TRI-VALLEY TRANSPORTATION COUNCIL

To: Tri-Valley Transportation Council (TVTC)

From: TVTC Finance Subcommittee
TVTC Technical Advisory Committee (TAC)

Date: January 23, 2017

Subject: Audit for Fiscal Year 2014/15 and Fiscal Year 2015/16

BACKGROUND

The TVTC Joint Exercise of Powers Agreement ("JEPA") requires a designated, independent certified accountant perform an annual audit of accounts and records of the TVTC. The TVTC acquired the services of Cropper Accountancy ("auditor") to review the TVTC's financial statements and prepare a Fiscal Year (FY) 2014/15 and FY 2015/16 Audit Report ("report").

DISCUSSION

The TVTC Finance Subcommittee reviewed the report and received a presentation from Cropper Accountancy on January 17, 2017. Overall, the report was deemed satisfactory by the Subcommittee.

The report included one recommendation regarding the TVTC's basis of accounting. Currently, the TVTC's bookkeeper Franklin Management ("bookkeeper") is maintaining the majority of the TVTC's general ledger on a cash basis; accruals are not entered into the general ledger and revenue is recorded on a cash basis. This is a result of inadequate information regarding the fiscal year TVTC member agencies receive revenues.

The TAC and bookkeeper plan to remedy the situation by creating a standard template for jurisdictions to complete when submitting TVTDF Funds into the TVTC account. The template will include the jurisdiction's name, deposit dollar amount, and the deposit's appropriate fiscal year. On a quarterly basis, each jurisdiction will send the completed template to the bookkeeper and TVTC administrator. This will allow the bookkeeper to journal entry the funds in the appropriate fiscal year.

Additionally, when reviewing the TVTC's internal control over financial reporting the auditor identified three areas of concern. Below are the concerns and a response to each:

1. Cash balance: As of June 30, 2016, the TVTC's cash balance in Mechanic's Bank was over $8.6 Million.
   Auditor Recommendation: Amounts over $500,000 be held in LAIF.
   Response: Each TVTC member agency is required to transmit TVTDF Funds within 30-days of the end of each quarter (JEPA Section 6.e.ii). The TVTC administrator will transfer funds to LAIF at that time. Subsequent to the end-audit date, the following transactions occurred which reduced the TVTC's cash balance below $500,000: In September 2016, the TVTC transmitted $5.88 Million for Project A3 (I-680 Auxiliary Lanes). In December 2016, the TVTC transferred $4.13 Million to LAIF.

2. QuickBooks Year End: The TVTC's QuickBooks file has a year-end date of May 31 but the TVTC's year-end is June 30.
   Auditor Recommendation: Change closing date in QuickBooks to June 30.
   Response: The TVTC bookkeeper has already made this change.

3. QuickBooks Account Closed: QuickBooks showed the TVTC's bank account as closed before all transactions were complete.
   Auditor Recommendation: Do not label a bank account as closed until the balance is zero.
   Response: In August 2016, a TVTC member agency transmitted a TVTDF payment to Mechanics Bank in a clear window envelope, which exposed the TVTC account number. This could potentially compromise the account. In this situation, Mechanics Bank's policy is to close the account and reopen a new account. The TVTC administrator authorized the account closure, opened a new account, and subsequently communicated the appropriate procedures of transmitting TVTDF funds (including no window envelopes) with all member agencies to avoid this situation in the future. In reviewing the QuickBooks file, the auditor found the bookkeeper's QuickBooks notes about the account closure to be unclear. The bookkeeper has since updated the QuickBooks file for clarity. While this is a highly unusual event, if this happens in the future the bookkeeper will not label the account as closed until all transactions are complete and the balance is brought to zero.

Based on the auditor's concern about the TVTC's cash balance (item #1 above), the Finance Subcommittee requested a subsequent subcommittee meeting to review the TVTC's cash balance policy including the allocation and transfer of funds. This review must take into consideration the nuances of funding receipts, timeline of programmed funds and upcoming disbursements, considerations for administrative burden, and risk management.

RECOMMENDATION

ACCEPT FY 2014/15 and 2015/16 Audit Report as recommended by the TVTC Finance Subcommittee. Request the Finance Subcommittee review and consider the TVTC's cash balance policy.

