

**CITY OF DELANO
TRANSPORTATION DEVELOPMENT ACT FUNDS**

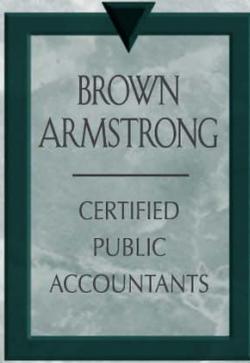
**INDEPENDENT AUDITOR'S REPORTS,
FUND FINANCIAL STATEMENTS, AND
SUPPLEMENTARY INFORMATION**

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2013 AND 2012**

**CITY OF DELANO
TRANSPORTATION DEVELOPMENT ACT FUNDS
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012**

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BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Kern Council of Governments
Bakersfield, California

To the City Council
City of Delano
Delano, California

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Report on the Financial Statements

We have audited the accompanying financial statements of the Transportation Development Act (TDA) Streets Special Revenue Fund and the TDA Transit Enterprise Fund of the City of Delano, California (City) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents. The June 30, 2012, summarized comparative information has been derived from the 2012 financial statements and is included for additional analysis only.

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 opinions 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 City'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 City'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.



REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the TDA Streets Special Revenue Fund and the TDA Transit Enterprise Fund of the City as of June 30, 2013, and the respective 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.

Emphasis of Matter

As discussed in Note 1, these financial statements present only the TDA Funds and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2013, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, during the year ended June 30, 2013, the TDA Funds implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which modified the current financial reporting of those elements. Our opinion is not modified with respect to the matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and Schedules of Operating Expenses on pages 16 and 17, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, 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 financial statements, and other knowledge we obtained during our audit of the 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.

Management has omitted management's discussion and analysis (MD&A) 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 GASB 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 Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

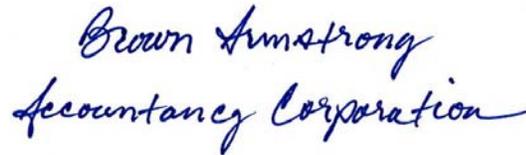
The supplementary information listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit

of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 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 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 City's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive, flowing style.

Bakersfield, California
September 19, 2014

**CITY OF DELANO
TDA STREETS AND ROADS SPECIAL REVENUE FUND
BALANCE SHEETS
JUNE 30, 2013 AND 2012**

	2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 527,119	\$ 117,862
Accounts receivable	-	448,177
Total assets	\$ 527,119	\$ 566,039
 LIABILITIES AND FUND BALANCE		
Current liabilities:		
Accounts payable	\$ 199,958	\$ 216,152
Fund balance:		
Assigned	327,161	349,887
Total liabilities and fund balance	\$ 527,119	\$ 566,039

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

**CITY OF DELANO
TDA STREETS AND ROADS SPECIAL REVENUE FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
REVENUES		
Local transportation fund	\$ 571,001	\$ 664,346
Interest income	956	1,466
	<u>571,957</u>	<u>665,812</u>
Total revenues		
EXPENDITURES		
Administration	4,000	-
Bank fees	484	-
Public works	460,199	431,748
	<u>464,683</u>	<u>431,748</u>
Total expenditures		
Excess of revenues over expenditures	107,274	234,064
Other Financing Uses:		
Transfers out to City of Delano	<u>(130,000)</u>	<u>-</u>
Change in fund balance	(22,726)	234,064
Fund balance, beginning	<u>349,887</u>	<u>115,823</u>
Fund balance, ending	<u>\$ 327,161</u>	<u>\$ 349,887</u>

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

**CITY OF DELANO
TRANSIT ENTERPRISE FUND
STATEMENTS OF NET POSITION
JUNE 30, 2013 AND 2012**

	2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 848,679	\$ -
Accounts receivable	1,023	1,511,532
Prepaid expenses	1,980	-
Total current assets	851,682	1,511,532
Capital assets:		
Land	93,245	93,245
Buildings	1,563,206	1,563,206
Improvements	4,735	4,735
Equipment	1,543,814	2,376,011
Total capital assets	3,205,000	4,037,197
Less: accumulated depreciation	(1,570,129)	(2,187,840)
Capital assets, net of accumulated depreciation	1,634,871	1,849,357
Total assets	\$ 2,486,553	\$ 3,360,889
LIABILITIES AND NET POSITION		
Current liabilities:		
Bank overdraft	\$ -	\$ 843,884
Accounts payable	38,771	19,826
Accrued payroll tax	6,020	3,142
Accrued payroll	21,210	16,196
Compensated absences payable	14,268	16,224
Total current liabilities	80,269	899,272
Net position:		
Net investment in capital assets	1,634,871	1,849,357
Unrestricted	771,413	612,260
Total net position	\$ 2,406,284	\$ 2,461,617

