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- San Bernardino County Transportation Commission ■ San Bernardino County Transportation Authority
■ San Bernardino County Congestion Management Agency ■ Service Authority for Freeway Emergencies
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Additional Support Material for Agenda No. 12

Mountain/Desert Policy Committee

February 21, 2014

Location:

Conference Room Change: This Meeting Only
Town of Apple Valley – North Side of Conference Center
14975 Dale Evans Parkway
Apple Valley, CA

DISCUSSION CALENDAR

Review and receive the following Operator financial reports for Fiscal Year 2012/2013 for:

- Mountain Area Regional Transit Authority (MARTA)
- Morongo Basin Transit Authority (MBTA)
- Victor Valley Transit Authority (VVTA)

Full financial audit reports attached

MARTA

**MOUNTAIN AREA REGIONAL
TRANSIT AUTHORITY**

**BASIC FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2013**

MARTA

MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

JUNE 30, 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Mountain Area Regional Transit Authority
Big Bear Lake, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Mountain Area Regional Transit Authority (MARTA) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise MARTA's basic 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 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 MARTA as of June 30, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

MARTA

Emphasis of Matter

As described in Note 2 to the financial statements, MARTA adopted Statement of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, as of July 1, 2012. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2013, on our consideration of MARTA'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 MARTA's internal control over financial reporting and compliance.

Vavrinek, Teme, Day, Co., LLP

Rancho Cucamonga, California
December 11, 2013

MARTA
MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

STATEMENT OF NET POSITION
JUNE 30, 2013

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 1,256,539
Accounts receivable	237
Operating grants receivable	233,443
Capital grants receivable	29,739
Prepaid expenses	60
Total Current Assets	1,520,018

CAPITAL ASSETS:

Nondepreciable	547,907
Depreciable	4,611,853
Accumulated depreciation	(3,242,175)
Capital assets, net	1,917,585

TOTAL ASSETS	3,437,603
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LIABILITIES

CURRENT LIABILITIES:

Accounts payable	53,414
Accrued liabilities	99,086
Unearned revenue	1,072,211
Total Current Liabilities	1,224,711

NONCURRENT LIABILITIES:

Self-insurance liabilities	354,552
TOTAL LIABILITIES	1,579,263

NET POSITION:

Net investment in capital assets	1,917,585
Unrestricted	(59,245)
TOTAL NET POSITION	\$ 1,858,340

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

**MARTA
MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY**

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2013**

OPERATING REVENUES:	
Fares	<u>\$ 314,849</u>
OPERATING EXPENSES:	
Operations	1,231,021
Maintenance	188,159
General and administration	748,673
Depreciation	434,717
Total Operating Expense	<u>2,602,570</u>
OPERATING (LOSS)	<u>(2,287,721)</u>
NON-OPERATING REVENUES AND EXPENSES:	
Operating Assistance:	
Federal Transit Administration Section 5311	297,550
Local Transportation Fund Article 4 Measure I	1,443,328
Interest income	90,500
Reimbursement	156
Other	14,673
Interest expense	13,498
Total Non-operating Revenues (Expenses)	<u>(2,756)</u>
	<u>1,856,949</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	<u>(430,772)</u>
CAPITAL CONTRIBUTIONS:	
Federal Transit Administration Section 5311	17,280
State Transit Assistance Fund	17,013
CTGSP	37,736
PTMISEA	14,533
Total Capital Contributions	<u>86,562</u>
CHANGE IN NET POSITION	(344,210)
NET POSITION, Beginning of year	<u>2,202,550</u>
NET POSITION, End of year	<u>\$ 1,858,340</u>

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

MARTA
MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2013

Cash flows from operating activities:	
Cash received from fares	\$ 315,221
Payments to employees	(1,508,553)
Payments to vendors for services	<u>(752,548)</u>
Net cash used in operating activities	<u>(1,945,880)</u>
Cash flows from non-capital financing activities:	
Payments, line of credit	(250,000)
Proceeds, line of credit	250,000
Interest payments	(2,756)
Operating grants received	<u>2,424,930</u>
Net cash provided by non-capital financing activities	<u>2,422,174</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	<u>(97,830)</u>
Net cash used in capital and related financing activities	<u>(97,830)</u>
Cash flows from investing activities:	
Interest received	<u>156</u>
Net cash used in investing activities	<u>156</u>
Net increase in cash and cash equivalents	378,620
Cash and cash equivalents, beginning of year	877,919
Cash and cash equivalents, end of year	<u>\$ 1,256,539</u>
Reconciliation of operating (loss) to net cash used in operating activities:	
Operating income (loss)	<u>\$ (2,287,721)</u>
Adjustments to reconcile operating (loss) to net cash used in operating activities:	
Depreciation expense	434,717
Changes in assets and liabilities:	
Decrease in assets:	
Accounts receivable	372
(Decrease) in liabilities:	
Accounts payable and accrued liabilities	(5,760)
Self-insurance liabilities	<u>(87,488)</u>
Total Adjustments	<u>341,841</u>
Net cash used in operating activities	<u>\$ (1,945,880)</u>

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

MARTA
MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

NOTE 1 – ORGANIZATION

Mountain Area Regional Transit Authority (MARTA) is a joint powers authority whose members are the City of Big Bear and the County of San Bernardino. MARTA provides bus services to the Big Bear Lake and Crestline Communities, off-the-mountain bus services, and dial-a-ride services. MARTA is governed by a Board of Directors comprised of representatives of the member jurisdictions and a member-at-large.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Reporting Entity – MARTA meets the criteria as a stand-alone government, and accordingly, is accounted for and reported on as though it were a primary government.

Basis of Accounting – MARTA is a single enterprise fund and maintains its records using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred, regardless of the timing of related cash flows. The accounting policies of MARTA are in conformity with generally accepted accounting principles applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles.

Operating and Non-Operating Revenue – MARTA distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from directly providing services in connection with MARTA's principal operation of bus transit services. These revenues are primarily passenger fares. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. Non-operating revenues consist of federal, state and local operating grants and investment income. Operating expenses include operations, maintenance, and administrative expenses and depreciation on capital assets. Expenses not meeting this definition are reported as non-operating expenses.

When both restricted and unrestricted resources are available for use, it is MARTA's policy to use restricted resources first, and then unrestricted resources as they are needed.

Cash and cash equivalents includes demand deposits and amounts invested in savings accounts. For the purpose of the Statement of Cash Flows, cash and cash equivalents are defined as short-term deposits with original maturities of three months or less from the date of acquisition.

Capital contributions consist of grants that are legally restricted for capital expenses by federal, state, or local law that established those charges. Grants for operating assistance and capital acquisitions are included in revenue in the period in which the grant was earned. Federal capital grant funds claimed on a reimbursement basis have receivables for grant funds recorded as the related obligations are incurred. Capital grant funds advanced but not yet earned are treated as unearned revenues. Also, operating funds advanced from San Bernardino Associated Governments for working capital are treated as unearned revenues until earned. Operating assistance grants are included in non-operating revenues in the year in which the grant is applicable and the related expenses are incurred. Revenue earned under capital grants are recorded as capital contributions.

MARTA
MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital assets are stated at cost and depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	15 to 30 years
Passenger facilities	5 to 10 years
Shop, office, transit, and other equipment	5 to 10 years

MARTA's capitalization threshold is \$1,000. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend the useful lives are not capitalized.

Self-Insurance Liabilities – Claims liabilities, including claims incurred but not reported, are measured based on the estimated ultimate cost of settling the claims (including the effects of inflation and other societal and economic factors), using past experience adjusted for current trends, and any other factors that would modify past experience.

Compensated Employee Absences – Compensated employee absences (vacation leave) are accrued as an expense and liability.

Net Position – Net position represents the difference between assets and liabilities and is classified into two categories:

- Net investment in capital assets – This balance reflects the net position of MARTA invested in capital assets net of accumulated depreciation.
- Unrestricted – This balance represents the amount of net position that does not meet the definition of net investment in capital assets.

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, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Effect of New Governmental Accounting Standards Board (GASB) Pronouncements

Effective This Fiscal Year

GASB Statement No. 60 – In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This statement is to improve financial reporting by addressing issues related to service concession arrangements. This statement was effective July 1, 2012. MARTA has determined that this statement did not have a material impact on the financial statements.

GASB Statement No. 61 – In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*. The objective of this statement is to improve financial reporting for governmental financial reporting entities. This statement modifies certain requirements for inclusion of component units in the financial reporting entity and amends the criteria for reporting component units as if they were a part of the primary government in certain circumstances. This statement was effective July 1, 2012. MARTA has determined that this statement does not have a material impact on the financial statements.

MARTA
MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Effective This Fiscal Year (Continued)

GASB Statement No. 62 – In June 2011, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in FASB and AICPA pronouncements issued on or before November 30, 1989 which does not conflict with our contradict GASB pronouncements. This statement was effective July 1, 2012. MARTA has determined that this statement did not have a material impact on the financial statements.

GASB Statement No. 63 – In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, was issued in June 30, 2011. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This statement also amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. MARTA implemented this statement effective July 1, 2012.

Effective in Future Fiscal Years

GASB Statement No. 65 – In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012. MARTA has not determined the effect of this statement.

GASB Statement No. 66 – In March 2012, GASB issued Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statement No. 10 and No. 62*. This statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement is effective for financial statements beginning after December 15, 2012. MARTA has not determined the effect of this statement.

GASB Statement No. 67 – In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This statement is effective June 30, 2014. MARTA has not determined the effect of this statement.

MARTA
MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Effective in Future Fiscal Years (Continued)

GASB Statement No. 68 – In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. This Statement replaces the requirements of Statements No. 27 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014. MARTA has not determined the effect of this statement.

GASB Statement No. 69 – In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This Statement is effective for periods beginning after December 31, 2013. MARTA has not determined the effect of this statement.

GASB Statement No. 70 – In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement improves accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement is effective for periods beginning after June 15, 2013. MARTA has not determined the effect of this statement.

NOTE 3 – TRANSPORTATION DEVELOPMENT ACT REQUIREMENTS

MARTA is subject to the provisions pursuant to Section 6634 of the California Code of Regulations and Sections 99268.4 and 99313.3 of the Public Utilities Code.

MARTA receives allocations of local transportation funds pursuant to the Transportation Development Act of 1971. These funds are generated within San Bernardino County and are allocated based on annual claims filed by MARTA and approved by SANBAG.

MARTA also receives allocated Federal operating assistance funds pursuant to Section 5311 of the Federal Transit Act of 1964. Such funds are apportioned to the local urbanized area by the Federal Transit Authority (FTA). Expenditures of Federal operating assistance funds are subject to final audit and approval by the FTA.

A. Section 6634

Pursuant to Section 6634, a transit claimant is precluded from receiving monies from the local transportation fund and the State Transit Assistance Fund in an amount which exceeds the claimant's costs less the sum of fares received, local support required to meet the fare ratio, federal operating assistance, and the amount received during the year from a city or county to which the operator has provided service beyond its boundaries.

MARTA
MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

NOTE 3 – TRANSPORTATION DEVELOPMENT ACT REQUIREMENTS (CONTINUED)

A. Section 6634 (Continued)

The computation of unearned revenue for 2013 is as follows:

	Operating Funds	Capital Funds	Total
Beginning balance, July 1, 2012	\$ 245,901	\$ 363,531	\$ 609,432
Gross receipts			
State Transit Assistance Fund		17,013	17,013
Local Transportation Fund, Article 4	1,958,481		1,958,481
Federal Transportation Admin, Section 5311	297,550	17,280	314,830
Measure I	90,500		90,500
Interest income	156	368	524
Fares	314,145		314,145
Prepaid Fares*	5		5
Reimbursements	14,673		14,673
Proceeds from disposal of assets	9,050		9,050
Other	4,448		4,448
Total gross receipts	2,689,008	34,661	2,723,669
Operating expenses, less depreciation	(2,145,410)	(22,443)	(2,167,853)
Capital acquisitions		(93,037)	(93,037)
Receipts over (under) expenses in current period	543,598	(80,819)	462,779
Amounts received in excess of costs as of June 30, 2013	\$ 789,499	\$ 282,712	
Amount unearned at June 30, 2013 *	\$ 789,499	\$ 282,712	\$ 1,072,211

* Prepaid fares are not considered revenue until earned and are reflected as unearned revenue in the Statement of Net Position

B. Section 99268.4

Section 99268.4 indicates that in the case of an operator which is serving a non-urbanized area, the operator shall be eligible for local transportation funds in any fiscal year if it maintains, for the fiscal year, a ratio of fare revenues to operating cost at least equal to 10%.

