

**CITY OF DELANO
TRANSPORTATION DEVELOPMENT ACT FUNDS**

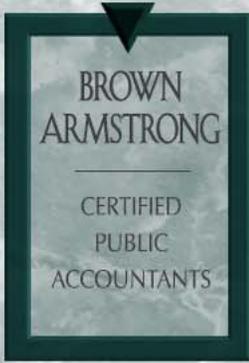
**INDEPENDENT AUDITOR'S REPORTS,
FUND FINANCIAL STATEMENTS, AND
SUPPLEMENTARY INFORMATION**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2015**

**CITY OF DELANO
TRANSPORTATION DEVELOPMENT ACT FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Transportation Development Act (TDA) Streets and Roads 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, 2015, 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, 2014, summarized comparative information has been derived from the 2014 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 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 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 and Roads Special Revenue Fund and the TDA Transit Enterprise Fund of the City as of June 30, 2015, 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 Streets and Roads Special Revenue Fund and the TDA Transit Enterprise Fund and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2015, and the changes in financial position for the year then ended, in conformity 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 budgetary comparison information on page 17 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 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 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements of the TDA Streets and Roads Special Revenue Fund and the TDA Transit Enterprise Fund financial statements. The supplementary information listed in the table of contents is presented for the purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Operating Expenses on page 19 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 statement or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards general 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 March 31, 2016, on our consideration of the City's internal control over financial reporting relating to the Streets and Roads Special Revenue Fund and the TDA Transit Enterprise Fund 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 relating to the Streets and Roads Special Revenue Fund and the TDA Transit Enterprise Fund.

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
March 31, 2016

**CITY OF DELANO
TDA STREETS AND ROADS SPECIAL REVENUE FUND
BALANCE SHEET
JUNE 30, 2015
WITH COMPARATIVE TOTALS**

	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 205,369	\$ 1,479,798
Accounts receivable	1,037,276	-
Total assets	\$ 1,242,645	\$ 1,479,798
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE		
Current liabilities:		
Accounts payable	\$ 148,723	\$ 144,341
Total current liabilities	148,723	144,341
Deferred inflows of resources:		
Unavailable revenue	1,037,276	-
Total deferred inflows of resources	1,037,276	-
Fund balance:		
Assigned	56,646	1,335,457
Total liabilities, deferred inflows of resources, and fund balance	\$ 1,242,645	\$ 1,479,798

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

**CITY OF DELANO
TDA STREETS AND ROADS SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
WITH COMPARATIVE TOTALS**

	<u>2015</u>	<u>2014</u>
REVENUES		
Local transportation fund	\$ -	\$ 1,578,156
Interest income	6,393	6,288
	<u>6,393</u>	<u>1,584,444</u>
Total revenues	<u>6,393</u>	<u>1,584,444</u>
EXPENDITURES		
Administration	4,000	4,000
Bank fees	1,265	758
Public works	753,626	157,611
	<u>758,891</u>	<u>162,369</u>
Total expenditures	<u>758,891</u>	<u>162,369</u>
Excess of revenues over (under) expenditures	(752,498)	1,422,075
Other financing uses:		
Transfers out to City of Delano	<u>(526,313)</u>	<u>(413,779)</u>
Change in fund balance	(1,278,811)	1,008,296
Fund balance, beginning	<u>1,335,457</u>	<u>327,161</u>
Fund balance, ending	<u>\$ 56,646</u>	<u>\$ 1,335,457</u>

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

**CITY OF DELANO
TRANSIT ENTERPRISE FUND
STATEMENT OF NET POSITION
JUNE 30, 2015
WITH COMPARATIVE TOTALS**

	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 796,893	\$ 150
Accounts receivable	5,135	1,328
Prepaid expenses	-	2,178
	802,028	3,656
Capital assets:		
Land	93,245	93,245
Buildings	1,563,206	1,563,206
Improvements	4,735	4,735
Equipment	1,645,580	1,645,580
	3,306,766	3,306,766
Less: accumulated depreciation	(1,860,584)	(1,547,136)
Capital assets, net of accumulated depreciation	1,446,182	1,759,630
Total assets	\$ 2,248,210	\$ 1,763,286
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	\$ 67,884	\$ 8,249
Accrued payroll tax	8,300	8,445
Accrued payroll	31,973	25,056
Unearned revenues	430,974	-
Due to other funds	-	254,247
Compensated absences payable	30,296	20,979
	569,427	316,976
Net position:		
Net investment in capital assets	1,446,182	1,759,630
Unrestricted	232,601	(313,320)
	1,678,783	1,446,310
Total net position	\$ 1,678,783	\$ 1,446,310

