CITY OF MONTEBELLO

TRANSIT FUND
FINANCIAL STATEMENTS

WITH INDEPENDENT
AUDITORS' REPORT

JUNE 30, 2011 AND 2010

CITY OF MONTEBELLO
TRANSIT FUND

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INDEPENDENT AUDITORS' REPORT

To the Honorable City Council
Montebello, California

We have audited the accompanying financial statements of the Transit Fund of the City of Montebello, California (Transit Fund) as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the City of Montebello's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Transit Fund and do not purport to, and do not, present fairly the financial position of the City of Montebello, California, as of June 30, 2011, and the changes in financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Transit Fund as of June 30, 2011 and 2010, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2011, on our consideration of the City of Montebello's internal control over financial reporting as it relates to the Transit Fund and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the Transit Fund financial statements taken as a whole. The supplementary information identified in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects, in relation to the financial statements taken as a whole.

December 28, 2011

Eadie and Payne LLP

CITY OF MONTEBELLO
TRANSIT FUND

STATEMENTS OF NET ASSETS

June 30, 2011 and 2010

	2011	2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	$ 778,682	$ 581,395
Restricted assets:		
Grants receivable	676,334	4,876,965
TOTAL CURRENT ASSETS	1,455,016	5,458,360
NONCURRENT ASSETS (NOTE 3):		
Capital assets	79,871,931	76,645,359
Accumulated depreciation	(32,707,594)	(29,283,585)
TOTAL NONCURRENT ASSETS	47,164,337	47,361,774
TOTAL ASSETS	48,619,353	52,820,134
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities, including vacation and sick leave	1,393,139	2,691,493
Due to other funds of the City of Montebello (Note 4)	-	1,000,000
Advances from the Montebello Redevelopment Agency (Note 4)	-	2,000,000
Deposits	425	400
Unearned revenue	704,476	100,734
TOTAL CURRENT LIABILITIES	2,098,040	5,792,627
NET ASSETS:		
Invested in capital assets	47,164,337	47,361,774
Unrestricted	(643,024)	(334,267)
TOTAL NET ASSETS	$ 46,521,313	$ 47,027,507

See independent auditors' report and notes to financial statements.

CITY OF MONTEBELLO
TRANSIT FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the years ended June 30, 2011 and 2010

	2011	2010
OPERATING REVENUES:		
Bus fares	$ 6,093,569	$ 5,982,757
Special contracts	134,575	100,568
Other revenue	111,882	73,666
TOTAL OPERATING REVENUES	6,340,026	6,156,991
OPERATING EXPENSES:		
Labor and fringe benefits	11,360,471	12,016,994
Vehicle expenses	4,647,735	6,694,294
Administrative costs	1,983,191	1,983,191
Professional fees and other contracts	1,391,559	1,289,208
Utilities and other services	242,643	258,176
Other	603,461	255,112
Depreciation expense	3,424,009	2,781,412
TOTAL OPERATING EXPENSES	23,653,069	25,278,387
OPERATING LOSS	(17,313,043)	(19,121,396)
NONOPERATING REVENUES (EXPENSES):		
Proposition "A" discretionary	3,668,101	4,434,012
Proposition "A" local return	-	224,068
Proposition "C" discretionary	2,997,572	3,205,255
Proposition "C" local return	-	639,870
State grant - operating	7,391,131	5,557,086
State grant - capital/discretionary (Note 5)	40,357	-
Measure R	2,341,750	2,139,326
Federal grant - capital (Note 5)	767,775	-
Interest income	10,990	-
Capital grant expenditures not capitalized (Note 5)	(808,132)	-
TOTAL NONOPERATING REVENUES	16,409,544	16,199,617
LOSS BEFORE CAPITAL CONTRIBUTIONS AND TRANSFER	(903,499)	(2,921,779)
CAPITAL CONTRIBUTIONS	3,226,572	16,253,784
TRANSFERS TO OTHER CITY FUNDS (Note 4)	(2,829,267)	(537,528)
CHANGE IN NET ASSETS	(506,194)	12,794,477
NET ASSETS AT BEGINNING OF YEAR	47,027,507	34,233,030
NET ASSETS AT END OF YEAR	$ 46,521,313	$ 47,027,507

See independent auditors' report and notes to financial statements.