ATTACHMENT

1. Fiscal Year 2014/15 and 2015/16 Annual Financial Report and Independent Auditor's Reports

Attachment 1

CROPPER
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CERTIFIED PUBLIC ACCOUNTANTS

TRI-VALLEY TRANSPORTATION COUNCIL

(A JOINT POWERS AUTHORITY)

ANNUAL FINANCIAL REPORT

AS OF JUNE 30, 2016 and 2015

WITH

INDEPENDENT AUDITORS' REPORTS

TRI-VALLEY TRANSPORTATION COUNCIL
(A JOINT POWERS AUTHORITY)
ANNUAL FINANCIAL REPORT
JUNE 30, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

Board Members
Tri-Valley Transportation Council
Alameda, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of the Tri-Valley Transportation Council (TVTC), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the TVTC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

TVTC's 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the TVTC, as of June 30, 2016 and 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-4 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Cropper Accountancy Corporation

CROPPER ACCOUNTANCY CORPORATION

Walnut Creek, CA
January 18, 2017

THE PURPOSE OF THE TRI-VALLEY TRANSPORTATION COUNCIL:

In 1991, the seven jurisdictions of Alameda County, Contra Costa County, Dublin, Pleasanton, Livermore, Danville, and San Ramon signed a Joint Powers Agreement (JPA) that established the Tri-Valley Transportation Council (TVTC). The purpose of the JPA was the joint preparation of a Tri-Valley Transportation Plan/Action Plan (TVTC Action Plan) for Routes of Regional Significance (RRS) and cost sharing of recommended improvements. The TVTC Action Plan was prepared and presented to all member jurisdictions in April 1995 and updated in 2000. The TVTC Action Plan marked a common understanding and agreement on the Tri-Valley's transportation concerns and directions for improvements. Among its specific recommendations, the TVTC Action Plan presented 11 transportation improvement projects to be given high priority for funding and implementation.

A second set of 11 projects were included in a 2008 Nexus Study and subsequent 2011 Strategic Expenditure Plan. In October 2013, TVTC signed a Joint Exercise of Powers Agreement (JEPA). The purpose of this agreement was to establish the TVTC as a separate agency responsible for planning, coordinating, and receiving disbursement of traffic impact fee revenues from member agencies to help implement transportation improvement projects within the Tri-Valley Area.

THE BASIC FINANCIAL STATEMENTS

The Basic Financial Statements comprise the *Statement of Net Position* and *Statement of Activities* for the Combined Government-wide and Fund Financial Statements. These statements present the TVTC financial activities as a whole. The *Statement of Net Position* and *Statement of Activities* include all assets and liabilities using the full accrual basis of accounting similar to the accounting model used by private sector firms.

Statement of Net Position

The *Statement of Net Position* (Basic Financial Statements, page 5) is a snapshot of TVTC's financial position at the end of the Fiscal Year (FY) 2016. TVTC's assets are all current assets, i.e. cash and receivables. TVTC has no capital assets. For the year ended June 30, 2016, net position totaled $12,852,407.

Table 1. Statement of Net Position as of June 30:

	2016	2015	$ Change	% Change
Assets				
Cash and equivalents	$ 11,546,374	$ 5,620,678	$ 5,925,696	105.4%
Interest receivable	3,948	-	3,948	100%
Developer fee receivables	1,306,942	1,690,891	(383,949)	-22.7%
	$ 12,857,264	$ 7,311,569	$ 5,545,695	75.8%
Net Position				
Liabilities	$ 4,857	$ 27,238	(22,381)	-82.2%
Unrestricted Net Position	12,852,407	7,284,331	5,568,076	76.4%
	$ 12,857,264	$ 7,311,569	$ 5,545,695	75.8%

Statement of Activities

The Statement of Activities (Basic Financial Statements, page 7) presents TVTC's revenue and incurred expenses for the year ended June 30, 2016. All financial activities incurred for TVTC are recorded here, including operational expenses, capital project costs, depreciation and accrued liabilities, when applicable. Since revenues are dependent on new construction, the Council's financial position is generally subject to the same fluctuations as the economy.

