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San Bernardino Associated Governments
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TRANSPORTATION MEASURE I

■ San Bernardino County Transportation Commission ■ San Bernardino County Transportation Authority
■ San Bernardino County Congestion Management Agency ■ Service Authority for Freeway Emergencies

Additional Support Material Agenda Item No. 4

Mountain/Desert Policy Committee

March 20, 2015

9:30 a.m.

Location:
Town of Apple Valley
14975 Dale Evans Parkway
Apple Valley, CA 92307

Discussion Calendar

Administrative Matters

Review Financial Audits for Transit Operators

That the Committee recommend the Board review and receive the following Operator financial reports for Fiscal Year 2013/2014:

- Mountain Area Regional Transit Authority
- Morongo Basin Transit Authority
- Barstow Area Transit
- Victor Valley Transit Authority

Full financial reports are attached in the order listed above.

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

We have audited the financial statements of the Mountain Area Regional Transit Authority (MARTA) for the year ended June 30, 2014. 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 to you dated December 11, 2014. 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. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal period ending June 30, 2014. We noted no transactions entered into by MARTA 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 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 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.

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

- As described in Note 4 to the basic financial statements, MARTA has deposits with a financial institution that are not collateralized in accordance with Government Code Section 53601.
- As described in Note 11 to the financial statements, MARTA's primary banking relationship is with First Mountain Bank. One of the members of the Board of Directors is a branch manager for this banking institution.

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

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Difficulties Encountered in Performing the Audit

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

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, 2014.

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 MARTA'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 MARTA's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Restriction on Use

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 11, 2014

MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

BASIC FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

FOR THE FISCAL YEAR ENDED
JUNE 30, 2014

MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

JUNE 30, 2014

TABLE OF CONTENTS

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, 2014, 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, 2014, 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.

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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, 2014, 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, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 11, 2014

MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

STATEMENT OF NET POSITION
JUNE 30, 2014

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 1,015,497
Accounts receivable	54
Operating grants receivable	565,287
Capital grants receivable	359,185
Prepaid expenses	760
Total Current Assets	1,940,783
CAPITAL ASSETS:	
Nondepreciable	545,205
Depreciable	5,009,252
Accumulated depreciation	(3,610,249)
Capital assets, net	1,944,208
TOTAL ASSETS	3,884,991
LIABILITIES	
CURRENT LIABILITIES:	
Accounts payable	79,660
Accrued liabilities	126,838
Unearned revenue	1,546,867
Total Current Liabilities	1,753,365
NONCURRENT LIABILITIES:	
Self-insurance liabilities	14,660
TOTAL LIABILITIES	1,768,025
NET POSITION:	
Net investment in capital assets	1,944,208
Unrestricted	172,758
TOTAL NET POSITION	$ 2,116,966

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

MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2014

OPERATING REVENUES:	
Fares	$ 310,376
OPERATING EXPENSES:	
Operations	1,412,282
Maintenance	200,984
General and administration	1,074,447
Depreciation	403,393
Total Operating Expense	3,091,106
OPERATING (LOSS)	(2,780,730)
NON-OPERATING REVENUES AND EXPENSES:	
Operating Assistance:	
Federal Transit Administration Section 5311	703,271
Local Transportation Fund Article 4	1,686,192
JARC	75,643
Measure I	95,181
Interest income	14
Reimbursement	6,132
Other	2,940
Total Non-operating Revenues (Expenses)	2,569,373
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(211,357)
CAPITAL CONTRIBUTIONS:	
CMAQ - Capital	216,261
CTSGP - Capital	24,318
PTMISEA - Capital	86,480
STAF Capital	142,924
Total Capital Contributions	469,983
CHANGE IN NET POSITION	258,626
NET POSITION, Beginning of year	1,858,340
NET POSITION, End of year	$ 2,116,966

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

MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2014

Cash flows from operating activities:	
Cash received from fares	$ 310,559
Payments to employees	(1,674,820)
Payments to vendors for services	(1,299,487)
Net cash used in operating activities	(2,663,748)
Cash flows from non-capital financing activities:	
Operating grants received	2,812,772
Net cash provided by non-capital financing activities	2,812,772
Cash flows from capital and related financing activities:	
Capital grants received	39,936
Purchase of capital assets	(430,016)
Net cash used in capital and related financing activities	(390,080)
Cash flows from investing activities:	
Interest received	14
Net cash used in investing activities	14
Net increase in cash and cash equivalents	(241,042)
Cash and cash equivalents, beginning of year	1,256,539
Cash and cash equivalents, end of year	$ 1,015,497

Reconciliation of operating (loss) to net cash used in operating activities:	
Operating income (loss)	$ (2,780,730)
Adjustments to reconcile operating (loss) to net cash used in operating activities:	
Depreciation expense	403,393
Changes in assets and liabilities:	
(Increase) Decrease in assets:	
Accounts receivable	183
Prepaids	(700)
Increase (Decrease) in liabilities:	
Accounts payable and accrued liabilities	53,998
Self-insurance liabilities	(339,892)
Total Adjustments	116,982
Net cash used in operating activities	$ (2,663,748)

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

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. Reimbursable federal capital grants are accrued when the related expenditures 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.

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 the employee's become entitled to use them. The balance is attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either paid time off or payments upon termination or retirement.

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

<u>Effective This Fiscal Year</u>

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 or 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 was effective July 1, 2013. MARTA has determined that this statement did not have a material impact on the financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Effective This Fiscal Year (Continued)

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 was effective July 1, 2013. MARTA has determined that this statement did not have a material impact on the financial statements.

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 July 1, 2013, and is only applicable to Pension Trust Funds. There was no material impact to the financial statements.

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 July 1, 2013. There was no material impact to the financial statements.

Effective In Future Fiscal Years

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 December 15, 2013. MARTA has not determined the effect of this statement.

GASB Statement No. 71 – In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.* The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions.* The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. 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.

The computation of unearned revenue for 2014 is as follows:

	Operating Funds	Capital Funds	Total
Beginning balance, July 1, 2013	$ 789,497	$ 282,714	$ 1,072,211
Gross receipts			
State Transportation Fund, Article 4	-	142,924	142,924
Local Transportation Fund, Article 4	2,036,151	-	2,036,151
Federal Transportation Admin, Section 5311	703,271	-	703,271
Federal Transportation Admin, JARC Ext Serv	75,643	-	75,643
Measure I	95,181	-	95,181
Interest income	14	284	298
Fares	310,292	-	310,292
Prepaid Fares	5	-	5
Reimbursements	6,132	-	6,132
CMAQ	-	216,261	216,261
CTGSP	-	3,287	3,287
Other	2,940	-	2,940
Total gross receipts	3,229,629	362,756	3,592,385
Operating expenses, less depreciation	(2,654,372)	(33,341)	(2,687,713)
Capital acquisitions	-	(430,016)	(430,016)
Receipts over (under) expenses in current period	575,257	(100,601)	474,656
Amounts received in excess of costs as of June 30, 2014	$ 1,364,754	$ 182,113	
Amount unearned at June 30, 2014	$ 1,364,754	$ 182,113	$ 1,546,867

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

NOTE 3 – TRANSPORTATION DEVELOPMENT ACT REQUIREMENTS (CONTINUED)

A. 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, 2014, is calculated as follows:

Operating expenses	$	3,091,106
Less depreciation		(403,393)
Adjusted operating expenses	$	2,687,713
Fare revenue	$	310,376
Fare ratio		11.55%

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, 2013	$	-
PTMISEA funds received during fiscal year ended June 30, 2014		86,480
PTMISEA expenses incurred during fiscal year ended June 30, 2014		(86,480)
Unearned Balance, June 30, 2014	$	-

NOTE 4 – CASH AND CASH EQUIVALENTS

Deposits as of June 30, 2014, consist of the following:

Demand accounts	$	732,791
Savings accounts		282,706
Total	$	1,015,497

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.

NOTE 4 – CASH AND CASH EQUIVALENTS (CONTINUED)

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.

The demand deposits held with financial institutions are not collateralized by the holding bank and there is no agreement in place to collateralize these amounts.

Of MARTA's deposits with financial institutions, $684,157 was in excess of federal depository insurance limits and subject to custodial credit risk as described above.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, is as follows:

	Beginning Balance July 1, 2013	Additions	Deletions	Ending Balance June 30, 2014
Nondepreciable assets				
Land	$ 542,457	$ -	$ -	$ 542,457
Construction in progress	5,450	-	(2,702)	2,748
Subtotal nondepreciable assets	547,907	-	(2,702)	545,205
Depreciable assets				
Buildings and improvements	1,979,216	86,889	-	2,066,105
Passenger facilities	30,074	48,350	(11,980)	66,444
Shop, office and other equipment	2,602,563	297,480	(23,340)	2,876,703
Subtotal depreciable assets	4,611,853	432,719	(35,320)	5,009,252
Accumulated depreciation				
Buildings and improvements	(1,229,118)	(73,789)	-	(1,302,907)
Passenger facilities	(13,034)	(3,421)	11,980	(4,475)
Shop, office and other equipment	(2,000,023)	(326,184)	23,340	(2,302,867)
Subtotal accumulated depreciation	(3,242,175)	(403,394)	35,320	(3,610,249)
Net depreciable assets	1,369,678	29,325	-	1,399,003
Total capital assets	$ 1,917,585	$ 29,325	$ (2,702)	$ 1,944,208

NOTE 6 – RISK MANAGEMENT

MARTA is a member of the California Joint Powers Insurance Authority (Authority). The Authority is composed of 122 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. MARTA's share of the Authority's assets, liabilities, and equities is not available. Separate financial statements may be obtained at: 8081 Moody St., La Palma, California 90623.

Effective for the fiscal years beginning July 1, 2013, the CJPIA will base annual contributions on a prospective basis. Retrospective adjustments on prior years will be consolidated and temporarily deferred from payment. As of June 30, 2014, the retrospective deposit calculation resulted in a liability of $14,660. MARTA has had no settled claims resulting from these risks that exceeded its coverage in any of the past three 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.

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.

NOTE 6 – RISK MANAGEMENT (CONTINUED)

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, 2014 in the amount of $58,601. MARTA's liability for compensated absences typically is liquidated within one year. MARTA accrued $65,658 and paid $53,611 during fiscal year 2014. The balance related to compensated absences is included in accrued liabilities in the Statement of Net Position.

