

**City of Montebello  
Transit System Fund  
Financial Statements  
*As of and for the Years ended June 30, 2015 and 2014  
with Report of Independent Auditors***

An Independently Owned Member  
**McGLADREY ALLIANCE**



 **Vasquez  
& Company LLP**  
Certified Public Accountants and Business Consultants

	<u>PAGE</u>
<b>REPORT OF INDEPENDENT AUDITORS</b>	1
<b>AUDITED FINANCIAL STATEMENTS</b>	
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
<b>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</b>	13
<b>SCHEDULE OF FINDINGS AND RECOMMENDATIONS</b>	15
<b>STATUS OF PRIOR AUDIT FINDINGS</b>	16

## **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), a component unit 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, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Transit Fund's financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***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, 2015 and 2014, and the changes in its financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matters**

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, 2015 and 2014, and the changes in its financial position and its cash flows for the year 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.

As discussed in Notes 1, 4 and 7 to the financial statements, effective July 1, 2014, the City of Montebello and the Transit Fund adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. 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 30, 2015, 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 30, 2015**

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

		June 30	
		2015	2014
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and investments	\$	5,232,795	\$ 3,666,094
Grants receivable		1,507,678	1,510,717
Inventories		185,734	311,641
Prepaid expenses		190,683	899
<b>Total current assets</b>		7,116,890	5,489,351
<b>Noncurrent assets</b>			
Capital assets		90,224,343	93,922,202
Accumulated depreciation		(43,550,648)	(44,002,332)
<b>Net capital assets</b>		46,673,695	49,919,870
<b>Total assets</b>		53,790,585	55,409,221
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension contributions		1,893,800	-
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable		657,649	613,935
Other accrued liabilities		791,793	932,749
Compensated absences, due within one year		795,515	727,613
Unearned revenue		2,402,194	2,645,187
<b>Total current liabilities</b>		4,647,151	4,919,484
<b>Noncurrent liabilities</b>			
Compensated absences, due after one year		153,516	245,020
Net pension liability		21,584,940	-
<b>Total noncurrent liabilities</b>		21,738,456	245,020
<b>Total liabilities</b>		26,385,607	5,164,504
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Net difference between projected and actual earnings on pension plan investments		5,310,654	-
<b>NET POSITION</b>			
Net investment in capital assets		46,673,695	49,919,870
Unrestricted		(22,685,571)	324,847
<b>Total net position</b>	\$	23,988,124	\$ 50,244,717

*See notes to financial statements.*

**City of Montebello**  
**Transit System Fund**

**Statements of Revenues, Expenses, and Changes in Net Position**

---

	Year ended June 30,	
	2015	2014
<b>Operating revenues</b>		
Bus fares	\$ 5,670,177	\$ 5,763,379
Other revenues	168,501	170,267
<b>Total operating revenues</b>	<b>5,838,678</b>	<b>5,985,798</b>
<b>Operating expenses</b>		
Labor and fringe benefits	16,281,033	16,878,674
Vehicle expenses	4,977,004	5,990,743
Administrative costs	1,500,000	1,500,000
Professional fees and other contracts	2,187,838	1,739,110
Utilities and other services	384,874	416,313
Other	424,970	301,277
Depreciation	3,801,305	4,024,091
<b>Total operating expenses</b>	<b>29,557,024</b>	<b>30,850,208</b>
<b>Operating loss</b>	<b>(23,718,346)</b>	<b>(24,864,410)</b>
<b>Nonoperating revenues</b>		
Operating subsidies:		
Proposition "A" discretionary	5,084,565	4,974,492
Proposition "C" discretionary	3,516,300	3,450,541
Measure R	3,268,292	3,101,370
State transit assistance	9,044,906	8,199,861
<b>Subtotal - operating subsidies</b>	<b>20,914,063</b>	<b>19,726,264</b>
Interest income	6,433	10,383
<b>Total nonoperating revenues</b>	<b>20,920,496</b>	<b>19,736,647</b>
<b>Loss before capital grants</b>	<b>(2,797,850)</b>	<b>(5,127,763)</b>
<b>Capital grants</b>		
State grant - capital/discretionary	738,602	1,302,684
Federal grant - capital	1,042,365	1,462,173
<b>Total capital grants</b>	<b>1,780,967</b>	<b>2,764,857</b>
<b>Loss before transfer</b>	<b>(1,016,883)</b>	<b>(2,362,906)</b>
<b>Transfers from other city funds</b>	<b>172,123</b>	<b>181,218</b>
<b>Change in net position</b>	<b>(844,760)</b>	<b>(2,181,688)</b>
<b>Net position, beginning of year, as restated</b>	<b>24,832,884</b> **	<b>52,426,405</b>
<b>Net position, end of year</b>	<b>\$ 23,988,124</b>	<b>\$ 50,244,717</b>