Table 2. Statement of Activities for the Fiscal Years Ended June 30:

	2016	2015	$ Change	% Change
General expenditures/expenses				
Transportation improvements	$ -	$ 5,000,000	$(5,000,000)	-100%
Accounting fees	1,770	6,605	(4,835)	-73.2%
Legal fees	9,233	8,021	1,212	15.1%
Development fee refunds	7,786	-	7,786	100%
Administrative	61,922	31,761	30,161	95.0%
Total general expenditures	80,711	5,046,387	(4,965,676)	-98.4%
General revenues				
Investment income	5,567	-	5,567	100%
Development fees				
Alameda County	3,800	9,174	(5,374)	-58.6%
Town of Danville	141,858	53,748	88,110	163.9%
City of Dublin	2,021,497	2,084,763	(63,266)	-3.0%
City of Livermore	1,301,434	3,806,295	(2,504,861)	-65.8%
City of Pleasanton	1,360,317	1,468,137	(107,820)	-7.3%
City of San Ramon	34,379	328,227	(293,848)	-89.5%
Contra Costa County	779,935	576,942	202,993	35.2%
Total general revenues	5,648,787	8,327,286	(2,678,499)	-32.2%
Change in Net Position	5,568,076	3,280,899	2,287,177	69.7%
Beginning Net Position	7,284,331	4,003,432	3,280,899	82.0%
Ending Net Position	$12,852,407	$ 7,284,331	$ 5,568,076	76.4%

CONTACTING THE COUNCIL'S FINANCIAL MANAGEMENT

This Management's Discussion and Analysis is intended to provide the reader with a narrative overview of TVTC's financial statements for the year ended June 30, 2016. Questions concerning any information provided in this report or requests for additional financial information should be directed to:

Tri-Valley Transportation Council
Debbie Bell, TVTC Administrator
1052 S. Livermore Ave.
Livermore, CA 94550

TRI-VALLEY TRANSPORTATION COUNCIL
(A JOINT POWERS AUTHORITY)
Combined Government-Wide and Fund Financial Statements
Statement of Net Position and Governmental Funds Balance Sheet
June 30, 2016

ASSETS

	General Fund	Adjustments (Note 2)	Statement of Net Position
Cash and cash equivalents (Note 3)	$11,546,374	$ -	$11,546,374
Interest receivable	3,948	-	3,948
Development fees receivable (Note 1E)	1,129,213	177,729	1,306,942
Total assets	$12,679,535	$ 177,729	$12,857,264

LIABILITIES AND NET POSITION

	General Fund	Adjustments (Note 2)	Statement of Net Position
Accounts payable	$ 4,857	$ -	$ 4,857
Total liabilities	4,857	-	4,857
Fund Balance [Net Position] (Note 4)			
Committed [Restricted]	5,880,000	(5,880,000)	-
Assigned [Unrestricted]	6,794,678	6,057,729	12,852,407
Total liabilities and fund balance [net positi	$12,679,535	$ 177,729	$12,857,264

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

TRI-VALLEY TRANSPORTATION COUNCIL
(A JOINT POWERS AUTHORITY)
Combined Government-Wide and Fund Financial Statements
Statement of Net Position and Governmental Funds Balance Sheet
June 30, 2015

ASSETS

	General Fund	Adjustments (Note 2)	Statement of Net Position
Cash and cash equivalents (Note 3)	$ 5,620,678	$ -	$ 5,620,678
Development fees receivable (Note 1E)	1,208,593	482,298	1,690,891
Total assets	$ 6,829,271	$ 482,298	$ 7,311,569

LIABILITIES AND NET POSITION

	General Fund	Adjustments (Note 2)	Statement of Net Position
Accounts payable	$ 27,238	$ -	$ 27,238
Total liabilities	27,238	-	27,238
Net position			
Assigned (Note 4)	6,802,033	482,298	7,284,331
Total liabilities and net position	$ 6,829,271	$ 482,298	$ 7,311,569

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

TRI-VALLEY TRANSPORTATION COUNCIL
(A JOINT POWERS AUTHORITY)
Combined Government-Wide and Fund Financial Statements
Statement of Activities and
Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2016

	General Fund	Adjustments (Note 2)	Statement of Activities
General expenditures/expenses			
Accounting fees	$ 1,770	$ -	$ 1,770
Legal fees	9,233	-	9,233
Development fees refunded	7,786	-	7,786
Administrative	61,922	-	61,922
Total general expenditures/expenses	80,711	-	80,711
General revenues:			
Investment income	5,567	-	5,567
Development fees			
Alameda County	3,800	-	3,800
Town of Danville	141,858	-	141,858
City of Dublin	2,021,497	-	2,021,497
City of Livermore	1,301,434	-	1,301,434
City of Pleasanton	1,360,317	-	1,360,317
City of San Ramon	34,379	-	34,379
Contra Costa County	1,084,504	(304,569)	779,935
Total development fees	5,947,789	(304,569)	5,643,220
Total general revenues	5,953,356	(304,569)	5,648,787
Change in fund balance/net position	5,872,645	(304,569)	5,568,076
Fund balance/net position July 1, 2015	6,802,033	482,298	7,284,331
Fund balance/net position June 30, 2016	$ 12,674,678	$ 177,729	$ 12,852,407