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

**CITY OF DELANO
TRANSIT ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
WITH COMPARATIVE TOTALS**

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
Fares	\$ 108,839	\$ 102,427
Total operating revenues	<u>108,839</u>	<u>102,427</u>
OPERATING EXPENSES		
Operations	1,316,620	1,114,146
Vehicle maintenance	323,544	275,816
Depreciation	313,448	301,334
General administration	<u>211,086</u>	<u>277,326</u>
Total operating expenses	<u>2,164,698</u>	<u>1,968,622</u>
Operating loss	<u>(2,055,859)</u>	<u>(1,866,195)</u>
NON-OPERATING REVENUES		
Local transportation fund	1,962,689	484,455
State transit assistance	255,438	278,089
Federal operating assistance	-	118,948
Proposition 1B (PTMISEA)	4,536	-
Interest income	1,784	5,751
Miscellaneous revenues	<u>63,885</u>	<u>18,978</u>
Total non-operating revenues	<u>2,288,332</u>	<u>906,221</u>
Change in net position	232,473	(959,974)
Net position, beginning	<u>1,446,310</u>	<u>2,406,284</u>
Net position, ending	<u>\$ 1,678,783</u>	<u>\$ 1,446,310</u>

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

**CITY OF DELANO
TRANSIT ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
WITH COMPARATIVE TOTALS**

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 107,210	\$ 101,924
Cash disbursements to employees	(1,300,531)	(1,101,164)
Cash disbursements to suppliers	(729,242)	(329,417)
	(1,922,563)	(1,328,657)
Net cash used for operating activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Local transportation fund	1,962,689	484,455
State transit assistance	255,438	278,089
Federal operating assistance	-	118,948
Proposition 1B (PTMISEA)	435,510	-
Prop 1b (Emergency Services)	-	-
Miscellaneous income	63,885	18,978
	2,717,522	900,470
Net cash provided by noncapital financing activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Loss on sale of capital assets	-	54,525
Acquisition of capital assets	-	(480,618)
	-	(426,093)
Net cash used for capital and related financing activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	1,784	5,751
	1,784	5,751
Net cash provided by investing activities		
Net decrease in cash and cash equivalents	796,743	(848,529)
Cash and cash equivalents, beginning	150	848,679
Cash and cash equivalents, ending	\$ 796,893	\$ 150
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating loss	\$ (2,055,859)	\$ (1,866,195)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	313,448	301,334
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(3,807)	(305)
(Increase) decrease in prepaid	2,178	(198)
Increase (decrease) in accounts payable	59,635	(30,522)
Increase (decrease) in accrued wages and benefits	16,089	12,982
Increase (decrease) in due to other funds	(254,247)	254,247
	(1,922,563)	(1,328,657)
Net cash used for operating activities	\$ (1,922,563)	\$ (1,328,657)

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 YEAR ENDED JUNE 30, 2015
WITH COMPARATIVE TOTALS**

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 Net 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.

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.

F. Net Position/Fund Balance

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

- *Net Investment in Capital Assets* – 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Net Position/Fund Balance (Continued)

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, 2015 and 2014, was \$30,296 and \$20,979, 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.

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 \$134,567 and \$137,734 for the years ended June 30, 2015 and 2014, respectively. Information regarding the City's plan is available in the City's basic financial statements for the fiscal year ended June 30, 2015.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2015 and 2014, the charged premiums amounted to \$61,564 and \$59,423, 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. New Accounting Pronouncements

During the fiscal year ending June 30, 2015, the TDA Funds implemented the following GASB standards:

GASB Statement No. 68 – *Financial Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* improves 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 is effective for periods beginning after June 15, 2014, although earlier application is encouraged. GASB Statement No. 68 does not have an effect on these financial statements.