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

**CITY OF DELANO
TRANSIT ENTERPRISE FUND
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES		
Fares	\$ 89,085	\$ 87,085
OPERATING EXPENSES		
Operations	848,838	897,571
Vehicle maintenance	379,569	257,652
Depreciation	236,468	248,490
General administration	197,270	271,392
Total operating expenses	<u>1,662,145</u>	<u>1,675,105</u>
Operating loss	<u>(1,573,060)</u>	<u>(1,588,020)</u>
NON-OPERATING REVENUES		
Local transportation fund	1,055,065	1,318,437
State transit assistance	322,027	518,760
Federal operating assistance	118,920	118,920
Interest income	1,216	2,118
Miscellaneous revenues	20,499	20,494
Total non-operating revenues	<u>1,517,727</u>	<u>1,978,729</u>
Change in net position	(55,333)	390,709
Net position, beginning	<u>2,461,617</u>	<u>2,070,908</u>
Net position, ending	<u>\$ 2,406,284</u>	<u>\$ 2,461,617</u>

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

**CITY OF DELANO
TRANSIT ENTERPRISE FUND
STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 1,597,614	\$ (1,417,716)
Cash disbursements to employees	(842,902)	(1,003,550)
Cash disbursements to suppliers	(557,894)	(486,548)
	196,818	(2,907,814)
Net cash used for operating activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Local transportation fund	1,055,065	1,569,961
State transit assistance	322,027	518,760
Federal operating assistance	118,920	118,920
Miscellaneous income	20,499	20,494
	1,516,511	2,228,135
Net cash provided by noncapital financing activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(21,982)	(5,200)
	(21,982)	(5,200)
Net cash used for capital and related financing activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	1,216	2,118
	1,216	2,118
Net cash provided by investing activities		
Net increase (decrease) in cash and cash equivalents	1,692,563	(682,761)
Cash and cash equivalents, beginning	(843,884)	(161,123)
Cash and cash equivalents, ending	\$ 848,679	\$ (843,884)
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating loss	\$ (1,573,060)	\$ (1,588,020)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	236,468	248,490
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	1,510,509	(1,504,801)
Increase prepaid expenses	(1,980)	-
Decrease in accounts payable	18,945	9,135
Increase (decrease) in accrued wages and benefits	5,936	(72,618)
	196,818	(2,907,814)
Net cash used for operating activities	\$ 196,818	\$ (2,907,814)

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

**CITY OF DELANO
TRANSPORTATION DEVELOPMENT ACT FUNDS
NOTES TO THE FUND FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the TDA Streets and Roads Special Revenue Fund and the Transit Enterprise Fund (collectively, the Transportation Development Act (TDA) Funds) of the City of Delano (City) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Reporting Entity

The TDA provides funding of public transportation through regional planning and programming agencies. Funds are allocated to the City through the county transportation planning agency, Kern Council of Governments. The TDA Funds account for the City's share of the TDA allocations, which are legally restricted for specific purposes as detailed in applicable sections of the Public Utilities Code. The TDA Funds of the City are the TDA Streets and Roads Special Revenue Fund and the Transit Enterprise Fund and, accordingly, are included in the basic financial statements of the City. The TDA Funds are presented as a nonmajor governmental fund and enterprise fund in the City's basic financial statements.

The accompanying financial statements present only the TDA Funds of the City and are not intended to present fairly the financial position, changes in financial position, or cash flows of the City in conformity with accounting principles generally accepted in the United States of America.

B. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The TDA Streets and Roads Fund is a governmental fund specifically categorized as a special revenue fund. Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

The Transit Fund is a proprietary fund specifically categorized as an enterprise fund. Enterprise funds are used to account for activities similar to those found in the private sector. The City uses an enterprise fund to account for its transit operations because fees are charged to external users for services provided.