\*\*includes prior period adjustment of \$25,411,833 to implement GASB No. 68, refer to Note 7

See notes to financial statements.

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

	Year ended June 30,	
	2015	2014
<b>Cash flows from operating activities</b>		
Receipts from customers	\$ 5,559,735	\$ 6,307,015
Other receipts	168,501	170,267
Payments to suppliers	(9,843,946)	(14,206,273)
Payments to employees	(16,304,635)	(16,844,894)
<b>Net cash used in operating activities</b>	<b>(20,420,345)</b>	<b>(24,573,885)</b>
<b>Cash flows from noncapital financing activities</b>		
Operating subsidies received from Federal and State	20,674,109	23,640,430
Transfers from other City funds	172,123	181,218
<b>Net cash provided by noncapital and financing activities</b>	<b>20,846,232</b>	<b>23,821,648</b>
<b>Cash flows from capital and related financing activities</b>		
Interest received	6,433	10,383
Capital contributed by federal and state grants	1,780,967	2,764,857
Proceeds from sale of capital assets	56,717	335,784
Acquisition of capital assets	(703,303)	(2,010,603)
<b>Net cash provided by capital and related financing activities</b>	<b>1,140,814</b>	<b>1,100,421</b>
<b>Change in cash and cash equivalents</b>	1,566,701	348,184
<b>Cash and cash equivalents, beginning of year</b>	<b>3,666,094</b>	<b>3,317,910</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 5,232,795</b>	<b>\$ 3,666,094</b>
<b>Reconciliation of operating loss to net cash provided by (used in) operating activities:</b>		
Operating loss	\$ (23,718,346)	\$ (24,864,410)
Depreciation	3,801,305	4,024,091
Loss from disposal of capital assets	91,456	111,433
Changes in assets and liabilities:		
Decrease in inventories	125,907	117,976
Increase in prepaid expenses	(189,784)	(899)
Increase in deferred outflows of resources	6,700	-
Increase in accounts payable	43,714	(4,620,079)
Decrease in accrued liabilities	(140,956)	132,739
Decrease in compensated absences	(23,602)	33,780
Increase in deferred inflows of resources	5,310,654	-
Decrease in net pension liability	(5,727,393)	-
<b>Net cash used in operating activities</b>	<b>\$ (20,420,345)</b>	<b>\$ (24,573,885)</b>

*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, 2015 and 2014. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording resources, related liabilities, deferred inflows and outflows, 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**

Effective July 1, 2014, the City and the Transit Fund adopted the following Governmental Accounting Standards Board (GASB) statements which impacted the Transit Fund's financial statements:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statements No. 27 and 50*. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures of pensions that are provided by local governmental employers through pension plans that are administered through trusts that meet certain conditions. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.
- GASB Statement No. 71, *Pension Transition for Contributions made subsequent to the Measurement Date - an amendment of GAS Statement No. 68*. This statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Pension**

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pension, and pension expense, information about the fiduciary net position of the City of Montebello's California Public Employees' Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The City allocates about 60% of the Miscellaneous Plan's net pension liability and pension-related transactions to the Transit Fund based on the Transit Fund's share in the pension contribution.

