

CITY OF EUREKA

REPORT ON AUDIT OF THE LOCAL TRANSPORTATION FUND

For the Year Ended June 30, 2013

CITY OF EUREKA

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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 Eureka 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 Eureka. Accounting principles generally accepted in the United States of America require that the City of Eureka'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 Eureka.

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 Eureka 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 Eureka 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

December 12, 2013
Fortuna, California

CITY OF EUREKA
TRANSIT FUND

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 | \$ 0 | \$ 0 |
| Ticket Inventory | 1,663 | 1,663 |
| Interest Receivable | 0 | 883 |
| Accounts Receivable | 70,537 | 84,678 |
| TDA Funds Receivable | 818,331 | 0 |
| Grants Receivable | 32,567 | 152,442 |
| Prepaid Expenses | 0 | 21,506 |
| GASB 31 FMV Adjustment | <u>1,114</u> | <u>1,114</u> |
| <u>Total Current Assets</u> | <u>924,212</u> | <u>262,286</u> |
| <u>Property, Plant and Equipment</u> | | |
| Transportation Equipment | 3,462,569 | 3,234,143 |
| Less: Accumulated Depreciation | <u>(1,833,927)</u> | <u>(1,558,927)</u> |
| <u>Net Property, Plant and Equipment</u> | <u>1,628,642</u> | <u>1,675,216</u> |
| TOTAL ASSETS | <u>2,552,854</u> | <u>1,937,502</u> |
| LIABILITIES | | |
| <u>Current Liabilities</u> | | |
| Checks Drawn in Excess of Cash Balance | 690,715 | 28,648 |
| Accounts Payable and Other Accrued Expenses | 4,611 | 1,608 |
| Due to Other Funds | <u>0</u> | <u>0</u> |
| <u>Total Current Liabilities</u> | <u>695,326</u> | <u>30,256</u> |
| <u>Other Liabilities</u> | | |
| Deferred Revenue (PTMISEA Program) | <u>0</u> | <u>0</u> |
| <u>Total Liabilities</u> | <u>695,326</u> | <u>30,256</u> |
| NET ASSETS | | |
| Restricted - GASB 31 | 26,277 | 26,277 |
| Restricted - Equipment Reserve | 143,463 | 321,889 |
| Unrestricted | <u>1,687,788</u> | <u>1,559,080</u> |
| <u>Total Net Assets</u> | <u>\$ 1,857,528</u> | <u>\$ 1,907,246</u> |

The accompanying notes are an integral part of these financial statements.

CITY OF EUREKA
TRANSIT FUND

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
Pertaining to Section 99260 of the Public Utilities Code