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 is 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, 2014, MARTA contributed $11,424.

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 pass 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 $13,525 during the fiscal year ended June 30, 2014.

NOTE 11 – RELATED PARTY TRANSACTIONS

MARTA's primary banking relationship is with First Mountain Bank. One of the members of the Board of Directors is a branch manager for this bank. The balance of the demand deposits at the bank as of June 30, 2014, is $934,157.

NOTE 12 – LINE OF CREDIT

MARTA had an unsecured line of credit with First Mountain Bank during the fiscal year. The original agreement was for $100,000 for the period between May 4, 2004 and November 3, 2013. Additionally, on May 4, 2006, the agreement was amended to increase the amount to $250,000 and extend the line to April 4, 2014. Variable interest applicable to the line of credit was based on the Wall Street Journal Prime Rate. At the time of the amendment, the interest was 3.25%. There were no withdrawals or payments made against the line of credit during the fiscal. MARTA has not renewed the line of credit as of June 30, 2014.

NOTE 13 – SUBSEQUENT EVENT

MARTA opened a public entity checking account at First Mountain Bank in order to fully collateralize their demand deposits on November 17, 2014.

MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2014

MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

FOR THE YEAR ENDED JUNE 30, 2014

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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
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 audits 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, 2014, 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, 2014.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs, as finding 2014-001, to be a material weaknesses.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MARTA'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 part 21 of the California code of regulations and the allocation of 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2014-001.

MARTA's Response to Findings

MARTA's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. MARTA's response was not subjected 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 the MARTA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 11, 2014

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
Mountain Area Regional Transit Authority
Big Bear Lake, California

Report on Compliance for Each Major Federal Program

We have audited Mountain Area Regional Transit Authority's (MARTA) 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 MARTA's major federal programs for the year ended June 30, 2014. MARTA'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 MARTA'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 MARTA'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 MARTA's compliance.

Opinion on Each Major Federal Program

In our opinion, MARTA 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 other major federal programs for the year ended June 30, 2014.

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Report on Internal Control Over Compliance

Management of MARTA 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 MARTA'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 MARTA'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 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 MARTA as of and for the year ended June 30, 2014, and have issued our report thereon dated December 11, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for 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 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 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 expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 11, 2014

MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2014

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 Rural Areas	20.509	642619	State of California Department of Transportation	$ 75,643
Formula Grants for Rural Areas	20.509	6414155	State of California Department of Transportation	480,105
Formula Grants for Rural Areas	20.509	642418	State of California Department of Transportation	144,315
Formula Grants for Rural Areas	20.509	642212	State of California Department of Transportation	216,261
Total Expenditures of Federal Awards				$ 916,324

See accompanying notes to Schedule of Expenditures of Federal Awards.

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 Mountain Area Regional Transit Authority's (MARTA). MARTA's reporting entity is defined in Note 1 of MARTA'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 1 of MARTA's Financial Statements.

MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2014

I. SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS	
Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material Weakness(es) identified?	Yes
Significant Deficiency(ies) identified?	None Noted
Noncompliance material to financial statements noted?	Yes
FEDERAL AWARDS	
Internal control over major federal programs:	
Material Weakness(es) identified?	No
Significant Deficiency(ies) identified?	None Noted
Type of auditors' report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	No
Identification of major federal programs:	

CFDA Number(s)	Name of Federal Program or Cluster
20.509	Formula Grants for Rural Areas

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

MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2014

II. FINANCIAL STATEMENT FINDINGS

Finding 2014-001

COMPLIANCE

Criteria:

The California Government Code requires California banks and savings and loan associations to secure a governmental entity's deposits by pledging government securities with a value of 110% of a governmental entity's deposits.

Condition:

While testing cash accounts and their compliance with California Government Code, we noted that MARTA's deposits of funds do not have collateralization agreements with the depository institutions and that the accounts MARTA holds are classified as commercial accounts instead of public entity accounts.

Context:

The conditions noted above were identified through inquiry with management and testing of cash held at depository institutions.

Effect:

The deposits of funds are not collateralized in accordance with the California Government Code.

Cause:

When the accounts were established, they were established as commercial accounts that bypassed the collateralization process.

Recommendation:

MARTA should enter into agreements with the depository institutions to collateralize the deposits of funds accounts held by MARTA and convert the accounts to public entity accounts.

View of Responsible Official and Planned Corrective Actions:

MARTA's bank accounts were converted to public entity accounts on November 17, 2014.

MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2014

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND RESPONSES

FOR THE YEAR ENDED JUNE 30, 2014

FINANCIAL STATEMENTS:

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

SINGLE AUDIT:

Finding No.	Program	CFDA No.	Compliance Requirement	Status of Corrective Action
2012-05	Formula Grants for Other than Urbanized Areas (Indirect)	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, 2014. 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 to you dated December 17, 2014. 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. 65, *Items Previously Reported as Assets and* Liabilities, effective July 1, 2013. We noted no transactions entered into by MBTA 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 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 it is 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 disclosure(s) affecting the financial statements was (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.

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Corrected and Uncorrected 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. No such misstatements were detected as a result of audit procedures.

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 17, 2014.

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 this supplementary information, 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.

Restriction on Use

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, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 17, 2014

MORONGO BASIN TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED
JUNE 30, 2014

MORONGO BASIN TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

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, 2014, 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.

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 MBTA as of June 30, 2014, 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.

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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 17, 2014, 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.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 17, 2014

MORONGO BASIN TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)

STATEMENT OF NET POSITION
JUNE 30, 2014

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	810,266
Restricted cash		20,740
Receivables:		
Operating Grants		539,526
Total Current Assets		1,370,532
NONCURRENT ASSETS		
Property, plant and equipment, net		7,560,002
TOTAL ASSETS		8,930,534
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable		47,194
Health reimbursement liability		166,470
Accrued compensated absences		107,187
Unearned revenue		367,893
TOTAL LIABILITIES		688,744
NET POSITION		
Net investment in capital assets		7,560,002
Unrestricted		681,788
TOTAL NET POSITION	$	8,241,790

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, 2014

OPERATING REVENUES	
Passenger fares	$ 358,711
Procurement services	234,670
Taxi licensing services	20,463
Total Operating Revenues	613,844
OPERATING EXPENSES	
Operations	2,019,403
Administration	585,775
Depreciation	1,127,262
Total Operating Expense	3,732,440
Operating income (loss)	(3,118,596)
NON-OPERATING REVENUES AND EXPENSES	
Operating Assistance:	
Local Transportation Fund Article 4	1,586,175
Measure I	94,268
Federal Transit Administration Section 5311	498,394
State and local grants	11,991
Interest income	9
Other	40,248
Total Non-Operating Revenues	2,231,085
NET LOSS BEFORE CAPITAL CONTRIBUTIONS	(887,511)
CAPITAL CONTRIBUTIONS	
State Transit Assistance Fund	114,905
Local Transportation Fund Article 4	90,707
Federal Congestion Mitigation and Air Quality	129,745
Total Capital Contributions	335,357
CHANGE IN NET POSITION	(552,154)
NET POSITION, Beginning of year	8,793,944
NET POSITION, End of year	$ 8,241,790

See accompanying notes to financial statements.

MORONGO BASIN TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2014

Cash flows from operating activities:	
Cash received from customers	$ 654,457
Payments to employees	(1,606,706)
Payments to vendors for services	(965,599)
Net cash used in operating activities	(1,917,848)
Cash flows from non-capital financing activities:	
Proceeds, line of credit	200,000
Payments, line of credit	(400,000)
Operating grants received	(2,688,228)
Net cash provided by non-capital financing activities	(2,888,228)
Cash flows from capital and related financing activities:	
Capital grants received	335,354
Purchase of capital assets	(391,188)
Net cash used for capital and related financing activities	(55,834)
Cash flows from investing activities:	
Interest received	9
Net cash provided by investing activities	9
Net increase (decrease) in cash and cash equivalents	(4,861,901)
Cash and cash equivalents, beginning of year	316,451
Cash and cash equivalents, end of year	$ (4,545,450)
Reconciliation of cash and cash equivalents to statement of financial position:	
Cash and cash equivalents	$ 810,266
Restricted cash	20,740
Total Cash and Cash Equivalents	$ 831,006
Reconciliation of operating loss to net cash used in operating activities:	
Operating income (loss)	$ (3,118,596)
Adjustments to reconcile operating (loss) to net cash used in operating activities:	
Depreciation expense	1,127,262
Changes in assets and liabilities:	
Decrease in assets:	
Accrued receivables	367
Other income	40,248
Increase in liabilities:	
Accounts payable and accrued liabilities	32,871
Total Adjustments	1,200,748
Net cash used in operating activities	$ (1,917,848)

See accompanying notes to financial statements.

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. Reimbursable federal capital grants are accrued when the related expenditures 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. 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 $5,000.

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 restricted for the following capital projects:

Restricted Cash		
Security Doors	$	849
Radio Antenna		19,891
Total Restricted Cash	$	20,740

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. 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 was effective July 1, 2013. MBTA has determined that this statement did not have a material impact on the financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Current Accounting Pronouncements (Continued)

Governmental Accounting Standards Board (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 was effective July 1, 2013. MBTA has determined that this statement did not have a material impact on the financial statements.

Governmental Accounting Standards Board (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. This Statement is effective July 1, 2013, and is only applicable to Pension Trust Funds. There was no material impact to the financial statements

Governmental Accounting Standards Board (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 July 1, 2013. There was no material impact to the financial statements.

Future Accounting Pronouncements

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.

Governmental Accounting Standards Board (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 December 15, 2013. MBTA has not determined the effect of this statement.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Future Accounting Pronouncements (Continued)

Governmental Accounting Standards Board (GASB) Statement No. 71

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.* The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions.* The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. MBTA has not determined the effect of this statement.

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, 2014, 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, 2014 these expenses included legal fees, insurance, drug testing, background verification, rents and utilities.

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

	Procurement
Procurement activities balance from prior year	$ 327,160
Change in balance	216,009
Ending balance of procurement activities	$ 543,169

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

NOTE 4 – CASH AND INVESTMENTS

		2014
Cash and cash equivalents	$	810,266
Restricted cash		20,740
Total	$	831,006

Cash and investments as of June 30, 2014 consist of the following:

Cash on hand	$	300
Demand accounts		626,351
Savings accounts		20,739
Local Agency Investment Fund (LAIF)		183,616
Total	$	831,006

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.

