

**CITY OF DELANO
TRANSPORTATION DEVELOPMENT ACT FUNDS**

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

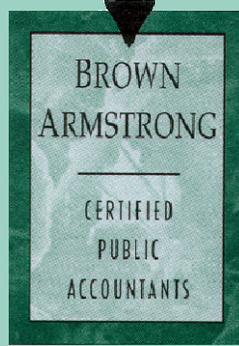
**FOR THE FISCAL YEARS ENDED
JUNE 30, 2009 AND 2008**

**CITY OF DELANO
TRANSPORTATION DEVELOPMENT ACT FUNDS
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2008**

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INDEPENDENT AUDITOR'S REPORT

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 the Streets and Roads Special Revenue Fund and the Transit Enterprise Fund of the City of Delano, California (City), as of and for the years ended June 30, 2009 and 2008, 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.

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 audit 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 audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the 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 Streets and Roads Special Revenue Fund and the Transit Enterprise Fund of the City as of June 30, 2009 and 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2009 on our consideration of the City's internal control over financial reporting as it relates to the Streets and Roads Special Revenue Fund and the Transit Enterprise Fund and 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 read in conjunction with this report in considering the results of our audit.

The TDA has not presented management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Streets and Roads Special Revenue Fund and the Transit Enterprise Fund taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Streets and Roads Special Revenue Fund and the Transit Enterprise Fund. Such information has been subjected to the auditing procedures applied in the audit of the fund financial statements and, in our opinion, is fairly stated in all material respects in relation to the fund financial statements taken as a whole.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION



Bakersfield, California
December 22, 2009

**CITY OF DELANO
STREETS AND ROADS SPECIAL REVENUE FUND
BALANCE SHEETS
JUNE 30, 2009 AND 2008**

| | 2009 | 2008 |
|---|------------|------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and Investments | \$ 279,825 | \$ 279,925 |
| Total Current Assets | \$ 279,825 | \$ 279,925 |
| LIABILITIES AND FUND BALANCE | | |
| Liabilities: | | |
| Deferred Revenue | \$ 88,532 | \$ 88,632 |
| Total Liabilities | 88,532 | 88,632 |
| Fund Balance: | | |
| Unreserved | 191,293 | 191,293 |
| Total Fund Balance | \$ 279,825 | \$ 279,925 |

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

**CITY OF DELANO
STREETS AND ROADS SPECIAL REVENUE FUND
STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2008**

| | <u>2009</u> | <u>2008</u> |
|--------------------------------------|--------------------------|--------------------------|
| REVENUES | | |
| Local Transportation Fund | \$ 100 | \$ 307,516 |
| Interest Income | 4,100 | 41,684 |
| | <u>4,200</u> | <u>349,200</u> |
| EXPENDITURES | | |
| Streets and Roads | <u>4,200</u> | <u>4,200</u> |
| Excess of Revenues Over Expenditures | - | 345,000 |
| Other Financing Uses: | | |
| Transfers Out to City of Delano | <u>-</u> | <u>(345,000)</u> |
| Change in Fund Balance | - | - |
| Fund Balance, Beginning | <u>191,293</u> | <u>191,293</u> |
| Fund Balance, Ending | <u><u>\$ 191,293</u></u> | <u><u>\$ 191,293</u></u> |

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

**CITY OF DELANO
TRANSIT ENTERPRISE FUND
STATEMENTS OF NET ASSETS
JUNE 30, 2009 AND 2008**

| | 2009 | Re-stated 2008 |
|---------------------------------------|---------------------|---------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and Investments | \$ 939,542 | \$ 413,835 |
| Accounts Receivable | 256,558 | 880,725 |
| Total Current Assets | 1,196,100 | 1,294,560 |
| Capital Assets: | | |
| Land | 93,245 | 93,245 |
| Buildings | 1,563,206 | 1,563,206 |
| Equipment | 1,874,811 | 1,725,353 |
| Improvements | 4,735 | 4,735 |
| | 3,535,997 | 3,386,539 |
| Less: Accumulated Depreciation | (1,561,435) | (1,664,035) |
| Total Capital Assets | 1,974,562 | 1,722,504 |
| TOTAL ASSETS | \$ 3,170,662 | \$ 3,017,064 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts Payable | \$ 11,299 | \$ 17,452 |
| Accrued Payroll Tax | 1,177 | 677 |
| Accrued Payroll | 15,597 | 9,009 |
| Deferred Revenue - fare passes | 100 | - |
| Compensated Absences Payable | 74,981 | 9,488 |
| Total Liabilities | 103,154 | 36,626 |
| NET ASSETS | | |
| Invested in Capital Assets | 1,974,562 | 1,722,504 |
| Unrestricted | 1,092,946 | 1,257,934 |
| Total Net Assets | \$ 3,067,508 | \$ 2,980,438 |