GASB Statement No. 69 – *Government Combinations and Disposals of Government Operations* provides specific accounting and financial reporting guidance for combinations in the governmental environment. This statement also improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2013. GASB Statement No. 69 does not have an effect on these financial statements.

GASB Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date* amends paragraph 137 of GASB 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. This statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of GASB Statement No. 68. The provisions of this statement should be applied simultaneously with the provisions of GASB Statement No. 68 and therefore are effective for financial periods beginning after June 15, 2014. GASB Statement No. 71 does not have an effect on these financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Future Accounting Pronouncements

GASB Statements No. 72-78 listed below will be implemented in future financial statements.

GASB Statement No. 72 – *Fair Value Measurement and Application* is set to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles by measuring fair value, providing additional fair value application guidance, and engaging disclosures about fair value measurements. These improvements are based in part on the concepts and definitions established in Concepts Statement No. 6, *Measurement of Elements of Financial Statements*, and other relevant literature. The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2015. The City is assessing, but has not yet determined, the effects the implementation of this standard will have on the financial statements.

GASB Statement No. 73 – *Accounting and Financial Reporting for Pension and Related Assets That are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provision of GASB Statements No. 67 and No. 68* establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions that are provided to the employees of state and local governmental employers and are not within the scope of GASB Statement No. 68. The provisions of this statement are effective for fiscal years beginning after June 15, 2015, except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2016. The City is assessing, but has not yet determined, the effects the implementation of this standard will have on the financial statements.

GASB Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* is to improve the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports (financial reports) of state and local governmental benefit plans for making decisions and assessing accountability. These benefits are referred to as other postemployment benefits (OPEB), and the plans through which the benefits are provided are referred to as OPEB plans. The provisions of this statement are effective for fiscal years beginning after June 15, 2016. The City is assessing, but has not yet determined, the effects the implementation of this standard will have on the financial statements.

GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans* is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB 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 all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The provisions of this statement are effective for fiscal years beginning after June 15, 2017. The City is assessing, but has not yet determined, the effects the implementation of this standard will have on the financial statements.

GASB Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* will identify – in the context of the current governmental financial reporting environment – the sources of accounting principles used by state and local governmental entities to prepare financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) and the framework for selecting those principles. The provisions of this statement are effective for reporting periods beginning after June 15, 2015. The City is assessing, but has not yet determined, the effects the implementation of this standard will have on the financial statements.

GASB Statement No. 77 – *Tax Abatement Disclosures*. The requirements of this statement are effective for reporting periods beginning after December 15, 2015. The City is assessing, but has not yet determined, the effects the implementation of this standard will have on the financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Future Accounting Pronouncements (Continued)

GASB Statement No. 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The requirements of this statement are effective for fiscal years beginning after December 15, 2015. The City is assessing, but has not yet determined, the effects the implementation of this standard will have on the financial statements.

O. 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's TDA Funds.

P. 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 term 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.

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, 2015 and 2014:

	<u>July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2015</u>
Land	\$ 93,245	\$ -	\$ -	\$ 93,245
Building and structures	1,563,206	-	-	1,563,206
Improvements	4,735	-	-	4,735
Equipment	<u>1,645,580</u>	<u>-</u>	<u>-</u>	<u>1,645,580</u>
Total Assets	3,306,766	-	-	3,306,766
Accumulated depreciation	<u>(1,547,136)</u>	<u>(313,448)</u>	<u>-</u>	<u>(1,860,584)</u>
Total	<u>\$ 1,759,630</u>	<u>\$ (313,448)</u>	<u>\$ -</u>	<u>\$ 1,446,182</u>

NOTE 3 – CAPITAL ASSETS (Continued)

	July 1, 2013	Additions	Deletions	June 30, 2014
Land	\$ 93,245	\$ -	\$ -	\$ 93,245
Building and structures	1,563,206	-	-	1,563,206
Improvements	4,735	-	-	4,735
Equipment	1,526,121	480,618	361,159	1,645,580
Total Assets	3,187,307	480,618	361,159	3,306,766
Accumulated depreciation	(1,552,436)	(301,334)	(306,634)	(1,547,136)
Total	\$ 1,634,871	\$ 179,284	\$ 54,525	\$ 1,759,630

Depreciation expense for the years ended June 30, 2015 and 2014, was \$313,448 and \$301,334, respectively.