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. MBTA does not have a formal policy related to its credit rate risk.

NOTE 4 – CASH AND INVESTMENTS (CONTINUED)

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 percent 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 percent of the secured public deposits. As of June 30, 2014, the first $250,000 of deposits were insured under FDIC, MBTA maintained bank balances in excess of FDIC insurance of $312,634. 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, 2014, the MBTA's investments in the State Treasurer's investment pool (LAIF) were $183,616. The District relied upon information provided by the State Treasurer in estimating the District's fair value position of its holdings in LAIF. MBTA's fair market value adjustment was trivial as of June 30, 2014.

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.

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.

NOTE 5 – TRANSPORTATION DEVELOPMENT ACT REQUIREMENTS (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 unearned revenue for 2014 is as follows:

	Operating Funds	Capital Funds	Total
Beginning balance, June 30, 2013	$ 3,325	$ 29,405	$ 32,730
Gross receipts: **			
State Transit Assistance Fund		90,387	90,387
Local Transportation Fund, Article 4	1,933,247	77,554	2,010,801
Federal Transportation Admin, Section 5311	471,878	203,678	675,556
Measure I	104,268		104,268
Interest income	8	1	9
Fares	359,077	5,668	364,745
Other revenue	14,666	5,236	19,902
Total Gross Receipts	2,883,144	382,524	3,265,668
Operating expenses, less depreciation	2,605,178		2,605,178
Less:			
MBTA reported procurement operations expense	(54,813)		(54,813)
MBTA reported taxi licensing operations expense	(11,048)		(11,048)
Capital acquisitions		391,188	391,188
Receipts over (under) expenses in current period	343,827	(8,664)	335,163
Amount Unearned at June 30, 2014	$ 347,152	$ 20,741	$ 367,893

**$234,670 of procurement operating revenue and $20,463 of taxi licensing operating revenue were excluded from unearned revenue calculation as these activities represent operations excluded from Transportation Development Act requirements.

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 percent.

The fare ratio as of June 30, 2014, is calculated as follows:

Operating expenses	$ 3,732,440
Less MBTA reported procurement operations expense	(54,813)
Less MBTA reported taxi licensing operations expense	(11,048)
Less depreciation	(1,127,262)
Adjusted operating expenses	$ 2,539,317
Fare revenue	$ 358,711
Fare ratio	14.13%

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the fiscal years ended June 30, 2014, is as follows:

	Beginning Balance July 01, 2013	Additions	Retirements	Ending Balance June 30, 2014
Capital assets being depreciated:				
Buildings and improvements	$ 9,250,881	$ 172,417		$ 9,423,298
Office furniture, fixtures and equipment	428,958	18,493	$ 4,463	442,988
Buses	4,707,353	199,583	389,504	4,517,432
Vehicles	199,049		43,815	155,234
Information systems	63,567	695	17,401	46,861
Data handling equipment	1,341			1,341
Total capital assets being depreciated	14,651,149	391,188	455,183	14,587,154
Less accumulated depreciation for:				
Buildings and improvements	3,203,240	506,241		3,709,481
Office furniture, fixtures and equipment	302,911	39,168	4,463	337,616
Buses	2,701,788	542,564	389,504	2,854,848
Vehicles	111,191	31,047	43,815	98,423
Information systems	34,602	8,242	17,401	25,443
Data handling equipment	1,341			1,341
Total accumulated depreciation	6,355,073	1,127,262	455,183	7,027,152
Capital assets, net of accumulated depreciation	$ 8,296,073	$ (736,074)	$ -	$ 7,560,002

NOTE 7 – OPERATING GRANTS

Operating grants receivable at June 30, 2014 were $539,526. This balance was composed of $471,878 of Federal operating assistance grant funds, $12,324 of State Transit Assistance Funds and $55,324 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, 2014, the total principal amount available on the line of credit was $200,000. 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 percent as of June 30, 2014. MBTA made a withdrawal on the line of credit during the fiscal year as noted below.

	Beginning Balance July 01, 2013	Additions	Retirements	Ending Balance June 30, 2014	Due Within One Year
Loan	$ 200,000	$ 200,000	$ 400,000	$ -	$ -
Total	$ 200,000	$ 200,000	$ 400,000	$ -	$ -

NOTE 9 – SELF-INSURANCE

MBTA is a member of the California Transit Insurance Pool CAlTip 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, 2014, 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 $77,983 for the fiscal year ended June 30, 2014. 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.

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, 2014 in the amount of $85,488. MBTA accrued $81,237 and paid $82,314 during fiscal year 2014. 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 percent 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, 2014 the employer contribution rate was 8.366 percent. MBTA, as part of its compensation to employees, pays the employees' contributions.

NOTE 11 – EMPLOYEES' RETIREMENT PLAN (CONTINUED)

Annual Pension Cost

For the fiscal years ended June 30, 2014, June 30, 2013 and June 30, 2012, MBTA's annual pension cost of $111,550, $95,526, and $110,535, respectively, was equal to 100 percent 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 $525 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, 2014, the HRA liability $166,470 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.

MORONGO BASIN
TRANSIT AUTHORITY

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2014

MORONGO BASIN TRANSIT AUTHORITY

FOR THE YEAR ENDED JUNE 30, 2014

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Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

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, 2014, and the related notes to the basic financial statements and have issued our report thereon dated December 17, 2014. Our report 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.

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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*.

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.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 17, 2014

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, 2014. 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, 2014.

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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, 2014, and the related notes to the financial statements, which collectively comprise MBTA's basic financial statements. Our report also included an explanatory paragraph regarding MBTA's omission of management's discussion and analysis. We issued our report thereon dated December 17, 2014, 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.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 17, 2014

MORONGO BASIN TRANSIT AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2014

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	Pre-Award	State of California Department of Transportation	$ 471,878
Formula Grants for Other than Urbanized Areas (Indirect)	20.509	641475	State of California Department of Transportation	26,516
Formula Grants for Other than Urbanized Areas (Indirect)	20.509	642211	State of California Department of Transportation	129,457
Total - Department of Transportation Federal Transit Administration				627,851
Total Expenditures of Federal Awards				$ 627,851

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, 2014

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, 2014

I. SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS	
Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material Weakness(es) identified?	No
Significant Deficiency(ies) identified?	None Noted
Noncompliance material to financial statements noted?	No
FEDERAL AWARDS	
Internal control over major federal programs:	
Material Weakness(es) identified?	No
Significant deficiency(ies) identified?	None noted
Type of auditors' report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	No
Identification of major federal programs:	

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

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

MORONGO BASIN TRANSIT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2014

II. FINANCIAL STATEMENT FINDINGS

None noted in the current fiscal year.

MORONGO BASIN TRANSIT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2014

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted in the current fiscal year.

MORONGO BASIN TRANSIT AUTHORITY

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND RESPONSES

FOR THE YEAR ENDED JUNE 30, 2014

Finding No.	Program	CFDA No.	Compliance Requirement	Status of Corrective Action
2013-01	Depreciation Expense	N/A	N/A	Implemented

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENC

To the City Council
City of Barstow

We have audited the financial statements of the Transportation Development Act Transit Fund (TDA), the Measure I Transit Fund, Measure I 2010-2040 Fund, Measure I TRIP Financing Fund, and the TRIP Debt Service Fund (Measure I Funds), of the City of Barstow, California for the year ended June 30, 2014. 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 letter to you dated December 1, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practice

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City with respect to the TDA and Measure I Funds are described in Note 2 to the respective financial statements. As described in Note 2 to the TDA report, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities,* effective July 1, 2013. No other new accounting policies were adopted and the application of existing policies was not changed during year. We noted no transactions entered into by City 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 TDA Fund's financial statements was:

> Management's estimate of the depreciation of capital assets is based upon the estimated useful lives of the related capital assets. We evaluated the key factors and assumptions used in developing these estimates in determining that it is 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 disclosure(s) affecting the financial statements was:

> The disclosure of TDA requirements in Note 4 to the TDA financial statements. The disclosure discusses the various aspects of compliance with the requirements of the Transportation Development Act. Additionally, there is a disclosure regarding the farebox revenue ratio not meeting the TDA benchmark of 10%.

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

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Difficulties Encountered in Performing the Audit

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

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. Management has corrected all such misstatements. The attached schedule summarizes material misstatements detected as a result of audit procedures and corrected by management.

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 January 21, 2015.

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 TDA's or Measure I Fund'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 TDA & Measure I Fund'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

We applied certain limited procedures to the Schedules of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for each of the Measure I Funds, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on Program Status: Comparison of 5 Year Plan Project Budget to Current Year Expenditures, which accompany the Measure I Funds financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the use of City Council and management of the City of Barstow and is not intended to be, and should not be, used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
January 21, 2015

CITY OF BARSTOW
SCHEDULE OF CORRECTED MISSTATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Number	Fund	Account/Description	Income Statement Dr.	Income Statement Cr.	Balance Sheet Dr.	Balance Sheet Cr.
<1>	Transit Fund	Due to the City of Barstow			$ 15,634	
	Transit Fund	Unrealized gain on investments				$ 15,634
	***To reclassify the unrealize gain on investments to properly present deficit cash balances.**					
<2>	Measure I Fund	Transfers Out			672,207	
	Measure I Fund	Accounts Payable				672,207
	***To accrue liabilities not recognized in the financial statements.**					

CITY OF BARSTOW, CALIFORNIA

TRANSPORTATION DEVELOPMENT ACT FUND

Financial Statements and Independent Auditors' Reports

For the Year Ended June 30, 2014

CITY OF BARSTOW, CALIFORNIA

TRANSPORTATION DEVELOPMENT ACT FUND

San Bernardino Associated Governments

For the Year Ended June 30, 2014

TABLE OF CONTENTS

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
San Bernardino Associated Governments
San Bernardino, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Transportation Development Act (TDA) Article 8 Fund (TDA Fund), an enterprise fund of the City of Barstow, California (City), as of and for the year ended June 30, 2014, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 of 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 risk 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 previously present fairly, in all material respects, the financial position of the TDA Fund of the City as of June 30, 2014, and the changes in financial position and its cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As discussed in Note 1, the financial statements present only the TDA Fund of the City and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2014, 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. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the *Management's Discussion and Analysis* for the TDA Fund that accounting principles generally accepted in the United States of America requires 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 and 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 a report dated January 21, 2015, on our consideration of the City's internal control over financial reporting for the TDA Fund, and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 City's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
January 21, 2015

CITY OF BARSTOW, CALIFORNIA
TRANSPORTATION DEVELOPMENT ACT FUNDS

STATEMENT OF NET POSITION
JUNE 30, 2014

ASSETS	
CURRENT ASSETS	
Operating grants receivable	$ 3,311,727
Total Current Assets	3,311,727
CAPITAL ASSETS	
Construction in progress	2,636,796
Equipment	3,640,008
Accumulated depreciation	(3,429,433)
Capital assets, net	2,847,371
TOTAL ASSETS	6,159,098
LIABILITIES	
Accounts payable	597,307
Accrued liabilities	5,869
Due to City of Barstow	2,542,881
Unearned revenue	165,670
TOTAL LIABILITIES	3,311,727
NET POSITION	
Net investment in capital assets	2,847,371
TOTAL NET POSITION	$ 2,847,371

See accompanying notes to financial statements.

