

**CITY OF DELANO
TRANSPORTATION DEVELOPMENT ACT FUNDS**

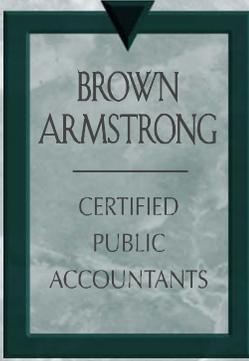
**INDEPENDENT AUDITOR'S REPORTS,
FUND FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2010 AND 2009**

**CITY OF DELANO
TRANSPORTATION DEVELOPMENT ACT FUNDS
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

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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

MAIN OFFICE
4200 TRUXTUN AVENUE

SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

560 CENTRAL AVENUE

SHAFTER, CALIFORNIA 93263
TEL 661.746.2145
FAX 661.746.1218

8050 N. PALM AVENUE

SUITE 300
FRESNO, CALIFORNIA 93711
TEL 559.476.3592
FAX 559.476.3593

790 E. COLORADO BLVD.

SUITE 908B
PASADENA, CALIFORNIA 91101
TEL 626.240.0920
FAX 626.240.0922

We have audited the accompanying financial statements of the TDA Streets and Roads Special Revenue Fund and the Transit Enterprise Fund of the City of Delano, California (City), as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audits. The June 30, 2009, summarized comparative information has been derived from the 2009 financial statements and is included for additional analysis only.

We conducted our audits 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 of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the TDA Streets and Roads Special Revenue Fund and the Transit Enterprise Fund of the City and are not intended to present fairly the financial position of the City and the changes in its financial position and its cash flows in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the TDA Streets and Roads Special Revenue Fund and the Transit Enterprise Fund of the City as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.



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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2011, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the TDA Streets and Roads Special Revenue Fund and the Transit Enterprise Fund 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION



Bakersfield, California
July 26, 2011

**CITY OF DELANO
TDA STREETS AND ROADS SPECIAL REVENUE FUND
BALANCE SHEETS
JUNE 30, 2010 AND 2009**

	2010	Restated 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 513,882	\$ 633,521
Total assets	\$ 513,882	\$ 633,521
 LIABILITIES AND FUND BALANCE		
Current liabilities:		
Deferred revenue	\$ 322,589	\$ 442,228
Total current liabilities	322,589	442,228
Fund balance:	191,293	191,293
Total liabilities and fund balance	\$ 513,882	\$ 633,521

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, 2010 AND 2009**

	2010	Restated 2009
REVENUES		
Local transportation fund	\$ 119,639	\$ 731,438
Interest income	2,864	5,393
	122,503	736,831
EXPENDITURES		
Streets and roads	122,503	736,831
Change in fund balance	-	-
Fund balance, beginning	191,293	191,293
Fund balance, ending	\$ 191,293	\$ 191,293

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

**CITY OF DELANO
TRANSIT ENTERPRISE FUND
STATEMENTS OF NET ASSETS
JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>Restated 2009</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,218,991	\$ 939,607
Accounts receivable	7,629	274,569
Total current assets	<u>1,226,620</u>	<u>1,214,176</u>
Capital assets:		
Land	93,245	93,245
Buildings	1,563,206	1,563,206
Equipment	1,910,271	1,874,811
Improvements	4,735	4,735
Total capital assets	3,571,457	3,535,997
Less: accumulated depreciation	<u>(1,746,064)</u>	<u>(1,561,434)</u>
Capital assets, net of accumulated depreciation	<u>1,825,393</u>	<u>1,974,563</u>
Total assets	<u>\$ 3,052,013</u>	<u>\$ 3,188,739</u>
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 26,524	\$ 11,299
Accrued payroll tax	1,310	1,177
Accrued payroll	17,055	15,597
Deferred revenue - prepaid passes	-	100
Compensated absences payable	92,642	74,981
Total current liabilities	<u>137,531</u>	<u>103,154</u>
 NET ASSETS		
Invested in capital assets, net of related debt	1,825,393	1,974,563
Unrestricted	<u>1,089,089</u>	<u>1,111,022</u>
Total net assets	<u>\$ 2,914,482</u>	<u>\$ 3,085,585</u>