C. Measurement Focus and Basis of Accounting

The TDA Streets and Roads Special Revenue Fund is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available and expenditures are recognized when the fund liabilities are incurred. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City uses an availability period of 60 days. Revenues that are susceptible to accrual include local transportation fund allocations and interest income.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

The Transit Enterprise Fund is reported using the flow of economic resources measurement focus and the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The Transit Enterprise Fund reports deferred revenue on its Statement of Position. Deferred revenue for this fund arises when potential revenue, designated for a specific purpose, has been received prior to the eligibility requirements being met. In subsequent periods, when the eligibility requirements have been met, the liability for deferred revenue is removed from the Statement of Net Position and revenue is recognized.

Under the provisions of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the City applies all applicable GASB pronouncements for the Transit Enterprise Fund as well as Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Transit Enterprise Fund are passenger fares. Operating expenses include the cost of vehicle maintenance, administrative expenses, and depreciation on capital assets and equipment. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Cash and Cash Equivalents

All City monies are invested in a cash and investment pool, whereby funds can spend cash at any time without prior notice or penalty. Therefore, for purposes of the statements of cash flows, all enterprise fund cash on hand and in the pool (including restricted assets) are considered cash and cash equivalents.

E. Capital Assets

All purchased capital assets are valued at cost where historical cost records are available and at an estimated historical cost where no historical records exist.

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. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation of all capital assets in the Transit Enterprise Fund is computed using the straight-line method over their estimated useful lives. Estimated useful lives of buildings and structures range from 20-25 years, estimated useful lives of equipment range from 4-10 years, and estimated useful lives of improvements are 10 years.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Net Position/Fund Balance

The Transit Enterprise Fund financial statements utilize a Net Position presentation. Net Position is categorized as follows:

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets into one component of Net Position. Accumulated depreciation and outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- *Unrestricted Net Position* – This category represents Net Position of the City, not restricted for any project or other purpose.

The City adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Accordingly, governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the City is bound to honor constraints on how specific amounts can be spent.

- **Nonspendable fund balance** – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- **Restricted fund balance** – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed fund balance** – amounts that can only be used for specific purposes determined by formal action of the City's highest level of decision-making authority (City Council) and that remain binding unless removed in the same manner. Committed fund balance does not lapse at year-end. The formal action must occur prior to the end of the reporting period. However, the amount which will be subject to the constraint may be determined in the subsequent period. The formal action required to commit fund balance shall be by City Council resolution.
- **Assigned fund balance** – amounts that are constrained by the City's *intent* to be used for specific purposes. The intent can be established at either the highest level of decision-making, or by a body or an official designated for that purpose.
- **Unassigned fund balance** – the residual classification for the City's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

G. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation, which will be paid to employees upon separation from service. The Transit Enterprise Fund accrues benefits in the period in which they are earned. Liabilities for vacation, holiday benefits, and compensatory time are recorded when earned. The amount recorded in accordance with GASB Statement No. 16 at June 30, 2013 and 2012, was \$14,268 and \$16,224, respectively, and is reported separately in the statements of Net Position.

H. Grants

Grants are recorded as revenue when all of the eligibility requirements which have been imposed by the provider have been met. Grant sources include Federal Transit Administration (FTA), State Transit Assistance (STA), California Department of Transportation, Local Transportation Fund (LTF), and other local sources. The LTF and STA were created by the State Legislature under the TDA.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Pension Benefits

Employees of the Transit Enterprise Fund participate in the City's defined benefit plan. Contributions to the plan for Transit Enterprise Fund employees were \$79,210 and \$55,219 for the years ended June 30, 2013 and 2012, respectively. Information regarding the City's plan is available in the City's Employee Pension Plan financial statements that are located on the City's website at www.cityofdelano.org and also in the City's basic financial statements for the fiscal year ended June 30, 2013.

J. Risk Management

The City participates in various risk management programs, some of which relate to the Transit Enterprise Fund. The fund is charged for premiums for workers' compensation liability coverage. For the fiscal years ended June 30, 2013 and 2012, the charged premiums amounted to \$28,300 and \$27,100, respectively.

K. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from these estimates.

L. Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

M. Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in financial position and operations of the City TDA Funds.

N. Contingencies

The City receives funding for specific purposes that are subject to review and audit by the granting agencies' funding source. Such audits could result in a request for reimbursement for expenditures disallowed under terms and conditions of the contracts. Management is of the opinion that no material liabilities will result from such potential audits.

