

The Transit Enterprise Fund of the City of Santa Clarita

Financial Report
Year Ended June 30, 2013

Contents

Independent Auditor's Report	1-2
<hr/>	
Financial Statements	
Statement of net position	3
Statement of revenues, expenses, and changes in net position	4
Statement of cash flows	5
Notes to financial statements	6-10



Independent Auditor's Report

To the Honorable Mayor and Members of the City Council
of the City of Santa Clarita
Santa Clarita, CA

Report on the Financial Statements

We have audited the accompanying financial statements of the Transit Enterprise Fund (the Fund) of the City of Santa Clarita (the City) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Fund'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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 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 Fund'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 Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2013, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1 to the financial statements, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2013, the changes in its financial position, or, where applicable, its cash flows 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 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 under a separate cover dated January 29, 2014 on our consideration of the City'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 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 Fund's internal control over financial reporting and compliance.



Irvine, CA
January 29, 2014

Financial Statements

The Transit Enterprise Fund of the City of Santa Clarita

Statement of Net Position
June 30, 2013

Assets

Current Assets

Prepays	\$ 240,261
Due from other governments	9,126,508
Total current assets	<u>9,366,769</u>

Noncurrent Assets

Capital assets, net	76,561,407
Total assets	<u>85,928,176</u>

Liabilities

Current Liabilities

Accounts payable	3,730,953
Due to other funds of the City of Santa Clarita	1,738,468
Compensated absences payable	62,032
Total current liabilities	<u>5,531,453</u>
Total liabilities	<u>5,531,453</u>

Net Position

Net Investment in Capital Assets	76,561,407
Unrestricted	3,835,316
Total net position	<u>\$ 80,396,723</u>

See Notes to Financial Statements.

The Transit Enterprise Fund of the City of Santa Clarita

**Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2013**

Operating revenues:	
Metrolink and EZ pass revenues	\$ 141,461
Fixed-route passenger fares	3,847,099
Dial-A-Ride passenger fares	99,435
County of Los Angeles operating assistance	1,635,503
Specialized transit services	925,932
Miscellaneous revenues	213,656
Total operating revenues	6,863,086
Operating expenses:	
Salaries and benefits	1,093,123
Administrative services	717,102
Contract transportation services	17,465,062
Insurance	120,300
Supplies, utilities and other	1,830,947
Depreciation	4,409,915
Total operating expenses	25,636,449
Operating loss	(18,773,363)
Nonoperating revenues (expenses):	
Proposition A	5,379,933
Proposition C	447,757
Measure R	1,961,221
Other revenues	290,406
Transit mitigation fees	63,000
Other federal assistance (CNG fuel rebate)	436,892
Interest income	29,660
Loss on disposal of capital assets	(17,304)
Total nonoperating revenues	8,591,565
Loss before contributions and transfers	(10,181,798)
Capital contributions:	
Federal Transit Administration capital grants	7,466,090
Prop C MOSIP	947,148
Capital contributions	100,000
Total capital contributions	8,513,238
Transfers in	5,435,298
Transfers out	(248,074)
Change in net position	3,518,664
Net position	
Beginning of year	76,878,059
End of year	\$ 80,396,723

See Notes to Financial Statements.

The Transit Enterprise Fund of the City of Santa Clarita

**Statement of Cash Flows
For the Year Ended June 30, 2013**

Cash Flows From Operating Activities	
Cash received from customers and users	\$ 4,087,995
Cash payments to suppliers of goods and services	(19,398,788)
Cash payments to employees	(1,083,455)
Cash received from other sources	2,775,091
Net cash used in operating activities	<u>(13,619,157)</u>
Cash Flows From Noncapital Financing Activities	
Cash transfers out	(248,074)
Cash transfers in	5,435,298
Loans received from the General Fund	1,738,468
Net cash provided by noncapital financing activities	<u>6,925,692</u>
Cash Flows From Capital and Related Financing Activities	
Federal and state grants received	11,300,031
Acquisition of capital assets	(7,244,461)
Proceeds from disposal of capital assets	34,475
Net cash provided by capital and related financing activities	<u>4,090,045</u>
Cash Flows From Investing Activities	
Interest received	31,514
Net cash provided by investing activities	<u>31,514</u>
Net decrease in cash and cash equivalents	(2,571,906)
Cash and Cash Equivalents, beginning of year	<u>2,571,906</u>
Cash and Cash Equivalents, end of year	<u>\$ -</u>
Reconciliation of Operating Income to Net Cash Used in Operating Activities	
Operating loss	\$ (18,773,363)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	4,409,915
Changes in operating assets and liabilities:	
(Increase) in prepaids	(51,467)
Increase in accounts payable and accrued liabilities	786,090
Increase in compensated absences	9,668
Total adjustments	<u>5,154,206</u>
Net cash used in operating activities	<u>\$ (13,619,157)</u>
Noncash capital, and financing activities	
Disposal of capital assets	<u>\$ (51,779)</u>
Contribution of capital assets	<u>\$ 100,000</u>

See Notes to Financial Statements.

