

CITY OF ARCATA

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

For the Year Ended June 30, 2014

CITY OF ARCATA  
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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Humboldt County Association  
of Governments  
611 I Street, Suite B  
Eureka, CA 95501

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, 2014 and 2013, 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.

### Auditors' 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 opinion.

**Opinion**

In our opinion, 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, 2014 and 2013, and the changes in 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 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 Arcata as of June 30, 2014 and 2013, the changes in its financial position, and, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other**

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*

November 14, 2014  
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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
<u>Current Assets</u>		
Cash - General	\$ 802,218	\$ 1,104,473
Cash - Greyhound account	24,679	24,683
Due from Other Governments	40,230	805,608
Receivable from HTA	<u>870</u>	<u>0</u>
<u>Total Current Assets</u>	<u>\$ 867,997</u>	<u>\$ 1,934,764</u>
<u>Property, Plant and Equipment</u>		
Vehicles	\$ 2,744,618	\$ 1,776,706
Building and structures	928,714	948,682
Other improvements	232,402	232,402
Furniture and equipment	<u>345,808</u>	<u>339,960</u>
	\$ 4,251,542	\$ 3,297,750
Less: Accumulated depreciation	<u>(1,929,083)</u>	<u>(1,759,195)</u>
<u>Total Property, Plant and Equipment</u>	<u>\$ 2,322,459</u>	<u>\$ 1,538,555</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 3,190,456</u></b>	<b><u>\$ 3,473,319</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<u>Current Liabilities</u>		
Accounts payable and other expenses	\$ 36,890	\$ 47,105
Payable to HTA	0	342
Accrued vacation	<u>23,278</u>	<u>22,074</u>
<u>Total Current Liabilities</u>	<u>\$ 60,168</u>	<u>\$ 69,521</u>
<u>Other Liabilities</u>		
Deferred revenues	<u>\$ 0</u>	<u>\$ 1,019,006</u>
<u>Total Liabilities</u>	<u>\$ 60,168</u>	<u>\$ 1,088,527</u>
<u>Net Assets</u>		
Contributed capital:		
Contributions from other funds	\$ 671,151	\$ 671,151
Reserved for transit operating property	3,580,391	2,626,599
Less: Reserved for depreciation	<u>(1,929,083)</u>	<u>(1,759,195)</u>
	<u>\$ 2,322,459</u>	<u>\$ 1,538,555</u>
Retained earnings:		
Unreserved	\$ 150,870	\$ 111,916
Reserved for capital assets	<u>656,959</u>	<u>734,321</u>
	<u>\$ 807,829</u>	<u>\$ 846,237</u>
<u>Total Net Assets</u>	<u>\$ 3,130,288</u>	<u>\$ 2,384,792</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 3,190,456</u></b>	<b><u>\$ 3,473,319</u></b>