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 ASSETS
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>Restated 2009</u>
OPERATING REVENUES		
Fares	\$ 73,557	\$ 65,332
Total operating revenues	<u>73,557</u>	<u>65,332</u>
OPERATING EXPENSES		
Operations	907,900	774,712
Vehicle maintenance	431,536	258,100
Depreciation	184,629	179,631
General administration	<u>220,348</u>	<u>188,684</u>
Total operating expenses	<u>1,744,413</u>	<u>1,401,127</u>
Operating loss	<u>(1,670,856)</u>	<u>(1,335,795)</u>
NON-OPERATING REVENUES		
Local transportation fund	1,346,135	605,174
State transit assistance	-	589,906
Federal operating assistance	125,344	-
Prop 1b (PTMISEA)	-	239,169
Prop 1b (Emergency Services)	-	41,734
Interest income	6,828	20,180
Miscellaneous revenues	<u>21,446</u>	<u>15,458</u>
Total non-operating revenues	<u>1,499,753</u>	<u>1,511,621</u>
Income (loss) before capital contributions and transfers	<u>(171,103)</u>	<u>175,826</u>
Transfers out to City of Delano	<u>-</u>	<u>(70,679)</u>
Change in net assets	(171,103)	105,147
Net assets, beginning	<u>3,085,585</u>	<u>2,980,438</u>
Net assets, ending	<u>\$ 2,914,482</u>	<u>\$ 3,085,585</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, 2010 AND 2009**

	<u>2010</u>	<u>Restated 2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 340,398	\$ 671,588
Cash disbursements to employees	(961,551)	(744,613)
Cash disbursements to suppliers	(563,756)	(410,455)
	<u>(1,184,909)</u>	<u>(483,480)</u>
Net cash used for operating activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers out to City of Delano	-	(70,679)
Local transportation fund	1,346,135	605,174
State transit assistance	-	589,906
Federal operating assistance	125,344	-
Prop 1b (PTMISEA)	-	239,169
Prop 1b (Emergency Services)	-	41,734
Miscellaneous income	21,446	15,458
	<u>1,492,925</u>	<u>1,420,762</u>
Net cash provided by noncapital financing activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(35,460)	(431,690)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	6,828	20,180
	<u>279,384</u>	<u>525,772</u>
Net increase in cash and cash equivalents		
Cash and cash equivalents, beginning	939,607	413,835
Cash and cash equivalents, ending	<u>\$ 1,218,991</u>	<u>\$ 939,607</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating loss	\$ (1,670,856)	\$ (1,335,795)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	184,629	179,631
Changes in assets and liabilities:		
Decrease in accounts receivable	266,941	606,156
Increase (decrease) in accounts payable	15,225	(6,153)
Increase in accrued wages and benefits	19,252	72,581
Increase (decrease) in deferred revenue	(100)	100
	<u>(1,184,909)</u>	<u>(483,480)</u>
Net cash used for operating activities	<u>\$ (1,184,909)</u>	<u>\$ (483,480)</u>

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, 2010 AND 2009**

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 assets. 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 assets 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.

F. 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, 2010 and 2009, was \$92,642 and \$74,981, respectively, and is reported separately in the statements of net assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Net Assets

The financial statements for the Transit Enterprise Fund utilize a net assets presentation. Net assets are categorized as follows:

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

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 \$45,329 and \$39,870 for the years ended June 30, 2010 and 2009, respectively. Information regarding the City's plan is available in the City's basic financial statements for the fiscal year ended June 30, 2010.

J. Transfers

The City transfers TDA funds from the TDA Streets and Roads Special Revenue Fund to the Capital Projects Fund when eligible TDA expenditures have been incurred for specific projects.

K. 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, 2010 and 2009, the charged premiums amounted to \$28,829 and \$31,257, respectively.

L. 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.

M. 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.

N. 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.

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, 2010 and 2009:

	<u>July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2010</u>
Land	\$ 93,245	\$ -	\$ -	\$ 93,245
Building and structures	1,567,941	-	-	1,567,941
Equipment	1,874,811	35,460	-	1,910,271
	3,535,997	35,460	-	3,571,457
Accumulated depreciation	<u>(1,561,434)</u>	<u>(184,629)</u>	<u>-</u>	<u>(1,746,063)</u>
	<u>\$ 1,974,563</u>	<u>\$ (149,169)</u>	<u>\$ -</u>	<u>\$ 1,825,394</u>
	<u>July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2009</u>
Land	\$ 93,245	\$ -	\$ -	\$ 93,245
Building and structures	1,567,941	-	-	1,567,941
Equipment	1,725,353	431,689	282,231	1,874,811
	3,386,539	431,689	282,231	3,535,997
Accumulated depreciation	<u>(1,664,034)</u>	<u>(179,631)</u>	<u>(282,231)</u>	<u>(1,561,434)</u>
	<u>\$ 1,722,505</u>	<u>\$ 252,058</u>	<u>\$ -</u>	<u>\$ 1,974,563</u>

Depreciation expense for the years ended June 30, 2010 and 2009, was \$184,629 and \$179,631, respectively.