NOTE 4 – PROPOSITION 1B PTMISEA

In November 2006, California voters passed a bond measure enacting the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006. Of the \$19.925 billion of State general obligation bonds authorized, \$4 billion was set aside by the State as instructed by statute as the PTMISEA. These funds are available to the California Department of Transportation for intercity rail projects and to transit operators in California for rehabilitation, safety, or modernization improvements; capital service enhancements or expansions; new capital projects; bus rapid transit improvements; or for rolling stock procurement, rehabilitation, or replacements.

During the fiscal year ended June 30, 2015, the City received \$435,510 in funds. The City expended \$4,536 of the funds for the TDA during the current year. PTMISEA funds are as follows:

Schedule of PTMISEA Proposition 1B Funds For the Year Ended June 30, 2015	
Description	Amount
Balance - beginning of the year	\$ -
Revenue:	
Allocations received	435,510
Interest:	
Interest on PTMISEA funds not spent	-
Expenses:	
Capital purchases	4,536
Balance - end of year	\$ 430,974

NOTE 5 – 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 10%. 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 years ended June 30, 2015 and 2014, 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 2015 marks the thirteenth consecutive year of noncompliance.

	<u>2015</u>	<u>2014</u>
Fare revenues	<u>\$ 108,839</u>	<u>\$ 102,427</u>
Operating expenses	\$ 2,164,698	\$ 1,968,622
Allowable TDA adjustments		
Expenditures - Cameras	-	-
Depreciation	<u>(313,448)</u>	<u>(301,334)</u>
Net operating expenses	<u>\$ 1,851,250</u>	<u>\$ 1,425,677</u>
Fare revenue ratio	<u>5.88%</u>	<u>6.25%</u>

The City did not meet the objective for the years ended June 30, 2015 and 2014.

NOTE 6 – SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2015, have been evaluated for possible adjustments to the financial statements or disclosures is March 31, 2016, 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.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF DELANO
TDA STREETS AND ROADS SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>2015 Actual</u>	<u>Variance with Final Budget</u>
REVENUES				
Local transportation fund	\$ 951,084	\$ 951,084	\$ -	\$ (951,084)
Interest income	-	-	6,393	6,393
	<u>951,084</u>	<u>951,084</u>	<u>6,393</u>	<u>(944,691)</u>
EXPENDITURES				
Administration	4,000	4,000	4,000	-
Bank fees	-	-	1,265	(1,265)
Public works	871,084	871,084	753,626	117,458
	<u>76,000</u>	<u>76,000</u>	<u>(752,498)</u>	<u>(827,233)</u>
OTHER FINANCING SOURCES				
Transfers out	<u>(2,008,945)</u>	<u>(2,008,945)</u>	<u>(526,313)</u>	<u>(1,482,632)</u>
Net change in fund balance	<u><u>\$ (1,932,945)</u></u>	<u><u>\$ (1,932,945)</u></u>	<u><u>(1,278,811)</u></u>	<u><u>\$ (654,134)</u></u>
Fund balance, beginning			<u>1,335,457</u>	
Fund balance, ending			<u><u>\$ 56,646</u></u>	

See note to supplementary information.

**CITY OF DELANO
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE 1 – BUDGETARY INFORMATION

Each year the City Council adopts a budget that provides for the general operations of the City of Delano (the City). The budget for the Transportation Development Act (TDA) Streets and Roads Special Revenue Fund is prepared on the modified accrual basis of accounting. The City Council must authorize all other revisions to the budget. Budgets are adopted on a basis consistent with accounting principles general accepted in the United States of America. Formal budgetary integration is employed as a management control device during the year.