The Transit Enterprise Fund of the City of Santa Clarita

Notes to Financial Statements

Note 1. Nature of Business and Summary of Significant Accounting Policies

Nature of business: The financial statements of the Transit Enterprise Fund (the Fund) of the City of Santa Clarita, California (the City) are intended to present the financial position and results of bus line services operation. The financial statements of the Fund are included as a business-type (enterprise fund) activity in the basic financial statements of the City.

As an operator of a public transportation system, the City is eligible for Transportation Development Act (TDA) Public Utilities Code Section 99260 (TDA Section 99260) funds. These funds were allocated by the Los Angeles County Metropolitan Transportation Authority to supplement the City's transit operations.

A summary of the Fund's significant accounting policies is as follows:

The accounting policies of the Fund are in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles.

Financial presentation: The financial statements of the Fund include the statement of net position, the statement of revenues, expenses, and changes in net position, and the statement of cash flows.

The financial statements are prepared using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the statement of net position. The statement of revenues, expenses, and changes in net position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recorded in the period in which the liability is incurred.

Operating revenues are those revenues that are generated from the primary operations of the local, commuter, Dial-A-Ride and Access Services, Inc. transit operations and maintenance. All other revenues are reported as nonoperating revenues, and intergovernmental revenue received primarily for capital acquisitions are reported as capital contributions. Operating expenses are those expenses that are essential to the primary operations of the Fund. All other expenses are reported as nonoperating expenses.

Cash and investments: The Fund's cash balance was pooled with various other City funds for deposit and investment purposes. The City's treasury is responsible for the cash management of the Fund's cash balance, which pools available cash for investment purposes. The cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturity of three months or less from the date of acquisition. Each City fund owns a share of pooled cash and investments, which are separately maintained, and interest income was apportioned based on its average month-end cash balances to the total of the pooled cash and investments. At June 30, 2013, the Fund has borrowed \$1,738,468 from the City's pooled cash and investments.

Prepays: Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. These are accounted for using the consumption method, and accordingly, the expenditure is recorded in the period in which the goods and/or services are received.

The Transit Enterprise Fund of the City of Santa Clarita

Notes to Financial Statements

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Administrative services: The Fund has no direct employees, as all personnel-related services are provided by vendors through transportation service contracts or through City employees. Costs for such City employees, including the allocation of accrued compensated absences liabilities, are allocated to the Fund based on an approved cost allocation plan.

Grants: Grant revenues and receivables are recorded when earned on grants that have been approved and funded by the grantor, and when eligibility requirements for the grant have been met. Grant sources include Federal Transit Administration, TDA, Proposition A and Proposition C.

Capital assets: Capital assets include land, site improvements, buildings and improvements, and vehicles and equipment assets. Capital assets are defined by the City as assets with an initial cost of more than \$5,000 (\$25,000 for site improvements and building improvements and \$100,000 for infrastructure) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

Site improvements	5-25 years
Buildings and improvements	5-50 years
Equipment	5-25 years

Net position: Net position represents the difference between assets and deferred outflows, and liabilities and deferred inflows, and is classified into three categories:

- **Net investment in capital assets:** This amount consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets, and excludes unspent debt proceeds. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position.
- **Restricted net position:** This amount represents the net position that is subject to externally imposed restrictions by creditors, such as through debt covenants, grantors, contributors, laws or regulations of other governments, as well as restrictions imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position:** This amount represents the residual of amounts not classified in the other two categories and represents the net position available for the City.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the City's policy is to apply restricted net position first.

Employee compensated absences: It is the City's policy to permit employees to accumulate earned but unused vacation (compensated absences). This accumulation is recorded as an expense and liability of the Fund in the fiscal year earned. The outstanding balance as of June 30, 2013 was \$62,032 and was considered due within one year.

The Transit Enterprise Fund of the City of Santa Clarita

Notes to Financial Statements

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Use of estimates: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

Pronouncements issued but not yet adopted: The GASB has issued pronouncements that have an effective date subsequent to June 30, 2013, which may impact future financial presentations. Except as noted below, management has not currently determined what, if any, impact implementation of the following statements may have on future financial statements of the Fund.