For the Year Ended June 30, 2013

With Comparative Amounts for the Year Ended June 30, 2012

| | 2013 | | Variance | 2012 |
|--|---------------------|--------------------|----------------------------|---------------------|
| | Budget | 2013 Actual | Favorable (Unfavorable) | Actual |
| OPERATING REVENUES | | | | |
| Passenger Fares | \$ 258,166 | \$ 269,430 | \$ 11,264 | \$ 254,610 |
| DAR/DAL Fares | 59,000 | 45,666 | (13,334) | 53,982 |
| Refunds and Advertising | 4,000 | 7,650 | 3,650 | 5,775 |
| <u>Total</u> | <u>321,166</u> | <u>322,746</u> | <u>1,580</u> | <u>314,367</u> |
| OPERATING EXPENSES | | | | |
| Professional and Technical Services | 900,000 | 851,820 | 48,180 | 774,374 |
| DAR/DAL Services and Expenses | 470,343 | 454,944 | 15,399 | 475,767 |
| Salaries | 38,043 | 35,428 | 2,615 | 35,708 |
| Cost Allocation | 25,197 | 20,448 | 4,749 | 19,283 |
| Supplies, Printing and Other | 4,800 | 4,481 | 319 | 1,938 |
| Repairs and Maintenance | 135,000 | 10,636 | 124,364 | 20,466 |
| Depreciation | 0 | 275,000 | (275,000) | 280,333 |
| Insurance | 38,000 | 29,850 | 8,150 | 36,983 |
| <u>Total</u> | <u>1,611,383</u> | <u>1,682,607</u> | <u>(71,224)</u> | <u>1,644,852</u> |
| Operating Loss | (1,290,217) | (1,359,861) | (69,644) | (1,330,485) |
| NON-OPERATING REVENUES | | | | |
| Operating Grant - LTF | 254,214 | 254,214 | 0 | 353,224 |
| Operating Subsidy - County | 330,000 | 348,213 | 18,213 | 211,019 |
| Capital Grants - STAF | 64,000 | 64,000 | 0 | 54,732 |
| TDA Allocation - RTS | 268,509 | 268,509 | 0 | 274,000 |
| TDA Allocation - DAR | 295,608 | 295,608 | 0 | 183,595 |
| Operating Grant - STAF | 174,858 | 174,858 | 0 | 11,981 |
| Operating Grant - Federal | 173,284 | 173,284 | 0 | 173,284 |
| Capital Grants - Federal | 0 | 0 | 0 | 152,442 |
| PTMISEA Prop 1B - Capital | 0 | 0 | 0 | 245,862 |
| Interest Income | 10,000 | (33) | (10,033) | 7,008 |
| <u>Total</u> | <u>1,570,473</u> | <u>1,578,653</u> | <u>8,180</u> | <u>1,667,147</u> |
| NON-OPERATING EXPENSES (INCOME) | | | | |
| HTA Assessment - RTS | 291,000 | 268,510 | 22,490 | 276,379 |
| Capital Outlay - Buses | 0 | 0 | 0 | 172,178 |
| Capital Outlay - Bus Stops | 262,755 | 0 | 262,755 | 27,070 |
| GASB 31 Change in FMV | 0 | 0 | 0 | (27) |
| <u>Total</u> | <u>553,755</u> | <u>268,510</u> | <u>285,245</u> | <u>475,600</u> |
| NET INCREASE (DECREASE) IN NET ASSETS | \$ (273,499) | \$ (49,718) | \$ 223,781 | \$ (138,938) |

The accompanying notes are an integral part of these financial statements.

CITY OF EUREKA
TRANSIT FUND

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
Pertaining to Section 99260 of the Public Utilities Code

For the Year Ended June 30, 2013

With Comparative Amounts for the Year Ended June 30, 2012

| | 2013 | | Variance | |
|---|--------------------|--------------------|----------------------------|---------------------|
| | Budget | 2013 Actual | Favorable (Unfavorable) | 2012 Actual |
| NET INCREASE (DECREASE) IN NET ASSETS | | | | |
| Balance forward | \$ (273,499) | \$ (49,718) | \$ 223,781 | \$ (138,938) |
| NET ASSETS - BEGINNING OF YEAR | 1,907,246 | 1,907,246 | 0 | 2,046,184 |
| Prior Period Adjustments and Transfers (Note 10) | 0 | 0 | 0 | 0 |
| NET ASSETS - END OF YEAR | \$1,633,747 | \$1,857,528 | \$ 223,781 | \$ 1,907,246 |

The accompanying notes are an integral part of these financial statements.