The City is party to claims and lawsuits arising in the ordinary course of business. The City's management and legal counsel are of the opinion that the ultimate liability, if any, arising from these claims will not have a material adverse impact on the financial position of the TDA Funds.

O. New Implemented Accounting Pronouncements

The following GASB Statement has been implemented in the current financial statements.

GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources.

P. Future Accounting Pronouncements

GASB Statements Numbers 65-71 listed below will be implemented in future financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Future Accounting Pronouncements (Continued)

GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. The provisions of GASB Statement No. 65 are effective for financial statements beginning after December 15, 2012. The City will implement this statement for the fiscal year ending June 30, 2014.

GASB Statement No. 66 – *Items Technical Corrections - 2012* - an amendment of GASB Statements No. 10 and No. 62. The provisions of GASB Statement No. 66 are effective for financial statements beginning after December 15, 2012. As of the date of the basic financial statements, the City has not made an assessment of any changes that will occur upon this statement's implementation.

GASB Statement No. 67 – *Financial Reporting for Pension Districts - an amendment of GASB Statement No. 25*. The provisions of GASB Statement No. 67 are effective for financial statements beginning after June 15, 2013. The City has not fully judged the effect of the implementation of GASB Statement No. 67 as of the date of the basic financial statements.

GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. The provisions of GASB Statement No. 68 are effective for financial statements beginning after June 15, 2014. The City has not fully judged the effect of the implementation of GASB Statement No. 68 as of the date of the basic financial statements.

GASB Statement No. 69 – *Government Combinations and Disposals of Government Operations*. The provisions of GASB Statement No. 69 are effective for financial statements beginning after December 15, 2013. The City has not fully judged the effect of the implementation of GASB Statement No. 69 as of the date of the basic financial statements.

GASB Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The provisions of GASB Statement No. 70 are effective for financial statements beginning after June 15, 2013. The City has not fully judged the effect of the implementation of GASB Statement No. 70 as of the date of the basic financial statements.

GASB Statement No. 71 – *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 68*. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2013. The City has not fully judged the effect of the implementation of GASB Statement No. 71 as of the date of the basic financial statements.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash balances of the TDA Funds are pooled with those of other funds and invested by the City to maximize investment opportunities and yields. Investment income resulting from this pooling is allocated among the funds based upon each respective fund's average cash balance in relation to the aggregate investment balance. Further information regarding the City's cash and investment pool may be found in the City's basic financial statements.

NOTE 3 – CAPITAL ASSETS

The following is a summary of changes in capital assets for the Transit Enterprise Fund for the fiscal years ended June 30, 2013 and 2012:

	July 1, 2012	Additions	Deletions	June 30, 2013
Land	\$ 93,245	\$ -	\$ -	\$ 93,245
Building and structures	1,563,206	-	-	1,563,206
Improvements	4,735	-	-	4,735
Equipment	2,376,011	21,982	871,872	1,526,121
Total assets	4,037,197	21,982	871,872	3,187,307
Accumulated depreciation	(2,187,840)	(236,468)	(871,872)	(1,552,436)
Total	\$ 1,849,357	\$ (214,486)	\$ -	\$ 1,634,871

	July 1, 2011	Additions	Deletions	June 30, 2012
Land	\$ 93,245	\$ -	\$ -	\$ 93,245
Building and structures	1,563,206	-	-	1,563,206
Improvements	4,735	-	-	4,735
Equipment	2,370,811	5,200	-	2,376,011
Total assets	4,031,997	5,200	-	4,037,197
Accumulated depreciation	(1,939,350)	(248,490)	-	(2,187,840)
Total	\$ 2,092,647	\$ (243,290)	\$ -	\$ 1,849,357

Depreciation expense for the years ended June 30, 2013 and 2012, was \$236,468 and \$248,490, respectively.

NOTE 4 – FARE REVENUE RATIO/COMPLIANCE REQUIREMENTS OF THE TRANSIT ENTERPRISE FUND

The TDA is defined at Chapter 4 of the California Public Utilities Code commencing with Section 99200. Funds received pursuant to Section 99260 of the TDA (Article 4) may only be used for specific purposes, including the support of public transportation purposes. Article 4 funds are the primary funding source for the City's Transit Enterprise Fund. TDA funds are apportioned, allocated, and paid in accordance with allocation instructions from the Kern Council of Governments for specific transportation purposes.

