit plans, and paragraph 5 were effective immediately. All other requirements of this standard are effective for reporting periods beginning after June 15, 2020. The City has elected to not early implement this statement (other than paragraphs 4 and 5) and has not fully judged the effect of implementation of GASB Statement No. 97 as of the date of the financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Grants

Grant revenues and receivables are recorded when earned (when eligible costs are incurred) on grants, which have been approved and funded by the grantor. Grant sources include the Federal Transit Administration (FTA), State Transit Assistance (STA), and Local Transportation Fund (LTF). The LTF and STA were created by the State Legislature under the TDA.

N. Operating Revenues

Operating revenues in the proprietary fund are those revenues that are generated from the primary operations of the fund. All other revenues are reported as nonoperating revenues.

O. Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in financial position and operations of the City's Measure R Fund and the TDA Funds.

P. Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Q. Contingencies

The City receives funding for specific purposes that are subject to review and audit by the granting agencies funding source. Such audits could result in a request for reimbursement for expenditures disallowed under terms and conditions of the contracts. Management is of the opinion that no material liabilities will result from such potential audits.

The City is party to claims and lawsuits arising in the ordinary course of business. The City's management and legal counsel are of the opinion that the ultimate liability, if any, arising from these claims will not have a material adverse impact on the financial position of the City's Measure R Fund and the TDA Funds.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash balances of the City's Measure R Fund and TDA Funds are pooled with those of other funds and invested by the City to maximize investment opportunities and yields. Investment income resulting from this pooling is allocated among the funds based upon each respective fund's average cash balance in relation to the aggregate investment balance, except that project funds are excluded from this allocation due to the fact that most cash balances in project funds are advanced from the City's General Fund. Further information regarding the City's cash and cash equivalents pool may be found in the City's financial statements by contacting the Finance Department at 707 W. Acequia Avenue Visalia, California 93291.

NOTE 3 – CAPITAL ASSETS

The changes in capital assets and the related accumulated depreciation for the fiscal years ended June 30, 2021 and 2020, are as follows:

	June 30, 2020	Additions	Deletions	June 30, 2021
Nondepreciable assets:				
Land	\$ 4,361,902	\$ -	\$ -	\$ 4,361,902
Construction in progress	253,963	350,951	(253,963)	350,951
Total nondepreciable assets	<u>4,615,865</u>	<u>350,951</u>	<u>(253,963)</u>	<u>4,712,853</u>
Depreciable assets:				
Buildings	19,589,783	-	-	19,589,783
Vehicles and equipment	35,964,986	134,256	(445,342)	35,653,900
Improvements	2,602,376	-	-	2,602,376
Total depreciable assets	<u>58,157,145</u>	<u>134,256</u>	<u>(445,342)</u>	<u>57,846,059</u>
Less accumulated depreciation	<u>(27,742,708)</u>	<u>(2,720,394)</u>	<u>423,075</u>	<u>(30,040,027)</u>
Total depreciable assets, net	<u>30,414,437</u>	<u>(2,586,138)</u>	<u>(22,267)</u>	<u>27,806,032</u>
Total capital assets	<u>\$ 35,030,302</u>	<u>\$ (2,235,187)</u>	<u>\$ (276,230)</u>	<u>\$ 32,518,885</u>
	June 30, 2019	Additions	Deletions	June 30, 2020
Nondepreciable assets:				
Land	\$ 4,361,902	\$ -	\$ -	\$ 4,361,902
Construction in progress	214,739	253,963	(214,739)	253,963
Total nondepreciable assets	<u>4,576,641</u>	<u>253,963</u>	<u>(214,739)</u>	<u>4,615,865</u>
Depreciable assets:				
Buildings	19,589,783	-	-	19,589,783
Vehicles and equipment	35,600,238	1,545,718	(1,180,970)	35,964,986
Improvements	2,602,376	-	-	2,602,376
Total depreciable assets	<u>57,792,397</u>	<u>1,545,718</u>	<u>(1,180,970)</u>	<u>58,157,145</u>
Less accumulated depreciation	<u>(25,790,370)</u>	<u>(3,077,510)</u>	<u>1,125,172</u>	<u>(27,742,708)</u>
Total depreciable assets, net	<u>32,002,027</u>	<u>(1,531,792)</u>	<u>(55,798)</u>	<u>30,414,437</u>
Total capital assets	<u>\$ 36,578,668</u>	<u>\$ (1,277,829)</u>	<u>\$ (270,537)</u>	<u>\$ 35,030,302</u>