CITY OF BARSTOW, CALIFORNIA
TRANSPORTATION DEVELOPMENT ACT FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

OPERATING REVENUES:	
Fares	$ 193,981
OPERATING EXPENSES:	
Operations	2,195,194
Maintenance	14,925
General and administration	428,234
Depreciation	277,745
Total Operating Expense	2,916,098
Operating loss	(2,722,117)
NON-OPERATING REVENUES:	
Local Transportation Fund, Article 8	1,843,921
Federal Transit Administration, Section 5311	409,831
Measure I	265,105
Net increase in fair value of investments	12,799
Miscellaneous	46
Total Non-operating Revenues	2,531,702
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(190,415)
CAPITAL CONTRIBUTIONS:	
State Transit Assistance Fund, Capital	188,864
Local Transportation Fund, Capital	215,231
PTMISEA (Proposition 1B), Capital	2,232,701
Total Capital Contributions	2,636,796
CHANGE IN NET POSITION	2,446,381
Net Position at Beginning of Year	400,990
Net Position at End of Year	$ 2,847,371

See accompanying notes to financial statements.

CITY OF BARSTOW, CALIFORNIA
TRANSPORTATION DEVELOPMENT ACT FUNDS

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2014

Cash flows from operating activities:	
Cash received from fares	$ 193,981
Payments to employees	(429,276)
Payments to vendors for services	(1,796,407)
Net cash used in operating activities	(2,031,702)
Cash flows from non-capital financing activities:	
Operating grants received	1,993,960
Borrowing from City of Barstow	2,270,443
Net cash provided by non-capital financing activities	4,264,403
Cash flows from capital and related financing activities:	
Purchase of capital assets	(2,636,796)
Receipt of capital grants	404,095
Net cash used by capital and related financing activities	(2,232,701)
Net increase in cash and cash equivalents	-
Cash and cash equivalents, beginning of year	-
Cash and cash equivalents, end of year	$ -
Reconciliation of cash and cash equivalents to statement of financial position:	
Cash and cash equivalents	$ -
Total Cash and Cash Equivalents	$ -
Reconciliation of operating loss to net cash used in operating activities:	
Operating (loss)	$ (2,722,117)
Adjustments to reconcile operating (loss) to net cash used in operating activities:	
Depreciation expense	277,745
Changes in assets and liabilities:	
(Decrease) in liabilities:	
Accounts payable and accrued liabilities	412,670
Total Adjustments	690,415
Net cash used in operating activities	$ (2,031,702)
Non-cash investing activities include:	
Net increase in the fair value of investments	$ 12,799

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

NOTE 1 – GENERAL INFORMATION

The financial statements are intended to reflect the financial position and changes in financial position and cash flows of the Transportation Development Act (TDA) Article 8 Fund (Fund) only. Accordingly, the financial statements do not purport to, and do not, present fairly the financial position of the City of Barstow and changes in financial position, or, where applicable, its cash flows thereof for the year then ended in conformity with generally accepted accounting principles in the United States of America.

Article 8

San Bernardino Associated Governments (SANBAG) receives and passes through Article 8 funding to the local claimants for the purposes of local streets and roads in accordance with Section 99400 of the California Public Utilities Code, which may include those purposes necessary and convenient to the development, construction, and maintenance of the city or county's streets and highways network, which further includes planning and contributions to the transportation planning process, acquisition of real property, construction of facilities and buildings. The fund may also be used for passenger rail service operations and capital improvements.

Article 8 subdivision C further allows payments to counties, cities, and transit districts for their administrative and planning cost with respect to transportation services. A claimant may also receive payments for capital expenditures to acquire vehicles and related equipment, bus shelters, bus benches, and communication equipment for the transportation services.

The City of Barstow utilizes these TDA Article 8 funds to provide operation and maintenance for the City's transit system. The funding is also used to purchase assets related to transportation, such as buses, bus benches, bus shelters, bus stop signs and fareboxes.

Payment of Article 8 to any entity that provides public transportation services under contract with the local county, city, or transit district for any group with special transportation assistance need must be determined by SANBAG.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the TDA Fund of the City conform to accounting principles generally accepted in the United States of America. The following is a summary of significant accounting policies.

Fund Accounting

The accounts of the City are organized on the basis of funds. A fund is defined as an independent fiscal and accounting entity wherein operations of each fund are accounted for in a separate set of self-balancing accounts that record resources, related liabilities, obligations, net position segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The Article 8 TDA Funds are accounted for within a separate enterprise fund of the City.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Measurement Focus and Basis of Accounting

The TDA fund of the City is an enterprise fund and maintains its records on 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.

Cash and Investments

Cash and investments are pooled in the City's investment pool to facilitate cash management and maximize investment opportunities and yields. Investment income resulting from this pooling is allocated to the respective funds including the TDA Funds based upon the average cash balance. The investment policies and the risks related to GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, applicable to the TDA Fund, are those of the City and are disclosed in the City's basic financial statements. The City's basic financial statements can be obtained on the City's website. For the purpose of the statement of cash flows, amounts maintained in the City Pool are considered cash and cash equivalents.

Grants

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 (SANBAG) 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.

Capital Assets

Capital assets are stated at historical cost or estimated historical cost where no historical records exist. Donated assets are stated at fair value on the date donated. Equipment purchased in excess of $20,000 are capitalized if they have an expected useful life of three years or more.

Capital assets are depreciated using the straight-line method. Depreciation is charged as an expense against operations. Estimated useful lives, in years, for depreciable assets are as follows:

Machinery and equiment	3-15 years

Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Operating and Non-Operating Revenue

The City of Barstow distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from directly providing services in connection with the City'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

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.

New Accounting Pronouncements-Effective in Current Fiscal Year

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 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 was implemented on July 1, 2013, and had no material impact to the financial statements.

New Accounting Pronouncements- Effective in Future Years

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*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. 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. The Statement is effective for periods beginning after June 15, 2014, or the 2014-2015 fiscal year. Management has not determined the effect on the financial statements.

GASB Statement No. 69 – In January 2012, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations.* The objective of this Statement is to establish reporting standards related to government combinations and disposals of government operations. The Statement is effective for periods beginning after December 15, 2013, or the 2014-2015 fiscal year. Management has not determined the effect on the financial statements.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

New Accounting Pronouncements- Effective in Future Years, (Continued)

GASB Statement No. 71 - In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment to GASB Statement No. 68.* This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68. Management has not determined the effect on the financial statements.

NOTE 3 – FEDERAL, STATE AND LOCAL GRANTS

Federal Assistance

Under the provision of the Federal Transit Administration (FTA), funds are available to the City for preventive maintenance, security, and various capital costs. Total FTA revenue recognized during the fiscal year ended June 30, 2014 was $409,831. As of June 30, 2014, the FTA revenue was a receivable within the Transit Fund.

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 project, bus rapid transit improvements, or for rolling stock procurement, rehabilitation or replacement. Proposition 1B cash receipts and cash disbursements were as follows:

Beginning Balance	$	-
PMISEA funds received during fiscal year ended June 30, 2014		2,232,701
PTMISEA expenses incurred during fiscal year ended June 30, 2014		(2,232,701)
Ending Balance	$	-

NOTE 4 – TRANSPORTATION DEVELOPMENT ACT REQUIREMENTS

The City of Barstow is subject to the provisions pursuant to Section 6634 of the California Code of Regulations and Section 99313.3 of the Public Utilities Code.

The City of Barstow 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 the City of Barstow and approved by SANBAG.

The City of Barstow 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 unearned revenue for 2014 is as follows:

	Operating Funds	Capital Funds	Total
Beginning balance, July 1, 2013	$ (74,974)	$ -	$ (74,974)
Gross receipts:			
Local Transportation Fund, Article 8	1,997,235	-	1,997,235
Federal Transportation Admin, Section 5311	409,831	-	409,831
Measure I	265,105	-	265,105
Interest income	12,799	-	12,799
Fares	193,981	-	193,981
State Transit Assistance Fund, Capital	-	188,864	188,864
Local Transportation Fund, Capital	-	215,231	215,231
PTMISEA	-	2,232,701	2,232,701
Miscellaneous Income	46	-	46
Total gross receipts	2,878,997	2,636,796	5,515,793
Operating expenses, less depreciation	(2,638,353)	-	(2,638,353)
Capital Acquisition	-	(2,636,796)	(2,636,796)
Receipts over (under) expenses in current period	240,644	-	240,644
Amounts received in excess of costs as of June 30, 2014	165,670	-	165,670
Amount unearned at June 30, 2014	$ 165,670	$ -	$ 165,670

NOTE 4 – TRANSPORTATION DEVELOPMENT ACT REQUIREMENTS, (CONTINUED)

B. SANBAG Resolution 94-005

On July 1, 1993, SANBAG adopted Resolution 94-005 which requires a ratio of fare revenues to operating cost at least equal to 10%. This requirement was not met as the fare ratio was 7.35% as noted below:

The fare ratio as of June 30, 2014, is calculated as follows:

Operating expenses	$	2,916,098
Less: depreciation		(277,745)
Adjusted operating expenses	$	2,638,353
Fare revenue	$	193,981
Fare ratio		7.35%

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, is as follows:

	Balance at June 30, 2013	Additions	Deletions	Balance at June 30, 2014
Nondepreciable assets:				
Construction in progerss	$ -	$ 2,636,796	$ -	$ 2,636,796
Depreciable assets:				
Equipment	3,640,008	-	-	3,640,008
Accumulated Depreciation:				
Equipment	(3,151,688)	(277,745)	-	(3,429,433)
Total Capital Assets, net	$ 488,320	$ 2,359,051	$ -	$ 2,847,371

NOTE 6 – DUE TO CITY OF BARSTOW

At June 30, 2014, the TDA Fund had a deficit cash balance, representing short term borrowings from the City's Investment Pool in the amount of $2,542,881.