The fare ratio as of June 30, 2013, is calculated as follows:

Operating expenses	\$ 2,602,570
Less depreciation	(434,717)
Adjusted operating expenses	\$ 2,167,853
Fare revenue	\$ 314,849
Fare ratio	14.52%

**MARTA
MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 4 – CASH AND CASH EQUIVALENTS

Deposits as of June 30, 2013, consist of the following:

Demand accounts	\$ 955,373
Savings accounts	301,166
Total	<u>\$ 1,256,539</u>

Policies and Practices

MARTA is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations as specified in Section 53600. MARTA does not have a formal policy for investments that is more restrictive than the noted Government Code.

Custodial Credit Risk - Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, MARTA will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. MARTA does not have a policy of custodial credit risk for deposits. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Of MARTA's deposits with financial institutions, \$1,053,454 was in excess of federal depository insurance limits and subject to custodial credit risk as described above.

**MARTA
MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, is as follows:

	Beginning Balance July 1, 2012	Additions	Deletions	Ending Balance June 30, 2013
Nondepreciable assets				
Land	\$ 542,457			\$ 542,457
Construction in progress		\$ 5,450		5,450
subtotal nondepreciable assets	<u>542,457</u>	<u>5,450</u>	<u>-</u>	<u>547,907</u>
Depreciable assets				
Buildings and improvements	1,932,478	\$ 46,738		1,979,216
Passenger facilities	11,979	18,095		30,074
Shop, office and other equipment	2,882,605	22,754	\$ (302,796)	2,602,563
subtotal depreciable assets	<u>4,827,062</u>	<u>87,587</u>	<u>(302,796)</u>	<u>4,611,853</u>
Accumulated depreciation				
Buildings and improvements	(1,161,314)	(67,804)		(1,229,118)
Passenger facilities	(11,979)	(1,055)		(13,034)
Shop, office and other equipment	(1,936,961)	(365,858)	302,796	(2,000,023)
subtotal accumulated depreciation	<u>(3,110,254)</u>	<u>(434,717)</u>	<u>302,796</u>	<u>(3,242,175)</u>
Net depreciable assets	<u>1,716,808</u>	<u>(347,130)</u>	<u>-</u>	<u>1,369,678</u>
Total capital assets	<u>\$ 2,259,265</u>	<u>\$ (341,680)</u>	<u>\$ -</u>	<u>\$ 1,917,585</u>

NOTE 6 – RISK MANAGEMENT

MARTA is a member of the California Joint Powers Insurance Authority (Authority). The Authority is composed of 121 California public entities, and is organized under a joint powers agreement pursuant to California Government Code §6500 et seq. The purpose of the Authority is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group purchased insurance for property and other lines of coverage. The Authority began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board operates through a nine-member Executive Committee.

Each member pays an annual contribution (formerly called the primary deposit) to cover estimated losses for the coverage period. This initial funding is paid at the beginning of the coverage period. After the close of the coverage period, outstanding claims are valued. A retrospective deposit computation is then conducted annually thereafter, until all claims incurred during the coverage period are closed on a pool-wide basis. This subsequent cost re-allocation among members, based on actual claim development, can result in adjustments of either refunds or additional deposits required. As of June 30, 2013, the retrospective deposit calculation resulted in a liability of \$354,552. MARTA has had no settled claims resulting from these risks that exceeded its coverage in any of the past three fiscal years.

MARTA
MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

NOTE 6 – RISK MANAGEMENT (CONTINUED)

The total funding requirement for self-insurance programs is estimated using actuarial models and pre-funded through the annual contribution. Costs are allocated to individual agencies based on exposure (payroll) and experience (claims) relative to other members of the risk sharing pool. Additional information regarding the cost allocation methodology is provided below.

General Liability – In the liability program, claims are pooled separately between police and non-police exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to \$30,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from \$30,000 to \$750,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs in excess of \$750,000, up to the reinsurance attachment point of \$5 million, are distributed based on the outcome of cost allocation within the first and second loss layers. (5) Costs of covered claims from \$5 million to \$10 million are paid under a reinsurance contract subject to a \$2.5 million annual aggregate deductible. Costs of covered claims from \$10 million to \$15 million are paid under two reinsurance contracts subject to a combined \$3 million annual aggregate deductible. (6) Costs of covered claims from \$15 million up to \$50 million are covered through excess insurance policies. The overall coverage limit for each member, including all layers of coverage, is \$50 million per occurrence.

Costs of covered claims for subsidence losses are paid by reinsurance and excess insurance with a pooled sub-limit of \$35 million per occurrence. This \$35 million subsidence sub-limit is composed of: (a) \$5 million retained within the pool's Self Insured Retention (SIR), (b) \$10 million in reinsurance and (c) \$20 million in excess insurance. The excess insurance layer has a \$20 million annual aggregate.

Workers' Compensation – In the workers' compensation program, the payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to \$50,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from \$50,000 to \$100,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs in excess of \$100,000, up to the reinsurance attachment point of \$2 million, are distributed based on the outcome of cost allocation within the first and second loss layers. (5) Costs of covered claims from \$2 million up to statutory limits are paid under a reinsurance policy. Protection is provided per statutory liability under California Workers' Compensation Law.

NOTE 7 – COMPENSATED ABSENCES

Accumulated unpaid personal leave consisting of vacation pay, has been accrued at June 30, 2013 in the amount of \$46,554. MARTA's liability for compensated absences typically is liquidated within one year. MARTA accrued \$63,461 and paid \$64,388 during fiscal year 2013. The balance related to compensated absences is included in accrued liabilities in the Statement of Net Position.

MARTA
MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

NOTE 8 – EMPLOYEES’ RETIREMENT PLAN

MARTA contributes to the Western Conference of Teamsters Pension Plan Trust Fund (WCTPTF) administered by Trustees of the Western Conference of Teamsters Pension Plan. WCTPTF acts as a common investment and administrative agent for various employers in 13 Western states. WCTPTF provides retirement benefits based on two different defined benefit formulas, one for service prior to 1987 and the other for service after 1986. Employees vest after five years of service. The Trustees may amend the Plan at any time and in any respect, retroactively or otherwise.

The Western Conference of Teamsters Pension Plan issues publicly financial statements. A copy of that report may be obtained online at <http://www.wctpension.org/>.

MARTA’s participation is limited to making required contributions to the plan which are established through a Memorandum of Understanding (MOU) between MARTA and Teamsters Local 572. Under this MOU, MARTA is required to contribute \$0.25 per hour for all hours worked by represented employees. For the fiscal year ended June 30, 2013, MARTA contributed \$11,109.

NOTE 9 – DEFERRED COMPENSATION PLAN

MARTA offers its employees a deferred compensation plan created in accordance with Internal Revenue Code, Section 457. The plan, available to all non-represented MARTA employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

MARTA has adopted the provisions of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code 457 Deferred Compensation Plans*. Management believes that MARTA has no fiduciary role under the plan, and plan funds are not available to MARTA’s general creditors. Accordingly, MARTA has not reported plan assets in the accompanying financial statements.

NOTE 10 – 401(a) RETIREMENT PLAN

MARTA administers a defined contribution pension plan, the MARTA 401(a) Plan (Plan), which is available to nonrepresented employees who have attained 21 years of age and completed 500 hours of service. Plan provisions may be amended by MARTA under the provisions of Internal Revenue Code Section 401(a).

Participants may make after-tax contributions to the Plan. MARTA’s Plan contributions include matching 50% of elective deferral contributions to the employee’s 457 plan and nonelective employer contributions. MARTA’s contributions to the Plan totaled \$14,841 during the fiscal year ended June 30, 2013.

NOTE 11– DEFICIT UNRESTRICTED NET POSITION

MARTA’S financial statements reflect deficit unrestricted net position of \$59,245. Management of MARTA asserts that the deficit is primarily due to the long term insurance liability described in Note 6. The deficit is expected to be funded through future earnings. No impact to operations is anticipated.



Board of Directors
Mountain Area Regional Transit Authority
Big Bear Lake, California

We have audited the financial statements of the Mountain Area Regional Transit Authority (MARTA) for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by MARTA are described in Note 2 to the financial statements. MARTA has adopted Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective July 1, 2012. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting MARTA's financial statements was (were):

- Management's estimate of the depreciation of capital assets is based upon the estimated useful lives of the related capital assets.
- Management's estimate of compensated absences liability is based upon the vacation leave balance and pay rate of all eligible employees
- Management's estimate of the self-insurance liabilities is based upon the annual statement provided by an external self-insurance administrator

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

MARTA

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 11, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Vermire, Trine, Day, Co., LLP

Rancho Cucamonga, California
December 11, 2013



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

Board of Directors
Mountain Area Regional Transit Authority
Big Bear Lake, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial statements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Mountain Area Regional Transit Authority (MARTA), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise MARTA's basic financial statements, and have issued our report thereon dated December 11, 2013. Our report included an emphasis-of-matter regarding MARTA's adoption of Governmental Accounting Standards Board (GASB) Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, as of July 1, 2012.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MARTA'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 MARTA's internal control. Accordingly, we do not express an opinion on the effectiveness of MARTA'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.

MARTA

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MARTA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements including Section 6667 of Part 21 of the California Code of Regulations and the allocation instructions of the San Bernardino Associated Governments, 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 MARTA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MARTA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vawter, Tami, Day, Co., LLP

Rancho Cucamonga, California
December 11, 2013

MARTA
MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

Summarized below is the current status of all audit findings reported in the prior year audit's schedule of audit findings and questioned costs.

Financial Statement Findings

Finding No.	Area	Status of Corrective Action
2012-01	Internal Controls	Implemented
2012-02	Policies and Procedures	Implemented
2012-03	Financial Reporting	Implemented
2012-04	Bank Reconciliations	Implemented

Federal Awards Findings

Finding No.	Program	CFDA No.	Compliance Requirement	Status of Corrective Action
2012-05	Formula Grants for Other than Urbanized Areas (Indirect)	20.509	Equipment and Real Property Management	Implemented

MBTA

**MORONGO BASIN TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)**

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED
JUNE 30, 2013

**MBTA
MORONGO BASIN TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)**

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Morongo Basin Transit Authority
Joshua Tree, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Morongo Basin Transportation Authority (MBTA), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise MBTA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

MBTA's 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 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 MBTA as of June 30, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

MBTA

Emphasis of Matter

As described in Note 2 to the financial statements, MBTA adopted Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective July 1, 2012. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2013, on our consideration of MBTA'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 MBTA's internal control over financial reporting and compliance.

Vermate, Tami, Day, Co., LLP

Rancho Cucamonga, California
December 12, 2013

**MORONGO BASIN TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)**

**STATEMENT OF NET POSITION
JUNE 30, 2013**

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 283,721
Restricted cash	32,730
Receivables:	
Grants	701,763
Accrued revenue	367
Total Current Assets	<u>1,018,581</u>

NONCURRENT ASSETS

Property, plant and equipment, net	<u>8,296,073</u>
TOTAL ASSETS	<u><u>9,314,654</u></u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable	44,547
Health reimbursement liability	156,868
Accrued compensated absences	86,565
Deferred revenue	32,730
Line of credit	<u>200,000</u>
TOTAL LIABILITIES	<u><u>520,710</u></u>

NET POSITION

Net investment in capital assets	8,296,073
Unrestricted	<u>497,871</u>
TOTAL NET POSITION	<u><u>\$ 8,793,944</u></u>

See accompanying notes to financial statements.