CITY OF MONTEBELLO
TRANSIT FUND

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$ 6,093,569	$ 5,982,757
Other receipts	246,457	174,234
Payments to suppliers	(10,260,200)	(9,509,371)
Payments to employees	(11,267,189)	(12,006,657)
NET CASH USED BY OPERATING ACTIVITIES	(15,187,363)	(15,359,037)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating grants received - federal and state	20,509,441	16,636,617
Transfers to other City funds	(2,829,267)	(537,528)
Payment of amounts due to other City funds	(3,000,000)	-
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	14,680,174	16,099,089
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributed by federal and state grants	3,931,048	15,319,395
Acquisition of capital assets	(3,226,572)	(16,253,784)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	704,476	(934,389)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	197,287	(194,337)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	581,395	775,732
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 778,682	$ 581,395
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	$ (17,313,043)	$ (19,121,396)
Depreciation	3,424,009	2,781,412
Changes in assets and liabilities:		
Increase in accounts payable and accrued liabilities including vacation and sick leave	(1,298,329)	980,947
NET CASH USED BY OPERATING ACTIVITIES	$ (15,187,363)	$ (15,359,037)

See independent auditors' report and notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Transit Fund of the City of Montebello, California (Transit Fund), an enterprise fund, accounts for all revenues and expenses related to the operations of the City's transit service. The accounting policies of the Transit Fund conform to accounting principles generally accepted in the United States of America. The following is a summary of the significant policies applied to the preparation of the financial statements.

A. Fund Accounting

The Transit Fund accounts for two separate departments, the transit and the metro rail station activity. All transactions of the Transit Fund are included in the reporting entity of the City of Montebello (City) and are recorded in a separate fund of the City. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording resources, related liabilities, obligations, reserves, and equities segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

B. Basis of Accounting

The Transit Fund uses the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recorded when the related liability is incurred.

C. Cash and Cash Equivalents

All cash and investments are held in a City pool. Therefore, all cash and investments in the Transit Fund are considered cash and cash equivalents, as they are available on demand.

D. Capital Assets

Capital assets are recorded at historical cost or estimated fair market value at the date of contribution. Generally, capital asset purchases in excess of $5,000 are capitalized if they have an expected life of one or more years.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Capital Assets (Continued)

Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Office equipment	5-10 years
Computer equipment	8 years
Electrical equipment	8-10 years
Machinery	5-15 years
Buildings	10-40 years

E. Interest Earned

The City's cash and investments are operated on a pooled basis. In accordance with the administrative policy of the City, interest on such pooled resources is accrued to each fund based on the equity of a particular fund in the pooled cash and investments. The Transit Fund was allocated $10,990 of interest in fiscal year 2011. The Transit Fund was not allocated any interest in fiscal year 2010.

F. Unearned Revenue

Grants received by the City for the acquisition of capital assets and certain operating expenses are recorded as unearned revenue until such time as the expenses are made.

2. CASH AND CASH EQUIVALENTS

Cash and deposits of the Transit Fund are pooled with other City funds to improve investment opportunities and provide sufficient coverage for warrants as they are presented at the City's bank. State statutes and the City's investment policy authorize City officials to invest its pool funds in obligations of the United States Treasury or its agencies, bankers' acceptances, State Treasurer's investment pool, certificates of deposit, passbook savings account demand deposits, repurchase agreements, and money market funds. As of June 30, 2011 and 2010, the cash and cash equivalents balance of the Transit Fund totaled $778,682 and $581,395, respectively. Further information concerning the City's investment pool regarding custodial risk, concentrations of credit risk, and interest rate risk can be found in the City's Comprehensive Annual Financial Report.

3. CAPITAL ASSETS

Capital assets of the Transit Fund at June 30, 2011 and 2010 were as follows:

	2011			
	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Capital assets, not being depreciated:				
Land	$ 3,901,596	-	-	$ 3,901,596
Construction in progress	-	$ 111,372	-	111,372
	3,901,596	111,372	-	4,012,968
Capital assets, being depreciated:				
Building and improvements	21,036,582	339,630	-	21,376,212
Machinery and equipment	51,707,181	2,775,570	-	54,482,751
	72,743,763	3,115,200	-	75,858,963
Less: Accumulated depreciation	29,283,585	3,424,009	-	32,707,594
Capital assets being depreciated, net	43,460,178	(308,809)	-	43,151,369
Capital assets, net	$ 47,361,774	$ (197,437)	$ -	$ 47,164,337