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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>OPERATING REVENUES</b>		
Passenger fares	\$ 208,245	\$ 203,965
Charter service	1,792	3,088
Advertising	280	564
Dial-A-Ride/Dial-A-Lift ticket sales	6,405	6,355
Other revenue	888	1,106
Greyhound program (Net)	<u>(11,592)</u>	<u>(16,228)</u>
<u>Total</u>	<u>\$ 206,018</u>	<u>\$ 198,850</u>
<b>OPERATING EXPENSES</b>		
Labor and benefits	\$ 350,008	\$ 336,804
Services and overhead	83,506	76,677
Materials and supplies	3,318	2,597
Insurance	36,223	38,487
Repairs and maintenance	4,450	4,963
Vehicle maintenance & fuel	177,401	175,775
Depreciation	174,663	192,064
Dial-A-Lift expenses	50,410	60,362
Dial-A-Ride/Dial-A-Lift tickets purchased	<u>10,014</u>	<u>6,300</u>
<u>Total</u>	<u>\$ 889,993</u>	<u>\$ 894,029</u>
<b>NON-OPERATING REVENUES</b>		
Operating Grant (LTF)	\$ 389,773	\$ 266,580
Prop 1B Capital Grants	1,019,006	0
Other operating grants	0	86,642
DAR/DAL allocation	102,478	93,265
STAF capital grants	10,686	56,065
STAF operating grants	40,000	20,000
Sale of used vehicle	0	747
HTA/RTS allocation	204,081	200,000
Interest income	<u>9,295</u>	<u>2,696</u>
<u>Total</u>	<u>\$1,775,319</u>	<u>\$ 725,995</u>
<b>NON-OPERATING EXPENSES</b>		
HTA/RTS assessment	\$ 204,081	\$ 170,416
DAR/DAL operating assessment	52,396	50,186
Capital outlay - Bus stop improvements	62,619	51,471
Loss on sale of equipment	<u>0</u>	<u>0</u>
<u>Total</u>	<u>\$ 319,096</u>	<u>\$ 272,073</u>
<b>INCOME (LOSS) BEFORE ADJUSTMENTS</b>	<u><b>\$ 772,248</b></u>	<u><b>\$ (241,257)</b></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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
INCOME (LOSS) BEFORE ADJUSTMENT	\$ 772,248	\$ (241,257)
Add: Depreciation on fixed assets acquired by capital grants externally restricted for capital acquisitions that reduces contributed capital	174,663	192,064
Less: Acquisitions of transit operating property (net)	(959,319)	0
Plus: Book value of transit operating property sold	<u>0</u>	<u>0</u>
INCREASE (DECREASE) IN NET ASSETS	\$ (12,408)	\$ (49,193)
PRIOR PERIOD ADJUSTMENTS AND TRANSFERS (Note 5)	(26,000)	(28,320)
RETAINED EARNINGS - BEGINNING OF YEAR	<u>846,237</u>	<u>923,750</u>
RETAINED EARNINGS - END OF YEAR	<u>\$ 807,829</u>	<u>\$ 846,237</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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received for services	\$ 259,911	\$ 265,041
Cash paid for operations	(1,045,772)	(994,633)
Cash paid for operating transfers (net)	(26,000)	(28,320)
Cash received from prior period adjustment	<u>0</u>	<u>0</u>
<b>NET CASH (USED) BY OPERATING ACTIVITIES</b>	<b><u>\$ (811,861)</u></b>	<b><u>\$ (757,912)</u></b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Cash received from other governments	\$ 671,559	\$ 559,845
Operating grants received	<u>40,000</u>	<u>106,642</u>
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b><u>\$ 711,559</u></b>	<b><u>\$ 666,487</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	<u>\$ 9,295</u>	<u>\$ 2,696</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b><u>\$ 9,295</u></b>	<b><u>\$ 2,696</u></b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital grants received	\$ 810,686	\$ 56,065
Purchase of property and equipment	(959,319)	0
Proceeds from sale of equipment	0	747
Capital outlay	<u>(62,619)</u>	<u>(51,471)</u>
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>	<b><u>\$ (211,252)</u></b>	<b><u>\$ 5,341</u></b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>\$ (302,259)</b>	<b>\$ (83,388)</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b><u>1,129,156</u></b>	<b><u>1,212,544</u></b>
<b>CASH AT END OF YEAR</b>	<b><u><u>\$ 826,897</u></u></b>	<b><u><u>\$ 1,129,156</u></u></b>

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, 2014

**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, 2014

**NOTE 5 - PRIOR PERIOD ADJUSTMENTS AND TRANSFERS:**

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

	<u>2014</u>	<u>2013</u>
a. Transfers - Streets allocation	\$(26,000)	\$(30,000)
b. Transfers - Public works software	0	(3,000)
c. Transfers - PERS Phase-In support	<u>0</u>	<u>4,680</u>
	<u>\$(26,000)</u>	<u>\$(28,320)</u>

**NOTE 6 - PROPERTY, PLANT AND EQUIPMENT:**

The changes in property, plant and equipment for the years ended June 30, 2014 and 2013 were as follows:

	Balance June 30, <u>2013</u>	<u>Additions</u>	Transfers/ <u>Deletions</u>	Balance June 30, <u>2014</u>
Vehicles	\$ 1,776,706	\$ 947,944	\$ 19,968	\$ 2,744,618
Buildings and structures	948,682	0	(19,968)	928,714
Other improvements	232,402	0	0	232,402
Furniture and equipment	339,960	10,623	(4,775)	345,808
Accumulated depreciation	<u>(1,759,195)</u>	<u>(174,663)</u>	<u>4,775</u>	<u>(1,929,083)</u>
Net property, plant and equipment	<u>\$ 1,538,555</u>	<u>\$ 783,904</u>	<u>\$ 0</u>	<u>\$ 2,322,459</u>

	Balance June 30, <u>2012</u>	<u>Additions</u>	Transfers/ <u>Deletions</u>	Balance June 30, <u>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, 2014 and 2013 was \$174,663 and \$192,064 respectively.