**MORONGO BASIN TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)**

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2013**

OPERATING REVENUES	
Passenger fares	\$ 383,567
Procurement services	353,589
Taxi licensing services	19,720
Total Operating Revenues	<u>756,876</u>
OPERATING EXPENSES	
Operations	1,888,353
Administration	576,431
Depreciation	1,223,200
Total Operating Expense	<u>3,687,984</u>
Operating income (loss)	(2,931,108)
NON-OPERATING REVENUES AND EXPENSES	
Operating Assistance:	
Local Transportation Fund Article 4	1,449,028
Measure I	62,880
Federal Transit Administration Section 5311	501,327
State and local grants	254,621
Interest income	23
Gain (Loss) on disposal of assets	9,425
Other	34,445
Total Non-Operating Revenues	<u>2,311,749</u>
NET LOSS BEFORE CAPITAL CONTRIBUTIONS	<u>(619,359)</u>
CAPITAL CONTRIBUTIONS	
State Transit Assistance Fund	157,990
Local Transportation Fund Article 4	63,322
Federal Congestion Mitigation and Air Quality	1,192,592
Total Capital Contributions	<u>1,413,904</u>
CHANGE IN NET POSITION	794,545
NET POSITION, Beginning of year	<u>7,999,399</u>
NET POSITION, End of year	<u><u>\$ 8,793,944</u></u>

See accompanying notes to financial statements.

**MORONGO BASIN TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)**

**STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2013**

Cash flows from operating activities:	
Cash received from customers	\$ 792,454
Payments to employees	(1,601,348)
Payments to vendors for services	(837,233)
Net cash used in operating activities	<u>(1,646,127)</u>
Cash flows from non-capital financing activities:	
Proceeds, line of credit	200,000
Operating grants received	1,448,131
Net cash provided by non-capital financing activities	<u>1,648,131</u>
Cash flows from capital and related financing activities:	
Capital grants received	1,668,528
Purchase of capital assets	(1,710,065)
Gain on disposal of assets	9,425
Net cash used in capital and related financing activities	<u>(32,112)</u>
Cash flows from investing activities:	
Interest received	23
Net cash provided by investing activities	<u>23</u>
Net increase in cash and cash equivalents	(30,085)
Cash and cash equivalents, beginning of year	346,536
Cash and cash equivalents, end of year	<u>\$ 316,451</u>
Reconciliation of cash and cash equivalents to statement of financial position:	
Cash and cash equivalents	\$ 283,721
Restricted cash	32,730
Total Cash and Cash Equivalents	<u>\$ 316,451</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating income (loss)	<u>\$ (2,931,108)</u>
Adjustments to reconcile operating (loss) to net cash used in operating activities:	
Depreciation expense	1,223,200
Changes in assets and liabilities:	
(Increase) in assets:	
Accrued receivables	1,133
Other income	34,445
(Decrease) in liabilities:	
Accounts payable and accrued liabilities	26,203
Total Adjustments	<u>1,284,981</u>
Net cash used in operating activities	<u>\$ (1,646,127)</u>

See accompanying notes to financial statements.

**MORONGO BASIN TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 1 – ORGANIZATION

Morongo Basin Transit Authority (MBTA) is a joint powers agency whose members are the County of San Bernardino, the City of Twentynine Palms, California, and the Town of Yucca Valley, California. MBTA provides bus services to the City of Twentynine Palms and the Town of Yucca Valley as well as certain surrounding county areas of the Morongo Basin. Transit services provided include fixed route and certain demand-response services. MBTA is governed by a Board of Directors comprised of representatives of the member jurisdictions and a member-at-large.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Reporting Entity - MBTA meets the criteria as a stand-alone government, and accordingly, is accounted for and reported on as though it were a primary government.

Basis of Accounting – MBTA’s proprietary fund financial statements are reported using the *economic resources measurement focus* and accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred.

Cash & cash equivalents includes demand deposits and amounts invested in the State treasurer’s investment pool (the State of California Local Agency Investment Fund). For the purpose of the Statement of Cash Flows, cash and cash equivalents are defined as short-term, highly liquid deposits with original maturities of three months or less from the date of acquisition.

Grants for operating assistance and capital acquisitions are included in revenue in the period in which the grant was earned. Federal capital grant funds claimed on a reimbursement basis have receivables for grant funds recorded as the related obligations are incurred. Capital grant funds advanced but not yet earned are treated as deferred revenues. Also, operating funds advanced from San Bernardino Associated Governments for working capital are treated as deferred revenues until earned. Operating assistance grants are included in non-operating revenues in the year in which the grant is applicable and the related expenses are incurred. Revenue earned under capital grants are recorded as capital contributions. Operating grant activity for the fiscal year is detailed in Note 7.

Property, plant, and equipment is stated at cost and depreciated using the straight-line method over the following estimated useful lives:

Capital assets being depreciated:

Buildings and improvements	7 to 25 years
Office furniture, fixtures, and equipment	5 years
Buses	5 to 7 years
Vehicles	5 years
Information systems	5 years
Data handling equipment	5 years

MBTA’s capitalization threshold for recognition of property, plant and equipment assets is \$300.

**MORONGO BASIN TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Self-Insurance Liabilities –MBTA’s self-insured retention and incurred but not reported claims liabilities are covered by the California Transit Insurance Pool Joint Powers Insurance Authority pool in which they participate, detailed in Note 9.

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, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Restricted Cash – Certain MBTA cash accounts are internally-restricted for the following capital projects:

<u>Restricted Cash</u>	
Security Doors	\$ 8,897
Cutaways	849
Mobile Surveillance	3,094
Radio Antenna	19,890
Total Restricted Cash	<u>\$ 32,730</u>

Operating and Non-Operating Revenue – MBTA distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from directly providing services in connection with MBTA’s operation of bus transit services, procurement services and taxi licensing services. These revenues are primarily passenger fares, fees collected from transit agencies for procurement assistance and taxi licensing fees collected. Operating expenses include the cost of sales and services, administrative expenses, contracted services and depreciation on capital assets. All other revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Capital Contributions – Consist of grants that are legally restricted for capital expenses by federal, state, or local law that established those charges.

Restricted and Unrestricted Resources – When both restricted and unrestricted resources are available for use, it is MBTA’s policy to use restricted resources first, and then unrestricted resources as they are needed.

Current Accounting Pronouncements

Governmental Accounting Standards Board (GASB) Statement No. 60

On November 2011, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA arrangement is considered to be between a transferor (a government) and an operator (another government or private entity) in which the transferor conveys to the operator the right and related obligation to provide services through the use of infrastructure or another public asset (a “facility”) in exchange for significant consideration and the operator collects and is compensated by fees collected from third parties. MBTA has determined this statement has no impact on the financial statements.

**MORONGO BASIN TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Current Accounting Pronouncements (Continued)

Governmental Accounting Standards Board (GASB) Statement No. 61

On November 2011, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statement No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity and modifies certain requirements for inclusion of component units in the financial reporting entity. MBTA implemented this standard for the fiscal year ended June 30, 2013 and determined that the standard did not have a material impact.

Governmental Accounting Standards Board (GASB) Statement No. 62

On December 2011, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objection of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedures that were issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. MBTA implemented this standard for the fiscal year ended June 30, 2013 and determined that the standard did not have a material impact.

Governmental Accounting Standards Board (GASB) Statement No. 63

On June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. MBTA implemented this standard for the fiscal year ended June 30, 2013.

Future Accounting Pronouncements

Governmental Accounting Standards Board (GASB) Statement No. 65

On March 2012, GASB issued Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The requirements of this Statement are effective for the fiscal year ending June 30, 2014.

**MORONGO BASIN TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Future Accounting Pronouncements (Continued)

Governmental Accounting Standards Board (GASB) Statement No. 66

On March 2012, GASB issued Statement No. 66 – Technical Corrections – 2012 - *an Amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to resolve conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The requirements of this Statement are effective for the fiscal year ending June 30, 2014.

Governmental Accounting Standards Board (GASB) Statement No. 67

On June 2012, GASB issued Statement No. 67 – *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 25*. This Statement establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans. This Statement and Statement No. 68 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement - determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. The scope of this Statement addresses accounting and financial reporting for the activities of pension plans that are administered through trusts. MBTA is not a pension plan provider.

Governmental Accounting Standards Board (GASB) Statement No. 68

On June 2012, GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. 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. The requirements of this Statement are effective for the fiscal year ending June 30, 2015.

NOTE 3 – PROCUREMENT ACTIVITY AND TAXI LICENSING ACTIVITY

Procurement activities are for services provided to local transit agencies assisting with procurement of buses. The State of California Department of Transportation and San Bernardino Associated Governments have agreed that procurement revenues are available to be retained and expended at management's discretion including TDA eligible projects. For the year ended June 30, 2013, procurement revenues were expended on bid expenses and transit assistance grant programs to local transit agencies. Remaining procurement expenses were allocated to fund administrative activities of MBTA, these allocations were based on approved budgeted balances.

Taxi licensing activities are for the licensing of taxi service providers of the Morongo Basin and funds are retained to reimburse costs incurred in operation and administration of taxi licensing activity. For the year ended June 30, 2013 these expenses included legal fees, insurance, drug testing, background verification, rents and utilities.

**MORONGO BASIN TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 3 – PROCUREMENT ACTIVITY AND TAXI LICENSING ACTIVITY (CONTINUED)

MBTA reports procurement and taxi licensing activities with transit operations, internally MBTA tracks procurement activities separately as follows:

	<u>Procurement</u>
Procurement activities balance from prior year	\$ 15,816
Change in balance	<u>311,344</u>
Ending balance of procurement activities	<u><u>\$ 327,160</u></u>

The procurement balance is included within unrestricted net position on the statement of activities.

NOTE 4 – CASH AND INVESTMENTS

	<u>2013</u>
Cash and cash equivalents	\$ 283,721
Restricted cash	<u>32,730</u>
Total	<u><u>\$ 316,451</u></u>

Cash and investments as of June 30, 2013 consist of the following:

Cash on hand	\$ 300
Demand accounts	46,695
Savings accounts	<u>269,456</u>
Total	<u><u>\$ 316,451</u></u>

Policies and Practices

MBTA is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations as specified in Section 53600. MBTA does not have a formal policy for investments that is more restrictive than that noted in government code.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. . MBTA does not have a formal policy related to its investments interest rate risk.

**MORONGO BASIN TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)****NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013***NOTE 4 – CASH AND INVESTMENTS (CONTINUED)**Credit Risk*

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Custodial Credit Risk - Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, MBTA will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. MBTA does not have a policy of custodial credit risk for deposits. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2013 the first \$250,000 of deposits were insured under FDIC, MBTA maintained bank balances in excess of FDIC insurance of \$66,150. These balances were collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the MBTA.

LAIF Investment Pool

MBTA is a voluntary participant in the LAIF that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. LAIF is not registered with the Securities and Exchange Commission. The fair value of the MBTA's investment in this pool is reported in the accompanying financial statements at amounts based upon the MBTA's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

As of June 30, 2013, the MBTA's investments in the State Treasurer's investment pool (LAIF) were \$1. The total amounts invested by all public agencies in LAIF at June 30, 2013 were \$58,803,312,428. Of these amounts, as of June 30, 2013, 92.89 percent is invested in non-derivative financial products, and 7.11 percent is invested in structured notes and asset-backed securities. The District relied upon information provided by the State Treasurer in estimating the District's fair value position of its holdings in LAIF.

NOTE 5 – TRANSPORTATION DEVELOPMENT ACT REQUIREMENTS

MBTA is subject to the provisions pursuant to Section 6634 of the California Code of Regulations and Sections 99268.4 and 99313.3 of the Public Utilities Code.

MBTA receives allocations of local transportation funds pursuant to the Transportation Development Act of 1971. These funds are generated within San Bernardino County and are allocated based on annual claims filed by MBTA and approved by SANBAG.

**MORONGO BASIN TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 5 – TRANSPORTATION DEVELOPMENT ACT REQUIREMENTS (CONTINUED)

MBTA also receives allocated Federal operating assistance funds pursuant to Section 5311 of the Federal Transit Act of 1964. Such funds are apportioned to the local urbanized area by the Federal Transit Authority (FTA). Expenditures of Federal operating assistance funds are subject to final audit and approval by the FTA.

A. Section 6634

Pursuant to Section 6634, a transit claimant is precluded from receiving monies from the local transportation fund and the State Transit Assistance Fund in an amount which exceeds the claimant's costs less the sum of fares received, local support required to meet the fare ratio, federal operating assistance, and the amount received during the year from a city or county to which the operator has provided service beyond its boundaries.