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

TRI-VALLEY TRANSPORTATION COUNCIL
(A JOINT POWERS AUTHORITY)
Combined Government-Wide and Fund Financial Statements
Statement of Activities and
Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2015

	General Fund	Adjustments (Note 2)	Statement of Activities
General expenditures/expenses			
Transportation improvements (Note 5)	$ 5,000,000	$ -	$ 5,000,000
Accounting fees	6,605	-	6,605
Legal fees	8,021	-	8,021
Administrative	31,761	-	31,761
Total general expenditures/expenses	5,046,387	-	5,046,387
General revenues:			
Development fees			
Alameda County	9,174	-	9,174
Town of Danville	53,748	-	53,748
City of Dublin	2,084,763	-	2,084,763
City of Livermore	3,806,295	-	3,806,295
City of Pleasanton	1,468,137	-	1,468,137
City of San Ramon	336,959	(8,732)	328,227
Contra Costa County	213,745	363,197	576,942
Total general revenues	7,972,821	354,465	8,327,286
Change in fund balance/net position	2,926,434	354,465	3,280,899
Fund balance/net position July 1, 2014	3,875,599	127,833	4,003,432
Fund balance/net position June 30, 2015	$ 6,802,033	$ 482,298	$ 7,284,331

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Tri-Valley Transportation Council (TVTC; Council) is a joint powers authority (JPA) organized by the Counties of Alameda and Contra Costa, the Town of Danville, and the Cities of Dublin, Livermore, Pleasanton, and San Ramon. The TVTC accounting records are currently administered by the City of Livermore. The Council was created to administer development fees for the planning and implementation of sub-regional transportation facilities. This fee was adopted by the seven jurisdictions pursuant to Government Code 6502, and is paid to each of the member agencies by project developers. There are no separate legal entities that are a part of the Council's reporting entity.

The Council applies all applicable GASB pronouncements for certain accounting and financial reporting guidance. In December of 2010, GASB issued GASBS No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates pronouncements issued on or before November 30, 1989 into GASB authoritative literature. This includes pronouncements by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions (APB), and the Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure, unless those pronouncements conflict with or contradict with GASB pronouncements..

B. Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. The Council has one governmental activity as described below:

Governmental Funds

General Fund – The General Fund is the general operating fund of the Council and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Council or meets the following criteria:

1. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and

2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements regardless of the measurement focus applied.

Measurement Focus
On the government-wide Statement of Net Position and the Statement of Activities, governmental activities are presented using the economic resources measurement focus. The accounting objective of this measurement focus is the determination of operating income, changes in net position (or cost recovery) and financial position. All assets and all liabilities (whether current or noncurrent) associated with the operation of these funds are reported.

In the fund financial statements, the "current financial resources" measurement focus is used for all Governmental Funds; with this measurement focus, only current assets and current liabilities generally are included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting
In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Council defines available to be within 60 days of year-end.

D. Cash and Investments

The Council does not commingle its cash and investments with the City or County JPA members. The funds are invested in accordance with the State Investment Policy established pursuant to the State Law. All monies not required for immediate expenditure are invested or deposited to earn maximum yield consistent with safety and liquidity.

Investments are carried at fair value, which is based on quoted market price if applicable. Otherwise, the fair value hierarchy is as follows:

Level 1 – Values are unadjusted quoted prices ion active markets for identical assets or liabilities at the measurement date.

Level 2 – Inputs, other than quoted prices, included within Level 1 that are observable for the asset or liabilities at the measurement date.

Level 3 – Certain inputs are unobservable inputs (supported by little or no market activity, such as the Council's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date).

The Council invests in the California Local Agency Investment Fund (LAIF), which is part of the Pooled Money Investment Account operated by the California State Treasurer. LAIF funds are invested in high quality money market securities and are managed to insure the safety of the portfolio. A portion of LAIF's investments are in structured notes and asset-backed securities.

LAIF determines fair value on its investment portfolio based on market quotations for these securities where market quotations are readily available, and on amortized cost or best estimate for those securities where market value is not readily available.