Depreciation expense for the fiscal years ended June 30, 2021 and 2020, was \$2,720,394 and \$3,077,510, respectively.

NOTE 4 – GRANT ADVANCES

The LTF and STA Fund are administered by the Tulare County Association of Governments, which allocates funds to the City to fund its TDA operations. The TDA requires that any funds not used be returned to their source. Allocations are considered earned when they are properly spent for eligible projects. Allocations received but not earned are recorded as grant advances. Changes in grant advances for the Transit Enterprise Fund for the fiscal year ended June 30, 2021, are summarized as follows:

	SB1- State of Good Repair (SGR)	Capital Assistance	Capital Proposition 1B	Total
Capital and Operating Assistance				
Excess funds at June 30, 2020	\$ -	\$ 3,768,625	\$ -	\$ 3,768,625
Allocations received	250,419	-	-	250,419
Funds available	250,419	3,768,625	-	4,019,044
Less: eligible costs	-	(1,262,605)	-	(1,262,605)
Excess funds at June 30, 2021	<u>\$ 250,419</u>	<u>\$ 2,506,020</u>	<u>\$ -</u>	<u>\$ 2,756,439</u>

On April 28, 2017, the Governor signed the Road Repair and Accountability Act of 2017, Senate Bill (SB) 1 (Chapter 5, Statutes of 2017), which includes a program that will provide additional revenues for transit infrastructure repair and service improvements, known as the State of Good Repair (SGR) Program. This program receives funding of approximately \$105 million annually. SGR funds are to be made available for eligible transit maintenance, rehabilitation, and capital projects.

During the fiscal year ended June 30, 2021, the City received \$250,419 in SGR funds for a bus purchase and received interest of \$0 on deposits of SGR funds. During the fiscal year ended June 30, 2021, \$0 was disbursed on SGR related expenses.

SB1- State of Good Repair (SRG) For the Fiscal Year Ended June 30, 2021	
Description	Amount
Balance - beginning of year	\$ -
Receipts:	
Interest accrued 7/1/20 through 6/30/21	-
Allocations received	250,419
Expenses:	
Capital purchases	-
Balance - end of year	<u>\$ 250,419</u>

NOTE 5 – LONG-TERM LIABILITIES

The following is a summary of the Long-Term Liabilities as of June 30, 2021:

	Beginning Balance June 30, 2020	Additions	Deletions	Ending Balance June 30, 2021	Due Within One Year
Compensated absences	\$ 44,781	\$ 4,881	\$ 3,269	\$ 46,393	\$ -
Net pension liability	2,171,872	73,759	-	2,245,631	-
	<u>\$ 2,216,653</u>	<u>\$ 78,640</u>	<u>\$ 3,269</u>	<u>\$ 2,292,024</u>	<u>\$ -</u>

NOTE 6 – FARE REVENUE RATIO/COMPLIANCE REQUIREMENTS OF LOCAL TRANSPORTATION FUNDS

The TDA is defined in Chapter 4 of the California Public Utilities Code commencing with Section 99200. Funds received pursuant to Section 99260 of the TDA (Article 4) may only be used for specific purposes, including the support of public transportation purposes. Article 4 funds are the primary funding source for the City's Transit Enterprise Fund. TDA funds are apportioned, allocated, and paid in accordance with allocation instructions from the Tulare County Association of Governments for specific transportation purposes.