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

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

**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, 2014 and 2013, 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>2014</u>	<u>2013</u>
Operating costs	\$ 680,906	\$ 665,303
Less: Fare revenues	(208,245)	(203,965)
Less: Federal operating assistance	<u>0</u>	<u>(86,642)</u>
Maximum fund eligibility	\$ 472,661	\$ 374,696
STA funds received	40,000	0
TDA funds received	<u>389,773</u>	<u>266,580</u>
Excess funds received	<u>\$ 0</u>	<u>\$ 0</u>
	 <u>Specialized Services</u> 	
	<u>2014</u>	<u>2013</u>
Operating costs	\$ 108,070	\$ 116,027
Less: Fare revenues	<u>(6,405)</u>	<u>(6,355)</u>
Maximum fund eligibility	\$ 101,665	\$ 109,672
TDA & STA funds received	<u>102,478</u>	<u>113,265</u>
Excess funds received	<u>\$ 813</u>	<u>\$ 3,593</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, 2014

**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, 2014 and 2013. The calculation of this compliance was as follows:

	<u>Section 6633.2</u>	
	<u>2014</u>	<u>2013</u>
Total operating costs	\$680,906	\$665,303
Less: Insurance premiums per Section 99268.17	<u>0</u>	<u>0</u>
Net operating costs	<u>\$680,906</u>	<u>\$665,303</u>
Required fare box recovery ratio %	18.8%	18.8%
Required minimum fares	\$128,010	\$125,077
Actual fares collected	\$208,245	\$203,965
Actual fare box recovery ratio % achieved	30.6%	30.7%

	<u>Section 6633.5</u>	
	<u>2014</u>	<u>2013</u>
HTA DAR operating costs*	\$147,603	\$146,942
City of Arcata costs	50,410	60,362
Less: Insurance premiums per Section 99268.17	<u>0</u>	<u>0</u>
Net operating costs	<u>\$198,013</u>	<u>\$207,304</u>
Required fare box recovery ratio %	10.0%	10.0%
Required minimum fares	\$ 19,801	\$ 20,730
Actual fares collected*	\$ 28,488	\$ 23,530
Actual fare box recovery ratio % achieved	14.4%	11.4%

\*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>2014</u>	<u>2013</u>
Accrued vacation and comp	\$23,278	\$22,074
Accrued sick leave	<u>61,981</u>	<u>56,161</u>
<u>Total</u>	<u>\$85,259</u>	<u>\$78,235</u>

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

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

**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>2014</u>	<u>2013</u>
Income (loss) from operations	\$ 772,248	\$ (241,257)
Add (deduct):		
Depreciation	174,663	192,064
Interest income	(9,295)	(2,696)
Operating transfer out (net)	(26,000)	(28,320)
Capital grants received	(1,029,692)	(56,065)
Capital outlay	62,619	51,471
Operating grants received	(711,559)	(666,487)
(Increase) decrease in accounts receivable	(34,622)	(4,305)
Increase (decrease) in accounts payable and other liabilities, including prior year adjustment	(10,223)	(1,570)
Loss on sale of equipment	<u>0</u>	<u>(747)</u>
<u>Net cash (used) by operating activities</u>	<u>\$ (811,861)</u>	<u>\$ (757,912)</u>

**NOTE 11 - GREYHOUND BUS PROGRAM:**

During the years ended June 30, 2002 through 2005, and 2010 through 2014, 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, 2014 and 2013, the City received the following capital grants:

	<u>2014</u>	<u>2013</u>
Dept of Transportation Section 5311	\$ 0	\$ 0
State Transit Assistance funds	10,686	56,065
PTMISEA Program Capital Grant (Deferred)	1,019,006	<u>0</u>
Total Capital Grants	<u>\$1,029,692</u>	<u>\$ 56,065</u>

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

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

**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.