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, 2009 AND 2008**

| | <u>2009</u> | <u>Re-stated 2008</u> |
|---|---------------------|---------------------------|
| OPERATING REVENUES | | |
| Fares | \$ 65,332 | \$ 68,026 |
| Total Revenues | <u>65,332</u> | <u>68,026</u> |
| OPERATING EXPENSES | | |
| Operations | 787,678 | 595,600 |
| Vehicle Maintenance | 258,100 | 419,329 |
| Depreciation | 179,631 | 168,104 |
| General Administration | <u>188,687</u> | <u>283,296</u> |
| Total Operating Expenses | <u>1,414,096</u> | <u>1,466,329</u> |
| Operating Loss | <u>(1,348,764)</u> | <u>(1,398,303)</u> |
| NON OPERATING REVENUES (EXPENSES) | | |
| Local Transportation Fund | 605,174 | 1,093,278 |
| State Transit Assistant | 589,906 | 610,000 |
| Federal Operating Grant | - | 224,277 |
| Prop 1b (PTMISEA) | 239,169 | - |
| Prop 1b (Emergency Services) | 41,734 | - |
| Interest Income | 20,180 | 20,970 |
| Miscellaneous Revenues | <u>10,350</u> | <u>2,123</u> |
| Total Non-Operating Revenues | <u>1,506,513</u> | <u>1,950,648</u> |
| Income Before Capital Contributions and Transfers | <u>157,749</u> | <u>552,345</u> |
| Transfers In from City of Delano | - | 131,744 |
| Transfers Out to City of Delano | <u>(70,679)</u> | <u>-</u> |
| Change in Fund Balance | 87,070 | 684,089 |
| Total Net Assets, Beginning | <u>2,980,438</u> | <u>2,296,349</u> |
| Total Net Assets, Ending | <u>\$ 3,067,508</u> | <u>\$ 2,980,438</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, 2009 AND 2008**

| | <u>2009</u> | <u>Re-stated 2008</u> |
|---|---------------------|---------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash Receipts from Customers | \$ 689,499 | \$ 68,026 |
| Cash Disbursements to Employees | (722,858) | (818,272) |
| Cash Disbursements to Suppliers | (445,079) | (1,384,671) |
| | <u>(478,438)</u> | <u>(2,134,917)</u> |
| Net Cash Used for Operating Activities | | |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Transfers In from City of Delano | - | 131,744 |
| Transfers Out to City of Delano | (70,679) | - |
| Local Transportation Fund | 605,174 | 1,093,278 |
| State Transit Assistant | 589,906 | 610,000 |
| Federal Operating Grant | - | 224,277 |
| Prop 1b (PTMISEA) | 239,169 | - |
| Prop 1b (Emergency Services) | 41,734 | - |
| Miscellaneous Income | 10,350 | 2,123 |
| | <u>1,415,654</u> | <u>2,061,422</u> |
| Net Cash Provided by Noncapital Financing Activities | | |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition of Capital Assets | (431,689) | (224,004) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest Received | 20,180 | 20,970 |
| | <u>20,180</u> | <u>20,970</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 525,707 | (276,529) |
| Cash and Cash Equivalents, Beginning | 413,835 | 690,364 |
| | <u>413,835</u> | <u>690,364</u> |
| Cash and Cash Equivalents, Ending | <u>\$ 939,542</u> | <u>\$ 413,835</u> |
| Reconciliation of Operating Loss to Net Cash Used for Operating Activities | | |
| Operating Loss | \$ (1,348,764) | \$ (1,398,303) |
| Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities | | |
| Depreciation | 179,631 | 168,104 |
| Changes in Assets and Liabilities | | |
| (Increase) Decrease in Accounts Receivable | 624,167 | (879,453) |
| Increase (Decrease) in Accounts Payable | (6,153) | (4,138) |
| Increase (Decrease) in Accrued Wages and Benefits | 72,581 | (21,127) |
| Increase (Decrease) in Deferred Revenue | 100 | - |
| | <u>100</u> | <u>-</u> |
| Net Cash Used for Operating Activities | <u>\$ (478,438)</u> | <u>\$ (2,134,917)</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, 2009 AND 2008**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the 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 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 Streets and Roads Special Revenue 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 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 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 *nonoperating* 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 nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government'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 investments 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 6-12 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, 2009 and 2008 was \$74,981 and \$9,488, respectively, and is reported as part of accrued wages and benefits.

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 \$39,870 and \$47,031 for the years ended June 30, 2009 and 2008, respectively. Information regarding the City's plan is available in the City's basic financial statements for the fiscal year ended June 30, 2009.