The Transit Enterprise Fund is subject to the provisions of Section 6633.2 of Title 21, Chapter 3, Subchapter 2 of the California Code of Regulations requiring the calculation and adherence of fare and local support ratios for TDA transit funding. Accordingly, the City's Transit Enterprise Fund must maintain a fare revenue ratio equaling or exceeding 20%, except for fiscal years 2020 and 2021; Assembly Bill No. 90, which was approved by the Governor on June 29, 2020, prohibits the imposition of a penalty on an operator that does not maintain the required ratio of fare revenues to operating costs during the fiscal years 2020 and 2021.

The fare revenue ratio is determined by comparing the fund's operating revenues to operating expenses as defined by the TDA. In accordance with the TDA, depreciation of capital assets is excluded from operating expenses for purposes of this fare revenue ratio. During the fiscal years ended June 30, 2021 and 2020, the City's TDA farebox ratio of operating revenues to operating expenses, as calculated below, indicates noncompliance with the provisions of the TDA; however, there is no noncompliance penalty due to Assembly Bill No. 90 as described above:

	2021	2020
Fares	\$ 603,730	\$ 1,371,242
Auxiliary transportation revenues	348,970	379,577
	<u>\$ 952,700</u>	<u>\$ 1,750,819</u>
Operating expenses	\$ 16,950,061	\$ 17,719,211
Less allowable TDA adjustments:		
Depreciation	(2,720,394)	(3,077,510)
New service exemption	(203,773)	(1,181,975)
	<u>\$ 14,025,894</u>	<u>\$ 13,459,726</u>
Fare revenue ratio	<u>6.79%</u>	<u>13.01%</u>

NOTE 7 – EMPLOYEE BENEFITS

A. General Information about the Pension Plans

Plan Descriptions – All qualified permanent and probationary employees are eligible to participate in the City's separate Safety (police and fire) and Miscellaneous (all other) Plans, agent multiple-employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the plans are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

See the City's audited Annual Comprehensive Financial Report (ACFR) for details on the plans' provisions and benefits in effect at June 30, 2021.

B. Net Pension Liability

The City's net pension liability for each plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of each of the plans is measured as of June 30, 2020, using an annual actuarial valuation as of June 30, 2019, rolled forward to June 30, 2020, using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability can be found at the City's audited ACFR. The City's Transit Enterprise Fund had a net pension liability of \$2,245,631.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's Transit Enterprise Fund's proportionate share of the City's net pension liability, calculated using the discount rate for the plan, as well as what the Transit Enterprise Fund's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	1% Decrease 6.15%	Current Rate 7.15%	1% Increase 8.15%
Transit Enterprise Fund's Proportionate Share of the City's Net Pension Liability	\$ 3,234,276	\$ 2,245,631	\$ 1,427,931

NOTE 7 – EMPLOYEE BENEFITS (Continued)

C. Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

For the fiscal year ended June 30, 2021, the City's Transit Enterprise Fund recognized pension expense of \$113,065. At June 30, 2021, the City's Transit Enterprise Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 235,607	\$ -
Difference between actual and expected experience	34,400	34,027
Changes in assumptions	-	8,105
Net difference between projected and actual earnings on retirement plan investments	<u>38,582</u>	<u>409</u>
	<u>\$ 308,589</u>	<u>\$ 42,541</u>

The \$235,607 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the measurement year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended June 30,</u>	
2021	\$ (21,136)
2022	14,507
2023	19,536
2024	<u>17,534</u>
Total	<u>\$ 30,441</u>

See the City's audited ACFR for full pension note disclosures.

NOTE 8 – SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2021, have been evaluated for possible adjustments to the financial statements or disclosures is March 22, 2022, which is the date that the financial statements were available to be issued. There were no events brought to our attention that were deemed to be reportable at that time.