The Transit Enterprise Fund is subject to the provision of Section 6633.2 of Title 21, Chapter 3, Subchapter 2 of the California Code of Regulations requiring the calculation and adherence of fare and local support ratios for TDA transit funding. Accordingly, the City's Transit Enterprise Fund must maintain a ratio equaling or exceeding 20%. The ratio is determined by comparing the fund's operating revenues to operating expenses as defined by the TDA. In accordance with the TDA, depreciation of capital assets is excluded from operating expenses for purposes of this ratio. For the fiscal years ended June 30, 2013 and 2012, the City's Transit Enterprise Fund fare ratio of operating revenues to operating expenses as calculated below, indicates noncompliance with the provisions of the TDA. Fiscal year 2013 marks the eleventh consecutive year of noncompliance and the difference between required and actual fare revenue is \$53,500.

NOTE 4 – FARE REVENUE RATIO/COMPLIANCE REQUIREMENTS OF THE TRANSIT ENTERPRISE FUND (Continued)

	<u>2013</u>	<u>2012</u>
Fare revenues	<u>\$ 89,085</u>	<u>\$ 87,085</u>
Operating expenses	\$ 1,662,145	\$ 1,675,105
Allowable TDA adjustments		
Depreciation	<u>(236,468)</u>	<u>(248,490)</u>
Net operating expenses	<u>\$ 1,425,677</u>	<u>\$ 1,426,615</u>
Fare revenue ratio	<u>6.25%</u>	<u>6.10%</u>

The City did not meet the objective for the years ended June 30, 2013 and 2012.

NOTE 5 – SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2013, have been evaluated for possible adjustments to the financial statements or disclosures is September 19, 2014, which is the date that the financial statements were available to be issued. There were no events brought to our attention that were deemed to be reportable at that time.

SUPPLEMENTARY INFORMATION

**CITY OF DELANO
TDA STREETS AND ROADS SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>2013 Actual</u>	<u>Variance with Final Budget</u>
REVENUES				
Local transportation fund	\$ 564,000	\$ 564,000	\$ 571,001	\$ 7,001
Interest income	-	-	956	956
	<u>564,000</u>	<u>564,000</u>	<u>571,957</u>	<u>7,957</u>
EXPENDITURES				
Administration	4,000	4,000	4,000	-
Bank fees	-	-	484	(484)
Public works	455,000	455,000	460,199	(5,199)
	<u>459,000</u>	<u>459,000</u>	<u>464,683</u>	<u>(5,683)</u>
Excess of revenues over expenditures	<u>105,000</u>	<u>105,000</u>	<u>107,274</u>	<u>2,274</u>
OTHER FINANCING SOURCES				
Transfers out	<u>(130,000)</u>	<u>(130,000)</u>	<u>(130,000)</u>	<u>-</u>
Net change in fund balance	<u>\$ (25,000)</u>	<u>\$ (25,000)</u>	<u>(22,726)</u>	<u>\$ (2,274)</u>
Fund balance, beginning			<u>349,887</u>	
Fund balance, ending			<u>\$ 327,161</u>	

See note to supplementary information.

**CITY OF DELANO
TRANSIT ENTERPRISE FUND
SCHEDULES OF OPERATING EXPENSES
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
OPERATIONS		
Salaries and benefits	\$ 747,108	\$ 764,933
Insurance	19,000	18,999
Equipment and tools	-	24,200
Fuel	82,730	89,439
	<u>848,838</u>	<u>897,571</u>
DEPRECIATION	<u>236,468</u>	<u>248,490</u>
VEHICLE MAINTENANCE	<u>379,569</u>	<u>257,652</u>
GENERAL ADMINISTRATION		
Salaries and benefits	166,000	165,999
Contractual services	-	73,341
Advertising	3,202	3,810
Printing and copying	6,436	6,982
Other supplies and services	4,026	4,962
Telephone	5,763	6,145
Meetings and travel	989	858
Water	3,765	3,029
Utilities	7,089	6,266
	<u>197,270</u>	<u>271,392</u>
Total operating expenses	<u>\$ 1,662,145</u>	<u>\$ 1,675,105</u>

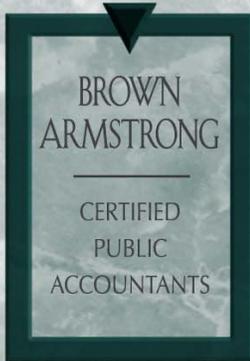
See note to supplementary information.