Refer to the City's Comprehensive Annual Financial Report for additional information.

**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.

**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.

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Specifically, the Transit Fund has made certain estimates and assumptions relating to the collectability of its receivables and the useful lives of the capital assets. Actual results could differ from those estimates and assumptions.

**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, 2015 and 2014, the cash and cash equivalents balance of the Transit Fund totaled \$5,232,795 and \$3,666,094, respectively. Further information concerning the City's investment policy regarding custodial risk, concentrations of credit risk, and interest rate risk can be found in the City's Comprehensive Annual Financial Report.

**NOTE 3 CAPITAL ASSETS**

Capital assets of the Transit Fund as of June 30, 2015 and 2014 were as follows:

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Reclassifications /</u> <u>Deletions</u>	<u>Balance</u> <u>June 30, 2015</u>
Capital assets not being depreciated:				
Land	\$ 3,901,596	\$ -	\$ -	\$ 3,901,596
Construction in progress	3,206,706	272,816	-	3,479,522
	<u>7,108,302</u>	<u>272,816</u>	<u>-</u>	<u>7,381,118</u>
Capital assets being depreciated:				
Buildings and improvements	25,231,622	274,314	-	25,505,936
Machinery and equipment	61,582,278	156,173	(4,401,162)	57,337,289
Total capital assets being depreciated	<u>86,813,900</u>	<u>430,487</u>	<u>(4,401,162)</u>	<u>82,843,225</u>
Less: Accumulated depreciation:	<u>44,002,332</u>	<u>3,801,305</u>	<u>(4,252,989)</u>	<u>43,550,648</u>
Net capital assets being depreciated	<u>42,811,568</u>	<u>(3,370,818)</u>	<u>(148,173)</u>	<u>39,292,577</u>
Net capital assets	<u>\$ 49,919,870</u>	<u>\$ (3,098,002)</u>	<u>\$ (148,173)</u>	<u>\$ 46,673,695</u>

**City of Montebello  
Transit System Fund  
Notes to Financial Statements  
Years ended June 30, 2015 and 2014**

**NOTE 3 CAPITAL ASSETS (CONTINUED)**

	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>

Depreciation expenses charged to operations for the years ended June 30, 2015 and 2014 were \$3,801,305 and \$4,024,091, respectively.

**NOTE 4 PENSION PLAN**

**General Information about the Pension Plan**

**Plan Descriptions**

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

**Benefits Provided**

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

**City of Montebello**  
**Transit System Fund**  
**Notes to Financial Statements**  
**Years ended June 30, 2015 and 2014**

**NOTE 4 PENSION PLAN (CONTINUED)**

With the implementation of GASB Statement No. 68, the City of Montebello allocated about 60% of the City's Miscellaneous Plan net pension liability and pension-related transactions to the Transit Fund based on the Transit Fund's share of the pension contribution during the fiscal year ended June 30, 2015. As a result, the Transit Fund reported a net pension liability of \$21,584,940. Refer to the City's comprehensive annual financial report for the fiscal year ended June 30, 2015 for more information about the City's pension plan required note disclosures in accordance with GASB Statement No. 68.

**NOTE 5 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 bond measure in a 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.

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	Adjustments	Total Allocation	Expenditures Incurred to-date	Unexpended proceeds
Alternative Fuel Bus Replacement Project	\$ 800,945	\$ 1,935	\$ -	\$ 802,880	\$ 530,222	\$ 272,658
Seven Expansion CNG Buses	483,000	1,216	(484,216)	-	-	-
Four Repower of Hybrid Buses	144,000	749	-	144,749	-	144,749
Passenger Information System	241,680	662	-	242,342	202,563	39,779
Bus Wash Facility Upgrade	60,000	312	-	60,312	-	60,312
Bus Stop Improvement Project	142,500	742	-	143,242	-	143,242
Transit Facility Master Plan	120,000	625	-	120,625	-	120,625
Metrolink ADA Upgrades	-	1,207	484,216	485,423	98,738	386,685
Total	<u>\$ 1,992,125</u>	<u>\$ 7,448</u>	<u>\$ -</u>	<u>\$ 1,999,573</u>	<u>\$ 831,523</u>	<u>\$ 1,168,050</u>