E. Receivables

Receivables recorded in the financial statements are net of any allowance for doubtful accounts. Any doubtful accounts at June 30, 2016 and 2015 were not considered material.

F. Revenue Recognition - Development Fees

Development fees are assessed according to a set fee schedule for new construction. The fees collected under the Council from new construction will be used to mitigate the increased traffic congestion.

G. Budget Comparison

Under GASB No. 34, budgetary comparison information is required to be presented for the general fund and each major special revenue fund with a legally adopted budget. The Council is not legally required to adopt a budget for the general fund. Therefore, budget comparison information is not included in the Council's financial statements.

H. Equity Classifications

Government-wide Statements

Net position is the excess of all the Council's assets over all its liabilities, regardless of fund. Net position is divided into three categories under GASB Statement 34. These categories apply only to net position, which is determined at the Government-wide level, and are described below:

1. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

2. Restricted net position - Consists of net position with constraints place on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

3. Unrestricted net position - All other components of net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Statements

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Council is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

1. Nonspendable- Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

2. Restricted - Amounts that are restricted for specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, laws, or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

3. Committed - Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority.

4. Assigned - Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted or committed.

5. Unassigned - Amounts that do not meet classifications 1 – 4 above.

Further detail about the Council's fund balance classification is described in Note 4.

NOTE 2. ADJUSTMENTS FROM FUND BASIS TO GOVERNMENT-WIDE BASIS

The following is a summary of adjustments to the financial statements to comply with GASB 34.

	2016	2015
Development fees receivable		
Fund basis	$ 1,129,213	$ 1,208,593
Adjustment	177,729	482,298
Government-wide basis	$ 1,306,942	$ 1,690,891
Development fee revenue		
Fund basis	$ 5,953,356	$ 7,972,821
Adjustment	(304,569)	354,465
Government-wide basis	$ 5,648,787	$ 8,327,286

NOTE 3. CASH AND INVESTMENTS

The cash and investments of the Council are maintained separately from with the funds of the City or County JPA members. The Council considers cash and investment amounts with original maturities of three months or less to be cash equivalents.

Cash and Investments consisted of the following at June 30:

	2016	2015
Cash in banks	$ 8,644,755	$ 5,620,678
Local Agency Investment Fund	2,901,619	-
Total cash and investments	$ 11,546,374	$ 5,620,678

Investments Authorized by the Council's Investment Policy
The Council is authorized to invest in obligations of the U.S. Treasury, agencies, commercial paper with certain minimum ratings, certificates of deposit, bankers' acceptances, repurchase agreements and the State Treasurer's Investment pool ("LAIF").

Deposits/Credit Risk
The California Government Code requires California banks and savings and loan associations to secure Public Agencies' deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of deposits. California law also allows financial institutions to secure such deposits by pledging first trust deed mortgage notes having a value of 150% of the total deposits. The first $250,000 of each institution's deposits are covered by FDIC insurance.

Disclosures Relating to Credit Risk
Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Custodial Credit Risk
Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the Council's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

NOTE 3. CASH AND INVESTMENTS (continued)

Custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover its deposits or will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Council's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

Investment Fair Value
The Council is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Council's investment in this pool is reported in the accompanying financial statements at amounts based upon the Council's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

NOTE 4: FUND BALANCE

The Council has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent.

The Tri-Valley Transportation Council have established the following fund balance policies:

- Assigned Fund Balance: The Council exists to fund Tri-Valley transportation projects, therefore, all amounts not committed in the fund balance at year-end are assigned for this purpose.
- Committed Fund Balance: Amounts that have been designated for payment by the Council prior to year end. At June 30, 2015 there were no commitments, and at June 30, 2016, $5,880,000 had been approved for payment to Contra Costa Transportation Authority for construction of the I-680 Auxiliary Lanes, Segment 2.

The accounting policies of the Council consider restricted fund balance to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the Council considers committed amounts to be reduced first, followed by assigned amounts, and finally, unassigned amounts.

NOTE 5: TRANSPORTATION IMPROVEMENT PROJECTS

During the fiscal year ended June 30, 2015, $5,000,000 was disbursed to the City of Livermore for the State Route 84 Corridor Improvement Project, who will pass these funds through to Alameda County. These monies were disbursed after it was determined that sufficient funds were available in the joint Tri-Valley Transportation Development Fund bank account.

For the year ended June 30, 2016. No funds for transportation improvements were disbursed, however, $5.88 million was committed (see Note 4).