NOTE 7 – RECEIVABLES

Receivables are made up of operating grants as follows:

Federal Transit Administration Section 5311- Operating	$409,831
Local Transportation Fund	180,481
PTMISEA (Prop 1B)	2,232,701
Measure I Funds	265,100
State Transportation Fund	188,864
Other	34,750
Total	$3,311,727

NOTE 8 – COMPENSATED ABSENCES

Accumulated unpaid personal leave has been accrued at June 30, 2014 in the amount of $2,960. The City's liability for compensated absences is typically liquidated within one year. The balance related to compensated absences is included in accrued liabilities on the Statement of Net Position.

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* AND *TDA COMPLIANCE REQUIREMENTS*

To the Board of Directors
San Bernardino Associated Governments
San Bernardino, California

We have audited, in accordance with the 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, the financial statements of the Transportation Development Act (TDA) Article 8 (TDA Fund) Fund of the City of Barstow, California, (the City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated January 21, 2015. Our report included an emphasis of matter paragraph stating that the financial statements of the TDA Fund do not purport to, and do not, present fairly the financial position of the City as of June 30, 2014. In addition, our report included an other matter paragraph stating that the financial statements do not include Management Discussion and Analysis.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of finding and response, we identified a deficiency in internal control over financial reporting that we consider to be material weaknesses.

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 *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. 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. We consider the deficiency described in the accompanying schedule of finding and response as finding 2014-001, to be a material weakness.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's TDA Fund 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described as finding 2014-001 in the accompanying schedule of finding and response.

City's Response to the Finding

The City's response to the finding identified in our audit is described in the accompanying schedule of finding and response. The City's response was not subjected 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 result of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
January 21, 2015

SCHEDULE OF FINDING AND RESPONSE
YEAR ENDED JUNE 30, 2014

Finding 2014-001

FARE REVENUE RATIO

Criteria:

On July 1, 1993, SANBAG adopted Resolution 94-005 which requires the ratio of fare revenues to operating costs to be at least 10 percent.

Condition:

Fares as a percentage of operating costs were 7.35%.

Context:

The condition noted above was identified during compliance testing.

Effect:

The City did not meet the required fare ratio at June 30, 2014.

Cause:

The City did not maintain procedures to ensure this compliance requirement is met.

Recommendation:

We recommend that the City formalize policies and procedures to ensure that all compliance requirements are met in order to maintain funding.

View of Responsible Official and Planned Corrective Actions:

The City concurs with the finding. The City provides transit services, both Fixed Route and Dial-A-Ride services to the rural county residents, in addition to the residents of the City of Barstow. The farebox ratio of the fixed route service does meet the 10 percent farebox recovery; however, the added cost of providing service to rural Dial-A-Ride customers impacts the City's ability to achieve a 10 percent farebox recovery.

Two key factors affecting the cost per Dial-A-Ride passenger are:

1) Fixed route buses use lower cost compressed natural gas while smaller Dial-A-Ride vehicle use higher cost unleaded fuel, and
2) The service area covers 653 square miles; the City of Barstow service area is only 41.394 square miles.

CITY OF BARSTOW, CALIFORNIA
TRANSPORTATION DEVELOPMENT ACT FUNDS

SCHEDULE OF PRIOR YEAR AUDIT FINDING
YEAR ENDED JUNE 30, 2014

Finding	Condition/Program	Status
2013-01	Fares as a % of Operating Costs below Compliance Requirements	Not Implemented- See 2014-001

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

We have audited the financial statements of the Victor Valley Transit Authority (VVTA) as of and for the year ended June 30, 2014, and have issued our reports thereon dated as indicated below:

Report	Audit Report Date
Basic Financial Statements with Independent Auditor's Report	January 9, 2015
Single Audit Report	January 9, 2015

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. 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 VVTA are described in Note 2 to the financial statements. As described in Note 2 of the financial statements, VVTA adopted Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective July 1, 2013. No other new accounting policies were adopted and the application of existing policies was not changed during 2014. 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 affecting the financial statements was:

> Management's estimate of the depreciation of capital assets is based upon the estimated useful lives of the related capital assets. We evaluated the key factors and assumptions used in developing these estimates in determining that it is 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.

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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 letters dated as follows:

Basic Financial Statements with Independent Auditor's Report	January 9, 2015
Single Audit Report	January 9, 2015

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.

Other Matters

We applied certain limited procedures the management's discussion and analysis which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
January 9, 2015

VICTOR VALLEY
TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)

BASIC FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

FOR THE FISCAL YEAR ENDED
JUNE 30, 2014

VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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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, 2014, 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 auditors' 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.

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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, 2014, 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.

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 3-12 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 January 9, 2015, 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, Trine, Day & Co., LLP

Rancho Cucamonga, California
January 9, 2015

Victor Valley Transit Authority

Management's Discussion and Analysis

June 30, 2014

This discussion and analysis of the Victor Valley Transit Authority's (the "Authority") financial performance for the fiscal year ended June 30, 2014, 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, 2014. It is a separate but an integral 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. (Certain accounts in the prior year MD&A presentation have been reclassified for comparative purposes to conform with the presentation in the current year 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.

Victor Valley Transit Authority

Management's Discussion and Analysis

June 30, 2014

HIGHLIGHTS

- The Authority's net position increased by $3,345,671 or 9.1% as a result of the year's operations. Net position increases for the Authority were substantially due to the receipt of $1,622,018 from an insurance settlement, $352,612 in California Solar Initiative (CSI) rebates, all of which were set aside in a restricted capital fund by the VVTA Board of Directors for future major renovations and repairs to VVTA's Administration and Maintenance Facility. These funds appear on the Statement of Net Position as "Cash and investments-Board Reserved", and as "unrestricted" net position. The remaining increase of $1,371,041 was due to an increase in capital grants.

- The authority's Administration and Maintenance Facility construction project (facility) received its Certificate of Substantial Completion on January 24, 2013. The final completion of this project was delayed when the general contractor filed for bankruptcy and the Surety provider failed to complete the project afterwards. The Authority settled with the Surety Company in the amount of $1,622,018. The Authority hired a construction manager to oversee the final completion of this project. The project is expected to reach final completion in FY14-15. The gross value of investment, prior to accumulated depreciation, in the Administration and Maintenance Facility construction project through the end of FY13-14 is $50,344,800.

- The value of the Authority's assets (net of deletions) increased by $3,440,977 or 4.5 % due to an increase in the acquisition of plant, property, and equipment for the Authority's new facility as well as revenue vehicles and related equipment.

- The Authority's overall operations statistics were impacted this year by the planned implementation of a number of improvements recommended in the Comprehensive Operations Analysis (COA 2013) completed July 2013 and adopted by the Authority's governing board. In general, these improvements addressed transit service needs to improve on-time performance, reduce overcrowding, and by adding routes and Sunday service. The effect of these program increases had a significant impact on the financial statements in FY13/14 and are discussed throughout the MD&A.

- Program revenues (passenger fares and operating assistance) increased 23% by $2,657,326. The operating revenue increase was due to a 3% increase in passenger fares system wide as well as a 74% increase in Federal, State, and Local operating grants. The sharp increases in these grant funds were to provide support for increased operational costs due to the implementation of changes recommended by the Authority's COA 2013 as well as to support the Authority's new Vanpool program, and growing Mobility Management program.

- Non-operating (capital) revenue totaled $8,490,518. These are revenues derived mostly from Federal, State and local grants and are used to support capital expenditures. Additionally, $2,892,804 of these funds are listed as "Other Capital Revenue" and consists of the value of funds received from an insurance settlement ($1,622,018) and CSI rebates ($352,612) both of which are restricted for capital use by VVTA's Board of Directors. The balance of Other Capital Revenue consists of the market value of donated buses placed in revenue service ($490,000) and the investment in Intelligent Transportation Systems equipment and software funded by Federal Excise Tax Credits in the amount of $428,174.

- Total expenses for the fiscal year totaled $19,756,225 an increase of 26% 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 fully expensing capital interest.

- Cash and equivalents at end of year were $7,998,185. Of this amount, $4,097,091 is available for operations, with the balance restricted by grant agreements or governing body policy to be used on specific capital projects including the purchasing vehicles, vehicle equipment and capital equipment for the Authority's facility. Restricted cash with fiscal agent was $8,512,475, and is available for support required in completing the construction of the Authority's facility. VVTA held additional cash assets at year end totaling $1,974,630 which have been restricted by the Authority's governing body for future major renovation and repair of the Authority's facility.

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 and Expenses, 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 accounts for all transactions in an enterprise fund which uses the full accrual basis of accounting. The activity shown in Table A-1 represents all activity through that 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

	30-Jun		Dollar	Percentage
	2014	2013	Change	Change
Current Assets	$20,149,473	$17,199,778	$2,949,695	17%
Capital assets (net)	61,296,299	60,365,978	930,321	2%
Total Assets	$81,445,772	$77,565,756	$3,880,016	5%
Current Liabilities	$10,179,675	$8,890,330	$1,289,345	15%
Long-term Liabilities	31,375,000	32,130,000	(755,000)	-2%
Total Liabilities	$41,554,675	$41,020,330	$534,345	13%
Net Position				
Net investment in capital assets	$34,747,522	$34,256,432	$491,090	1%
Restricted for Debt Service	2,931,252	2,931,252	0	0%
Unrestricted	2,212,323	(642,258)	2,854,581	445%
Total Net Position	39,891,097	36,545,426	3,345,671	9%
Total Liabilities & Net Position	$81,445,772	$77,565,756	$3,880,016	5%

Table A-1, shows the Authority's total net position increased from $36,545,426 in FY 12-13 to $39,891,097 or by 9% in FY 13-14, as a result of the year's activities as explained previously in this report.