3. CAPITAL ASSETS (CONTINUED)

2010	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Capital assets, not being depreciated:				
Land	$ 3,901,596	-	-	$ 3,901,596
Capital assets, being depreciated:				
Building and improvements	20,502,474	$ 534,108	-	21,036,582
Machinery and equipment	35,987,505	15,719,676	-	51,707,181
	56,489,979	16,253,784	-	72,743,763
Less: Accumulated depreciation	26,502,173	2,781,412	-	29,283,585
Capital assets being depreciated, net	29,987,806	13,472,372	-	43,460,178
Capital assets, net	$ 33,889,402	$ 13,472,372	$ -	$ 47,361,774

4. ADVANCES FROM, DUE TO, AND TRANSFERS TO THE CITY OF MONTEBELLO

The City of Montebello's Redevelopment Agency entered into an agreement dated June 17, 2009 to provide $2,000,000 to the City of Montebello's Transit Fund to pay for operational expenses of the Transit Fund. The advance is secured by certain property owned by the Transit Fund. The advance is for a five-year term with no interest charged for the first three years and 4% interest for the last two years of the advance. The advance was repaid in fiscal year 2011.

Amounts due to other funds of the City of Montebello of $1,000,000 as of June 30, 2010 were owed to the Water Utility Enterprise Fund. The amount was paid back in fiscal year 2011.

Transfers to the City of Montebello for the years ended June 30, 2011 and 2010 were $2,829,267 and $537,528, respectively. The transfers were to the Capital Improvements Fund to pay for capital improvements.

5. CAPITAL GRANT EXPENDITURES NOT CAPITALIZED

The capital grant expenditures not capitalized consist of expenditures approved by the Los Angeles County Metropolitan Transportation Authority and other grantors as capital grant expenditures for items that did not meet the criteria to be added to capital assets.

6. PUBLIC TRANSPORTATION MODERNIZATION IMPROVEMENT AND SERVICE ENHANCEMENT ACCOUNT

In November 2006, California voters passed a bond measure enacting the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006. Of the $19.925 billion of State general obligation bonds authorized, $4 billion was set aside by the State as instructed by the statute as the Public Transportation Modernization Improvement and Service Enhancement Account (PTMISEA). These funds are available to the California Department of Transportation for intercity rail projects and to transit operators in California for rehabilitation, safety or modernization improvements, capital service enhancements or expansions, new capital projects, bus rapid transit improvements, or for rolling stock procurement, rehabilitation, or replacement.

The City applied for and has received $1,516,625 from the State's PTMISEA for the purchase of new clean fuel buses for the City's transit system in fiscal year 2008. The City also applied for additional funding in the fiscal year ended June 30, 2009 and received $854,358 in July 2009. PTMISEA funds received were as follows:

	AMOUNT
Cash proceeds received in fiscal year 2008	$ 1,516,625
Cash proceeds received in fiscal year 2010	854,358
Expenditures incurred in fiscal year 2009	(809,813)
Expenditures incurred in fiscal year 2010:	(1,460,436)
Unexpended cash proceeds at June 30, 2010	100,734
Cash proceeds received in fiscal year 2011	1,087
Expenditures incurred in fiscal year 2011	(101,821)
Unexpended cash proceeds at June 30, 2011	-
Total PTMISEA funds received and unearned at June 30, 2011	$ -

7. TRANSPORTATION DEVELOPMENT ACT

The State of California established the Transportation Development Act (TDA) to provide funds for public transportation. The funds are administered by the Los Angeles County Metropolitan Transportation Authority. The TDA created a Local Transportation Fund (LTF) in each county for the transportation purposes specified in the Transportation Development Act Statutes and Administrative Code. Revenues of the LTF are derived from a 1/4 of one percent sales tax rate levied in each county. In order to qualify for funding under TDA, the City of Montebello Transit Fund must maintain a ratio of fare revenues and local support to operating cost greater than 20%.

7. TRANSPORTATION DEVELOPMENT ACT (CONTINUED)

In accordance with the requirement of the TDA, the following information is presented (in thousands of dollars):

Fare Revenue Recovery Ratio Requirement
(PUC 99268, CAC 6633.1)
(In Thousands)

Fare revenue:		
Passenger fares	$6,094	
Special fares	135	
Total fare revenue		$ 6,229
Operating expenses:		
Labor and fringe benefits	11,360	
Vehicle expenses	4,649	
Administrative costs	1,983	
Professional fees and other contracts	1,392	
Utilities and other services	243	
Other	603	
Depreciation expense	3,424	
Total operating expense		23,654
Less: Depreciation expense		(3,424)
Net operating expense		$20,230
Fare ratio		31%

8. PRIOR-PERIOD ADJUSTMENTS

The accompanying financial statements for 2010 have been restated to correct certain errors made in 2010. Grants revenue was overstated by $677,894. The effect of the restatement was to decrease change in net assets for 2010 by $677,894.

