

CITY OF EUREKA

REPORT ON AUDIT OF THE LOCAL TRANSPORTATION FUND

For the Year Ended June 30, 2019

CITY OF EUREKA

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June 30, 2019

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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, 2019 and 2018, 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 Eureka as of June 30, 2019 and 2018, 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 Eureka as of June 30, 2019 and 2018, 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 Notes 6 and 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

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March 6, 2020
Fortuna, California

CITY OF EUREKA
TRANSIT FUND

STATEMENT OF NET ASSETS

Pertaining to Section 99260 of the Public Utilities Code

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
<u>Current Assets</u>		
Cash	\$ 0	\$ 0
Ticket Inventory	0	9,000
Accounts Receivable	0	50,023
TDA Funds Receivable	0	1,872,570
STAF Funds Receivable	0	31,849
Federal Operating Grant Receivable	0	459,247
GASB 31 FMV Adjustment	<u>1,114</u>	<u>1,114</u>
<u>Total Current Assets</u>	<u>1,114</u>	<u>2,423,803</u>
<u>Property, Plant and Equipment</u>		
Transportation Equipment	0	3,155,460
Less: Accumulated Depreciation	<u>0</u>	<u>(2,978,517)</u>
<u>Net Property, Plant and Equipment</u>	<u>0</u>	<u>176,943</u>
TOTAL ASSETS	<u>1,114</u>	<u>2,600,746</u>
LIABILITIES		
<u>Current Liabilities</u>		
Checks Drawn in Excess of Cash Balance	205,343	1,850,318
Accounts Payable and Other Accrued Expenses	<u>0</u>	<u>128,304</u>
<u>Total Current Liabilities</u>	<u>205,343</u>	<u>1,978,622</u>
<u>Other Liabilities</u>		
Deferred Revenue (PTMISEA Program)	<u>0</u>	<u>0</u>
<u>Total Liabilities</u>	<u>205,343</u>	<u>1,978,622</u>
NET ASSETS		
Restricted - GASB 31	26,277	26,277
Restricted - Equipment Reserve	0	56,639
Contributed by General Fund	0	539,208
Unrestricted (Deficit)	<u>(230,506)</u>	<u>0</u>
<u>Total Net Assets (Deficit)</u>	<u>\$ (204,229)</u>	<u>\$ 622,124</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, 2019

With Comparative Amounts for the Year Ended June 30, 2018

	2019			
	Budget	2019 Actual	Variance Favorable (Unfavorable)	2018 Actual
OPERATING REVENUES				
Passenger Fares	\$ 0	\$ 0	\$ 0	\$ 233,997
DAR/DAL Fares	0	540	540	47,853
Refunds and Advertising	0	0	0	8,000
<u>Total</u>	0	540	540	289,850
OPERATING EXPENSES				
Professional and Technical Services	0	0	0	1,019,946
DAR/DAL Services and Expenses	0	0	0	576,000
Supplies, Printing and Other	0	0	0	0
Repairs and Maintenance	0	0	0	18,207
Depreciation	0	0	0	147,785
Insurance	0	0	0	54,867
<u>Total</u>	0	0	0	1,816,805
<u>Operating Income (Loss)</u>	0	540	540	(1,526,955)
NON-OPERATING REVENUES				
Operating Grant - LTF	0	0	0	274,501
Operating Subsidy - County	0	0	0	362,475
TDA Allocation - RTS	0	0	0	344,580
TDA Allocation - DAR	0	0	0	385,905
Operating Grant - STAF	0	0	0	31,849
Operating Grants - Federal	0	0	0	259,247
Interest Income	0	0	0	0
<u>Total</u>	0	0	0	1,658,557
NON-OPERATING EXPENSES (INCOME)				
HTA Assessment - RTS	0	0	0	344,580
HTA Assessment - RTS Sunday	0	0	0	0
Capital Outlay - Other	0	0	0	944
<u>Total</u>	0	0	0	345,524
NET INCREASE (DECREASE) IN NET ASSETS	\$ 0	\$ 540	\$ 540	\$ (213,922)

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, 2019

With Comparative Amounts for the Year Ended June 30, 2018

	2019		Variance	2018
	Budget	2019 Actual	Favorable (Unfavorable)	Actual
NET INCREASE (DECREASE) IN NET ASSETS				
Balance forward	\$ 0	\$ 540	\$ 540	\$ (213,922)
NET ASSETS - BEGINNING OF YEAR	622,124	622,124	0	57,878
Contribution by General Fund	0	0	0	539,208
Transfer Capital Reserve Funds to HTA	(444,181)	(444,181)	0	0
Transfer Capital Assets to HTA	(165,687)	(165,687)	0	0
Loss on Scrapped Assets	(11,256)	(11,256)	0	0
Prior Period Adjustments			0	
DAR Ticket inventory	(9,000)	(9,000)	0	38,960
FTA 5311 Grant	(196,769)	(196,769)	0	200,000
NET ASSETS - END OF YEAR	\$ (204,769)	\$ (204,229)	\$ 540	\$ 622,124

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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received for Services	\$ 50,563	\$ 343,161
Cash Disbursed for Goods and Services	(1,773,279)	(1,245,348)
Cash Disbursed for Salaries and Benefits	<u>0</u>	<u>0</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(1,722,716)</u>	<u>(902,187)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating Grants Received	2,166,897	669,543
Cash Paid for Non-operating Expenses	0	(344,580)
Prior Period Adjustment	<u>0</u>	<u>(38,960)</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>2,166,897</u>	<u>363,923</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Reserves to HTA	(444,181)	0
Cash Paid For Capital Outlay	0	(944)
Contribution by General Fund	<u>0</u>	<u>539,208</u>
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(444,181)</u>	<u>538,264</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	<u>0</u>	<u>0</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>0</u>	<u>0</u>
NET (DECREASE) INCREASE IN CASH	0	0
CASH - BEGINNING OF YEAR	<u>0</u>	<u>0</u>
CASH - END OF YEAR	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></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, 2019

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. See Note 12.