**NOTE 5 PUBLIC TRANSPORTATION MODERNIZATION IMPROVEMENTS AND SERVICE ENHANCEMENT ACCOUNT (CONTINUED)**

There were no additional funds received during the fiscal year ended June 30, 2014 and 2015. The unexpended proceeds of \$1,168,050 are reported as unearned revenue. The remaining balance of \$1,234,144 in the unearned revenue account represents other unspent transit grants and subsidies received mostly from the Los Angeles County Metropolitan Transportation Authority.

**NOTE 6 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%.

In accordance with the requirements of the TDA, the following fare ratio calculation is presented (in thousands of dollars):

	<u>2015</u>	<u>2014</u>
Operating revenues		
Bus fares	\$ 5,670	\$ 5,763
Special contracts	-	52
Total operating revenues	<u>\$ 5,670</u>	<u>\$ 5,815</u>
Operating expenses		
Labor and fringe benefits	\$ 16,281	\$ 16,879
Vehicle expenses	4,977	5,991
Administrative costs	1,500	1,500
Professional fees and other contracts	2,188	1,739
Utilities and other services	385	416
Other	425	301
Depreciation	3,801	4,024
Total operating expense	<u>29,557</u>	<u>30,850</u>
Less: Depreciation expense	<u>(3,801)</u>	<u>(4,024)</u>
Net operating expenses	<u>\$ 25,756</u>	<u>\$ 26,826</u>
Fare Ratio	<u>22%</u>	<u>22%</u>

**NOTE 7 PRIOR PERIOD ADJUSTMENT**

The beginning balance of the Transit Fund's net position has been restated to reflect the following adjustments:

Net position at June 30, 2014, as previously reported	\$ 50,244,717
Prior period adjustment:	
Adjustment to record retroactive effect of implementing GASB Statement No. 68	(25,411,833)
Net position at June 30, 2014, as restated	\$ <u>24,832,884</u>

The net position balance as of June 30, 2014 was restated to retroactively report the net pension liability as of the beginning of the fiscal year as a result of implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. A restatement of fiscal year June 30, 2014 financial statements was not made due to the information necessary to restate prior year's amounts not being readily available.

**NOTE 8 SUBSEQUENT EVENTS**

The City has evaluated events subsequent to June 30, 2015 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through December 30, 2015, 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, 2015, and the related notes to the financial statements, as listed in the table of contents, and have issued our report thereon dated December 30, 2015.

**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 30, 2015

**City of Montebello  
Transit System Fund  
Schedule of Findings and Recommendations  
Year ended June 30, 2015**

---

There were no findings noted during the fiscal year ended June 30, 2015.

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



[www.vasquezcpa.com](http://www.vasquezcpa.com)

Vasquez & Company LLP has over 45 years of experience in performing audit, accounting & consulting services for all types of nonprofit organizations, for-profit companies, governmental entities and publically traded companies. Vasquez is a member of the McGladrey Alliance. McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. McGladrey Alliance provides its members with access to resources of RSM US LLP (formerly known as McGladrey LLP). McGladrey Alliance member firms are separate and independent businesses and legal entities that are responsible for their own acts and omissions, and each are separate and independent from RSM US LLP. RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Visit <http://www.rsmus.com/aboutus> for more information regarding RSM US LLP and RSM International. McGladrey®, the McGladrey Alliance logo and the McGladrey Alliance signatures are proprietary to RSM US LLP, while RSM™ is used under license by RSM US LLP.

801 South Grand Avenue, Suite 400 • Los Angeles, California 90017-4646 • Ph. (213) 873-1700 • Fax (213) 873-1777