NOTE 4 – DEFERRED REVENUE

The Local Transportation Fund (LTF) and State Transit Assistance Fund (STA) are administered by the Kern Council of Governments, which allocates funds to the City to fund its TDA operations. The TDA requires that any funds not used be returned to their source. LTF and STA allocations are considered earned when they are properly spent for eligible projects. Allocations received but not earned are recorded as deferred revenue. Changes in the deferred revenue account for the fiscal years ended June 30, 2010 and 2009, and summarized as follows:

	<u>2010</u>	<u>Restated 2009</u>
TDA Streets and Roads Special Revenue Fund		
Deferred revenue, beginning	\$ 442,228	\$ 88,632
TDA funds allocated	-	1,085,034
TDA funds earned	<u>(119,639)</u>	<u>(731,438)</u>
Deferred revenue, ending	<u>\$ 322,589</u>	<u>\$ 442,228</u>

NOTE 5 – FARE REVENUE RATIO/COMPLIANCE REQUIREMENTS OF STREETS AND ROADS FUNDS

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 fiscal years ended June 30, 2010 and 2009, the City's Transit Enterprise Fund fare ratio of operating revenues to operating expenses as calculated below, indicates non-compliance with the provisions of the TDA. Fiscal year 2010 marks the eighth consecutive year of non-compliance and the difference between required and actual fare revenue is \$82,421.

	2010	Restated 2009
Fare revenues	\$ 73,557	\$ 65,332
Operating expenses	\$ 1,744,413	\$ 1,401,127
Allowable TDA adjustments		
Depreciation	(184,629)	(179,631)
Net operating expenses	\$ 1,559,784	\$ 1,221,496
Fare revenue ratio	4.72%	5.35%

The City did not meet the objective for the years ended June 30, 2010 and 2009.

NOTE 6 – RESTATEMENT OF FINANCIAL STATEMENTS

As a result of an internal review of the TDA Streets and Roads Special Revenue Fund and the Transit Enterprise Fund for the year ended June 30, 2009, certain accounts were over/understated, which resulted in a restatement of the June 30, 2009, financial statements as follows:

	2009		
	<u>TDA Streets and Roads Special Revenue Fund</u>		
	As previously reported	Adjustment	Restated
TDA Streets and Roads Special Revenue Fund - Revenues	\$ 4,200	\$ (732,631)	\$ 736,831
TDA Streets and Roads Special Revenue Fund - Expenditures	-	(736,831)	736,831
TDA Streets and Roads Special Revenue Fund - Change in fund balance	-	-	-
TDA Streets and Roads Special Revenue Fund - Cash and cash equivalents	279,825	(353,696)	633,521
TDA Streets and Roads Special Revenue Fund - Deferred revenue	88,532	(353,696)	442,228
TDA Streets and Roads Special Revenue Fund - Fund balance	191,293	-	191,293
	2009		
	<u>Transit Enterprise Fund</u>		
	As previously reported	Adjustment	Restated
Transit Enterprise - Total operating expenses	\$ 1,414,096	\$ (12,969)	\$ 1,401,127
Transit Enterprise - Total non-operating revenues	1,506,513	5,108	1,511,621
Transit Enterprise - Change in net assets	157,749	(52,602)	105,147
Transit Enterprise - Accounts receivable	256,558	18,011	274,569
Transit Enterprise - Total net assets	3,067,508	18,077	3,085,585

SUPPLEMENTARY INFORMATION

**CITY OF DELANO
TDA STREETS AND ROADS SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Original Budget	Final Budget	2010 Actual	Variance with Final Budget
REVENUES				
Local transportation fund	\$ 945,500	\$ 945,500	\$ 119,639	\$ (825,861)
Interest and other	-	-	2,864	2,864
	945,500	945,500	122,503	(822,997)
EXPENDITURES				
Streets and roads	1,066,677	122,459	122,503	(44)
Excess of revenues over expenditures	\$ (121,177)	\$ 823,041	-	\$ (823,041)
Fund balance, beginning			191,293	
Fund balance, ending			\$ 191,293	

See note to supplementary information.

