

**City of Montebello
Transit System Fund
Financial Statements
*Years ended June 30, 2013 and 2012
with Report of Independent Auditors***

	<u>PAGE</u>
REPORT OF INDEPENDENT AUDITORS	1
AUDITED FINANCIAL STATEMENTS	
Statements of Net Position	3
Statements of Revenues, Expenses, and Changes in Net Position	4
Statements of Cash Flows	5
Notes to Financial Statements	6
REPORT OF INDEPENDENT AUDITORS 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	11
SCHEDULE OF FINDINGS AND RECOMMENDATIONS	13
STATUS OF PRIOR YEAR FINDINGS	14

Report of Independent Auditors

**To the Honorable City Council
Montebello, California**

Report on the Financial Statements

We have audited the accompanying financial statements of the Transit System Fund (Fund) of the City of Montebello (an enterprise fund of the City of Montebello) as of and for the years ended June 30, 2013 and 2012 and the related notes to financial statements, as listed in the accompanying 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 opinion.

Opinion

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Transit System Fund of the City of Montebello as of June 30, 2013 and 2012, 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.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Transit System Fund and do not purport to, and do not, present fairly the financial position of the City of Montebello, California, as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2013, on our consideration of the City of Montebello Transit System Fund's internal control over financial reporting 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Montebello Transit System Fund's internal control over financial reporting and compliance.

Vargay + Company LLP

**Los Angeles, California
December 30, 2013**

**City of Montebello
Transit System Fund
Statements of Net Position**

		June 30	
		2013	2012
ASSETS			
Current assets			
Cash and investments	\$	3,317,910	\$ 247,806
Grants receivable		4,944,624	2,081,008
Inventories		429,617	914,524
		Total current assets	3,243,338
Noncurrent assets			
Capital assets		92,545,451	84,512,428
Accumulated depreciation		(40,164,876)	(36,277,434)
		Net capital assets	48,234,994
		Total assets	51,478,332
LIABILITIES			
Current liabilities			
Accounts payable		5,234,014	1,583,068
Other accrued liabilities		800,010	573,980
Compensated absences, due within one year		654,547	968,775
Unearned revenue		1,673,444	171,708
Noncurrent liabilities			
Compensated absences, due after one year		284,306	254,384
		Total liabilities	3,551,915
NET POSITION			
Net investment in capital assets		52,380,575	48,234,994
Unrestricted		45,830	(308,577)
		Total net position \$	\$ 47,926,417

See notes to financial statements.

City of Montebello
Transit System Fund

Statements of Revenues, Expenses, and Changes in Net Position

	Years ended June 30,	
	2013	2012
Operating revenues		
Bus fares	\$ 6,010,976	\$ 6,131,802
Special contracts	41,434	109,626
Other revenue	101,695	95,539
Total operating revenues	6,154,105	6,336,967
Operating expenses		
Labor and fringe benefits	15,269,362	15,350,274
Vehicle expenses	4,835,103	4,632,125
Administrative costs	1,499,997	1,582,964
Professional fees and other contracts	1,479,269	1,553,700
Utilities and other services	327,352	274,892
Other	892,220	900,954
Depreciation expense	3,887,442	3,569,840
Total operating expenses	28,190,745	27,864,749
Operating loss	(22,036,640)	(21,527,782)
Nonoperating revenues		
Proposition "A" discretionary	4,925,674	5,205,138
Proposition "A" local return	-	1,100,000
Proposition "C" discretionary	3,252,789	3,125,311
State grant - operating	7,456,935	5,720,288
State grant - capital/discretionary	1,887,134	384,330
Measure R	2,584,763	2,751,953
Federal grant - capital	6,428,821	4,640,087
Interest income	512	5,779
Total nonoperating revenues	26,536,628	22,932,886
Change in net position	4,499,988	1,405,104
Net position, beginning of year	47,926,417	46,521,313
Net position, end of year	\$ 52,426,405	\$ 47,926,417

See notes to financial statements.