The computation of deferred revenue for 2013 is as follows:

	Operating Funds	Capital Funds	Total
Beginning balance, June 30, 2012	\$ 7,368	\$ 240,718	\$ 248,086
Gross receipts: **			
State Transit Assistance Fund		157,990	157,990
Local Transportation Fund, Article 4	1,441,660	63,322	1,504,982
Federal Transportation Admin, Section 5311	461,445	1,022,819	1,484,264
Measure I	62,880		62,880
Interest income	23		23
Fares	383,567		383,567
State and local grants		254,621	254,621
Other revenue	43,870		43,870
Total Gross Receipts	<u>2,393,445</u>	<u>1,498,752</u>	<u>3,892,197</u>
Operating expenses, less depreciation	2,464,784		2,464,784
Less:			
MBTA reported procurement operations expense	(42,246)		(42,246)
MBTA reported taxi licensing operations expense	(25,050)		(25,050)
Capital acquisitions		1,710,065	1,710,065
Receipts over (under) expenses in current period	<u>(4,043)</u>	<u>(211,313)</u>	<u>(215,356)</u>
Amount deferred at June 30, 2013	<u>\$ 3,325</u>	<u>\$ 29,405</u>	<u>\$ 32,730</u>

**\$353,589 of procurement operating revenue and \$19,720 of taxi licensing operating revenue were excluded from deferred revenue calculation as these activities represent operations excluded from Transportation Development Act requirements.

**MORONGO BASIN TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 5 – TRANSPORTATION DEVELOPMENT ACT REQUIREMENTS (CONTINUED)

B. Section 99268.4

Section 99268.4 indicates that in the case of an operator which is serving a non-urbanized area, the operator shall be eligible for local transportation funds in any fiscal year if it maintains, for the fiscal year, a ratio of fare revenues to operating cost at least equal to 10%.

The fare ratio as of June 30, 2013, is calculated as follows:

Operating expenses	\$ 3,687,984
Less MBTA reported procurement operations expense	(42,246)
Less MBTA reported taxi licensing operations expense	(25,050)
Less depreciation	(1,223,200)
Adjusted operating expenses	<u>\$ 2,397,488</u>
Fare revenue	<u>\$ 383,567</u>
Fare ratio	<u>16.00%</u>

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the fiscal years ended June 30, 2013, is as follows:

	Beginning Balance July 01, 2012	Additions	Retirements	Ending Balance June 30, 2013
Capital assets being depreciated:				
Buildings and improvements	\$ 8,873,013	\$ 377,868		\$ 9,250,881
Office furniture, fixtures and equipment	403,069	25,889		428,958
Buses	3,812,632	1,213,761	\$ 319,040	4,707,353
Vehicles	137,263	61,786		199,049
Information systems	32,803	30,761		63,564
Data handling equipment	1,341			1,341
Total capital assets being depreciated	<u>13,260,121</u>	<u>1,710,065</u>	<u>319,040</u>	<u>14,651,146</u>
Less accumulated depreciation for:				
Buildings and improvements	2,699,245	503,995		3,203,240
Office furniture, fixtures and equipment	254,019	48,891		302,910
Buses	2,384,139	636,689	319,040	2,701,788
Vehicles	86,024	25,167		111,191
Information systems	26,190	8,412		34,602
Data handling equipment	1,296	46		1,342
Total accumulated depreciation	<u>5,450,913</u>	<u>1,223,200</u>	<u>319,040</u>	<u>6,355,073</u>
Capital assets, net of accumulated depreciation	<u>\$ 7,809,208</u>	<u>\$ 486,865</u>	<u>\$ -</u>	<u>\$ 8,296,073</u>

**MORONGO BASIN TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 7 – OPERATING GRANTS

Operating grants receivable at June 30, 2013 were \$701,763. This balance was composed of \$501,327 of Federal operating assistance grant funds, \$23,842 of State Transit Assistance Funds and \$176,594 of Local Transportation Fund allocations.

NOTE 8 – LINE OF CREDIT

MBTA has an unsecured line of credit with Pacific Western Bank. As of June 30, 2013, the total principal amount available on the line of credit was \$500,000 less the amount noted on the schedule below. The line of credit has a maturity date of July 12, 2014. Upon drawing on loan, MBTA will pay regular monthly payments of all accrued interest. The interest rate on the line of credit is fixed at 5.5% as of June 30, 2013. MBTA made a withdrawal on the line of credit during the fiscal year as noted below.

	Beginning Balance July 01, 2012	Additions	Retirements	Ending Balance June 30, 2013	Due Within One Year
Loan	\$ -	\$ 200,000	\$ -	\$ 200,000	\$ 200,000
Total	\$ -	\$ 200,000	\$ -	\$ 200,000	\$ 200,000

NOTE 9 – SELF-INSURANCE

MBTA is a member of the California Transit Insurance Pool Joint Powers Insurance Authority (Authority). The Authority is composed of over 30 California public entities, and is organized under a joint powers agreement pursuant to California law. The purpose of the Authority is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group purchased insurance for property and other lines of coverage. The Authority began covering claims of its members in 1987.

Each member pays an annual contribution to cover estimated losses for the coverage period. This initial funding is paid at the beginning of the coverage period. After the close of the coverage period, MBTA's outstanding claims are valued. A rate offset computation is then conducted annually thereafter, until all claims incurred during the coverage period are closed on a pool-wide basis. This subsequent cost re-allocation among members, based on actual claim development, can result in adjustments of either refunds or additional deposits required. As of June 30, 2013, the retrospective calculation has not resulted in any additional liabilities for the general liability and physical damage policies. MBTA paid premiums to CalTIP of approximately \$57,249 for the fiscal year ended June 30, 2013. MBTA has had no settled claims resulting from these risks that exceeded its coverage in any of the past four fiscal years.

The total funding requirement for self-insurance programs is estimated using actuarial models and pre-funded through the annual contribution. Costs are allocated to individual agencies based on exposure (payroll) and experience (claims) relative to other members of the risk sharing pool. Additional information regarding the cost allocation methodology is provided below.

**MORONGO BASIN TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 9 – SELF-INSURANCE (CONTINUED)

MBTA has self-insurance programs for the following risks:

- Liability to a maximum of \$1,000,000 per incident is insured through CalTIP, over which coverage is provided to \$10,000,000 per incident by a private carrier through CalTIP.
- Physical damage to a maximum of \$2,500 to \$5,000 for buses and support vehicles per incident, over which coverage is provided to \$100,000 per incident by CalTIP and from \$100,000 to \$5,000,000 per incident, coverage is provided by a private carrier through CalTIP.
- Workers compensation to a maximum of \$125,000 per incident is covered by CSAC Insurance Authority, over which coverage is provided to \$50,000,000 by the excess workers compensation program of the CSAC Insurance Authority.

NOTE 10 – COMPENSATED ABSENCES

Accumulated unpaid personal leave, consisting of vacation and comp pay, have been accrued at June 30, in the amount of \$86,565. MBTA accrued \$70,041 and paid \$67,552 during fiscal year 2013. MBTA's liability for compensated absences typically is liquidated within one year. The balance related to compensated absences is included in accrued compensated absences in the Statement of Net Position.

NOTE 11 – EMPLOYEES' RETIREMENT PLAN

Plan Description

MBTA contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit plan that acts as a common investment and administrative agent for participating entities within the State of California. PERS provides retirement, disability and death benefits to plan members and beneficiaries. The benefits for the public agencies are established by contract with CalPERS in accordance with the provisions of the Public Employees Retirement Law.

CalPERS issues a public Comprehensive Annual Financial Report that includes financial statements and required supplementary information for CalPERS. A copy of that report may be obtained by writing to CalPERS, Central Supply, P.O. Box 942715, Sacramento, California 94229-2715.

Funding Policy

Employees are required to contribute 7% of covered salary to CalPERS. MBTA is required to contribute the amounts necessary to fund the benefits for its members, using the actuarial basis recommended by CalPERS actuaries and actuarial consultants and adopted by the CalPERS Board of Administration. For the fiscal year ended June 30, 2013 the employer contribution rate was 8.148%. MBTA, as part of its compensation to employees, pays the employees' contributions.

**MORONGO BASIN TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 11 – EMPLOYEES' RETIREMENT PLAN (CONTINUED)

Annual Pension Cost

For the fiscal years ended June 30, 2013, June 30, 2012 and June 30, 2011, MBTA's annual pension cost of \$95,526, \$110,535, and \$81,247, respectively, was equal to 100% of MBTA's required and actual contributions. The funded status of the pool may be obtained from CalPERS.

NOTE 12 – HEALTH REIMBURSEMENT ARRANGEMENT

MBTA maintains a Health Reimbursement Arrangement (HRA) qualifying as a tax-favored benefit under IRS publication 502. Active MBTA employees accrue up to \$500 a month towards the HRA for the reimbursement of qualifying medical expenses. Qualifying medical expenses are reimbursed to an employee, or their immediate family, at management's discretion. Unused balances are carried over year to year. MBTA does not pay unused HRA benefits upon termination of employment. As of June 30, 2013, the HRA liability \$156,868 was reported as health reimbursement liability accrued expenses in the Statement of Net Position.

NOTE 13 – DEFERRED COMPENSATION PLAN

MBTA offers its employees a deferred compensation plan created in accordance with Internal Revenue Code, Section 457. The plan, available to all non-represented MBTA employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

In accordance with the provisions of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code 457 Deferred Compensation Plans*. Management believes that MBTA has no fiduciary role under the plan, and plan funds are not available to MBTA's general creditors. Accordingly, MBTA has not reported plan assets in the accompanying financial statements.

NOTE 14 – RELATED PARTIES

MBTA procurement services revenue is received through allocation from the California Association for Coordinated Transportation (CalACT) pursuant to a cooperative purchasing agreement between CalACT and MBTA. The General Manager of MBTA is the chair of the CalACT board of directors.

MBTA

**MORONGO BASIN TRANSIT AUTHORITY
MANAGEMENT LETTER
FOR THE YEAR ENDED JUNE 30, 2013**



To the Board of Directors
Morongo Basin Transit Authority
Joshua Tree, California

We have audited the financial statements of the Morongo Basin Transit Authority (MBTA) as of and for the year ended June 30, 2013 and have issued our report thereon dated December 12, 2013. In planning and performing our audit of the basic financial statements of the MBTA, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These observations and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

CURRENT YEAR MANAGEMENT LETTER COMMENTS

2013-1: COMPENSATED ABSENCES

OBSERVATION:

Through testwork performed over MBTA's "time off accrual report" we noted that 12 employees that were listed on the report had been terminated in previous fiscal year.

RECOMMENDATION:

We recommend MBTA implements controls to review the "time off accrual report" and ensure that it only list current employees that are working at MBTA.

MANAGEMENT'S RESPONSE:

MBTA's payroll provider has been informed and the report has already been corrected.

Board of Directors and Management
Morongo Basin Transit Authority
Joshua Tree, California
Page 2 of 2

PRIOR YEAR OBSERVATIONS AND RECOMMENDATIONS

Summarized below is the status of the 2012 Observations and Recommendations:

<u>Topic</u>	<u>Status</u>
Payroll	Implemented
Bank Reconciliations	Implemented
Capital Assets	Implemented

Our audit procedures are designed primarily to enable us to form our opinions on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the MBTA gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of MBTA's Board, management and others within the organization and should not be used by anyone other than these specified parties.

Vermire, Tami, Day, Co., LLP

Rancho Cucamonga, California
December 12, 2013

MBTA

**MORONGO BASIN
TRANSIT AUTHORITY**

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2013

MBTA
MORONGO BASIN TRANSIT AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2013

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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

To the Board of Directors
Morongo Basin Transit Authority
Joshua Tree, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Morongo Basin Transit Authority (MBTA) as of and for the year ended June 30, 2013, and the related notes to the basic financial statements and have issued our report thereon dated December 12, 2013. Our report included an emphasis-of-matter regarding MBTA's adoption of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective July 1, 2012. Our report also included an explanatory paragraph regarding MBTA's omission of management's discussion and analysis.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MBTA'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 MBTA's internal control. Accordingly, we do not express an opinion on the effectiveness of MBTA'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as finding 2013-01 that we consider to be significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MBTA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including Section 6667 of Part 21 of the California Code of Regulations and the allocation instructions of San Bernardino Associated Governments, 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*.

MBTA's Response to Findings

MBTA's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. MBTA's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MBTA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vermire, Trine, Day, Co., LLP

Rancho Cucamonga, California
December 12, 2013



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

To the Board of Directors
Morongo Basin Transit Authority
Joshua Tree, California

Report on Compliance for Each Major Federal Program

We have audited the Morongo Basin Transit Authority's (MBTA) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of MBTA's major federal programs for the year ended June 30, 2013. MBTA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of MBTA's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about MBTA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of MBTA's compliance.