CITY OF EUREKA
TRANSIT FUND

STATEMENT 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 | \$ 358,393 | \$ 265,604 |
| Cash Disbursed for Goods and Services | (707,109) | (1,453,645) |
| Cash Disbursed for Salaries and Benefits | <u>(35,428)</u> | <u>(35,708)</u> |
| NET CASH USED BY OPERATING ACTIVITIES | <u>(384,144)</u> | <u>(1,223,749)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Operating Grants Received | 663,788 | 1,207,103 |
| Cash Paid for Non-operating Expenses | (268,510) | (276,379) |
| Other Income Received | <u>0</u> | <u>0</u> |
| NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES | <u>395,278</u> | <u>930,724</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Capital Grants Received | 216,442 | 277,714 |
| Purchase of Property and Equipment | (228,426) | (78,683) |
| Cash Paid For Capital Outlay | 0 | (199,248) |
| Cash Paid to Other Funds | <u>0</u> | <u>0</u> |
| NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(11,984)</u> | <u>(217)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest Received | <u>850</u> | <u>6,125</u> |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | <u>850</u> | <u>6,125</u> |
| NET (DECREASE) INCREASE IN CASH | 0 | (287,117) |
| CASH - BEGINNING OF YEAR | <u>0</u> | <u>287,117</u> |
| CASH - END OF YEAR | <u>\$ 0</u> | <u>\$ 0</u> |

The accompanying notes are an integral part of these financial statements.

**CITY OF EUREKA
TRANSIT FUND**

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 Eureka. This Enterprise Fund accounts for the various transit activities provided by the City, and is financed with Transportation Development Act, State Transit Assistance Fund, and various other Federal transportation monies.

NOTE 2 - BASIS OF ACCOUNTING

The Transit Fund is accounted for as an enterprise fund using the accrual basis of accounting and is otherwise in compliance with the uniform system of accounts and records adopted by the State Controller.

NOTE 3 - DESCRIPTION OF TRANSIT SYSTEM

The Eureka Transit System (ETS) is a fixed route public transportation system serving the Eureka community and adjoining unincorporated areas within the County. ETS is controlled and owned by the City of Eureka which contracts with the Humboldt Transit Authority to provide managerial and operational services. The city provides for door-to-door transportation service for the elderly and handicapped through contracts with the Humboldt Senior Resource Center and City Cab. 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 - STATEMENT OF CASH FLOWS

To comply with GASB Statement 9, Cash Flows Statement, the following reconciliation of loss from operations to net cash used by operating activities is presented:

| | <u>2013</u> | <u>2012</u> |
|--|---------------------|-----------------------|
| Loss from operations | \$(1,359,861) | \$(1,330,485) |
| Add (deduct): | | |
| Depreciation | 275,000 | 280,333 |
| Change in operating receivables, inventories and prepaid expenses | 35,647 | (48,763) |
| Change in accounts payable and accrued expenses | <u>665,070</u> | <u>(124,834)</u> |
| Net cash used by operating activities | <u>\$ (384,144)</u> | <u>\$ (1,223,749)</u> |

NOTE 5 - ACCRUED VACATION AND SICK LEAVE

The City of Eureka 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 holiday | \$ 0 | \$ 0 |
| Accrued sick leave | <u>0</u> | <u>0</u> |
| | <u>\$ 0</u> | <u>\$ 0</u> |

CITY OF EUREKA
TRANSIT FUND

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2013

NOTE 6 - 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 year ended June 30, 2013, as well as the year ended June 30, 2012. The calculation of this compliance was as follows:

| | <u>General Services</u> | |
|--|-------------------------|-------------------|
| | <u>2013</u> | <u>2012</u> |
| Total operating costs | \$ 952,663 | \$ 888,752 |
| Less: Insurance premiums per Section 99268.17 | <u>0</u> | <u>0</u> |
| Net operating costs | <u>\$ 952,663</u> | <u>\$ 888,752</u> |
| Required fare box recovery ratio % | 22.4% | 22.4% |
| Required minimum fares | <u>\$ 213,397</u> | <u>\$ 199,080</u> |
| Actual fares collected | \$ 269,430 | \$ 254,610 |
| Reclassify year-end fares | <u>0</u> | <u>0</u> |
| Adjusted fares collected | <u>\$ 269,430</u> | <u>\$ 254,610</u> |
| Actual fare box recovery ratio % achieved | 28.3% | 28.6% |

| | <u>Specialized Services</u> | |
|--|-----------------------------|-------------------|
| | <u>2013</u> | <u>2012</u> |
| Total operating costs | \$ 454,944 | \$ 475,767 |
| Less: Insurance premiums per Section 99268.17 | <u>0</u> | <u>0</u> |
| Net operating costs | <u>\$ 454,944</u> | <u>\$ 475,767</u> |
| Required fare box recovery ratio % | 10% | 10% |
| Required minimum fares | \$ 45,494 | \$ 47,576 |
| Actual fares collected | \$ 45,666 | \$ 53,982 |
| Actual fare box recovery ratio % achieved | 10.0% | 11.4% |