8. PRIOR-PERIOD ADJUSTMENTS (CONTINUED)

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

The financial statement changes were as follows:

	PREVIOUSLY REPORTED	ADJUSTMENT	FINAL
STATEMENT OF NET ASSETS			
Grants receivable	$ 5,972,575	$ (1,095,610)	$ 4,876,965
Unearned revenue	518,450	(417,716)	100,734
Net assets	47,705,401	(677,894)	47,027,507
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS			
Operating expenses	$ (24,752,340)	$ (526,047)	$ (25,278,387)
Nonoperating revenues	16,877,511	(677,894)	16,199,617
Capital grant expenditures not capitalized	(526,047)	526,047	-
Change in net assets	13,472,371	(677,894)	12,794,477

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SUPPLEMENTARY INFORMATION

CITY OF MONTEBELLO
TRANSIT FUND

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - DEPARTMENTAL

For the year ended June 30, 2011

	Transit	Metro Station	Total
OPERATING REVENUES:			
Bus fares	$ 6,093,569	-	$ 6,093,569
Special contracts	134,575	-	134,575
Other revenue	111,882	-	111,882
TOTAL OPERATING REVENUES	6,340,026	-	6,340,026
OPERATING EXPENSES:			
Labor and fringe benefits	11,320,134	$ 40,337	11,360,471
Vehicle expenses	4,647,735	-	4,647,735
Administrative costs	1,944,320	38,871	1,983,191
Professional fees and other contracts	1,128,957	262,602	1,391,559
Utilities and other services	195,865	46,778	242,643
Other	510,147	93,314	603,461
Depreciation expense	3,424,009	-	3,424,009
TOTAL OPERATING EXPENSES	23,171,167	481,902	23,653,069
OPERATING LOSS	(16,831,141)	(481,902)	(17,313,043)
NONOPERATING REVENUES (EXPENSES):			
Proposition "A" discretionary	3,668,101		3,668,101
Proposition "C" discretionary	2,997,572		2,997,572
State grant - operating	7,391,131	-	7,391,131
State grant - capital/discretionary	40,357		40,357
Measure R	2,341,750		2,341,750
Federal grant - capital	767,775		767,775
Interest	10,990	-	10,990
Capital grant expenditures not capitalized	(808,132)	-	(808,132)
TOTAL NONOPERATING REVENUES	16,409,544	-	16,409,544
LOSS BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(421,597)	(481,902)	(903,499)
CAPITAL CONTRIBUTIONS	3,226,572	-	3,226,572
TRANSFERS TO OTHER CITY FUNDS	(2,829,267)	-	(2,829,267)
CHANGE IN NET ASSETS	(24,292)	(481,902)	(506,194)
NET ASSETS AT BEGINNING OF YEAR	47,027,507	-	47,027,507
NET ASSETS AT END OF YEAR	$ 47,003,215	$ (481,902)	$ 46,521,313

See independent auditors' report.

CITY OF MONTEBELLO
TRANSIT FUND

COMBINING STATEMENT OF CASH FLOWS - DEPARTMENTAL

For the year ended June 30, 2011

	Transit	Metro Station	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	$ 6,093,569		$ 6,093,569
Other receipts	246,457		246,457
Payments to suppliers	(9,778,298)	$ (481,902)	(10,260,200)
Payments to employees	(11,267,189)	-	(11,267,189)
NET CASH USED BY OPERATING ACTIVITIES	(14,705,461)	(481,902)	(15,187,363)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating grants received - federal and state	20,027,539	481,902	20,509,441
Transfers to other City funds	(2,829,267)	-	(2,829,267)
Payment of amounts due to other City funds	(3,000,000)	-	(3,000,000)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	14,198,272	481,902	14,680,174
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Capital contributed by federal and state grants	3,931,048		3,931,048
Acquisition of capital assets	(3,226,572)	-	(3,226,572)
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	704,476	-	704,476
NET INCREASE IN CASH AND CASH EQUIVALENTS	197,287	-	197,287
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	581,395	-	581,395
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 778,682	$ -	$ 778,682
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:			
Operating loss	$ (16,831,141)	$ (481,902)	$ (17,313,043)
Depreciation	3,424,009	-	3,424,009
Changes in assets and liabilities:			
Increase in accounts payable and accrued liabilities including vacation and sick leave	(1,298,329)	-	(1,298,329)
NET CASH USED BY OPERATING ACTIVITIES	$ (14,705,461)	$ (481,902)	$ (15,187,363)

See independent auditors' report.