NOTE 6: SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 18, 2017, the date on which the financial statements were available to be issued. On August 17, 2016, the $5.88 million which was committed for payment to the Contra Costa Transportation Authority was remitted.

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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 Board Members
Tri-Valley Transportation Council
Alameda, California

We have audited, 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, the financial statements of the governmental activities of the Tri-Valley Transportation Council (TVTC) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise TVTC's basic financial statements, and have issued our report thereon dated January 18, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered TVTC's internal control over financial reporting (internal control) to determine the 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 TVTC's internal control. Accordingly, we do not express an opinion on the effectiveness of TVTC's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether TVTC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Tri-Valley Transportation Council's Response to Findings

TVTC's response to the findings identified in our audit are described in the separate letter, Communication to the Entity with Significant Deficiencies and Material Weaknesses. TVTC'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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Walnut Creek, CA
January 18, 2017

SCHEDULE OF FINDINGS AND RESPONSES

Finding 2016-001

Material Weakness in Internal Control over Financial Reporting—Basis of Accounting

Criteria: Maintaining the general ledger on an accrual basis is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting. Additionally, management should be tracking those items needed to convert the fund basis financial statements to the government-wide full accrual basis.

Condition: Presently, the general ledger is largely being maintained on a cash basis, with accruals being made for small payable amounts. Accounts receivable are not being entered into the general ledger, and revenue is recorded on a cash basis.

Context: We audited entity accounts receivable by confirming with each of the member agencies about the amount of revenue paid for the fiscal years ended June 30, 2015 and 2016. This data was compared to the data provided by management, and a spreadsheet was set up to determine what amounts should be journaled to reflect both fund basis and government-wide basis revenues and accounts receivable.

Effect or Potential Effect: By not entering the accounts receivable from member agencies, the entity could potentially materially understate both revenues and accounts receivable.

Cause: Due to geographic distribution, and that each member agency deposits funds directly to the entity account, it is difficult for the bookkeepers to know which fiscal year payment are applicable to.

Recommendation: Member agencies should communicate with the administrator and bookkeeper about amounts collected but not remitted to the entity at the end of the fiscal year.

When member agency anticipates depositing funds to the TVTC bank account, they should inform both the administrator and the bookkeepers about both the amount, and which fiscal year the deposit is related to. At this point, the bookkeepers can create a general journal dated June 30 to account for the receivable from the member agency (debit accounts receivable and credit revenue). When the money is deposited, a reversing journal should be made to debit the cash and credit accounts receivable.

Views of Responsible Official(s) and Planned Corrective Actions: Management agrees with auditor findings and will discuss this with the member agencies.

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January 18, 2017

Tri-Valley Transportation Council
1052 S. Livermore Ave
Livermore, CA 94550

In planning and performing our audit of the basic financial statements of Tri-Valley Transportation Council as of and for the years ended June 30, 2015 and 2016, 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, we considered Tri-Valley Transportation Council 's internal control over financial reporting (internal control) 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 entity's internal control. Accordingly, we do not express an opinion on the effectiveness of Tri-Valley Transportation Council's internal control over financial reporting.[1]

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the following deficiencies in Tri-Valley Transportation Council's internal control to be material weaknesses:

<u>Fund and Government-Wide Basis of Accounting</u>
Maintaining the general ledger on an accrual basis is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting. Additionally, management should be tracking those items needed to convert the fund basis financial statements to the government-wide full accrual basis.

Presently, the general ledger is largely being maintained on a cash basis, with accruals being made for small payable amounts. Accounts receivable are not being entered into the general ledger, and revenue is recorded on a cash basis

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Other Matters

Cash Balance
During the July 20, 2015 meeting, the Board approved a motion that no more than $500,000 should be held in the bank account. At June 30, 2016, the cash balance in the Mechanics Bank account was $8,677,623.85, which exceeds the board motion by $8,177,623.85.

We recommend that amounts over $500,000 be held in LAIF rather than in the bank. If large amounts are approved for disbursement, a transfer can be made to cover the expense.

QuickBooks
The QuickBooks file has a year end date of May 31. The fiscal year end of the Council is June 30, and the closing date in QuickBooks should be to the same. Additionally, accounts should not be labeled as CLOSED until such time as all transactions have been completed, and the balance brought to zero.

The purpose of this communication, which is an integral part of our audit, is to describe for management and those charged with governance the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

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