**CITY OF DELANO
TRANSPORTATION DEVELOPMENT ACT FUNDS
NOTE TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012**

NOTE 1 – BUDGETARY INFORMATION

An annual budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America for the TDA Streets and Roads Special Revenue Fund. All appropriations lapse at year-end. The appropriated budget is prepared by department, function, and fund. The department heads may make transfers of appropriations within a department within a fund. Transfers of appropriations between departments require the approval of the City Council. The budget for the TDA Streets and Roads Special Revenue Fund reflects the total TDA funds expected to be received.

OTHER REPORT



BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR’S 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 THE TRANSPORTATION DEVELOPMENT ACT

To the Board of Directors
Kern Council of Governments
Bakersfield, California

To the City Council
City of Delano
Delano, California

We have audited the accompanying financial statements of Transportation Development Act (TDA) Streets Special Revenue Fund and the TDA Transit Enterprise Fund of the City of Delano, CA (City), as of and for the year ended June 30, 2013, and have issued our report thereon dated September 19, 2014, which included an explanatory paragraph describing that the financial statements only present the TDA Funds of the City. 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.

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 opinions 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.

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 City’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

Compliance and Other Matters

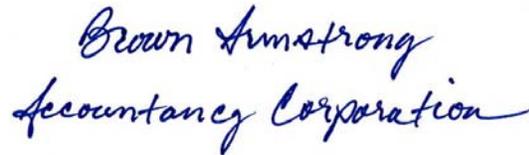
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 that is required to be reported under *Government Auditing Standards* and the TDA, which is described in the accompanying status of prior year and current year finding and recommendation and also in Note 4 to the financial statements.

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 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.

This report is intended solely for the information and use of the Kern Council of Governments, City management, the City Council, and the State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive style.

Bakersfield, California
September 19, 2014

**CITY OF DELANO
TRANSPORTATION DEVELOPMENT ACT FUNDS
STATUS OF PRIOR YEAR AND CURRENT YEAR FINDING AND RECOMMENDATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012**

Current Year Finding

Finding 2013-1

The City of Delano (City) Transit Enterprise Fund is subject to Transportation Development Act (TDA) provisions requiring the calculation of and adherence to fare and local support ratios for TDA Transit Enterprise Funding. Accordingly, the City's Transit Enterprise Fund must maintain a minimum fare ratio of 20%. The fund's ratio of operating revenues to operating expenses for the fiscal years ended June 30, 2013 and 2012, is 6.25% and 6.10%, respectively, and shows the City is not in conformance with the provisions of the TDA. This marks the City's eleventh consecutive year of noncompliance.

Recommendation

We recommend that the City take steps to increase its farebox revenue, increase local support, or decrease its operating expenses. It has been out of compliance with this requirement for eleven consecutive years and Kern Council of Governments may assess a penalty in the third year if a claimant is out of compliance with the revenue recovery ratio requirements for three consecutive years.

Management Response

The City has contracted Moore and Associates to compile a study and make recommendations for improvement. Currently the Transit is being overseen by the Human Resources Director and has been implementing recommendations found in the study. The City is seeking to hire a Transit Manager to assist with improving the farebox revenue ratio.

Prior Year Finding

Finding 2012-1

The City Transit Enterprise Fund is subject to TDA provisions requiring the calculation of and adherence to fare and local support ratios for TDA Transit Enterprise Funding. Accordingly, the City's Transit Enterprise Fund must maintain a minimum fare ratio of 10%. The fund's ratio of operating revenues to operating expenses for the fiscal years ended June 30, 2012 and 2011, is 6.10% and 5.47%, respectively, and shows the City is not in conformance with the provisions of the TDA. This marks the City's tenth consecutive year of noncompliance.

Recommendation

We recommend that the City take steps to increase its farebox revenue, increase local support, or decrease its operating expenses. It has been out of compliance with this requirement for ten consecutive years and Kern Council of Governments may assess a penalty in the third year if a claimant is out of compliance with the revenue recovery ratio requirements for three consecutive years.

Management Response

The City has hired a Transit Manager to assist with improving the farebox revenue ratio.

Status

The City is not in compliance for the year ended June 30, 2013. This continues to be a finding for the current year.