

**City of Montebello
Transit System Fund
Financial Statements
*As of and for the Years ended June 30, 2014 and 2013
with Report of Independent Auditors***

An Independently Owned Member
McGLADREY ALLIANCE



**V&C VASQUEZ
& COMPANY LLP**
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS

	<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 AUDIT 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 (the Transit Fund) of the City of Montebello (the City) (an enterprise fund of the City of Montebello) which comprise the Transit Fund's statements of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to financial statements.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 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 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, 2014 and 2013, 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 Fund and do not purport to, and do not, present fairly the financial position of the City of Montebello, California, as of June 30, 2014 and 2013, 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. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2014, 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.

Vasquez + Company LLP

**Los Angeles, California
December 19, 2014**

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

		June 30	
		2014	2013
ASSETS			
Current assets			
Cash and investments	\$	3,666,094	\$ 3,317,910
Grants receivable		1,510,717	4,944,624
Inventories		311,641	429,617
Prepaid expenses		899	-
Total current assets		5,489,351	8,692,151
Noncurrent assets			
Capital assets		93,922,202	92,545,451
Accumulated depreciation		(44,002,332)	(40,164,876)
Net capital assets		49,919,870	52,380,575
Total assets		55,409,221	61,072,726
LIABILITIES			
Current liabilities			
Accounts payable		613,935	5,234,014
Other accrued liabilities		932,749	800,010
Compensated absences, due within one year		727,613	654,547
Unearned revenue		2,645,187	1,673,444
Total current liabilities		4,919,484	8,362,015
Noncurrent liabilities			
Compensated absences, due after one year		245,020	284,306
Total liabilities		5,164,504	8,646,321
NET POSITION			
Net investment in capital assets		49,919,870	52,380,575
Unrestricted		324,847	45,830
Total net position	\$	50,244,717	\$ 52,426,405

See notes to financial statements.

City of Montebello
Transit System Fund

Statements of Revenues, Expenses, and Changes in Net Position

	Year ended June 30,	
	2014	2013
Operating revenues		
Bus fares	\$ 5,763,379	\$ 6,010,976
Special contracts	52,152	41,434
Other revenues	170,267	101,695
Total operating revenues	<u>5,985,798</u>	<u>6,154,105</u>
Operating expenses		
Labor and fringe benefits	16,878,674	15,269,362
Vehicle expenses	5,990,743	4,835,103
Administrative costs	1,500,000	1,499,997
Professional fees and other contracts	1,739,110	1,479,269
Utilities and other services	416,313	327,352
Other	301,277	892,220
Depreciation	4,024,091	3,887,442
Total operating expenses	<u>30,850,208</u>	<u>28,190,745</u>
Operating loss	<u>(24,864,410)</u>	<u>(22,036,640)</u>
Nonoperating revenues		
Operating subsidies:		
Proposition "A" discretionary	4,974,492	4,925,674
Proposition "C" discretionary	3,450,541	3,252,789
Measure R	3,101,370	2,584,763
State transit assistance	8,199,861	7,456,935
Subtotal - operating subsidies	<u>19,726,264</u>	<u>18,220,161</u>
Interest income	10,383	512
Total nonoperating revenues	<u>19,736,647</u>	<u>18,220,673</u>
Loss before capital grants	<u>(5,127,763)</u>	<u>(3,815,967)</u>
Capital grants		
State grant - capital/discretionary	1,302,684	1,887,134
Federal grant - capital	1,462,173	6,428,821
Total capital grants	<u>2,764,857</u>	<u>8,315,955</u>
Income (loss) before transfer	<u>(2,362,906)</u>	<u>4,499,988</u>
Transfers from other city funds	<u>181,218</u>	<u>-</u>
Change in net position	<u>(2,181,688)</u>	<u>4,499,988</u>
Net position, beginning of year	<u>52,426,405</u>	<u>47,926,417</u>
Net position, end of year	<u>\$ 50,244,717</u>	<u>\$ 52,426,405</u>

See notes to financial statements.

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

	Year ended June 30,	
	2014	2013
Cash flows from operating activities		
Receipts from customers	\$ 6,307,015	\$ 6,052,410
Other receipts	170,267	101,695
Payments to suppliers	(14,206,273)	(4,672,058)
Payments to employees	(16,844,894)	(15,553,668)
Net cash used in operating activities	(24,573,885)	(14,071,621)
Cash flows from noncapital financing activities		
Operating subsidies received from Federal and State	23,640,430	19,721,897
Transfers from other City funds	181,218	-
Net cash provided by noncapital and financing activities	23,821,648	19,721,897
Cash flows from capital and related financing activities		
Interest received	10,383	512
Capital contributed by federal and state grants	2,764,857	5,452,339
Proceeds from insurance claim	335,784	-
Acquisition of capital assets	(2,010,603)	(8,033,023)
Net cash provided by capital and related financing activities	1,100,421	(2,580,172)
Change in cash and cash equivalents	348,184	3,070,104
Cash and cash equivalents, beginning of year	3,317,910	247,806
Cash and cash equivalents, end of year	\$ 3,666,094	\$ 3,317,910
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$ (24,864,410)	\$ (22,036,640)
Depreciation	4,024,091	3,887,442
Loss from disposal of capital assets	111,433	-
Changes in assets and liabilities:		
Decrease (increase) in receivables	(480,259)	-
Decrease (increase) in inventories	117,976	484,907
Increase in prepaid expenses	(899)	-
Increase (decrease) in accounts payable	(4,620,079)	3,650,946
Increase in accrued liabilities	132,739	226,030
Increase (decrease) in compensated absences	33,780	(284,306)
Decrease in unearned revenue	971,743	-
Net cash provided by (used in) operating activities	\$ (24,573,885)	\$ (14,071,621)

See notes to financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Transit System Fund of the City of Montebello, California (the 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 in 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 (the City) and are recorded in a separate fund of the City. As such, the accompanying financial statements present only the Transit Fund and do not purport to, and do not, present fairly the financial position and the changes in financial position of the City of Montebello, California, as of and for the years ended June 30, 2014 and 2013. 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 maintained in the City's cash and investment 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.