- **Current assets** increased substantially by $2,949,695 or 17% due to an increase in cash and receivables.

- **Total Capital Assets** (net of depreciation) **increased by $930,321.** This change reflects the net activity in capital asset accounts including additions and retirements of assets as well as accumulated depreciation expense charges. This increase indicates that the Authority's investment activity in capital assets was greater than its charges and increased by 1.5% as compared to the prior year.

	FY2014	FY2013
Land	$1,500,000	$1,500,000
Construction in Process	963,680	797,731
Total Non-Depreciable	**2,463,680**	**2,297,731**
Property & Equipment	58,832,619	58,068,247
Total Capital Assets (net)	**$61,296,299**	**$60,365,978**

Depreciable Property and Equipment assets (net of depreciation) increased by $764,372. This increase was due to new equipment acquisitions as well as completion of prior Construction in Progress projects, totaling $4,715,532 for the year and offset by ($1,274,555) in asset retirements and a net increase in accumulated depreciation expenses of ($2,676,605). The ending balance of $963,680 in the Construction in Progress account is for ongoing Intelligent Transportation Systems (ITS) projects ($165,972) a Bus Rehabilitation project ($679,811), an Integrated Voice Response System and other phone infrastructure improvements ($75,983) with a small balance ($27,680) for ongoing completion projects for the New Facility and the balance of $14,234 for Regional and Commuter bus replacement. The Authority occupied the new facility beginning in November, 2011. Final completion of the project is expected in late FY14-15. The ITS and Bus Rehabilitation projects are scheduled for completion in FY14-15. Total Capital Assets, net of depreciation increased by $930,321.

Included in the increase in Property & Equipment are purchased capital assets of five (5) new revenue service transit coaches, the addition of five (5) additional revenue service transit coaches that were received at no cost and rehabilitated by The Authority's Bus Rehabilitation Project, the replacement of major components (engines and transmissions) in a number of revenue service vehicles, completion of an Intelligent Transportation System enhancement to the Demand Response (ADA) fleet vehicles, along with furnishings, fixtures and computer equipment to support the New Facility.

- **Total Liabilities increased** by $534,345 when compared to FY12-13 due to an increase in Accounts Payable, Accrued Liabilities and Unearned Revenue of $1,289,345 and a pay down of Long Term debt in the amount of $755,000. 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 - Investment in capital assets (net) increased by $491,090.** This change reflects the net activity in capital asset accounts including additions and retirements of assets as well as accumulated depreciation expense charges. This increase indicates that the Authority's investment activity in capital assets was greater than its charges and increased by 1% as compared to the prior year.

- **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 $2,212,323 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 a negative position of ($642,258) at June 30, 2013 to a positive position of $2,212,323 at the end of the fiscal year. This positive change in balance is due to the receipts of Local Transportation Fund revenues, State Transit Assistance Funds, other grant proceeds totaling $237,693 and an insurance settlement and CSI rebate funds totaling $1,974,630 as previously noted in this discussion. Of these funds, $1,974,630 has been restricted by VVTA's governing board for future major renovations or repairs to VVTA's Administration and Maintenance Facility.

REVENUES – EXPENSES – AND CHANGES IN NET POSITION

While the Statement of Net Position shows the change in financial position of net assets, the Statement of Revenues, Expenses, and Changes in Net Position provides answers as to the nature and source of these changes.

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

	For the year ended 30-Jun 2014	2013	Dollar Changes	Percentage Changes
Revenues				
Program Revenues (operating):				
Charges for Services (Fares)	$2,618,125	$2,538,309	$79,816	
Federal Grants-Operating	2,808,463	1,848,539	959,924	
State and Local Grants-Operating	8,968,629	7,351,043	1,617,586	
Other Revenues	221,951	316,919	(94,968)	
Capital Revenues:				
Federal Grants	3,013,485	2,604,828	408,657	
State and Local Grants	2,584,229	1,473,149	1,111,080	
Other revenues	2,892,804	407,962	2,484,842	
Total Revenues	23,107,686	16,540,749	6,566,937	40%
Program Expenses				
Operations	12,612,728	10,301,767	2,310,961	
General and Administration	1,970,049	1,695,512	274,537	
Depreciation	3,659,414	3,028,340	631,074	
Capital Expenses:				
Capital Interest Expense	1,514,034	667,516	846,518	
Loss on Disposal of Assets	5,790	-	5,790	
Total Expenses	19,762,015	15,693,135	4,068,880	26%
Changes in net position	$3,345,671	$847,614	$2,498,057	
Net Position - Beginning of year	36,545,426	35,697,812	847,614	2%
Net Position - End of year	$39,891,097	$36,545,426	$3,345,671	9%

As shown on Table A-2, **Fare Revenues** increased by $79,816 or 3% in FY 13/14. This increase was due to an increase in ridership on the Authority's transit system. The increased ridership was largely due to the addition of new routes including Sunday service as a result of implement changes recommend in the Authority's COA2013. Increases in fare revenues were lower than expected however, due to pilot program offering reduced fares to college students at a local community college and by a planned reduction in ridership in connection with a change in rules affecting student attendance at a local County High School serviced by VVTA. Additionally, VVTA experienced reduced revenues from its commuter route to NTC Fort Irwin, when the Federal government failed to renew legislation that set the Mass Transit Benefit Program (MTBP) for military commuters at $245 per month. The result was a reduction in benefit to $135 per month, which caused a small reduction in ridership on that route.

Program revenues to support operations received from Federal, State and Local agencies increased by $2,577,510 as compared to the prior year. The majority of the increase was in Federal operating grants of $957,481, to support the new Vanpool program and Mobility Management programs introduced in FY12-13. Increases in State and Local funding of $1,617,586, was a result of increased Local Transportation Funds to support the increases in the Authority's operations budget due to the implementation of COA2013 changes referred earlier in this discussion. 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 increased by $1,519,737. 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 Authority. The funds received were sufficient to meet the capital needs of the agency for FY13/14. "Other Capital Revenues" increased $2,484,842, mostly due to the receipt of insurance proceeds and CSI rebates which have been restricted into a capital fund for future major repairs and renovations to VVTA's Administration and Maintenance facility by VVTA's governing board.

Total revenues increased 40% from $16,540,749 for FY 12/13 to $23,107,686 for FY 13/14. The result was an increase in the change to Net Position of $3,345,671.

Program expenses increased 26%, or $4,068,880 when compared to the prior year. Of this amount, operations expense increased by $2,310,961 due to increased operational costs as a result of implementing a number of changes to route services as outlined in the Authority's COA2013. Additionally, the Authority's operations contractor Veolia (aka Transdev), which represents the majority of the Authority's operations expenses, received a 3% increase in its rates per contract terms. General and Administration (G&A) costs increased by $274,537. This is due to increases in the Authority's facility expenses including utilities and insurance along with small increases as a result of the addition of administrative staff, rounded out the Administrative costs changes for FY13/14.

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 stability 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 $36,545,426 in FY 12/13 to $39,891,097 or 9% in FY 13/14.

Some specific activities that have led to the Authority's financial condition as of June 30, 2014, 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.

- As of January 24, 2014, the Authority has received its Certificate of Substantial Completion. There is still a small amount of work required to achieve Final Completion. Expected Final Completion will be in FY14/15.

- In FY13/14, VVTA began to implement the majority of route service changes recommended by the COA2013 mentioned at the outset of this discussion. These changes resulted in increased services and routes, including the addition of Sunday service as identified in The Authority's unmet needs survey. These changes resulted in both increases to Program Revenues of 21% and Program Expenses of 28% as compared to the prior year. VVTA expects to see much slower to flat growth in FY14/15.

- This fiscal year, the authority received delivery of five (5) new Eldorado Axess vehicles used to support fixed route services. In FY12/13, 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 were in excellent mechanical condition with low miles and were programmed to 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 received in Q1 of FY13-14. Of the eleven (11) vehicles received, five (5) have completed their rehabilitation and were placed in revenue service in FY13/14. VVTA expects to place three (3) additional units in service in FY14/15, with the remaining three (3) units being reserved as spare vehicles not in revenue service. 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 completed Phase III of the Intelligent Transportation Systems (ITS) project for its ADA fleet in FY13/14. This project provided navigation and communication upgrades to the ADA fleet. Phase IV, which includes an interactive web based route location tool in support of fixed route services, was launched in FY13/14 and is expected to be completed in FY14/15.

- The Authority began two other Construction in Process projects in FY13/14. One of these projects was for the development and implementation of a fully integrated state-of-the-art Interactive Voice Response (IVR) system which will improve customer service without the need for support staff increases. Additionally, an automated telephone support system used by Administration and Operations staff, will more efficiently route customer service inquiries to the correct departments.

The Authority expects much slower to flat capital and program growth through the next fiscal year.