- GASB Statement No. 66, *Technical Corrections—2012*: Effective for the Fund's year ending June 30, 2014.
- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*: Effective for the Fund's fiscal year ending June 30, 2015. Management believes that there will be a significant impact on liabilities and net position when this statement is implemented; however, the amount of the impact has not yet been determined.
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*: Effective for the Fund's fiscal year ending June 30, 2015.
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*: Effective for the Fund's fiscal year ending June 30, 2014.
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment to GASB Statement No. 68*: Effective simultaneously with GASB Statement No. 68.

Adoption of accounting standards: The Fund implemented the provisions of GASB Statement No. 63 (GASB 63), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65 (GASB 65), *Items Previously Reported as Assets and Liabilities* for year ended June 30, 2013. The impact of the implementation of GASB 63 resulted in new financial reporting presentation of deferred outflows of resources, deferred inflows of resources, and net position. The impact of the implementation of GASB 65 applies to accounting and financial reporting for governmental activities, business-type activities, proprietary funds and fiduciary funds.

The Fund also implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The purpose of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the various pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

The Transit Enterprise Fund of the City of Santa Clarita

Notes to Financial Statements

Note 2. Cash and Investments

The Fund reported a cash and investments balance of zero as of June 30, 2013.

The deposit and investment disclosures required by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, are reported in the annual report of the City. The pooled cash and investments is unrated, and average maturity is 30 days or less.

Note 3. Due From Other Governments

Due from other governments consists of the following at June 30, 2013:

Agency	Amount
Los Angeles County	\$ 2,760,272
Federal Transit Administration	5,679,484
Other federal agencies	498,361
Other agencies	188,391
	\$ 9,126,508

Note 4. Capital Assets

Changes in capital assets of the Fund at June 30, 2013 consisted of the following:

	Balance July 1, 2012	Additions	Deletions	Transfers	Balance June 30, 2013
Non-depreciable assets:					
Land	\$ 15,087,880	\$ -	\$ -	\$ -	\$ 15,087,880
Construction-in-progress	2,875,594	1,524,935	-	(2,255,239)	2,145,290
Total non-depreciable assets	17,963,474	1,524,935	-	(2,255,239)	17,233,170
Depreciable assets:					
Site improvements	7,261,748	-	-	151,453	7,413,201
Building and improvements	41,483,799	-	-	-	41,483,799
Equipment	42,230,131	5,719,526	(4,944,316)	2,103,786	45,109,127
Total depreciable assets	90,975,678	5,719,526	(4,944,316)	2,255,239	94,006,127
Less accumulated depreciation					
Site improvements	(769,076)	(347,098)	-	-	(1,116,174)
Building and improvements	(7,508,999)	(883,347)	-	-	(8,392,346)
Equipment	(26,882,437)	(3,179,470)	4,892,537	-	(25,169,370)
Total accumulated depreciation	(35,160,512)	(4,409,915)	4,892,537	-	(34,677,890)
Total depreciable assets, net	55,815,166	1,309,611	(51,779)	2,255,239	59,328,237
Capital assets, net	\$ 73,778,640	\$ 2,834,546	\$ (51,779)	\$ -	\$ 76,561,407

Depreciation expense of the Fund was \$4,409,915 the year ended June 30, 2013.

The Transit Enterprise Fund of the City of Santa Clarita

Notes to Financial Statements

Note 5. Interfund Activity

During the year ended June 30, 2013, the Fund has borrowed \$1,738,468 from the General Fund to eliminate deficit cash balances.

During the year ended June 30, 2013, the Fund transferred \$248,074 to the General Fund and nonmajor governmental funds for transit operation forecasts for support of transit operations, and transferred in from the nonmajor governmental funds \$5,435,298 for Propositions A and C, and Measure R local return operating revenues.

Note 6. Administrative and Personnel Costs

Certain general and administrative costs are allocated to the Fund by the City based upon an approved cost allocation plan. Such allocated costs were \$717,102 for the year ended June 30, 2013.

Note 7. Contingencies

The City, on the Fund's behalf, is presently involved in certain matters of litigation that have arisen in the normal course of conducting the Fund's business. Management believes, based upon consultation with attorneys, that these cases, in the aggregate, are not expected to result in a material adverse financial impact on the Fund. Additionally, the Fund participates in the City's Self-Insurance Internal Service Fund. Management believes that the City's Self-Insurance Internal Service Fund reserves are sufficient to cover any potential losses should an unfavorable outcome materialize.

The City participates, on the Fund's behalf, in a number of federally assisted grant programs. Receipts from these grant programs are subject to audit to determine if the monies were expended in accordance with appropriate statutes, grant terms and regulations. Management believes no significant liabilities will result.