OTHER REPORT

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*, THE
TRANSPORTATION DEVELOPMENT ACT, AND MEASURE R**

To the Board of Directors
Tulare County Association of Governments
Visalia, California

To the City Council
City of Visalia
Visalia, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the of the Measure R Special Revenue Fund (the Measure R Fund) and the Local Transportation Special Revenue Fund and the Transit Enterprise Fund (collectively, the Transportation Development Act (TDA) Funds) of the City of Visalia (the City), as of and for the fiscal year ended June 30, 2021, and the related notes to the fund financial statements, which collectively comprise the City's Measure R Fund's and TDA Funds' basic financial statements, and have issued our report thereon dated March 22, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) relating to the Measure R Fund and the TDA Funds as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control relating to the Measure R Fund and the TDA Funds. Accordingly, we do not express an opinion on the effectiveness of the City's internal control relating to the Measure R Fund and TDA Funds.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify one deficiency in internal control, described in the accompanying schedule of findings and recommendations as item 2021-1 – Deferred Revenue, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Measure R Fund’s and TDA Funds’ financial statements are free from material misstatement, we performed tests of the City’s compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. Our audit was further made to determine that the Measure R and TDA funds allocated to and received by the City were expended in conformance with applicable statutes, rules, and regulations of the TDA and the allocation instructions and resolutions of Tulare County Association of Governments as required by Sections 6666 and 6667 of Title 21 of the California Code of Regulations. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*, the TDA, or Measure R and is described in the accompanying schedule of findings and recommendations as item 2021-1 – Deferred Revenue.

As part of the audit, we performed the testing of the following program:

SB 1 – State of Good Repair (SGR)

On April 28, 2017, the Governor signed the Road Repair and Accountability Act of 2017, Senate Bill (SB) 1 (Chapter 5, Statutes of 2017), which includes a program that will provide additional revenues for transit infrastructure repair and service improvements, known as the SGR Program. This program receives funding of approximately \$105 million annually. SGR funds are to be made available for eligible transit maintenance, rehabilitation, and capital projects.

As of June 30, 2021, all SGR funds received and expended were verified in the course of our current audit as follows:

SB1- State of Good Repair (SRG) For the Fiscal Year Ended June 30, 2021	
Description	Amount
Balance - beginning of year	\$ -
Receipts:	
Interest accrued 7/1/20 through 6/30/21	-
Allocations received	250,419
Expenses:	
Capital purchases	-
Balance - end of year	<u>\$ 250,419</u>

City of Visalia, California's Response to Finding

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and recommendations. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance relating to the Measure R Fund and TDA Funds. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance relating to the Measure R Fund and TDA Funds. Accordingly, this communication is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive style and is positioned below the printed name of the firm.

Bakersfield, California
March 22, 2022

**CITY OF VISALIA
TRANSPORTATION DEVELOPMENT ACT FUNDS AND
MEASURE R TRANSPORTATION FUNDS
CURRENT YEAR FINDINGS AND RECOMMENDATIONS AND
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

Current Year Findings and Recommendations

2021-1 – Deferred Revenue

Condition

We noted the City of Visalia (the City) received grant funds in the amount of \$250,419 for capital purchases from the Senate Bill (SB) 1 – State of Good Repair (SGR) Grant funding. At year-end, these funds remained unspent. However, in analyzing revenue, we noted the City inappropriately recognized revenue instead of recording deferred revenue.

Criteria

Internal controls should be designed to ensure grants are analyzed during the year-end close to ensure any amounts received that are unspent (unearned) are appropriately reflected as unearned revenue.

Cause of the Condition

The City did not analyze SGR funding as part of the deferred revenue analysis performed during the year-end close.

Effect or Potential Effect of the Condition

Revenue was overstated by \$250,419.

Recommendation

We recommend the City ensure SGR funds are analyzed during the year-end close and ensure any unspent funds are recorded as deferred revenue.

Management Response

During the year-end close Staff will verify that any grant funding received and not expensed will be placed in a deferred revenue account.

Status of Prior Year Findings and Recommendations

None.