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, 2014

ASSETS	
Cash	$ 7,998,185
Cash and investments with fiscal agent - restricted	8,512,475
Cash and investments - Board reserved	1,974,630
Receivables:	
Federal, State, and other local grants	1,327,825
Other	312,556
Prepaid expenses	17,604
Fuel inventory	6,198
Total Current Assets	20,149,473
CAPITAL ASSETS	
Non-depreciable	2,463,680
Depreciable	78,486,160
Accumulated depreciation	(19,653,541)
Capital assets, net	61,296,299
TOTAL ASSETS	81,445,772
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable & accrued liabilities	1,462,168
Unearned revenues	7,962,507
Lease / trust agreement	755,000
Total Current Liabilities	10,179,675
NON CURRENT LIABILITIES	
Lease / trust agreement	31,375,000
TOTAL LIABILITIES	41,554,675
NET POSITION	
Net investment in capital assets	34,747,522
Restricted for:	
Debt service	2,931,252
Unrestricted	2,212,323
TOTAL NET POSITION	$ 39,891,097

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, 2014

OPERATING REVENUES:	
Fares	$ 2,489,965
Special transit fares	128,160
Total Operating Revenues	2,618,125
OPERATING EXPENSES:	
Operations	12,612,728
General and administration	1,970,049
Depreciation	3,659,414
Total Operating Expenses	18,242,191
OPERATING LOSS	(15,624,066)
NON-OPERATING REVENUES AND EXPENSES:	
Operating Assistance:	
Federal Transit Administration Section 5307, operating	1,623,634
Federal Transit Administration Section 5309, operating	518,661
Federal Transit Administration Section 5311	349,418
Federal Transit Administration Section 5316	24,309
Federal Transit Administration Section 5317	223,431
Federal Congestion Mitigation and Air Quality Improvement Program Demonstration	69,010
State Transit Assistance Fund, operating	104,294
Local Transportation Fund Article 8c, operating	7,817,550
Measure I	799,665
AB 2766	247,120
Loss on disposal of assets	(5,790)
Interest income	180,645
Legal settlement	1,622,018
Solar panel rebates	352,612
Miscellaneous	41,306
Interest expense	(1,514,034)
Total Non-operating Revenues, Expenses	12,453,849
INCOME BEFORE CAPITAL CONTRIBUTIONS	(3,170,217)
CAPITAL CONTRIBUTIONS:	
Federal Transit Administration Section 5307, capital	1,764,520
Federal Transit Administration Section 5316, capital	39,232
Federal Transit Administration Section 5339, capital	352,150
Federal Congestion Mitigation and Air Quality Improvement Program (CMAQ)	857,583
Local Transportation Fund Article 3	84,166
Local Transportation Fund Article 8c, capital	418,923
State Transit Assistance Fund	244,973
PTMISEA (Proposition 1B)	1,836,167
Donated Assets	490,000
Miscellaneous	428,174
Total Capital Contributions	6,515,888
CHANGES IN NET POSITION	3,345,671
NET POSITION, Beginning of year	36,545,426
NET POSITION, End of year	$ 39,891,097

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, 2014

Cash flows from operating activities:	
Cash received from fares	$ 2,358,572
Payments to employees	(1,037,871)
Payments to vendors for services	(13,827,438)
Net cash used in operating activities	(12,506,737)
Cash flows from non-capital financing activities:	
Operating grants received/legal settlement/solar panels rebate	16,540,796
Cash flows from capital and related financing activities:	
Capital grants received	6,045,496
Purchase of capital assets	(4,099,735)
Payments, lease / trust agreement	(725,000)
Interest expense	(1,514,034)
Loss on disposal of capital assets	(5,790)
Net cash used in capital and related financing activities	(299,063)
Cash flows from investing activities:	
Interest received	180,645
Net increase in cash and cash equivalents	3,915,641
Cash and cash equivalents, beginning of year	11,638,397
Cash and cash equivalents, end of year	$ 15,554,038
Reconciliation of cash and cash equivalents to statement of net position:	
Cash	$ 7,998,185
Cash and investments with fiscal agent	8,512,475
Cash and investments Board reserved	1,974,630
Less: long-term investments	(2,931,252)
Total Cash and Cash Equivalents	$ 15,554,038
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (15,624,066)
Adjustments to reconcile operating (loss) to net cash used in operating activities:	
Depreciation expense	3,659,414
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable	(259,553)
Prepaid expenses	25,548
Increase (decrease) in liabilities:	
Accounts payable and accrued liabilities	(308,080)
Total Adjustments	3,117,329
Net cash used in operating activities	$ (12,506,737)
Schedule of non-cash capital and related financing activities	
Contributions of capital assets	$ 490,000

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

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	$	5,581,223
Debt Reserve		2,931,252
Total cash with fiscal agent	$	8,512,475

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 (SANBAG) 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.

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, 2014, was $6,198.

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. No interest was capitalized during the fiscal year.

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.

New GASB Pronouncements

<u>Adopted in the Current Year</u>

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 or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as deferred outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Statement is effective for periods beginning after December 15, 2012. The implementation of this Statement did not have a material effect on the financial statements.

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

GASB Statement No. 66 – In 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 improve accounting and financial reporting for a governmental financial reporting entity by resolving 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 Statement is effective for periods beginning after December 15, 2012. The implementation of this Statement did not have a material effect on the financial statements.

GASB Statement No. 67 – In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25.* The objective of this Statement is to improve financial reporting by state and local governmental pension plans. 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 replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are not administered through trust covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pension. The Statement is effective for periods beginning after June 15, 2013. This Statement is specifically for pension plan providers and had no material effect on the financial statements.

GASB Statement No. 70 – In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees.* The objective of this Statement is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The Statement is effective for periods beginning after June 15, 2013. The implementation of this Statement did not have a material effect on the financial statements.

<u>Effective in Future Years</u>

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.* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. 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. The Statement is effective for periods beginning after June 15, 2014. VVTA has not determined the effect on the financial statements.

GASB Statement No. 69 – In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations.* The objective of this Statement is to establish reporting standards related to government combinations and disposals of government operations. The Statement is effective for periods beginning after December 15, 2013. VVTA has not determined the effect on the financial statements.

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

GASB Statement No. 71 – In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. VVTA has not determined the effect on the financial statements.

NOTE 3 – LEGAL SETTLEMENT AND SOLAR PANEL REBATES

During the fiscal year, VVTA received a legal settlement from the insurance companies of the primary contractor of the Administrative Office Facility in the amount of $1,622,018. VVTA's Board of Directors approved to set aside these funds for future major repairs and renovation of the facility into an Administration/Maintenance Facility Reserve. The balance of these funds will be tracked separately on an annual basis. The balance is included in the unrestricted net position on the Statement of Activities.

In addition, VVTA has also received SCE Solar Panel Rebates totaling $352,612. VVTA's Board of Directors has approved to allocate these rebates to the Administration/Maintenance Facility Reserve. The balance of these funds will be tracked separately on an annual basis. The balance is included in the unrestricted net position on the Statement of Activities.

San Bernardino Associated Governments has agreed that these funds are available to be retained and expended based upon the direction provided by VVTA's Board in accordance with existing Board Resolutions.

NOTE 4 – FEDERAL, STATE, AND LOCAL GRANTS

<u>Federal Assistance</u>
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, 2014 was $5,821,948.

<u>Transportation Development Act</u>
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.

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.

NOTE 4 – FEDERAL, STATE, AND LOCAL GRANTS, (CONTINUED)

A. Section 6634, (Continued)

The computation of deferred revenue for fiscal year 2014 is as follows:

	Operating Funds	Capital Funds	Total
Beginning balance, July 1, 2013	$ 5,530,128	$ 864,954	$ 6,395,082
Gross receipts			
Local Transportation Fund:			
Article 3	-	84,166	84,166
Articl 8c	6,340,727	418,923	6,759,650
Federal Transportation Administration:			
Section 5307	1,623,634	1,765,212	3,388,846
Section 5309	518,661	-	518,661
Section 5311	349,418	-	349,418
Section 5316	24,309	39,232	63,541
Section 5317	223,431	-	223,431
Section 5339	-	352,150	352,150
CMAQ	69,010	857,583	926,593
State Transportation Fund, Article 6.5	104,294	250,579	354,873
Measure I	807,313	-	807,313
AB2766	247,120	-	247,120
Prop 1B (PTMISEA)	-	5,304,586	5,304,586
Fares	2,633,040	-	2,633,040
Other non-transportation revenue	21,053	-	21,053
Disposal of Capital Assets	10,692	-	10,692
Interest	22,090	158,607	180,697
Miscellaneous	40,763	-	40,763
Total gross receipts	13,035,555	9,231,038	22,266,593
Reclass CAP Revenues Used to Pay Expensed Interest (Lease)	1,514,034	(1,514,034)	-
COP Funds Used for Capital Expenditures FY 13	-	429,147	429,147
COP Funds Used to Pay Admin Expenses	90,903	-	90,903
Total gross receipts	14,640,492	8,146,151	22,786,643
Operating expenses, less depreciation	16,096,805	-	16,096,805
Capital acquisitions	-	5,122,413	5,122,413
Total Amount received in excess of costs as of June 30, 2014	(1,456,313)	3,023,738	1,567,425
Amount deferred at June 30, 2014	$ 4,073,815	$ 3,888,692	$ 7,962,507

NOTE 4 – 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, 2014, is calculated as follows:

	Motor Bus Routes**	Handicapped Demand Response	Total
Operating expenses	$ 15,812,253	$ 3,943,972	$ 19,756,225
Less depreciation	(3,191,656)	(467,758)	(3,659,414)
Adjusted operating expenses	$ 12,620,597	$ 3,476,214	$ 16,096,811
Fare revenue	$ 2,159,256	$ 458,869	$ 2,618,125
Fare ratio	17.1%	13.2%	
Total fare ratio pursuant to P.U.C. Sections 99405(c) and 99268.4, respectively	15.0%	10.0%	

** The operating expense include interest expense per TDA guidelines for the fare ratio calculation.

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

NOTE 4 – 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, 2013	$	104,472
PTMISEA funds received during fiscal year ended June 30, 2014		5,304,586
PTMISEA expenses incurred during fiscal year ended June 30, 2014		(1,836,167)
Unearned Balance, June 30, 2014	$	3,572,891

NOTE 5 – CASH AND INVESTMENTS

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

Cash	$	7,998,185
Cash and investments with fiscal agent - restricted		8,512,475
Cash and investments - Board reserved		1,974,630
Total	$	18,485,290

Cash and Investments consist of the following:

Cash on hand	$	57,144
Deposits with financial institutions		4,736,190
Certificates of Deposit		5,179,481
Cash and cash equivalents with fiscal agent:		
CAMP		5,581,223
Subtotal - cash and cash equivalents		15,554,038
Investment with trustee		
Guaranteed investment contracts		2,931,252
Total	$	18,485,290

NOTE 5 – 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:

		Remaining Maturity (in Months)	
Investment Type	Total	12 Months Or Less	More than 60 Months
Investments held by Authority:			
Certificates of Deposit	$ 5,179,481	$ 5,179,481	$ -
Held by trustee			
Guaranteed Investment Contract	2,931,252	-	2,931,252
CAMP	5,581,223	5,581,223	-
Total	$ 13,691,956	$ 10,760,704	$ 2,931,252

NOTE 5 – 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	Not Rated or Applicable
Held by Authority			
Certificates of Deposit	$ 5,179,481	N/A	$ 5,179,481
Held by trustee			
Guaranteed Investment Contract	2,931,252	Not rated	2,931,252
CAMP	5,581,223	N/A	5,581,223
Total	$ 13,691,956		$ 13,691,956

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
Desert Community Bank	Certificates of Deposit	$ 5,179,481

California Government Code Section 53601 limits investments in negotiable certificates of deposit to 30% of the total investment balance. As of June 30, 2014, the Authority's investments in negotiable certificates of deposit exceeded the 30% ceiling.

