

CITY OF ARCATA

REPORT ON AUDIT OF THE ARCATA AND MAD RIVER/DIAL-A-RIDE
TRANSIT SYSTEMS

For the Year Ended June 30, 2013

CITY OF ARCATA
TABLE OF CONTENTS
June 30, 2013

	PAGE
Independent Auditors' Report	1 - 2
Comparative Statement of Net Assets - Recorded in the Transit Fund	3
Statements of Revenues, Expenses and Changes in Net Assets - Recorded in the Transit Fund	4 - 5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 12



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Humboldt County Association
of Governments
611 I Street, Suite B
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We have audited the accompanying financial statements of the Transit Fund of the City of Arcata as of and for the years ended June 30, 2013 and 2012, and the related notes to the 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.

Auditor's Responsibility

Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion

As discussed in Note 1, the financial statements present only the Transit Fund of the City of Arcata. Accounting principles generally accepted in the United States of America require that the City of Arcata's financial statements present the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Arcata.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis of Adverse Opinion" paragraph, the financial statements referred to above do not present fairly, the financial position of the City of Arcata as of June 30, 2013 and 2012, or the changes in financial position or cash flows thereof for the year then ended.

Unmodified Opinion

In our opinion, except as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Transit Fund of the City of Arcata as of June 30, 2013 and 2012, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Our audit was also made for the purposes of determining compliance with the Transportation Development Act Sections 99234, 99400 (a), and 99260.7, the California Administrative Code and the rules and regulations of the Humboldt County Association of Governments. In our audit we performed to the extent applicable, the tasks contained in Sections 6666 and 6667 of the California Administrative Code.

In our opinion, except as discussed in Note 7, the funds described above were expended in conformance with applicable laws, rules, and regulations of the Transportation Development Act and the allocation instructions of the Humboldt County Association of Governments.

Anderson, Lucas, Somerville, & Borges

October 30, 2013
Fortuna, California

CITY OF ARCATA
ARCATA AND MAD RIVER/DIAL-A-RIDE TRANSIT SYSTEM

COMPARATIVE STATEMENT OF NET ASSETS

Pertaining to Section 99260 of the Public Utilities Code

June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
<u>Current Assets</u>		
Cash - General	\$ 1,104,473	\$ 1,187,104
Cash - Greyhound account	24,683	24,673
Due from Other Governments	805,608	0
Receivable from HTA	<u>0</u>	<u>1,303</u>
<u>Total Current Assets</u>	<u>\$ 1,934,764</u>	<u>\$ 1,213,847</u>
<u>Property, Plant and Equipment</u>		
Vehicles	\$ 1,776,706	\$ 1,796,673
Building and structures	948,682	948,682
Other improvements	232,402	232,402
Furniture and equipment	<u>339,960</u>	<u>339,960</u>
	\$ 3,297,750	\$ 3,317,717
Less: Accumulated depreciation	<u>(1,759,195)</u>	<u>(1,587,098)</u>
<u>Total Property, Plant and Equipment</u>	<u>\$ 1,538,555</u>	<u>\$ 1,730,619</u>
TOTAL ASSETS	<u>\$ 3,473,319</u>	<u>\$ 2,944,466</u>
LIABILITIES AND NET ASSETS		
<u>Current Liabilities</u>		
Accounts payable and other expenses	\$ 47,105	\$ 50,212
Payable to HTA	342	0
Accrued vacation	<u>22,074</u>	<u>20,879</u>
<u>Total Current Liabilities</u>	<u>\$ 69,521</u>	<u>\$ 71,091</u>
<u>Other Liabilities</u>		
Deferred revenues	<u>\$ 1,019,006</u>	<u>\$ 219,006</u>
<u>Total Liabilities</u>	<u>\$ 1,088,527</u>	<u>\$ 290,097</u>
<u>Net Assets</u>		
Contributed capital:		
Contributions from other funds	\$ 671,151	\$ 671,151
Reserved for transit operating property	2,626,599	2,646,566
Less: Reserved for depreciation	<u>(1,759,195)</u>	<u>(1,587,098)</u>
	<u>\$ 1,538,555</u>	<u>\$ 1,730,619</u>
Retained earnings:		
Unreserved	\$ 111,916	\$ 0
Reserved for capital assets	<u>734,321</u>	<u>923,750</u>
	<u>\$ 846,237</u>	<u>\$ 923,750</u>
<u>Total Net Assets</u>	<u>\$ 2,384,792</u>	<u>\$ 2,654,369</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,473,319</u>	<u>\$ 2,944,466</u>

See accompanying notes to financial statements.