Opinion on Each Major Federal Program

In our opinion, MBTA, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

MBTA

Report on Internal Control Over Compliance

Management of MBTA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered MBTA's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of MBTA's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of MBTA as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the MBTA's basic financial statements. Our report included an emphasis-of-matter regarding MBTA's adoption of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective July 1, 2012. Our report also included an explanatory paragraph regarding MBTA's omission of management's discussion and analysis. We issued our report thereon dated December 12, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by *OMB Circular A-133*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

MBTA

This report is intended solely for the information and use of MBTA's Board, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vaurmick, Tami, Day, Co., LLP

Rancho Cucamonga, California

December 12, 2013

MBTA

MORONGO BASIN TRANSIT AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor Program Title (Direct or Indirect)	Federal CFDA Number	Pass-Through Entity's Identifying Number	Pass-Through Entity's Name	Federal Expenditures
Department of Transportation				
Federal Transit Administration				
Formula Grants for Other than Urbanized Areas (Indirect)	20.509	643147	State of California Department of Transportation	\$ 461,445
Formula Grants for Other than Urbanized Areas (Indirect)	20.509	641207	State of California Department of Transportation	1,192,592
Formula Grants for Other than Urbanized Areas (Indirect)	20.509	641475	State of California Department of Transportation	<u>39,882</u>
Total - Department of Transportation Federal Transit Administration				<u>1,693,919</u>
Total Expenditures of Federal Awards				<u>\$ 1,693,919</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

MORONGO BASIN TRANSIT AUTHORITY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of federal award programs of the Morongo Basin Transit Authority's (MBTA). MBTA's reporting entity is defined in Note 1 of MBTA's financial statements. All federal awards received directly from federal agencies as well as federal awards passed through from other government agencies are included on the Schedule of Expenditures of Federal Awards.

B. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 2 of MBTA's Financial Statements.

MORONGO BASIN TRANSIT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2013

I. SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material Weakness(es) identified?	<u>No</u>
Significant Deficiency(ies) identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material Weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified not considered to be material weaknesses?	<u>None noted</u>
Type of auditors' report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>No</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>20.509</u>	<u>Formula Grants for Other than Urbanized Areas</u>
<u> </u>	<u> </u>
<u> </u>	<u> </u>
<u> </u>	<u> </u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

MORONGO BASIN TRANSIT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

II. FINANCIAL STATEMENT FINDINGS

Finding 2013-01

DEPRECIATION EXPENSE

Criteria:

Depreciable assets should be properly depreciated until they have been fully depreciated and based on MBTA's policy.

Condition:

MBTA's accounting department is responsible for making sure that depreciable assets are properly depreciated. MBTA purchased a bus in fiscal year 2011-2012 and allocated one month of depreciation expense in that fiscal year. In fiscal year 2012-2013, the depreciation formula was not updated which resulted in MBTA allocating only one month of depreciation in fiscal year 2012-2013; in lieu of the twelve months that should have been allocated.

Context:

The above condition was noted during the process of performing our depreciation analysis.

Effect:

A material adjustment had to be made to adjust depreciation expense and accumulated depreciation.

Cause:

We noted that the formula used to calculate the current year depreciation was not properly updated/revised.

Recommendation:

MBTA should add to its closing procedures to properly review formulas and balances related to depreciation expense to mitigate the risk of errors.

View of Responsible Official and Planned Corrective Actions:

Closing procedures as documented in MBTA's accounting policy are to be revised to include checking on depreciation formulas.

MORONGO BASIN TRANSIT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2013

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted in the current year.

MORONGO BASIN TRANSIT AUTHORITY

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND RESPONSES

FOR THE YEAR ENDED JUNE 30, 2013

Summarized below is the current status of all audit findings reported in the prior year audit's schedule of audit findings and questioned costs.

Finding No.	Condition/Program	CFDA No.	Compliance Requirement	Status
2012-01	Internal Controls	n/a	n/a	Implemented
2012-02	Segregation of Duties	n/a	n/a	Implemented
2012-03	Year-End Closing Procedures	n/a	n/a	Implemented
2012-04	Health Reimbursement Account (HRA) Liability	n/a	n/a	Implemented
2012-05	Program Grants for Other than Urbanized Areas	20.509	Reporting	Implemented



Board of Directors
Morongo Basin Transit Authority
Joshua Tree, California

We have audited the financial statements of the Morongo Basin Transit Authority (MBTA) for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated September 10, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by MBTA are described in Note 2 to the financial statements. MBTA adopted Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective July 1, 2012. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the depreciation of capital assets is based upon the estimated useful lives of the related capital assets.
- Management's estimate of the costs allocated to the procurement and taxi operations.

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The disclosure of procurement and taxi licensing activities in Note 3 of the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

MBTA

Corrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The misstatements noted below were corrected by management:

- Depreciation expense was incorrectly calculated on resulting in an understatement of depreciation expense of \$106,419

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 12, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as MBTA's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of MBTA and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Tomic, Day, & Co., LLP

Rancho Cucamonga, California
December 12, 2013

WTA

**VICTOR VALLEY
TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)**

**BASIC FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2013**

VVTA

VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Victor Valley Transit Authority
Hesperia, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Victor Valley Transit Authority (Authority) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic 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 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 Authority, as of June 30, 2013, and the changes in financial position, and, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, the City adopted Statement of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and net Position*, effective July 1, 2012. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2013, on our consideration of the Authority'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 Authority's internal control over financial reporting and compliance.

Vavrinek, Teme, Day, Co., LLP

Rancho Cucamonga, California
December 18, 2013

VVTA
Victor Valley Transit Authority

Management's Discussion and Analysis

June 30, 2013

This discussion and analysis of the Victor Valley Transit Authority's (the "Authority") financial performance for the fiscal year ended June 30, 2013, provides a financial summary of the Authority's current year results in comparison to the prior year. It should be read in conjunction with the accompanying, financial statements and notes to the financial statements.

The Management's Discussion and Analysis (MD&A) section of the Authority's annual financial report provides condensed comparative data and briefly discusses the financial activities during the fiscal year ended June 30, 2013. It is a separate but a required part of the financial statements and notes that follow. The purpose of this MD&A is to promote an understanding of the Authority's financial statements.

The financial statements of the Authority supply information using accounting methods similar to those used by private sector companies. These statements offer short and long-term information about its activities.

The *Statement of Net Position* includes all of the Authority's assets and liabilities and provides the basis for evaluating the capital structure, liquidity and overall financial integrity of the Authority.

The *Statement of Revenues, Expenses and Changes in Net Position* displays the revenues, expenses and changes in net position for the Authority and measures the success of operations over the past year. It can be used to determine credit worthiness and whether revenue sources matched, exceeded or failed to meet expenses.

The final financial statement is the *Statement of Cash Flows*. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It accounts for the cash and cash equivalents balance available at the beginning of the year and at year's end. It displays cash received, cash expended, and the net change in the amount of cash and cash equivalents.

VVTA
Victor Valley Transit Authority

Management's Discussion and Analysis

June 30, 2013

HIGHLIGHTS

- ❑ The Authority's net position increased by \$847,614 or 2.3% as a result of the year's operations. Net position increases for the Authority were due to an increase of capital assets.
- ❑ The Authority's overall operations statistics were impacted this year by the continuation of a new commuter service to the National Training Center (NTC) at Ft. Irwin that was introduced Q4 in FY11-12. Additionally, the introduction of a new lifeline service between the High Desert area and San Bernardino area medical centers and a new Vanpool program, created significant contributions to both revenue and expenses in FY12-13. The effect of these programs on the financial statements are discussed throughout the MD&A.
- ❑ The authority's Administration and Maintenance Facility construction project received its Certificate of Substantial Completion on January 24, 2013. At that time the value of the project in the Construction in Progress account was reclassified to a capital asset account. This resulted in a net decrease in the Construction in Progress (capital assets-not depreciated) of (\$49,911,059) with a corresponding increase to the Property and Equipment account. Other Property and Equipment assets (net of depreciation) increased by \$1,062,422 or 4.4% due to an increase in the acquisition of plant, property, and equipment for the Authority's Administration and Maintenance facility as well as revenue vehicles and related equipment.
- ❑ Program revenues (passenger fares and operating assistance) increased 14% by \$1,465,041. The operating revenue increase was due to a 28% increase in passenger fares system wide as well as a 10% increase in Federal, State, and Local operating grants to support the Authority's new Vanpool program. The largest contributor to the increase in passenger fares was the addition of two new route services mentioned above.
- ❑ Non-operating (capital) revenue totaled \$4,485,939. These are revenues derived mostly from Federal, State and local grants and are used to support capital expenditures.
- ❑ Total expenditures for the fiscal year totaled \$15,693,135, an increase of 20.5% when compared to the prior fiscal year. This increase was due to an increase in services offered to the Authority's clients and the costs of providing those services as well as no longer capitalizing interest associated with the Authority's new facility financing.
- ❑ Cash and equivalents available for operations at end of year were \$4,890,932. Restricted cash with fiscal agent was \$9,678,717, and is available for support required in completing the construction of the Authority's new facility. Any funds from this restricted cash which are not used to support construction may be used to support debt service of future lease payments for the facility.

VWTA
Victor Valley Transit Authority

Management's Discussion and Analysis

June 30, 2013

FINANCIAL ANALYSIS OF VICTOR VALLEY TRANSIT AUTHORITY

One of the most important questions asked is “*Is the Authority better off or worse off as a result of the year's activities?*” The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position provide information about the Authority's activities to help answer that question. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. The Authority uses the enterprise method of accounting and all transactions are reported through a single fund. The activity shown in Table A-1 represents all activity through that single fund.

ASSETS AND LIABILITIES

A summary of the Authority's *Statement of Net Position* is presented in Table A-1.

**Table A-1
Condensed Statement of Net Position**

	<u>30-Jun</u>		<u>Dollar</u>	<u>Percentage</u>
	<u>2013</u>	<u>2012</u>	<u>Change</u>	<u>Change</u>
Current Assets	\$17,199,778	\$17,208,145	\$(8,367)	----
Capital assets (net)	<u>\$60,365,978</u>	<u>\$59,081,693</u>	<u>\$1,284,285</u>	2%
Total Assets	<u>\$77,565,756</u>	<u>\$76,289,838</u>	<u>\$1,275,918</u>	2%
Current Liabilities	\$8,890,330	\$7,737,026	\$1,153,304	15%
Long-term Liabilities	<u>\$32,130,000</u>	<u>\$32,855,000</u>	<u>\$ (725,000)</u>	(2%)
Total Liabilities	<u>\$41,020,330</u>	<u>\$40,592,026</u>	<u>\$428,304</u>	1%
Net Position				
Net investment in capital assets	\$34,256,432	\$33,078,448	\$1,177,984	4%
Restricted for Debt Service	\$2,931,252	\$2,931,252	\$0	----
Unrestricted	(<u>\$642,258</u>)	(<u>\$311,888</u>)	<u>\$(330,370)</u>	(105%)
Total Net Position	<u>\$36,545,426</u>	<u>\$35,697,812</u>	<u>\$847,614</u>	2%
Total Liabilities & Net Position	<u>\$77,565,756</u>	<u>\$76,289,838</u>	<u>\$1,275,918</u>	2%

WVTA
Victor Valley Transit Authority

Management's Discussion and Analysis

June 30, 2013

- Table A-1, shows the authority's total net position increased from \$35,697,812 in FY 11-12 to \$36,545,426, or 2% in FY 12-13, as a result of the year's operations.
- Net investment in capital assets increased by \$1,177,984. This change was due to the purchase of Capital Assets.
- Current assets decreased only marginally by \$8,367 or less than 1% due to a change in cash and receivables.
- Total Capital Assets (net of depreciation)

	<u>FY2013</u>	<u>FY2012</u>
Land	\$1,500,000	\$1,500,000
Construction in Process	<u>\$ 797,731</u>	<u>\$48,594,448</u>
Total Non-Depreciable	\$2,297,731	\$50,094,448
Property & Equipment	<u>\$58,068,247</u>	<u>\$8,987,245</u>
Total Assets (net)	\$60,365,978	\$59,081,693

Property and Equipment assets (net of depreciation) increased by \$49,081,002. This increase represents the reclassification of Construction in Process for the Authority's Administration and Maintenance facility (New Facility) to Plant, Property and Equipment (PP&E) to commensurate with the issuing of a Certificate of Substantial Completion. Additionally, additions and retirements of other PP&E resulted in an increase in the acquisition of plant property and equipment for the New Facility as well as revenue vehicles and associated equipment in the amount of \$1,062,422, or 4.4%. The ending balance of \$797,731 in the Construction in progress (Capital Assets - Non-Depreciable) account is for ongoing Intelligent Transportation Systems (ITS) projects (\$340,411) and a Bus Rehabilitation project (\$433,770), with a small balance (\$23,549) for ongoing completion projects for the New Facility. The Authority occupied the new facility beginning in November, 2011. Final completion of the project is expected in late FY13-14. The ITS and Bus Rehabilitation projects are scheduled for completion in FY13-14. Total Capital assets, net of depreciation increased by \$1,284,285.