Provision for depreciation has been provided over the estimated useful lives of the capital assets 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 capital assets are acquired or as the expenses are incurred.

Reclassification

Certain reclassifications have been made to prior period financial statements to conform to the current year presentation.

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 pooled 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, 2014 and 2013, the cash and cash equivalents balance of the Transit Fund totaled \$3,666,094 and \$3,317,910, 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, 2014 and 2013**

NOTE 3 CAPITAL ASSETS

Capital assets of the Transit Fund as of June 30, 2014 were as follows:

	Balance July 1, 2013	Additions	Reclassifications / Deletions	Balance June 30, 2014
Capital assets not being depreciated:				
Land	\$ 3,901,596	\$ -	\$ -	\$ 3,901,596
Construction in progress	1,660,013	1,546,693	-	3,206,706
	<u>5,561,609</u>	<u>1,546,693</u>	<u>-</u>	<u>7,108,302</u>
Capital assets being depreciated:				
Buildings and improvements	24,622,838	269,153	339,631	25,231,622
Machinery and equipment	62,361,004	194,757	(973,483)	61,582,278
Total capital assets being depreciated	<u>86,983,842</u>	<u>463,910</u>	<u>(633,852)</u>	<u>86,813,900</u>
Less: Accumulated depreciation:	<u>40,164,876</u>	<u>4,024,091</u>	<u>(186,635)</u>	<u>44,002,332</u>
Net capital assets being depreciated	<u>46,818,966</u>	<u>(3,560,181)</u>	<u>(447,217)</u>	<u>42,811,568</u>
Net capital assets	<u>\$ 52,380,575</u>	<u>\$ (2,013,488)</u>	<u>\$ (447,217)</u>	<u>\$ 49,919,870</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, 2014 and 2013**

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 to-date	Total Allocation	Expenditures Incurred to-date	Unexpended proceeds
Alternative Fuel Bus Replacement Project	\$ 800,945	\$ 1,202	\$ 802,147	\$ 527,362	\$ 274,785
Seven Expansion CNG Buses	483,000	1,216	484,216	-	484,216
Four Repower of Hybrid Buses	144,000	362	144,362	-	144,362
Passenger Information System	241,680	525	242,205	177,025	65,180
Bus Wash Facility Upgrade	60,000	151	60,151	-	60,151
Bus Stop Improvement Project	142,500	359	142,859	-	142,859
Transit Facility Master Plan	120,000	303	120,303	-	120,303
Total	<u>\$ 1,992,125</u>	<u>\$ 4,118</u>	<u>\$ 1,996,243</u>	<u>\$ 704,387</u>	<u>\$ 1,291,856</u>

There were no additional funds received during the fiscal year ended June 30, 2014. The unexpended proceeds of \$1,291,856 are recorded as unearned revenue.

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 System Fund must maintain a ratio of fare revenues and local support to operating cost greater than 20%.

NOTE 5 TRANSPORTATION DEVELOPMENT ACT (CONTINUED)

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

	2014	2013
Operating revenues		
Bus fares	\$ 5,763	\$ 6,011
Special contracts	52	41
Total operating revenues	\$ 5,815	\$ 6,053
Operating expenses		
Labor and fringe benefits	\$ 16,879	\$ 15,270
Vehicle expenses	5,991	4,835
Administrative costs	1,500	1,500
Professional fees and other contracts	1,739	1,479
Utilities and other services	416	327
Other	301	892
Depreciation	4,024	3,888
Total operating expense	30,850	28,191
Less: Depreciation expense	(4,024)	(3,888)
Net operating expenses	\$ 26,826	\$ 24,303
Fare Ratio	22%	25%

NOTE 6 SUBSEQUENT EVENTS

The City has evaluated events subsequent to June 30, 2014 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through December 19, 2014, 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 the 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 (the Transit Fund) of the City of Montebello, California (the City), (an enterprise fund of the City of Montebello), as of and for the year ended June 30, 2014, and the related notes to the financial statements, as listed in the table of contents, and have issued our report thereon dated December 19, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the Transit Fund's financial statements, we considered the Transit 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Transit Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Transit 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 Transit Fund's financial statements are free from 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 Transit 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 Transit Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vasquez + Company LLP

**Los Angeles, California
December 19, 2014**

**City of Montebello
Transit System Fund
Schedule of Findings and Recommendations
Year ended June 30, 2014**

There were no findings noted during the fiscal year ended June 30, 2014.

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



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Vasquez & Company LLP has over 40-years experience in performing audit, accounting & consulting services. Vasquez is a member of the McGladrey Alliance. The McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. McGladrey Alliance member firms maintain their respective names, autonomy and independence and are responsible for their own client fee arrangements, delivery of services and maintenance of client relationships.

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