**City of Montebello
Transit System Fund
Statements of Cash Flows**

	Years ended June 30,	
	2013	2012
Cash flows from operating activities		
Receipts from customers	\$ 6,052,410	\$ 6,241,428
Other receipts	101,695	95,539
Payments to suppliers	(4,672,058)	(8,524,263)
Payments to employees	(15,553,668)	(14,698,527)
Net cash used in operating activities	(14,071,621)	(16,885,823)
Cash flows from noncapital financing activities		
Operating grants received - state	19,721,897	17,369,922
Interest received	512	5,779
Net cash provided by noncapital and financing activities	19,722,409	17,375,701
Cash flows from capital and related financing activities		
Capital contributed by federal and state grants	5,452,339	3,619,743
Acquisition of capital assets	(8,033,023)	(4,640,497)
Net cash used in capital and related financing activities	(2,580,684)	(1,020,754)
Change in cash and cash equivalents	3,070,104	(530,876)
Cash and cash equivalents, beginning of year	247,806	778,682
Cash and cash equivalents, end of year	\$ 3,317,910	\$ 247,806
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$ (22,036,640)	\$ (21,527,782)
Depreciation	3,887,442	3,569,840
Changes in assets and liabilities:		
Decrease (increase) in inventories	484,907	(914,523)
Increase in accounts payable	3,650,946	1,334,896
Increase in accrued liabilities	226,030	274,060
Increase (decrease) in compensated absences	(284,306)	377,686
Net cash used in operating activities	\$ (14,071,621)	\$ (16,885,823)

See notes to financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Transit System 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.

Fund Accounting

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. As such, the accompanying financial statements present only the Transit System Fund and do not purport to, and do not, present fairly the financial position and results of operations of the City of Montebello, California, as of and for the years ended June 30, 2013 and 2012. 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.

Implementation of New Accounting Pronouncements

During the fiscal year ended June 30, 2013, the City adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Refer to the City's Comprehensive Annual Financial Report for more details.

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.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

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.

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.

NOTE 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, 2013 and 2012, the cash and cash equivalents balance of the Transit Fund totaled \$3,317,910 and \$247,806, 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.

**City of Montebello
Transit System Fund
Notes to Financial Statements
Years ended June 30, 2013 and 2012**

NOTE 3 CAPITAL ASSETS

Capital assets of the Transit Fund at June 30, 2013 were as follows:

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Reclassifications / Deletions</u>	<u>Balance June 30, 2013</u>
Capital assets not being depreciated:				
Land	\$ 3,901,596	\$ -	\$ -	\$ 3,901,596
Construction in progress	111,372	1,618,178	(69,537)	1,660,013
	<u>4,012,968</u>	<u>1,618,178</u>	<u>(69,537)</u>	<u>5,561,609</u>
Capital assets being depreciated:				
Buildings and improvements	23,587,440	965,861	69,537	24,622,838
Machinery and equipment	56,912,020	5,448,984	-	62,361,004
Total capital assets being depreciated	<u>80,499,460</u>	<u>6,414,845</u>	<u>69,537</u>	<u>86,983,842</u>
Less: Accumulated depreciation:	<u>36,277,434</u>	<u>3,887,442</u>	<u>-</u>	<u>40,164,876</u>
Net capital assets, being depreciated	<u>44,222,026</u>	<u>2,527,403</u>	<u>69,537</u>	<u>46,818,966</u>
Net capital assets	<u>\$ 48,234,994</u>	<u>\$ 4,145,581</u>	<u>\$ -</u>	<u>\$ 52,380,575</u>

NOTE 4 PUBLIC TRANSPORTATION MODERNIZATION IMPROVEMENTS 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 received a total of \$2,370,983 of PTMISEA funds from 2008 to 2010. These funds were fully expended as of June 30, 2011. The City did not receive any PTMISEA funds during the fiscal year ended June 30, 2012.