**CITY OF DELANO
TRANSIT ENTERPRISE FUND
SCHEDULES OF OPERATING EXPENSES
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>Restated 2009</u>
OPERATIONS		
Salaries and benefits	\$ 817,775	\$ 711,570
Insurance	17,900	17,900
Equipment and tools	16,926	10,678
Fuel	55,299	34,564
	<u>907,900</u>	<u>774,712</u>
DEPRECIATION	<u>184,629</u>	<u>179,631</u>
VEHICLE MAINTENANCE	<u>431,536</u>	<u>258,100</u>
GENERAL ADMINISTRATION		
Salaries and benefits	163,028	105,624
Contractual services	-	43,020
Advertising	4,839	5,702
Printing and copying	4,497	3,031
Other supplies and services	28,518	11,638
Telephone	5,873	5,253
Meetings and travel	3,378	1,211
Water	1,522	1,144
Utilities	8,693	7,835
Non-transit maintenance	-	4,226
	<u>220,348</u>	<u>188,684</u>
Total general administration	<u>220,348</u>	<u>188,684</u>
Total operating expenses	<u><u>\$ 1,744,413</u></u>	<u><u>\$ 1,401,127</u></u>

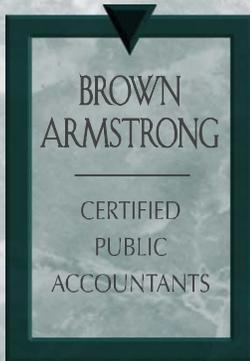
See note to supplementary information.

**CITY OF DELANO
TRANSPORTATION DEVELOPMENT ACT FUNDS
NOTE TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

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

MAIN OFFICE

4200 TRUXTUN AVENUE

SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

560 CENTRAL AVENUE

SHAFTER, CALIFORNIA 93263
TEL 661.746.2145
FAX 661.746.1218

8050 N. PALM AVENUE

SUITE 300
FRESNO, CALIFORNIA 93711
TEL 559.476.3592
FAX 559.476.3593

790 E. COLORADO BLVD.

SUITE 908B
PASADENA, CALIFORNIA 91101
TEL 626.240.0920
FAX 626.240.0922

We have audited the accompanying financial statements of the TDA Streets and Roads Special Revenue Fund and the Transit Enterprise Fund of the City of Delano, California (City), as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated July 26, 2011, which included an explanatory paragraph describing that the financial statements only present the TDA Streets and Roads Special Revenue Fund and the Transit Enterprise Fund. 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, we considered the City’s internal control over financial reporting as it relates to the TDA Streets and Roads Special Revenue Fund and the Transit Enterprise Fund as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



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 TDA Streets and Roads Special Revenue Fund and the Transit Enterprise Fund's financial statements are free of 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. Our audit was further made to determine that Transportation Development Act (TDA) funds allocated to and received by the City were expended in conformance with applicable statutes, rules and regulations of the TDA, and the allocation instructions and resolutions of the Kern Council of Governments as required by Sections 6666 and 6667 of Title 21 of the California Code of Regulations. 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 Transportation Development Act, which is described in the accompanying status of prior year and current year finding and recommendation and also Note 5 to the financial statements.

This report is intended solely for the information and use of the board of directors, City Council, management, and others within the City and the grant oversight agencies and is not intended to be and should not be used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION



Bakersfield, California
July 26, 2011

**CITY OF DELANO
TRANSPORTATION DEVELOPMENT ACT FUNDS
STATUS OF PRIOR YEAR AND CURRENT YEAR FINDING AND RECOMMENDATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

Current Year Finding

Finding 2010-1

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 10%. The fund's ratio of operating revenues to operating expenses for the fiscal years ended June 30, 2010 and 2009, is 4.72% and 5.35% (restated), respectively, and shows the City is not in conformance with the provisions of the TDA. This marks the City's eighth consecutive year of noncompliance.

Recommendation

We recommend that the City take steps to increase their farebox revenue, increase local support, or decrease their operating expenses. They have been out of compliance with this requirement for seven 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

Significant changes were made to the rates during this fiscal year, which increased the amount of usage of our discounted fares. In addition, sufficient steps were not taken ensuring those purchasing discounted passes were eligible to receive them. Changes will be made in future years to address these issues so the City will be in compliance with the farebox revenue ratio.

Prior Year Finding

Finding 2009-1

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, 2009 and 2008, is 5.35% and 5.24%, respectively, and shows the City is not in conformance with the provisions of the TDA. This marks the City's seventh consecutive year of noncompliance.

Recommendation

We recommend that the City take steps to increase their farebox revenue, increase local support, or decrease their operating expenses. They have been out of compliance with this requirement for seven 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

Significant changes were made to the rates during this fiscal year, which increased the amount of usage of our discounted fares. In addition, sufficient steps were not taken ensuring those purchasing discounted passes were eligible to receive them. Changes will be made in future years to address these issues so the City will be in compliance with the farebox revenue ratio.

Status

The City is not in compliance for the year ended June 30, 2010. This continues to be a finding for the current year.