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, 2014, VVTA holds cash deposits with Desert Community Bank $4,564,714 in excess of FDIC insurance limits. These amounts are collateralized by securities held by the bank.

NOTE 5 – 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 6 – CAPITAL ASSETS

Capital asset activity for the fiscal years ended June 30, 2014, is as follows:

	Beginning Balance July 1, 2013	Additions	Retirements	Ending Balance June 30, 2014
Non-depreciable assets				
Land	$ 1,500,000	$ -	$ -	$ 1,500,000
Construction in progress	797,731	1,758,921	(1,592,972)	963,680
Total assets, not depreciated	2,297,731	1,758,921	(1,592,972)	2,463,680
Depreciable assets				
Bus Facility	49,911,059	433,741	-	50,344,800
Operations equipment	22,999,944	3,996,500	(1,274,555)	25,721,889
Furniture and office equipment	2,134,180	285,291	-	2,419,471
Total depreciated assets	75,045,183	4,715,532	(1,274,555)	78,486,160
Accumulated depreciation				
Bus Facility	(512,230)	(1,252,204)	-	(1,764,434)
Operations equipment	(15,524,351)	(1,617,751)	982,808	(16,159,294)
Furniture and office equipment	(940,355)	(789,458)	-	(1,729,813)
Subtotal accumulated depreciation	(16,976,936)	(3,659,413)	982,808	(19,653,541)
Net depreciable assets	58,068,247	1,056,119	(291,747)	58,832,619
Total capital assets, net	$ 60,365,978	$ 2,815,040	$ (1,884,719)	$ 61,296,299

NOTE 7 – 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 8 – 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, 2014. 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.

NOTE 9 – 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, 2014:

	Balance at June 30, 2013	Additions	Deletions	Balance at June 30, 2014	Due within One year	Due beyond One year
Governmental activities:						
Lease / Trust Agreement (COP)	$ 32,855,000	$ -	$ (725,000)	$ 32,130,000	$ 755,000	$ 31,375,000
Compensated Absences	45,317	19,972	(11,205)	54,084	54,084	-
Total Long-Term Liabilities	$ 32,900,317	$ 19,972	$ (736,205)	$ 32,184,084	$ 809,084	$ 31,375,000

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
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	890,000	1,346,078	2,236,078
2020-2024	5,070,000	6,124,409	11,194,409
2025-2029	6,320,000	4,867,256	11,187,256
2030-2034	7,965,000	3,230,476	11,195,476
2035-2037	8,675,000	971,851	9,646,851
Total	$ 32,130,000	$ 22,282,556	$ 54,412,556

NOTE 10 – COMPENSATED ABSENCES

Accumulated unpaid personal leave consisting of vacation pay, has been accrued at June 30, 2014 in the amount of $54,084. 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.

NOTE 11 – 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, 2014, the employer contribution rate was 15.517%. 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, 2014, VVTA's annual pension cost of $138,058 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
6/30/2012	14.566%	$ 67,409	100%
6/30/2013	14.666%	90,783	100%
6/30/2014	15.517%	138,058	100%

NOTE 12 – 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.

VICTOR VALLEY
TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2014

VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)

FOR THE YEAR ENDED JUNE 30, 2014

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Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

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
Victor Valley Transit Authority
Hesperia, California

We have audited, in accordance with the 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, the financial statements of Victor Valley Transit Authority (VVTA), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise VVTA's basic financial statements and have issued our report thereon dated January 9, 2015.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2014-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2014-002 to be a significant deficiency.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether VVTA'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 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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2014-002.

VVTA's Response to Findings

VVTA's responses to the findings indentified in our audit are described in the accompanying schedule of findings and questioned costs. VVTA's responses were not subjected 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 the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
January 9, 2015

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

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

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

Report on Compliance for Each Major Federal Program

We have audited Victor Valley Transit Authority's (VVTA) 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 VVTA's major federal programs for the year ended June 30, 2014. VVTA'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 VVTA'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 VVTA'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 VVTA's compliance.

Opinion on Each Major Federal Program

In our opinion, VVTA 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, 2014.

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Report on Internal Control over Compliance

Management of VVTA 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 VVTA'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 VVTA'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 VVTA as of and for the year ended June 30, 2014, and have issued our report thereon dated January 9, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for 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 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 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 expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
January 9, 2015

VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor Program Title	Federal CFDA Number	Grant Identification Number	Federal Expenditures	Amounts provided to subrecipients
U.S. Department of Transportation				
Direct Grants				
Federal Transit Cluster:				
Capital Investment Grant, Section 5309	20.500	CA-04-0226	$ 518,661	$ -
Federal Transit Formula Grants, Section 5307	20.507	CA-95-X136	28,650	
Federal Transit Formula Grants, Section 5307	20.507	CA-90-Z118	2,163	
Federal Transit Formula Grants, Section 5307	20.507	CA-95-X132	40,360	
Federal Transit Formula Grants, Section 5307	20.507	CA-90-Y879	9,884	
Federal Transit Formula Grants, Section 5307	20.507	CA-95-X194	857,583	
Federal Transit Formula Grants, Section 5307	20.507	CA-90-Z161	3,300,799	
Federal Transit Formula Grants, Section 5307	20.507	CA-90-Z092	76,000	
Bus & Bus Facilities Formula Program, Section 5339	20.526	CA-34-0005	350,597	
Bus & Bus Facilities Formula Program, Section 5339	20.526	CA-34-0018	1,553	
Total Federal Transit Cluster			5,186,250	-
Transit Services Program Cluster:				
Job Access Reverse Commute, Section 5316	20.516	CA-37-X112	4,776	
Job Access Reverse Commute, Section 5316	20.516	CA-37-X120	39,232	
Job Access Reverse Commute, Section 5316	20.516	CA-37-X178	1,873	
New Freedom Program, Section 5317	20.521	CA-57-X040	30,387	
New Freedom Program, Section 5317	20.521	CA-57-X051	22,474	
New Freedom Program, Section 5317	20.521	CA-57-X091	14,464	
New Freedom Program, Section 5317	20.521	SA-642715	156,106	
Total Federal Transit Services Programs Cluster			269,312	165,141
Passed Through California Department of Transportation:				
Formula Grants for Rural Areas, Section 5311	20.509	SA 6414180	349,418	-
Total Expenditures of Federal Awards			$ 5,804,980	$ 165,141

See accompanying note to Schedule of Expenditures of Federal Awards.

VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2014

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 Victor Valley Transit Authority (VVTA). VVTA's reporting entity is defined in Note 1 of VVTA'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 VVTA's Financial Statements.

C. Subrecipients

The Authority incurred $165,141 of New Freedom Program, Section 5317 (CFDA No. 20.521) expenditures that were paid to two (2) subrecipients during the year ended June 30, 2014.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2014

I. SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS	
Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material Weakness(es) identified?	Yes
Significant Deficiency(ies) identified?	Yes
Noncompliance material to financial statements noted?	Yes
FEDERAL AWARDS	
Internal control over major federal programs:	
Material Weakness(es) identified?	No
Significant deficiency(ies) identified not considered to be material weaknesses?	None Reported
Type of auditors' report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section.510(a) of Circular A-133	No
Identification of major federal programs:	

CFDA Number(s)	Name of Federal Program or Cluster
20.500, 20.507, 20.526	Federal Transit Cluster

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2014

II. FINANCIAL STATEMENT FINDINGS

Finding 2013-001

JOURNAL ENTRIES

Criteria:

The use of journal entries is an important element of VVTA's financial reporting processes. Journal entries are used to record financial transactions, post adjustments and to post accruals.

Condition:

Material Weakness - While testing transaction cycles over key financial statement line items, we noted that journal entries are prepared, reviewed and posted by the Finance Director without any additional approval or review of journal entries between the months of July through January, 2014.

Context:

The condition noted above was identified during our testing of the revenue, expense, cash, accounts payable, and accounts receivable transaction cycles and inquiry with personnel for the period of July 1, 2013 through February 1, 2014

Effect:

The internal control environment is weakened as journal entries are not subjected to a formal approval process.

Cause:

The performance of internal controls related to review and approval of financial information posted to VVTA's financial reporting system was not formally documented.

Recommendation:

VVTA should document the review of journal entries through a signature, initial, date, or other testable event to ensure proper approval of journal entries.

View of Responsible Official and Planned Corrective Actions:

Management agrees that there has not been a formal process for review and secondary approval of journal entries and there is no such documentation to support such a program during the FY2013 reporting period. At that time lack of adequate accounting staff has resulted in only one staff member, the Finance Director, having the knowledge necessary to adequately review and approve journal entries. To remedy this finding, VVTA has hired an additional accounting staff person during the FY13-14 financial year and implemented corrective action as of March 1, 2014.

II. FINANCIAL STATEMENT FINDINGS

Finding 2013-002

INVESTMENT CONCENTRATION

Criteria:

California Government Code Section 53601 (i) states that purchases of negotiable certificates of deposit shall not exceed 30 percent of the agency's monies that may be invested. Management is responsible for ensuring compliance with the Code.

Condition:

Significance Deficiency, Instance of Noncompliance We noted that negotiable certificates of deposit make up approximately 38 percent of the total investments of the Victor Valley Transit Authority (VVTA).

Context:

The condition noted above was identified during the testing of VVTA's investments.

Effect:

As a result, VVTA has incurred an instance of noncompliance in regards to the California Government Code relating to investments and surplus funds.

Cause:

VVTA does not have a process by which investments can be tracked to be in compliance with the California Government Code relating to surplus funds.

Recommendation:

VVTA should establish procedures and a formal investment policy by which VVTA can track all investments against.

View of Responsible Official and Planned Corrective Actions:

Management agrees with this finding. VVTA will implement policies and procedures which limit investment activities that will prevent investment concentration beyond the guidance found in California Government Code Section 53601(i).

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2014

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2014

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 of Corrective Action
2013-001	Journal Entries	N/A	N/A	Not Implemented for the period between July 1, 2013 through February 1, 2014.
2013-002	VVTA Financial Statements - Year-End Closing Procedures	N/A	N/A	Implemented