City of Montebello
Transit System Fund
Notes to Financial Statements
Years ended June 30, 2013 and 2012

NOTE 4 PUBLIC TRANSPORTATION MODERNIZATION IMPROVEMENTS AND SERVICE ENHANCEMENT ACCOUNT (CONTINUED)

During the fiscal year ended June 30, 2013, the City received \$1,992,125 in PTMISEA funds. Below shows the status of these funds:

Project Description	Proceeds received	Interest earned	Total Allocation	Expenditures Incurred	Unexpended proceeds
Alternative Fuel Bus Replacement Project	\$ 800,945	\$ 16	\$ 800,961	\$ 547,420	\$ 253,541
Seven Expansion CNG Buses	483,000	10	483,010	-	483,010
Four Repower of Hybrid Buses	144,000	3	144,003	-	144,003
Passenger Information System	241,680	5	241,685	15,990	225,695
Bus Wash Facility Upgrade	60,000	1	60,001	-	60,001
Bus Stop Improvement Project	142,500	3	142,503	-	142,503
Transit Facility Master Plan	120,000	3	120,003	-	120,003
Total	<u>\$ 1,992,125</u>	<u>\$ 41</u>	<u>\$ 1,992,166</u>	<u>\$ 563,410</u>	<u>\$ 1,428,756</u>

NOTE 5 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%.

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

	2013	2012
Operating revenues		
Bus fares	\$ 6,011	\$ 6,132
Special fares	41	110
Total operating revenues	<u>\$ 6,052</u>	<u>\$ 6,242</u>
Operating expenses		
Labor and fringe benefits	\$ 15,270	\$ 15,350
Vehicle expenses	4,835	4,632
Administrative costs	1,500	1,583
Professional fees and other contracts	1,479	1,554
Utilities and other services	327	275
Other	892	901
Depreciation expense	3,888	3,570
Total operating expense	<u>28,191</u>	<u>27,865</u>
Less: Depreciation expense	<u>(3,888)</u>	<u>(3,570)</u>
Net operating expense	<u>\$ 24,303</u>	<u>\$ 24,295</u>
Fare Ratio	<u>25%</u>	<u>26%</u>

NOTE 6 SUBSEQUENT EVENTS

The City has evaluated events subsequent to June 30, 2013 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through December 30, 2013, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements.

**Independent Auditors' 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 Honorable Mayor and Members of City Council
City of Montebello
Montebello, 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 Transit System Fund (Fund) of the City of Montebello, California (City), (an enterprise fund of the City of Montebello), as of and for the year ended June 30, 2013, and the related notes to the financial statements, as listed in the table of contents, and have issued our report thereon dated December 30, 2013.

Internal Control Over Financial Reporting

Management of City of Montebello is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered the Fund'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 the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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, contained in the *Transportation Development Act Conformance Auditing Guide* issued by the Los Angeles County Metropolitan Transportation Authority (LACMTA), the audit provisions of the Public Utilities Code (PUC) Section 99245 and the *California Department of Transportation Public Transportation Modernization, Improvement and Service Enhancement Account (PTMISEA) Guidelines*, 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*.

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 Fund'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 Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vargus + Company LLP

**Los Angeles, California
December 30, 2013**

**City of Montebello
Transit System Fund
Schedule of Findings and Recommendations
Year ended June 30, 2013**

There were no findings noted during the fiscal year ended June 30, 2013.

2012-01 Year-end Adjustments

Finding

As part of the year-end closing process, there were more than 20 adjusting journal entries made to correct the account balances to arrive at more accurate financial statements. Some of these adjustments were significant and affected the Transit Fund.

Recommendation

To generate more accurate financial statements, we recommend the City perform monthly closing procedures by analyzing the accuracy of the month-end account balances and correcting errors found during this process. This procedure will substantially reduce the amount of adjusting journal entries at year-end, improve the reliability of interim financial statements and allow for more timely completion of the annual financial statements.

Action taken by management

The Finance Department filled three key positions in March 2012, several of which had been vacant for nearly a year or longer, as a result of staff turnover. Management concurred with the audit recommendation and continued to refine the month-end and year-end closing processes. Staff received training on automated systems and internal control processes were improved. This finding is considered resolved.