**CITY OF EUREKA
TRANSIT FUND**

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2013

NOTE 7 - FUND ELIGIBILITY

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 June 30, 2012, the City of Eureka received excess Transportation Development Act funds, identified and calculated, if applicable, as follows:

| | <u>General Services</u> | |
|------------------------------|-----------------------------|------------------|
| | <u>2013</u> | <u>2012</u> |
| Operating costs | \$ 952,663 | \$ 888,752 |
| Less: Fare revenues | (269,430) | (254,611) |
| Federal operating assistance | (173,284) | (173,284) |
| County operating subsidy | <u>(220,942)</u> | <u>(133,892)</u> |
| Maximum fund eligibility | 289,007 | 326,965 |
| STA funds received | 160,000 | 0 |
| TDA funds received | <u>254,214</u> | <u>353,224</u> |
| Excess funds received | <u>\$ 125,207</u> | <u>\$ 26,259</u> |
| | <u>Specialized Services</u> | |
| | <u>2013</u> | <u>2012</u> |
| Operating costs | \$ 454,944 | \$ 475,767 |
| Less: Fare revenues | (45,666) | (53,982) |
| County operating subsidy | <u>(127,271)</u> | <u>(77,127)</u> |
| Maximum fund eligibility | 282,007 | 344,658 |
| STA funds received | 14,858 | 11,981 |
| TDA funds received | <u>295,608</u> | <u>183,595</u> |
| Excess funds received | <u>\$ 28,459</u> | <u>\$ 0</u> |

In accordance with existing HCAOG guidelines, any excess should be adjusted on a succeeding year's TDA claim. It can be re-identified as monies claimed for capital purposes if sufficient TDA reserves have been used to help purchase new capital assets, as well as other reclassification alternatives that may be agreed upon with HCAOG.

NOTE 8 - 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

CITY OF EUREKA
TRANSIT FUND

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2013

NOTE 9 - HUMBOLDT TRANSIT AUTHORITY CONTRACT SURPLUS

The City's contract with the Humboldt Transit Authority (HTA) to operate the Eureka Transit System contains a provision that allows any surplus generated by HTA to be used to reduce a subsequent year's contract costs.

As of July 1, 2012, the City and HTA entered into a new operating agreement covering the 2-year period ending June 30, 2014. Any agreed-upon adjustment for the years ended June 30, 2013 and 2014 will be made at the end of the contract at June 30, 2014, or as part of any subsequent contract arrangement.

NOTE 10- 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.

NOTE 11 - GRANT REVENUES:

PTMISEA

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 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.

During the fiscal years ended June 30, 2011 and 2012, the City, through the administrative workings of the Humboldt Transit Authority (HTA), applied for and received proceeds of \$245,862 from the State's PTMISEA account for the procurement of a GPS Tracking System and various bus stop and bus shelter improvements. As of June 30, 2013, qualifying expenditures were incurred as follows:

| | | |
|--------------------------------------|----|------------------|
| Proceeds received: | | |
| PMTISEA: 2010-11 | \$ | 22,880 |
| PMTISEA: 2011-12 | | 222,982 |
| Expenditures incurred: | | |
| Bus Stop and Bus Shelters | | (71,802) |
| GPS Tracking System | | <u>(148,589)</u> |
| Unexpended proceeds at June 30, 2013 | \$ | <u>25,471</u> |