CITY OF ARCATA
ARCATA AND MAD RIVER/DIAL-A-RIDE TRANSIT SYSTEM

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Pertaining to Section 99260 of the Public Utilities Code

For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES		
Passenger fares	\$ 203,965	\$ 184,962
Charter service	3,088	1,942
Advertising	564	88
Dial-A-Ride/Dial-A-Lift ticket sales	6,355	10,062
Other revenue	1,106	1,078
Greyhound program (Net)	<u>(16,228)</u>	<u>(18,474)</u>
<u>Total</u>	<u>\$ 198,850</u>	<u>\$ 179,658</u>
OPERATING EXPENSES		
Labor and benefits	\$ 336,804	\$ 328,724
Services and overhead	76,677	70,200
Materials and supplies	2,597	5,764
Insurance	38,487	30,248
Repairs and maintenance	4,963	4,501
Vehicle maintenance & fuel	175,775	174,368
Depreciation	192,064	192,318
Dial-A-Lift expenses	60,362	56,895
Dial-A-Ride/Dial-A-Lift tickets purchased	<u>6,300</u>	<u>8,988</u>
<u>Total</u>	<u>\$ 894,029</u>	<u>\$ 872,006</u>
NON-OPERATING REVENUES		
Operating Grant (LTF)	\$ 266,580	\$ 245,416
Other operating grants	86,642	86,642
DAR/DAL allocation	93,265	63,751
STAF capital grants	56,065	111,957
STAF operating grants	20,000	10,000
Sale of used vehicle	747	0
HTA/RTS allocation	200,000	141,428
Interest income	<u>2,696</u>	<u>14,550</u>
<u>Total</u>	<u>\$ 725,995</u>	<u>\$ 673,744</u>
NON-OPERATING EXPENSES		
HTA/RTS assessment	\$ 170,416	\$ 141,428
DAR/DAL operating assessment	50,186	42,593
Capital outlay - Bus stop improvements	51,471	70,000
Loss on sale of equipment	<u>0</u>	<u>0</u>
<u>Total</u>	<u>\$ 272,073</u>	<u>\$ 254,021</u>
INCOME (LOSS) BEFORE ADJUSTMENTS	<u>\$ (241,257)</u>	<u>\$ (272,625)</u>

See accompanying notes to financial statements.

CITY OF ARCATA
ARCATA AND MAD RIVER/DIAL-A-RIDE TRANSIT SYSTEM

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS

Pertaining to Section 99260 of the Public Utilities Code

For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
INCOME (LOSS) BEFORE ADJUSTMENT	\$ (241,257)	\$ (272,625)
Add: Depreciation on fixed assets acquired by capital grants externally restricted for capital acquisitions that reduces contributed capital	192,064	192,318
Less: Acquisitions of transit operating property (net)	0	(65,636)
Plus: Book value of transit operating property sold	<u>0</u>	<u>0</u>
INCREASE (DECREASE) IN NET ASSETS	\$ (49,193)	\$ (145,943)
PRIOR PERIOD ADJUSTMENTS AND TRANSFERS (Note 5)	(28,320)	(23,869)
RETAINED EARNINGS - BEGINNING OF YEAR	<u>923,750</u>	<u>1,093,562</u>
RETAINED EARNINGS - END OF YEAR	<u>\$ 846,237</u>	<u>\$ 923,750</u>

See accompanying notes to financial statements.