J. Transfers

The City transfers TDA funds from the 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, 2009 and 2008, the charged premiums amounted to \$31,257 and \$27,467, 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 prior year balances have been reclassified in order to conform with current year presentation. These reclassifications had no effect upon reported net income.

NOTE 2 – CASH

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:

| | July 1, 2008 | Additions | Deletions | June 30, 2009 |
|--------------------------|---------------------|-------------------|-------------|---------------------|
| 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 | (1,664,035) | (179,631) | (282,231) | (1,561,435) |
| | <u>\$ 1,722,504</u> | <u>\$ 252,058</u> | <u>\$ -</u> | <u>\$ 1,974,562</u> |

| | July 1, 2007 | Additions | Deletions | June 30, 2008 |
|--------------------------|---------------------|------------------|-------------|---------------------|
| Land | \$ 93,245 | \$ - | \$ - | \$ 93,245 |
| Building and Structures | 1,567,941 | - | - | 1,567,941 |
| Equipment | 1,501,349 | 224,004 | - | 1,725,353 |
| | 3,162,535 | 224,004 | - | 3,386,539 |
| Accumulated Depreciation | (1,495,931) | (168,104) | - | (1,664,035) |
| | <u>\$ 1,666,604</u> | <u>\$ 55,900</u> | <u>\$ -</u> | <u>\$ 1,722,504</u> |

Depreciation expense for the years ended June 30, 2009 and 2008 was \$179,631 and \$168,104, 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 may 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, 2009 and 2008 and summarized as follows:

| | 2009 | 2008 |
|---|------------------|------------------|
| Streets and Roads Fund Special Revenue Fund | | |
| Deferred revenue, beginning of year | \$ 88,632 | \$ 396,148 |
| TDA funds allocated | - | - |
| TDA funds earned | (100) | (307,516) |
| | <u>\$ 88,532</u> | <u>\$ 88,632</u> |
| Deferred revenue, end of year | | |

NOTE 5 – PROP 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 Public Transportation Modernization Improvement and Service Enhancement Account (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 replacement.

During the fiscal year ended June 30, 2009, the City expended \$239,169 from the PTMISEA account for the purpose of purchasing CNG buses and advertising bus benches

| | | |
|---------------------------------------|----|-----------------|
| Proceeds received: | | |
| PTMISEA | \$ | 239,169 |
| Interest earned | | - |
| Expenditures incurred: | | |
| CNG buses and advertising bus benches | | <u>239,169</u> |
| Unexpended proceeds, June 30 | \$ | <u><u>-</u></u> |

NOTE 6 – 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, 2009 and 2008, the City's Transit Enterprise Fund fare ratio of operating revenues to operating expenses as calculated below, indicates non-conformance with the provisions of the TDA. Fiscal year 2009 marks the seventh consecutive year of non-compliance and the difference between required and actual fare revenue is \$58,115.

| | <u>2009</u> | <u>2008</u> |
|---------------------------|---------------------|---------------------|
| Fare Revenues | <u>\$ 65,332</u> | <u>\$ 68,026</u> |
| Operating Expenses | \$ 1,414,096 | \$ 1,466,329 |
| Allowable TDA Adjustments | | |
| Depreciation | <u>(179,631)</u> | <u>(168,104)</u> |
| Net Operating Expenses | <u>\$ 1,234,465</u> | <u>\$ 1,298,225</u> |
| Fare Revenue Ratio | <u>5.29%</u> | <u>5.24%</u> |

NOTE 7 – PRIOR PERIOD ADJUSTMENT/RECLASSIFICATION

To adjust the Transit Enterprise Equipment Capital Asset Account due to an understatement, the Equipment Capital Asset Account has been adjusted as follows:

| | <u>Transit Enterprise Fund</u> |
|--|------------------------------------|
| Transit Enterprise Equipment Capital Asset Account, as stated July 1, 2008 | \$ 1,523,808 |
| Prior Period Adjustment | |
| To adjust prior year Transit Enterprise Equipment Account due to an understatement in the prior year | <u>201,545</u> |
| Transit Enterprise Equipment Capital Asset Account, as re-stated July 1, 2008 | <u>\$ 1,725,353</u> |

To adjust the Transit Enterprise Operations Account due to an overstatement, the Operations Account has been adjusted as follows:

| | <u>Transit Enterprise Fund</u> |
|--|------------------------------------|
| Transit Enterprise Operations Account, as stated July 1, 2008 | \$ 797,145 |
| Prior Period Adjustment | |
| To adjust prior year Transit Enterprise Operations Account due to an overstatement in the prior year | <u>(201,545)</u> |
| Transit Enterprise Operations Account, as re-stated July 1, 2008 | <u>\$ 595,600</u> |