Expenditures exceeded budgetary appropriations for the year ended June 30, 2015, as follows:

Streets and Roads Bank Fees	\$	1,265
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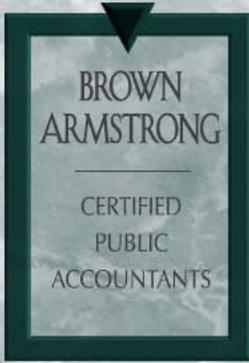
SUPPLEMENTARY INFORMATION

**CITY OF DELANO
TRANSIT ENTERPRISE FUND
SCHEDULE OF OPERATING EXPENSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015 AND 2014
WITH COMPARATIVE TOTALS**

	<u>2015</u>	<u>2014</u>
OPERATIONS		
Salaries and benefits	\$ 828,277	\$ 763,408
Insurance	273,698	243,581
Equipment and tools	202,339	83,319
Fuel	12,306	23,838
	<u>1,316,620</u>	<u>1,114,146</u>
DEPRECIATION	<u>313,448</u>	<u>301,334</u>
VEHICLE MAINTENANCE	<u>323,544</u>	<u>275,816</u>
GENERAL ADMINISTRATION		
Salaries and benefits	166,000	166,000
Administrative Services		
Contractual services	4,565	849
Advertising	4,646	6,581
Printing and copying	7,194	6,416
Other supplies and services	10,062	25,865
Telephone	5,477	5,276
Meetings and travel	1,316	320
Water	4,671	4,354
Utilities	7,155	7,140
Loss on sale of asset	-	54,525
	<u>211,086</u>	<u>277,326</u>
Total general administration	<u>211,086</u>	<u>277,326</u>
Total operating expenses	<u>\$ 2,164,698</u>	<u>\$ 1,968,622</u>

See note to supplementary information.

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

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

To the City Council
City of Delano
Delano, 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) Streets and Roads 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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 31, 2016.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the TDA Streets and Roads Special Revenue Fund and the TDA Transit Enterprise Fund financial statements are free from material misstatement, we performed tests of the City's 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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. See Finding 2015-01.

Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA)

In November 2006, California voters passed a bond measure enacting the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006. Of the \$19.925 billion of State general obligation bonds authorized, \$4 billion was set aside by the State as instructed by statute as the PTMISEA. These funds are available to the California Department of Transportation for intercity rail projects and to transit operators in California for rehabilitation, safety, or modernization improvements; capital service enhancements or expansions; new capital projects; bus rapid transit improvements; or for rolling stock procurement, rehabilitation, or replacements.

During the fiscal year ended June 30, 2015, the City received \$435,510 in funds and received \$0 in interest on funds. The City expended \$4,536 for capital purchases for the City during the current year. PTMISEA funds are as follows:

Schedule of PTMISEA Proposition 1B Funds For the Year Ended June 30, 2015	
Description	Amount
Balance - beginning of the year	\$ -
Revenue:	
Allocations received	435,510
Interest:	
Interest on PTMISEA funds not spent	-
Expenses:	
Capital purchases	4,536
Balance - end of year	<u>\$ 430,974</u>

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 relating to the TDA Streets and Roads Special Revenue Fund and the TDA Transit Enterprise Fund. 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

*Brown Armstrong
Accountancy Corporation*

Bakersfield, California
March 31, 2016

**CITY OF DELANO
TRANSPORTATION DEVELOPMENT ACT FUNDS
STATUS OF PRIOR YEAR AND CURRENT YEAR FINDING AND RECOMMENDATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014**

Current Year Finding

Finding 2015-1 – Fare Revenue Ratio

Condition

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, 2015 and 2014, is 5.88 % and 6.25%, respectively, and shows the City is not in conformance with the provisions of the TDA. This marks the City's thirteenth 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 thirteen 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 and is working on marketing Transit services to surrounding areas as well as ways to reduce operating costs by acquiring grants, etc.

Prior Year Finding

Finding 2014-1

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 20%. The fund's ratio of operating revenues to operating expenses for the fiscal years ended June 30, 2014 and 2014, is 6.14% and 6.25%, respectively, and shows the City is not in conformance with the provisions of the TDA. This marks the City's twelfth 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 twelve 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 and is working on marketing Transit services to surrounding areas as well as ways to reduce operating costs by acquiring grants, etc.

Status

See Finding 2015-1.