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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 TRANSPORTATION DEVELOPMENT ACT (TDA), AND THE PUBLIC TRANSPORTATION MODERNIZATION IMPROVEMENT AND SERVICE ENHANCEMENT ACCOUNT (PTMISEA) GUIDELINES

To the Honorable City Council
City of Montebello, California

We have audited the financial statements of the Transit Fund of the City of Montebello, California (Transit Fund) as of and for the year ended June 30, 2011, and have issued our report thereon dated December 28, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Montebello's (City) internal control over financial reporting as it relates to the Transit Fund (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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; therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have 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.

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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 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 the City's internal control as it relates to the Transit Fund to be material weaknesses.

Bank Reconciliations

The City has a policy of concentration of cash of various funds, including special revenue funds. The Transit Fund's cash is part of this concentration. We found that the City's cash account was not properly reconciled to the bank statements on a timely basis. We believe that City staff should prepare the bank reconciliations soon after the end of each month, and someone other than the person who prepared the bank reconciliations should review and approve the bank reconciliations.

Management's Response: Efforts have been made and in progress to ensure that bank reconciliations are performed monthly. Various challenges with general ledger balances and practices from the past are being resolved. Additionally, staff turnover is being resolved with active recruitment efforts and automated methods are being reviewed.

Capital Assets

The City lacks sufficient internal control over the recording of capital assets. The City has retained the services of Wellspring Company (Wellspring) to maintain the capital asset listing of the City and all of its funds and calculate the depreciation expense to be recorded into the City's general ledger. However, a number of capital assets purchased and placed in service by the Transit Department were not accounted for as additions in the Wellspring reports or recorded as capital assets in the City's general ledger. This caused a material misstatement in the total cost and accumulated depreciation of capital assets, as well as in the depreciation expense included in the statement of revenue and expenses of the Transit Fund. We recommend that the City establish better controls to identify the capital expenditures that need to be capitalized, provide the information to Wellspring, and properly record the capital assets in the City's general ledger. We also recommend periodic reconciliation of the Wellspring information and the City's general ledger to the Transit Department's capital reserve worksheet that summarizes the Transit Fund's capital expenditures.

Management's Response: All of the Transit Fund's capital assets were recorded in the general ledger. Not all of the expenditures were identified, however, as capital assets. Automated methods for recording capital assets do not exist currently and is an area that needs improvement to better ensure the proper classification of capital assets. Automated systems are being evaluated in coordination with the Transit Department.

A significant deficiency is a deficiency, or 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. We consider the following deficiencies in the City of Montebello's internal control to be significant deficiencies.

Documentation of Policies and Procedures

As noted in the prior year, although the City has a written policies and procedures manual, the manual has not been updated in years and a complete manual is not readily available to all staff. We recommend that the policies and procedures manual be updated and made available to all members of the City staff. Management should ensure that the policies and procedures established by the City are properly implemented.

Management's Response: The City is in the process of reviewing its written policies and procedures manual and will make it available to all staff upon completion and approval.

Cut-off Procedures

The cut-off procedures for revenues received by the Transit Department are not designed to capture all revenues on a timely basis. Cash received at the Transit Department is not promptly posted in the general ledger in the proper accounting period. Management should design and implement appropriate internal control to improve cut-off procedures.

Management's Response: In order to enhance the timely recording of cash receipts, a new cash receipt module is scheduled to be implemented. The cashiering system will be used by the Transit Department in coordination with Finance and will help ensure the timely recording of cash receipts.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Transit Fund's financial statements are free of 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. Our audit was further conducted to determine that the Transportation Development Act (TDA) funds allocated to and received by the City were expended in accordance with applicable statutes, rules, and regulations of the TDA and the allocation instructions and resolutions of the Los Angeles Metropolitan Transportation Commission, and that the Public Transportation Modernization Improvement and Service Enhancement Account (PTMISEA) funds allocated to the City were expended in conformance with applicable statutes, rules, and regulations for the PTMISEA Guidelines. 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*.

This report is intended for the information of the City Council, management, others within the City, and officials of applicable federal and State awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

December 28, 2011

Eadie and Payne LLP