Included in the increase in Property & Equipment are purchased capital assets of six (6) revenue service transit coaches, along with furnishings, fixtures and computer equipment to support the New Facility. Additionally, the Authority completed CIP Projects for its integrated telephone and Audio Visual systems.

VVTA
Victor Valley Transit Authority

Management's Discussion and Analysis

June 30, 2013

- **Total Liabilities increased** by \$428,304 when compared to FY11-12 due to an increase in Accounts Payable, Accrued Liabilities and Deferred Revenue of \$1,153,304 and a pay down of Long Term debt in the amount of \$725,000. Long term liabilities represent the amount due on the Authority's lease agreement with California Transit Finance Corporation, used to provide financing for the construction of the Authority's new transit facility
- **Net position in the amount of \$2,931,252 is restricted for debt service on a long term lease arrangement maturing in 2037.** The largest portion of the restricted cash account is available to use in the completion of the Authority's new transit facility. However, this portion of the restricted cash account, noted as "restricted for debt service" is a reserve fund required by lease documents to provide security to the lessor for future lease payment obligations by the Authority. These funds will remain in this restricted status until the lease agreement matures in 2037.
- **Net position in the amount of (\$642,258) is unrestricted.** Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, changed from (\$311,888) at 06/30/2012 to a \$(642,258) at the end of this year. This deficit balance will be remedied through the receipts of Local Transportation Fund revenues, State Transit Assistance Funds, and other grant proceeds in future periods.

VVTA
Victor Valley Transit Authority

Management's Discussion and Analysis

June 30, 2013

REVENUES – EXPENSES – AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses, and Changes in Net Position provide answers as to the nature and source of these changes to the net position of the Authority.

Table A-2
Statement of Revenues, Expenses and Changes in Net Position

	<u>2013</u>	<u>30-Jun</u> <u>2012</u>	<u>Dollar</u> <u>Changes</u>	<u>Percentage</u> <u>Changes</u>
Revenues				
Program Revenues (operating):				
Charges for Services (Fares)	\$2,538,309	\$1,975,629	\$562,680	
Federal Grants-Operating	\$1,848,539	\$1,327,068	\$521,471	
State and Local Grants-Operating	\$7,351,043	\$6,959,484	\$391,559	
Other Revenues	\$316,919	\$327,588	(\$10,669)	
Capital Revenues:				
Federal Grants	\$2,604,828	\$3,568,968	(\$964,140)	
State and Local Grants	\$1,473,149	\$2,641,860	(\$1,168,711)	
Other revenues	\$407,962	\$1,477,708	(\$1,069,746)	
Total Revenues	<u>\$16,540,749</u>	<u>\$18,278,305</u>	<u>(\$1,737,556)</u>	(9%)
Program Expenses				
Operations	\$10,301,767	\$9,054,118	\$1,247,649	
General and Administration	\$2,363,028	\$1,362,161	\$1,000,867	
Depreciation	\$3,028,340	\$2,596,568	\$431,772	
Total Expenses	<u>\$15,693,135</u>	<u>\$13,012,847</u>	<u>\$2,680,288</u>	21%
Changes in net position	<u>\$847,614</u>	<u>\$5,265,458</u>	<u>(\$4,417,844)</u>	
Net Position - Beginning of year	\$35,697,812	\$30,432,354	\$5,265,458	17%
Net Position - End of year	\$36,545,426	\$35,697,812	\$847,614	2%

VVTA
Victor Valley Transit Authority

Management's Discussion and Analysis

June 30, 2013

As shown on Table A-2, **Fare Revenues** increased \$562,680 in FY 12/13. This increase was due to an increase in ridership on the Authority's transit system. The increased ridership was largely due to a new commuter service that began in May of FY2012 as well as a new lifeline service operating three days per week.

Program revenues to support operations received from Federal, State and Local agencies increased by \$913,030 as compared to prior year. The majority of the increase was to support the new Vanpool program introduced in FY12-13. These revenues came from a variety of support grants and were sufficient to meet the needs of the agency.

Capital revenues contributed by Federal, State and Local agencies decreased by \$3,202,597. Capital revenues from these sources were provided by grants to support specific capital purchases. Capital purchases vary greatly from year to year depending on the needs and objectives of the administration. The funds received were sufficient to meet the capital needs of the agency for FY2013.

Total revenues decreased 9% from \$18,278,305 for FY 11/12 to \$16,540,749 for FY 12/13. The result was a decrease in the change to Net Position of \$1,737,556.

Program expenses increased 21%, or \$2,680,288 when compared to the prior year. Of this amount, operations expense increased by \$1,247,649 due to a contractual increase with Veolia, the agency's primary operations contractor, as well as the addition of a new life line service between Victorville and San Bernardino known as "SB Lifeline" and the continuation of a new commuter service to NTC Ft. Irwin that was started in Q4 of FY11-12, as well as the introduction of a new Vanpool service. General and Administration (G&A) costs increased by \$1,000,867. The largest cost contributor to G&A cost increases in FY13 was due to a change in accounting method for interest costs in connection with lease financing on the Authority's new facility. Prior to substantial completion, these costs were capitalized in accordance with generally accepted accounting principles (GAAP). Now that the New Facility has received its Certificate of Substantial Completion (January 24, 2013), a prorated portion in the amount of \$667,424 has been added to G&A interest expense for FY12-13. The balance of the G&A cost increases were due to several factors, including increased maintenance costs of the Authority's new facility, the adoption of a new Administrative Step & Range salary plan with associated salary adjustments awarded to some administrative staff, and support costs for the Authority's new Vanpool program.

VWTA
Victor Valley Transit Authority

Management's Discussion and Analysis

June 30, 2013

FINANCIAL CONDITION

Overall, the authority's financial condition improved as a result of various program activity growth along with significant continued capital investment. The Authority continues to enjoy strong financial support from a variety of sources including Federal, State and Local funding sources as well as continued growth in its ridership which has resulted in continued fare revenue growth. This financial condition is evidenced in Table A-1, which shows the authority's total net position increased from \$35,697,812 in FY 11-12 to \$36,545,426 or in FY 12-13.

Some specific activities that have led to the Authority's financial condition as of 06/30/2013 include:

- ❑ During FYE June 30, 2008 the Authority entered into a lease agreement with California Transit Finance Corporation (CTFC) for the construction of the Authority Transit Facilities. The Authority moved forward on its project to design and construct this new Bus Facility. The Authority moved into this facility in November 2011.
- ❑ In May 2012, the Authority began a new commuter demonstration service between Victorville and NTC Fort Irwin after the Fort had decided to discontinue its privatized service. This vital service provides, civilians and members of the U.S. Armed Forces serving at Fort Irwin, a cost effective option to a long commute while reducing congestion on local highways. This project has been funded through passenger fares and a Federal JARC grant. In FY12-13, this service was well received with growing demand resulting in a nearly 90% fare box recovery ratio for the year. This service contributed significantly to the Authority's fare revenue increases for FY12-13 and has been approved by the Authority's Board of Directors to be continued as a permanent route.
- ❑ This fiscal year, the authority received delivery of six (6) new Eldorado Aero Elite vehicles used to support Paratransit services. The Authority also entered into an agreement with Gwinnet County Transit (GA) to receive in a cost free transfer, eleven (11) used NABI New Flyer passenger busses configured with commuter style seating and overhead luggage storage. These busses are in excellent mechanical condition with low miles and will undergo a limited rehabilitation upgrade before being placed in service to support the commuter route to NTC Ft. Irwin. The Authority received five (5) of these vehicles in FY12-13, with the balance to be received in Q1 of FY13-14. Additionally, the Authority continued to invest in engine and transmission overhauls to extend the life of current fleet vehicles in order to maintain a cost conservative fleet inventory.
- ❑ The Authority continued its extensive program for increasing the number of bus shelters, benches, solar lights and other passenger amenities. This program of bus stop improvements will continue into the next fiscal year.
- ❑ The Authority continues to invest in Phase III of the Intelligent Transportation Systems (ITS) project for its motor bus fleet which will provide navigation and communication upgrades to its ADA fleet. Phase 3 is expected to be completed in FY13-14.

VVTA
Victor Valley Transit Authority

Management's Discussion and Analysis

June 30, 2013

- The Authority completed two other Construction in Process projects started in FY11-12. These projects were for the development and implementation of a fully integrated state-of-the-art Audio Visual and telephone support system used by Administration and Operations staff to more efficiently discharge their duties.

- The Authority experienced a 12% growth system wide in ridership for fiscal year 2012-13.

The Authority expects continued capital and program growth through the next fiscal year.

LONG-TERM DEBT

At the end of the fiscal year, the Authority had a total long-term debt outstanding of approximately \$32,855,000 which is comprised of lease / trust agreement with the California Transit Financing Corporation for the payment of Certificates of Participation that are backed by a pledge of fare box revenues.

CONTACTING THE AUTHORITY

This financial report is designed to provide our citizens and customers with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions regarding this report or require additional financial information, please contact Mr. Kevin Kane, Executive Director at: Victor Valley Transit Authority, 17150 Smoketree St., Hesperia, California 92345.

**VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)**

**STATEMENT OF NET POSITION
JUNE 30, 2013**

ASSETS

Cash	\$ 4,890,932
Cash and investments with fiscal agent - restricted	9,678,717
Receivables:	
Federal, State, and other local grants	2,552,282
Other	8,889
Prepaid expenses	37,482
Fuel inventory	31,476
Total Current Assets	<u>17,199,778</u>

CAPITAL ASSETS

Non-depreciable	2,297,731
Depreciable	75,045,183
Accumulated depreciation	<u>(16,976,936)</u>
Capital assets, net	<u>60,365,978</u>
TOTAL ASSETS	<u>77,565,756</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable & accrued liabilities	1,770,248
Deferred revenue	6,395,082
Lease / trust agreement	725,000
Total Current Liabilities	<u>8,890,330</u>

NON CURRENT LIABILITIES

Lease / trust agreement	<u>32,130,000</u>
TOTAL LIABILITIES	<u>41,020,330</u>

NET POSITION

Net investment in capital assets	34,256,432
Restricted for:	
Debt service	2,931,252
Unrestricted	<u>(642,258)</u>
TOTAL NET POSITION	<u><u>\$ 36,545,426</u></u>

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

**VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)**

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2013**

OPERATING REVENUES:	
Fares	\$ 2,419,169
Special transit fares	119,140
Total Operating Revenues	<u>2,538,309</u>
OPERATING EXPENSES:	
Operations	10,301,767
General and administration	2,363,028
Depreciation	3,028,340
Total Operating Expenses	<u>15,693,135</u>
OPERATING LOSS	<u>(13,154,826)</u>
NON-OPERATING REVENUES AND EXPENSES:	
Operating Assistance:	
Federal Transit Administration Section 5307, operating	1,051,327
Federal Transit Administration Section 5309, operating	200,561
Federal Transit Administration Section 5311	341,694
Federal Transit Administration Section 5316	39,716
Federal Transit Administration Section 5317	72,558
Federal Congestion Mitigation and Air Quality Improvement Program Demonstration	142,683
State Transit Assistance Fund, operating	122,557
Local Transportation Fund Article 8c, operating	6,356,954
Measure I	739,412
AB 2766	132,120
Interest income	186,467
Miscellaneous	130,452
Total Non-operating Revenues, Expenses	<u>9,516,501</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	<u>(3,638,325)</u>
CAPITAL CONTRIBUTIONS:	
Federal Transit Administration Section 5307, capital	1,871,528
Federal Transit Administration Section 5309, capital	126,290
Federal Transit Administration Section 5316, capital	92,462
Federal Transit Administration Section 5339, capital	27,016
Federal Congestion Mitigation and Air Quality Improvement Program (CMAQ)	487,532
Local Transportation Fund Article 3	53,263
Local Transportation Fund Article 8c, capital	315,006
State Transit Assistance Fund	372,912
PTMISEA (Proposition 1B)	731,968
Miscellaneous	407,962
Total Capital Contributions	<u>4,485,939</u>
CHANGES IN NET POSITION	847,614
NET POSITION, Beginning of year	<u>35,697,812</u>
NET POSITION, End of year	<u>\$ 36,545,426</u>