SUPPLEMENTARY INFORMATION

**CITY OF DELANO
STREETS AND ROADS SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
BUDGET TO ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

| | Original Budget | Final Budget | 2009 Actual | Variance with Final Budget |
|--------------------------------------|--------------------|--------------|-------------|-------------------------------|
| REVENUES | | | | |
| Local Transportation Fund | \$ 650,000 | \$ 650,000 | \$ 100 | \$ (649,900) |
| Interest and Other | 1,000 | 1,000 | 4,100 | 3,100 |
| Total Revenues | 651,000 | 651,000 | 4,200 | (646,800) |
| EXPENDITURES | | | | |
| Streets and Roads | 710,000 | 710,000 | 4,200 | 705,800 |
| Excess of Revenues over Expenditures | \$ (59,000) | \$ (59,000) | - | \$ 59,000 |
| 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, 2009 AND 2008**

| | 2009 | Re-stated 2008 |
|-------------------------------|---------------------|---------------------------|
| | <u>2009</u> | <u>Re-stated 2008</u> |
| OPERATIONS | | |
| Salaries and Benefits | \$ 711,570 | \$ 492,934 |
| Insurance | 17,900 | 19,900 |
| Equipment and Tools | 23,644 | 39,860 |
| Fuel | 34,564 | 42,906 |
| | <u>787,678</u> | <u>595,600</u> |
| DEPRECIATION | <u>179,631</u> | <u>168,104</u> |
| VEHICLE MAINTENANCE | <u>258,100</u> | <u>419,329</u> |
| GENERAL ADMINISTRATION | | |
| Salaries and Benefits | 83,869 | 67,552 |
| Administrative Services | 21,755 | 44,513 |
| Contractual Services | 43,020 | 62,140 |
| Advertising | 5,702 | 20,928 |
| Printing and Copying | 3,031 | 12,288 |
| Other Supplies and Services | 11,641 | 54,691 |
| Telephone | 5,253 | 9,198 |
| Meetings and Travel | 1,211 | 1,405 |
| Water | 1,144 | 1,314 |
| Electrical | 7,835 | 7,503 |
| Non-transit Maintenance | 4,226 | 1,764 |
| | <u>188,687</u> | <u>283,296</u> |
| Total General Administration | <u>188,687</u> | <u>283,296</u> |
| Total Operating Expenses | <u>\$ 1,414,096</u> | <u>\$ 1,466,329</u> |

See note to supplementary information.

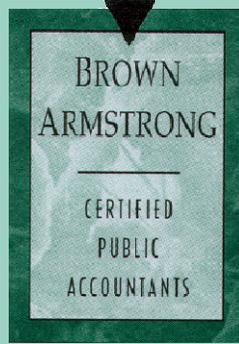
**CITY OF DELANO
TRANSPORTATION DEVELOPMENT ACT FUNDS
NOTE TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2008**

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 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 Streets and Roads Special Revenue Fund reflects the total TDA funds expected to be received. The majority of those funds are transferred to the Transit Enterprise Fund consistent with the claim filed with Kern Council of Governments.

OTHER REPORT

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF THE BASIC 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 the Streets and Roads Special Revenue Fund and the Transit Enterprise Fund of the City of Delano (City), California, as of and for the fiscal year ended June 30, 2009, and have issued our report thereon dated December 22, 2009, which included an explanatory paragraph describing that the financial statements only present the 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 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 6 to the financial statements.

Prop 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 Public Transportation Modernization Improvement and Service Enhancement Account (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 replacement.

During the fiscal year ended June 30, 2009, the City expended \$239,169 from the PTMISEA account for the purpose of purchasing a transit bus for transit operations.

| | | |
|---------------------------------------|----|-----------------|
| Proceeds received: | | |
| PTMISEA | \$ | 239,169 |
| Interest earned | | - |
| Expenditures incurred: | | |
| CNG buses and advertising bus benches | | <u>239,169</u> |
| Unexpected proceeds, June 30 | \$ | <u><u>-</u></u> |

This report is intended solely for the information and use of the board of directors, 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
December 22, 2009

**CITY OF DELANO
TRANSPORTATION DEVELOPMENT ACT FUNDS
STATUS OF PRIOR YEAR AND CURRENT YEAR FINDING AND RECOMMENDATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2008**

Current Year Finding

Finding 2009-1

The City of Delano 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 5.29% 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 of Delano 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 2008-1

The City of Delano 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, 2008 and 2007 is 4.76% and 5.07%, respectively, and shows the City is not in conformance with the provisions of the TDA. This marks the City's sixth consecutive year of noncompliance.

Recommendation

We recommend that the City of Delano 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 six 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 still not in compliance for the fiscal year ended June 30, 2009. This continues to be a comment for the current year. See Finding 2009-1.