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. See Note 12.

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>2019</u>	<u>2018</u>
Income (Loss) from operations	\$ 540	\$(1,526,955)
Add (deduct):		
Depreciation	0	147,785
Change in operating receivables, inventories and prepaid expenses	50,023	53,311
Change in bank overdraft, accounts payable and accrued expenses	<u>(1,773,279)</u>	<u>423,672</u>
Net cash used by operating activities	<u><u>\$(1,722,716)</u></u>	<u><u>\$(902,187)</u></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>2019</u>	<u>2018</u>
Accrued vacation and holiday	\$ 0	\$ 0
Accrued sick leave	<u>0</u>	<u>0</u>
	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

CITY OF EUREKA
TRANSIT FUND

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

NOTE 6 - FARE BOX RECOVERY RATIO

The City met its required Fare Box Recovery Ratio for general services as calculated under Section 6633.2 of the TDA code for the year ended June 30, 2018. See Note 12. The calculation of this compliance was as follows:

	<u>General Services</u>
	<u>2018</u>
Total operating costs	\$ 1,093,020
Less: Insurance premiums per Section 99268.17	<u>0</u>
Net operating costs	\$ <u><u>1,093,020</u></u>
Prior required fare box recovery ratio %	22.4%
Required fare box recovery ratio % (7/1/16)	10.0%
Required minimum fares	\$ 109,302
Actual fares collected	\$ 233,997
Actual fare box recovery ratio % achieved	21.4%

The city did not meet its required Fare Box Recovery Ratio for specialized services as calculated under Section 6633.5 of the TDA code for the year ended June 30, 2017 and 2018. In accordance with Code Section 6633.9(a), the June 30, 2017 year noncompliance was considered the one time grace year and no eligibility recalculations were required. However, the noncompliance for the year ended June 30, 2018 will require the eligibility recalculations under Code Section 6633.9 to be implemented for the year ending June 30, 2020. See Note 12.

	<u>Specialized Services</u>
	<u>2018</u>
Total operating costs	\$ 576,000
Less: Insurance premiums per Section 99268.17	<u>0</u>
Net operating costs	\$ <u><u>576,000</u></u>
Required fare box recovery ratio %	10%
Required minimum fares	\$ 57,600
Actual fares collected	\$ 47,853
Actual fare box recovery ratio % achieved	8.3%

**CITY OF EUREKA
TRANSIT FUND**

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

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 year ended June 30, 2018, the City of Eureka was determined to have not received any excess Transportation Development Act funds, calculated as follows:

	<u>General Services</u>
	<u>2018</u>
Operating costs	\$1,093,020
Less: Fare revenues	(233,997)
Federal operating assistance	(259,247)
County operating subsidy	<u>(222,480)</u>
Maximum fund eligibility	377,296
STA funds received	31,849
TDA funds received	<u>274,501</u>
Excess funds received	\$ <u><u>0</u></u>
	<u>Specialized Services</u>
	<u>2018</u>
Operating costs	\$ 576,000
Less: Fare revenues	(47,853)
County operating subsidy	<u>(139,995)</u>
Maximum fund eligibility	388,152
STA funds received	0
TDA funds received	<u>385,905</u>
Excess funds received	\$ <u><u>0</u></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. See Note 12.

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, 2019

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, 2016, the City and HTA entered into a new operating agreement covering the two year period ended June 30, 2018. Any agreed-upon adjustment for the year will be made at the end of the contract, or as part of any subsequent contract arrangement. See Note 12.

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. See Note 12.

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 previous years, the City, through the administrative workings of the Humboldt Transit Authority (HTA), applied for and received proceeds of \$696,381 from the State's PTMISEA account for the procurement of a GPS Tracking System, a new bus and various bus stop and bus shelter improvements. As of June 30, 2019, qualifying expenditures were incurred as follows:

Proceeds received:	
PMTISEA: 2010-11	\$ 22,880
PMTISEA: 2011-12	222,982
PMTISEA: 2013-14	450,519
PMTISEA: 2014-15	0
PMTISEA: 2015-16	0
PMTISEA: 2016-17	0
Expenditures incurred:	
Bus Stop and Bus Shelters	(71,802)
GPS Tracking System	(148,589)
Bus	(450,519)
Transferred to HTA (Note 12)	(25,471)
Unexpended proceeds at June 30, 2019	<u>\$ 0</u>

CITY OF EUREKA
TRANSIT FUND

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

NOTE 12 - SUBSEQUENT EVENT

Effective July 1, 2019, the City of Eureka formally transferred its Eureka Transit System operations and assets to the Humboldt Transit Authority, which will assume all responsibilities and ownership of the transit system.

During the year, the City also transferred \$444,181 of capital reserves to HTA.