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

**VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)**

**STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2013**

Cash flows from operating activities:

Cash received from fares	\$ 2,567,604
Payments to employees	(924,903)
Payments to vendors for services	<u>(10,941,699)</u>
Net cash used in operating activities	<u>(9,298,998)</u>

Cash flows from non-capital financing activities:

Operating grants received	<u>7,104,028</u>
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Cash flows from capital and related financing activities:

Capital grants received	8,026,367
Purchase of capital assets	(2,770,791)
Payments, lease / trust agreement	(695,000)
Interest expense	<u>(1,541,834)</u>
Net cash provided from capital and related financing activities	<u>3,018,742</u>

Cash flows from investing activities:

Interest received	<u>186,467</u>
Net decrease in cash and cash equivalents	1,010,239
Cash and cash equivalents, beginning of year	<u>10,628,158</u>
Cash and cash equivalents, end of year	<u>\$ 11,638,397</u>

Reconciliation of cash and cash equivalents to statement of net position:

Cash	\$ 4,890,932
Cash and investments with fiscal agent	9,678,717
Less: long-term investments	<u>(2,931,252)</u>
Total Cash and Cash Equivalents	<u>\$ 11,638,397</u>

Reconciliation of operating loss to net cash used in operating activities:

Operating loss	<u>\$ (13,154,826)</u>
Adjustments to reconcile operating (loss) to net cash used in operating activities:	
Depreciation expense	3,028,340
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivables	29,295
Prepaid expenses	10,054
Increase (decrease) in liabilities:	
Accounts payable and accrued liabilities	<u>788,139</u>
Total Adjustments	<u>3,855,828</u>
Net cash used in operating activities	<u>\$ (9,298,998)</u>

Schedule of non-cash capital and related financing activities

Contributions of capital assets	<u>\$ 400,000</u>
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The accompanying notes are an integral part of these financial statements.

**VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 1 – ORGANIZATION

Victor Valley Transit Authority (VVTA) is a joint powers authority whose members are the cities of Victorville, Adelanto, Hesperia, the Town of Apple Valley and the County of San Bernardino. VVTA provides bus services to these cities, as well as the communities of Lucerne Valley, Phelan, Pinon Hills, Wrightwood, Helendale and Oro Grande as a means of meeting the transit needs of various transit-dependent groups within the geographic area. The bus services VVTA provides includes fixed route services, deviated route services, county routes, ADA para-transit routes, and commuter services. VVTA is governed by a Board of Directors comprised of representatives of the member jurisdictions and a member is appointed by the County of San Bernardino.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Reporting Entity – VVTA meets the criteria as a stand-alone government, and accordingly, is accounted for and reported as though it were a primary government.

Basis of Accounting – VVTA’s proprietary fund financial statements are reported using the *economic resources measurement focus* and accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred, regardless of the timing of related cash flows.

Cash and cash equivalents includes demand deposits and amounts invested in savings and trustee accounts. For the purpose of the Statement of Cash Flows, cash and cash equivalents are defined as short-term deposits with original maturities of three months or less from the date of acquisition.

Cash and investments with fiscal agent restricted – Certain VVTA cash accounts are restricted by debt agreements to fund specified capital projects and debt service requirements:

Cash with fiscal agent	
Project Fund	\$ 6,746,587
Debt Reserve	2,931,252
Lease Fund	878
Total cash with fiscal agent	<u>\$ 9,678,717</u>

Grants for operating assistance and capital acquisitions are included in revenue in the period in which the grant was earned. Federal capital grant funds claimed on a reimbursement basis have receivables for grant funds recorded as the related obligations are incurred. Capital grant funds advanced but not yet earned are treated as deferred revenues. Also, operating funds advanced from San Bernardino Associated Governments (SANBAG) for working capital are treated as deferred revenues until earned. Operating assistance grants are included in non-operating revenues in the year in which the grant is applicable and the related expenses are incurred. Revenue earned under capital grants are recorded as capital contributions.

Prepaid Expenses – Prepaid expenses include inventories and costs for certain payments to vendors that reflect costs applicable to future accounting periods. The cost of prepaid items is recorded as expenses when consumed rather than when purchased.

Fuel Inventory - Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of fuel for VVTA vehicles. The cost of such inventories is recorded as expenses when consumed rather than purchased. The value of fuel held at the transit facility on June 30, 2013, was \$31,476.

**VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Capital assets are stated at cost and depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	5 to 40 years
Operations equipment	3 to 12 years
Furniture and office equipment	3 to 10 years

VVTA's capitalization threshold is \$100. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend the useful lives are not capitalized. Interest incurred during the construction phase of the new facility project is included as part of the capitalized value of the assets constructed. Interest in the amount of \$874,410 was capitalized during the fiscal year as part of construction in progress for interest paid on the Certificates of Participation.

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, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Operating and Non-Operating Revenue – VVTA distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from directly providing services in connection with VVTA's principal operation of bus transit services. These revenues are primarily passenger fares. Non-operating revenues consist of federal, state and local operating grants, fuel tax credits, and investment income.

Operating Expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. Expenses not meeting this definition are reported as Non-Operating Expenses.

Capital Contributions consist of grants that are legally restricted for capital expenses by federal, state, or local law that established those charges.

When both restricted and unrestricted resources are available for use, it is VVTA's policy to use restricted resources first, and then unrestricted resources as they are needed.

NOTE 3 – FEDERAL, STATE, AND LOCAL GRANTS

Federal Assistance

Under the provision of the Federal Transit Administration (FTA), funds are available to VVTA for preventive maintenance, security, and various capital costs. Total FTA revenue recognized during the fiscal year ended June 30, 2013 was \$4,453,367.

Transportation Development Act

VVTA is subject to the provisions pursuant to Section 6634 of the California Code of Regulations and Sections 99268.4 and 99313.3 of the Public Utilities Code. VVTA receives allocations of local transportation funds pursuant to the Transportation Development Act of 1971. These funds are generated within San Bernardino County and are distributed based on annual claims filed by VVTA and approved by SANBAG.

**VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 3 – FEDERAL, STATE, AND LOCAL GRANTS, (CONTINUED)

A. Section 6634

Pursuant to Section 6634, a transit claimant is precluded from receiving monies from the Local Transportation Fund and the State Transit Assistance Fund in an amount which exceeds the claimant's costs less the sum of fares received, local support required to meet the fare ratio, federal operating assistance, and the amount received during the year from a city or county to which the operator has provided service beyond its boundaries.

The computation of deferred revenue for fiscal year 2013 is as follows:

	Operating Funds	Capital Funds	Total
Beginning balance, July 1, 2012	\$ 5,305,872	\$ 754,045	\$ 6,059,917
Gross receipts			
Local Transportation Fund:			
Article 3	-	53,264	53,264
Articl 8c	6,588,104	315,005	6,903,109
Federal Transportation Administration:			
Section 5307	1,051,322	1,871,533	2,922,855
Section 5309	200,561	126,290	326,851
Section 5311	341,694	-	341,694
Section 5316	39,716	92,462	132,178
Section 5317	72,558	-	72,558
Section 5339	-	27,016	27,016
CMAQ	142,683	487,532	630,215
State Transportation Fund, Article 6.5	122,557	374,135	496,692
Measure I	739,412	-	739,412
AB2766	132,120	-	132,120
Prop 1B (PTMISEA)	-	84,339	84,339
Other capital revenue	-	754,392	754,392
Other local operating grants	40,000	-	40,000
Fares	2,538,309	-	2,538,309
Other non-transportation revenue	44,114	-	44,114
Disposal of Capital Assets	42,252	-	42,252
Interest	28,788	170,202	198,990
Miscellaneous	4,081	3,142	7,223
Total gross receipts	<u>12,128,271</u>	<u>4,359,312</u>	<u>16,487,583</u>
Reclass CAP Revenues Used to Pay Expensed Interest (Lease)	667,424	(667,424)	-
COP Funds Used for Capital Expenditures FY 13	-	1,041,143	1,041,143
COP Funds Used to Pay Admin Expenses	93,356	-	93,356
Total gross receipts	<u>12,889,051</u>	<u>4,733,031</u>	<u>17,622,082</u>
Operating expenses, less depreciation	12,664,795	-	12,664,795
Capital acquisitions	-	4,622,122	4,622,122
Total Amount received in excess of costs as of June 30, 2013	<u>224,256</u>	<u>110,909</u>	<u>335,165</u>
Amount deferred at June 30, 2013	<u>\$ 5,530,128</u>	<u>\$ 864,954</u>	<u>\$ 6,395,082</u>

**VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 3 – FEDERAL, STATE, AND LOCAL GRANTS, (CONTINUED)

B. Section 99268.4 and 99405

Section 99268.4 indicates that in the case of an operator which is providing services using vehicles for the exclusive use of elderly and handicapped person, the operator shall be eligible for the Local Transportation Funds commencing with claims for the 1980-81 fiscal year if it maintains, for the fiscal year, a ratio of fare revenue to operating costs at least equal to 10%.

Section 99405(c) indicates that the 50-percent limitation shall not apply to the allocation to a city, county, or transit district for services under contract pursuant to subdivision (c) or (d) of Section 99400. The city, county or transit district shall be subject to Sections 99268.3, 99268.4, 99268.5, or 99268.9, as the case may be, and shall be deemed an operator for purposes of those sections, or shall be subject to regional, countywide, or county subarea purposes of those sections, or shall be subject to regional, countywide, or county subarea performance criteria, local match requirements, or fare recovery ratios adopted by resolution of the transportation planning agency or the county transportation commission for those services.

The Victor Valley Transit Authority was granted in September of 1997, pursuant to Section 99405, a fare ratio requirement of 15% by the San Bernardino Associated Governments.

The fare ratio as of June 30, 2013, is calculated as follows:

	Motor Bus Routes	Handicapped Demand Response	Total
Operating expenses	\$ 12,532,318	\$ 3,160,817	\$ 15,693,135
Less depreciation	(2,478,032)	(550,308)	(3,028,340)
Adjusted operating expenses	<u>\$ 10,054,286</u>	<u>\$ 2,610,509</u>	<u>\$ 12,664,795</u>
Fare revenue	<u>\$ 2,122,947</u>	<u>\$ 415,362</u>	<u>\$ 2,538,309</u>
Fare ratio	<u>21.1%</u>	<u>15.9%</u>	
Total fare ratio pursuant to P.U.C. Sections 99405(c) and 99268.4, respectively	15.0%	10.0%	

The fare ratio requirement for the Motor Bus Routes and for the Handicapped Demand Response was met by VVTA this year.

**VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 3 – FEDERAL, STATE, AND LOCAL GRANTS, (CONTINUED)

Proposition 1B

The Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA) Fund is a part of the State of California’s Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Bond Act), approved by California voters as Proposition 1B on November 7, 2006. A total of \$19.9 billion was deposited into the PTMISEA fund, \$3.6 billion of which was made available to project sponsors in California for allocation to eligible public transportation projects over a 10-year period. Proposition 1B funds can be used 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. Proposition 1B cash receipts and cash disbursements were as follows:

Unspent PTMISEA funds as of July 1, 2012	\$ 752,100
PTMISEA funds received during fiscal year ended June 30, 2013	84,339
PTMISEA expenses incurred during fiscal year ended June 30, 2013	(731,967)
Deferred Balance, June 30, 2013	<u>\$ 104,472</u>

NOTE 4 – CASH AND INVESTMENTS

Cash and Investments are classified in the accompanying financial statements as follows:

Cash	\$ 4,890,932
Cash and investments with fiscal agent - restricted	9,678,717
Total	<u>\$ 14,569,649</u>

Cash and Investments consist of the following:

Cash on hand	\$ 9,006
Deposits with financial institutions	4,504,493
Certificates of Deposit	377,433
Cash and cash equivalents with fiscal agent:	
Money market funds	878
CAMP	6,746,587
Subtotal - cash and cash equivalents	<u>11,638,397</u>
Investment with trustee	
Guaranteed investment contracts	2,931,252
Total	<u>\$ 14,569,649</u>

**VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 4 – CASH AND INVESTMENTS, (CONTINUED)

Policies and Practices

VVTA is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations as specified in Section 53600. VVTA does not have a formal policy for investments that is more restrictive than the noted Government Code.