CITY OF ARCATA
ARCATA AND MAD RIVER/DIAL-A-RIDE TRANSIT SYSTEM

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received for services	\$ 265,041	\$ 253,283
Cash paid for operations	(994,633)	(934,761)
Cash paid for operating transfers (net)	(28,320)	(23,869)
Cash received from prior period adjustment	<u>0</u>	<u>0</u>
NET CASH (USED) BY OPERATING ACTIVITIES	\$ <u>(757,912)</u>	\$ <u>(705,347)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from other governments	\$ 559,845	\$ 450,595
Operating grants received	<u>106,642</u>	<u>96,642</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	\$ <u>666,487</u>	\$ <u>547,237</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	\$ <u>2,696</u>	\$ <u>14,550</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ <u>2,696</u>	\$ <u>14,550</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants received	\$ 56,065	\$ 330,963
Purchase of property and equipment	0	(65,636)
Proceeds from sale of equipment	747	0
Capital outlay - Bus stop improvements	<u>(51,471)</u>	<u>(70,000)</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	\$ <u>5,341</u>	\$ <u>195,327</u>
NET INCREASE (DECREASE) IN CASH	\$ (83,388)	\$ 51,767
CASH AT BEGINNING OF YEAR	<u>1,212,544</u>	<u>1,160,777</u>
CASH AT END OF YEAR	<u>\$1,129,156</u>	<u>\$1,212,544</u>

See accompanying notes to financial statements.

CITY OF ARCATA
ARCATA AND MAD RIVER/DIAL-A-RIDE TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2013

NOTE 1 - REPORTING ENTITY:

These financial statements consist only of the Transit Fund of the City of Arcata. This Fund accounts for the various transit activities provided by the City, and is financed with Transportation Development Act monies.

NOTE 2 - BASIS OF ACCOUNTING:

The Transit Fund of the City of Arcata is accounted for as an Enterprise Fund, using the accrual basis of accounting whereby revenues are recognized when earned and expenditures are recognized when incurred regardless of the timing of the related cash flows.

NOTE 3 - DESCRIPTION OF SERVICES:

The Arcata and Mad River Transit System was initiated by the Arcata City Council to provide an alternative form of transportation within the City limits for all citizens, with the objectives of saving energy and serving groups such as senior citizens, young people, and others without automobile transportation.

To accomplish these objectives, a variety of services are provided as follows:

1. Fixed-route bus service provided by the Arcata and Mad River Transit Service;
2. Demand-responsive Dial-a-Lift service for handicapped passengers provided by the Arcata and Mad River Transit System (until September, 1999) and through a contract with Humboldt Transit Authority thereafter.
3. Demand-responsive Dial-a-Ride service provided through a contract with Humboldt Transit Authority, who in turn contracts for actual services with Yellow Cab.
4. The City also contributes funds for the operation of the Redwood Transit System, a regional system operated by the Humboldt Transit Authority for general public use.

NOTE 4 - USE OF ESTIMATES:

The preparation of financial statements in conformity with generally accepted accounting principles 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 expenses during the reporting period. Actual results could differ from those estimates.

CITY OF ARCATA
ARCATA AND MAD RIVER/DIAL-A-RIDE TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2013

NOTE 5 - PRIOR PERIOD ADJUSTMENTS AND TRANSFERS:

The following prior period adjustments and transfers were made during the indicated years:

	<u>2013</u>	<u>2012</u>
a. Transfers - Streets allocation	\$(30,000)	\$(30,000)
b. Transfers - Public works software	(3,000)	0
c. Transfers - PERS Phase-In support	<u>4,680</u>	<u>6,131</u>
	<u>\$(28,320)</u>	<u>\$(23,869)</u>

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT:

The changes in property, plant and equipment for the years ended June 30, 2013 and 2012 were as follows:

	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance June 30, 2012</u>
Vehicles	\$ 1,767,999	\$ 28,674	\$ 0	\$ 1,796,673
Buildings and structures	919,172	29,510	0	948,682
Other improvements	232,402	0	0	232,402
Furniture and equipment	341,919	7,452	(9,411)	339,960
Accumulated depreciation	<u>(1,404,191)</u>	<u>(192,318)</u>	<u>9,411</u>	<u>(1,587,098)</u>
Net property, plant and equipment	<u>\$ 1,857,301</u>	<u>\$(126,682)</u>	<u>\$ 0</u>	<u>\$ 1,730,619</u>
	<u>Balance June 30, 2012</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance June 30, 2013</u>
Vehicles	\$ 1,796,673	\$ 0	\$ (19,967)	\$ 1,776,706
Buildings and structures	948,682	0	0	948,682
Other improvements	232,402	0	0	232,402
Furniture and equipment	339,960	0	0	339,960
Accumulated depreciation	<u>(1,587,098)</u>	<u>(192,064)</u>	<u>19,967</u>	<u>(1,759,195)</u>
Net property, plant and equipment	<u>\$ 1,730,619</u>	<u>\$(192,064)</u>	<u>\$ 0</u>	<u>\$ 1,538,555</u>

Property, plant and equipment is recorded at cost and depreciated using the straight-line method over useful lives of five to forty years. Depreciation expense charged to operations for the years ended June 30, 2013 and 2012 was \$192,064 and \$192,318 respectively.

CITY OF ARCATA
ARCATA AND MAD RIVER/DIAL-A-RIDE TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2013

NOTE 7 - ELIGIBILITY FOR FUNDS:

Pursuant to Section 6634 of the California Administrative Code, a transit claimant is eligible to receive monies from the Local Transportation Fund in an amount which does not exceed the claimant's operating costs, less actual fare revenues received. For the fiscal years ended June 30, 2013 and 2012, the City of Arcata's calculation of any excess Transportation Development Act funds, as determined under Section 6634, is calculated as follows:

	<u>General Services</u>	
	<u>2013</u>	<u>2012</u>
Operating costs	\$ 665,303	\$ 643,805
Less: Fare revenues	(203,965)	(184,962)
Less: Federal operating assistance	<u>(86,642)</u>	<u>(86,642)</u>
Maximum fund eligibility	\$ 374,696	\$ 372,201
TDA funds received	<u>266,580</u>	<u>245,416</u>
Excess funds received	<u>\$ 0</u>	<u>\$ 0</u>

	<u>Specialized Services</u>	
	<u>2013</u>	<u>2012</u>
Operating costs	\$ 116,027	\$ 98,600
Less: Fare revenues	<u>(6,355)</u>	<u>(10,062)</u>
Maximum fund eligibility	\$ 109,672	\$ 88,538
TDA & STA funds received	<u>113,265</u>	<u>63,751</u>
Excess funds received	<u>\$ 3,593</u>	<u>\$ 0</u>

In accordance with the rules and regulations of the Transportation Planning Agency, these items are required to be adjusted on a succeeding year's TDA claim. They can also be re-identified as monies claimed for capital purchases if sufficient reserves have been used to help purchase new capital assets.

CITY OF ARCATA
ARCATA AND MAD RIVER/DIAL-A-RIDE TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2013

NOTE 8 - FARE BOX RECOVERY RATIO:

The City met its required Fare Box Recovery Ratio for general and specialized transit services as calculated under Sections 6633.2 and 6633.5 of the TDA code for the years ended June 30, 2013 and 2012. The calculation of this compliance was as follows:

	<u>Section 6633.2</u>	
	<u>2013</u>	<u>2012</u>
Total operating costs	\$665,303	\$643,805
Less: Insurance premiums per Section 99268.17	<u>0</u>	<u>0</u>
Net operating costs	<u>\$665,303</u>	<u>\$643,805</u>
Required fare box recovery ratio %	18.8%	18.8%
Required minimum fares	\$125,077	\$121,035
Actual fares collected	\$203,965	\$184,962
Actual fare box recovery ratio % achieved	30.7%	28.7%

	<u>Section 6633.5</u>	
	<u>2013</u>	<u>2012</u>
HTA DAR operating costs*	\$146,942	\$147,231
City of Arcata costs	60,362	56,895
Less: Insurance premiums per Section 99268.17	<u>0</u>	<u>0</u>
Net operating costs	<u>\$207,304</u>	<u>\$204,126</u>
Required fare box recovery ratio %	10.0%	10.0%
Required minimum fares	\$ 20,730	\$ 20,413
Actual fares collected*	\$ 23,530	\$ 24,074
Actual fare box recovery ratio % achieved	11.4%	11.8%

*Calculated as 100% of total Arcata/McKinleyville DAR/DAL expenses and revenues as reflected on books of Humboldt Transit Authority.