Investments of cash within the new facility project and accompanying funds held by the lease trustee is governed by provisions of the debt agreements, rather than the general provisions of the California Government Code.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. VVTA does not have a formal policy related to its investments interest rate risk.

Information about the sensitivity of the fair value of VVTA's investments to market interest rate fluctuations is provided by the following table shows the distribution of the investments by maturity:

Investment Type	Total	Remaining Maturity (in Months)	
		12 Months Or Less	More than 60 Months
Investments held by Authority:			
Certificates of Deposit	\$ 377,433	\$ 377,433	\$ -
Held by trustee			
Guaranteed Investment Contract	2,931,252	-	2,931,252
CAMP	6,746,587	6,746,587	-
Money Market Funds	878	878	-
Total	<u>\$ 10,056,150</u>	<u>\$ 7,124,898</u>	<u>\$ 2,931,252</u>

**VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 4 – CASH AND INVESTMENTS, (CONTINUED)

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Holdings held by the trustee are insured by the trust agreement. VVTA does not have a formal policy related to its investments credit risk. Presented below is the minimum rating required by (where applicable) the California Government Code and the actual rating as of year-end for each investment type.

Investment Type	Total	Minimum Rating	AAA	Not Rated or Applicable
Held by Authority				
Certificates of Deposit	\$ 377,433	N/A	\$ -	\$ 377,433
Held by trustee				
Guaranteed Investment Contract	2,931,252	Not rated	-	2,931,252
CAMP	6,746,587	N/A	-	6,746,587
Money market funds	878	AAA	878	-
Total	\$ 10,056,150		\$ 878	\$ 10,055,272

Concentration of Credit Risk

Investments in any one issuer that represent 5 percent or more (other than investments in State Investment Pools) of total investments are disclosed below.

Issuer	Investment Type	Reported Amount
Citigroup Financial Planning Investment Agreement	Investment Agreement	\$ 2,931,252

Custodial Credit Risk - Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, VVTA will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. VVTA does not have a policy of custodial credit risk for deposits. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2013, VVTA holds cash deposits with Desert Community Bank \$4,631,926 in excess of FDIC insurance limits. These amounts are fully collateralized by securities held by the bank.

**VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 4 – CASH AND INVESTMENTS, (CONTINUED)

California Asset Management Program

VVTA is a voluntary participant in the California Asset Management Program (CAMP). CAMP is an investment pool offered by the California Asset Management Trust (the Trust). The Trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act (California Government Code Section 6500 et seq. or the “Act”) for the purpose of exercising the common power of its participants to invest certain proceeds of debt issues and surplus funds. The Pool’s investments are limited to investments permitted by subdivisions (a) to (n), inclusive, of Section 53601 of the California Government Code. VVTA reports its investments in CAMP at the fair value amounts provided by CAMP, which is the same as the value of the pool share.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal years ended June 30, 2013, is as follows:

	Beginning Balance July 1, 2012	Additions	Retirements	Ending Balance June 30, 2013
Non-depreciable assets				
Land	\$ 1,500,000	\$ -	\$ -	\$ 1,500,000
Construction in progress	48,594,448	2,673,884	(50,470,601)	797,731
Total assets, not depreciated	<u>50,094,448</u>	<u>2,673,884</u>	<u>(50,470,601)</u>	<u>2,297,731</u>
Depreciable assets				
Bus Facility	-	49,911,059	-	49,911,059
Operations equipment	22,726,049	1,409,755	(1,135,860)	22,999,944
Furniture and office equipment	1,345,653	788,527	-	2,134,180
Total depreciated assets	<u>24,071,702</u>	<u>52,109,341</u>	<u>(1,135,860)</u>	<u>75,045,183</u>
Accumulated depreciation				
Bus Facility	-	(512,230)	-	(512,230)
Operations equipment	(14,482,141)	(2,178,070)	1,135,860	(15,524,351)
Furniture and office equipment	(602,316)	(338,039)	-	(940,355)
Subtotal accumulated depreciation	<u>(15,084,457)</u>	<u>(3,028,339)</u>	<u>1,135,860</u>	<u>(16,976,936)</u>
Net depreciable assets	<u>8,987,245</u>	<u>49,081,002</u>	<u>-</u>	<u>58,068,247</u>
Total capital assets, net	<u>\$ 59,081,693</u>	<u>\$51,754,886</u>	<u>\$(50,470,601)</u>	<u>\$ 60,365,978</u>

**VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)****NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013*****NOTE 6 – RISK MANAGEMENT***

VVTA is a member of the Public Entity Risk Management Authority (PERMA), a joint powers insurance authority formed under Section 990 of the California Government Code for the purpose of jointly funding programs of insurance coverage for its members. PERMA is comprised of twenty-seven participating member agencies: nineteen cities, three transit agencies and five special districts. VVTA participates in the general liability, property, and business auto physical damage programs of PERMA.

The liability program provides coverage up to \$50 million per occurrence for personal injury, bodily injury, property damage and public officials' errors and omissions. VVTA participates in risk sharing pools for losses of up to \$1 million followed by PERMA's membership in the CSAC Excess Insurance Agency (EIA) for \$49 million excess liability coverage.

The property insurance program is group purchased under a master property insurance policy with accumulated values from all participants effecting lower rates and broader coverage for members. The program covers real property, business personal property, inland marine coverage for special mobile equipment and business interruption. Commercial property coverage is written on a replacement cost basis, eliminating the traditional commercial "named peril" policy.

The business auto physical damage insurance program is also group purchased under a master insurance policy with accumulated values from all participants effecting lower rates for members. Business auto physical damage is written on an agreed amount basis.

VVTA has not had any settlements that exceeded coverage within the last three (3) years and there have been no significant changes in insurance policies or coverage amounts.

NOTE 7 – COMMITMENTS

VVTA has a 7-year contract with their service provider for operations, Veolia Transportation Inc. The contract includes services for the Fixed Routes, Demand Response, and commuter routes for Fort Irwin, and County connector routes. This contract is due to expire June 30, 2018. There are three (3) one-year extension periods that could be added by mutual agreement of the parties.

VVTA currently contracts through ADA Ride for its ADA eligibility certification process. This contract provides ADA certifications for all disabled transit riders seeking transportation services within ADA guidelines. The current contract was established in 2008 and is due to expire June 30, 2013. There are two one-year option periods that may be exercised by the consent of both parties. VVTA has exercised the first of the two one-year extensions through June 30, 2014.

VVTA

**VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 8 – LONG-TERM LIABILITIES

The following is a summary of the changes in the principal balance of long-term liabilities for the year ended June 30, 2013:

	Balance at June 30, 2012	Additions	Deletions	Balance at June 30, 2013	Due within One year	Due beyond One year
Governmental activities:						
Lease / Trust Agreement (COP)	\$ 33,550,000	\$ -	\$ (695,000)	\$ 32,855,000	\$ 725,000	\$ 32,130,000
Compensated Absences	33,756	45,317	(33,756)	45,317	45,317	-
Total Long-Term Liabilities	<u>\$ 33,583,756</u>	<u>\$ 45,317</u>	<u>\$ (728,756)</u>	<u>\$ 32,900,317</u>	<u>\$ 770,317</u>	<u>\$ 32,130,000</u>

Certificates of Participation

In August 2007, VVTA issued Certificates of Participation (COP) in the amount of \$36,830,000 jointly with the California Transit Financing Corporation (CTFC). The COPs were issued to finance the construction of the transit facility located in Hesperia, California. As part of the financing, VVTA pledged farebox revenues as collateral for the issuance. Additionally, debt service payments were to be made from all legally available revenues, including farebox revenues, Federal Transit Assistance Funds, Local Transportation Funds, and State Transit Assistance Funds. Interest rates range from 4% to 5% until 2037 and are due every six months in June and December. Principal is due every June.

As part of the issuance, VVTA entered into a lease agreement for its new transit facility with the CTFC for payments equaling the debt service for the COP's used to finance the construction of the facility. Accompanying the lease agreement was a trust agreement that transfers the right of the CTFC to receive the lease payments to the Bank of New York as the trustee and holder of the COP's.

The future lease payment requirements for the Certificates of Participation are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 725,000	\$ 1,514,034	\$ 2,239,034
2015	755,000	1,485,034	2,240,034
2016	785,000	1,453,284	2,238,284
2017	815,000	1,421,884	2,236,884
2018	855,000	1,382,284	2,237,284
2019-2023	4,855,000	6,334,687	11,189,687
2024-2028	6,045,000	5,147,106	11,192,106
2029-2033	7,600,000	3,591,476	11,191,476
2034-2037	10,420,000	1,466,801	11,886,801
Total	<u>\$ 32,855,000</u>	<u>\$ 23,796,590</u>	<u>\$ 56,651,590</u>

NOTE 9 – COMPENSATED ABSENCES

Accumulated unpaid personal leave consisting of vacation pay, has been accrued at June 30, 2013 in the amount of \$45,317. VVTA's liability for compensated absences is typically liquidated within one year. The balance related to compensated absences is included in accrued liabilities in the Statement of Net Position.

**VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 10 – EMPLOYEES’ RETIREMENT PLAN

Plan Description

VVTA entered into a contract with California Public Employees Retirement System (CalPERS) effective August 15, 2011, where VVTA contributes to a cost-sharing multiple-employer defined benefit plan that acts as a common investment and administrative agent for participating entities within the State of California. CalPERS provides retirement, disability, and death benefits to plan members and beneficiaries. The benefits for the public agencies are established by contract with CalPERS in accordance with the provisions of the public Employees Retirement Law.

CalPERS issues a public Comprehensive Annual Financial Report that includes financial statements and required supplementary information for CalPERS. A copy of that report may be obtained by writing to CalPERS, Central Supply, P.O. Box 942715, Sacramento, California 94229-2715.

Funding Policy

Employees are required to contribute 8% of covered salary to CalPERS. VVTA is required to contribute the amounts necessary to fund the benefits for its members, using the actuarial basis recommended by CalPERS actuaries and actuarial consultants and adopted by the CalPERS Board of Administration. For the fiscal year ended June 30, 2013, the employer contribution rate was 14.666%. VVTA, as part of its benefits plan to employees, pays 3% of the employees’ contributions.

Annual Pension Cost

For the fiscal year ended June 30, 2013, VVTA’s annual pension cost of \$90,783 was 100% of VVTA’s required and actual contributions. The funded status of the pool may be obtained from CalPERS.

Annual Pension Cost

Fiscal Year	Employer Contribution Rate	Employer Contribution	Percentage Contributed
6/30/2011	N/A	N/A	N/A
6/30/2012	14.566%	\$ 67,409	100%
6/30/2013	14.666%	\$ 90,783	100%

**VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 11 – DEFERRED COMPENSATION PLAN

VVTA offers its employees a deferred compensation plan created in accordance with Internal Revenue Code, Section 457. The plan, available to all non-represented VVTA employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

VVTA has adopted the provisions of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code 457 Deferred Compensation Plans*. Management believes that VVTA has no fiduciary role under the plan, and plan funds are not available to VVTA's general creditors. Accordingly, VVTA has not reported plan assets in the accompanying financial statements.

NOTE 12 – DEFICIT NET POSITION

VVTA has a deficit unrestricted net position balance of \$642,258. This will be remedied through the receipts of Local Transportation Fund revenues, State Transit Assistance Funds, and other grant proceeds.

NOTE 13 – SUBSEQUENT EVENTS

VVTA has reached and approved a settlement agreement with the surety company for the construction of the transit facility located in Hesperia. VVTA is expecting to receive a distribution from the escrow account held by the former contractor in liquidated damages relating to non-performance of certain items during the construction of the transit facility in an amount between \$1,400,000 to \$1,500,000.