NOTE 9 - ACCRUED VACATION AND SICK LEAVE:

The City of Arcata does not accrue sick leave. Since this form of compensated absence does not meet all four requirements of GASB 16 for mandatory accrual, it is only necessary to be disclosed in the footnotes.

	<u>2013</u>	<u>2012</u>
Accrued vacation and comp	\$22,074	\$20,879
Accrued sick leave	<u>56,161</u>	<u>59,011</u>
<u>Total</u>	<u>\$78,235</u>	<u>\$79,890</u>

CITY OF ARCATA
ARCATA AND MAD RIVER/DIAL-A-RIDE TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2013

NOTE 10 - STATEMENT OF CASH FLOWS:

To comply with GASB Statement 9, Cash Flows Statement, the following reconciliation of income from operations to net cash (used) by operations is presented:

	<u>2013</u>	<u>2012</u>
Income (loss) from operations	\$(241,257)	\$(272,625)
Add (deduct):		
Depreciation	192,064	192,318
Interest income	(2,696)	(14,550)
Operating transfer out (net)	(28,320)	(23,869)
Capital grants received	(56,065)	(111,957)
Capital outlay - Bus stop improvement	51,471	70,000
Operating grants received	(666,487)	(547,237)
(Increase) decrease in accounts receivable	(4,305)	(1,303)
Increase (decrease) in accounts payable and other liabilities, including prior year adjustment	(1,570)	3,876
Loss on sale of equipment	<u>(747)</u>	<u>0</u>
Net cash (used) by operating activities	<u>\$(757,912)</u>	<u>\$(705,347)</u>

NOTE 11 - GREYHOUND BUS PROGRAM:

During the years ended June 30, 2002 through 2005, and 2010 through 2013, the Greyhound program operated at a loss. In order to ensure that TDA funds have not been used to subsidize this program, the City has established the portion of the fund balance which related to prior year surpluses generated by the Greyhound program, as well as other non-TDA revenue sources. Such surpluses are sufficient to cover the losses from the above indicate years. During the years ended June 30, 2008, 2007 and 2006, the program operated at a surplus of \$799, \$14,941 and \$20,601, respectively.

In the event that surpluses are used up in future years, the City would need to consider requesting an increase in the commission rate paid by Greyhound in order to fully cover their expected program costs. Or, alternatively, they would need to consider subsidies from other funds or sources in order to offset the higher costs.

NOTE 12 - CAPITAL GRANTS:

During the years ended June 30, 2013 and 2012, the City received the following capital grants:

	<u>2013</u>	<u>2012</u>
Dept of Transportation Section 5311	\$ 0	\$ 0
State Transit Assistance funds	56,065	111,957
PTMISEA Program Capital Grant (Deferred)	<u>0</u>	<u>0</u>
Total Capital Grants	<u>\$ 56,065</u>	<u>\$111,957</u>

CITY OF ARCATA
ARCATA AND MAD RIVER/DIAL-A-RIDE TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2013

NOTE 13 - TRANSIT OPERATOR VEHICLE CODE COMPLIANCE:

Section 99251 of the Transportation Development Act requires operators submitting claims for TDA funds to provide evidence of compliance with Section 1808-1 of the Vehicle code, regarding participation in the Department of Motor Vehicles Pull Notice Program. Such compliance is generally provided by the routine inspections performed by the California Highway Patrol on transit operator vehicles.

The City currently participates in the Pull Notice Program and is otherwise deemed compliant in this area.