

**CITY OF DELANO  
TRANSPORTATION DEVELOPMENT ACT FUNDS**

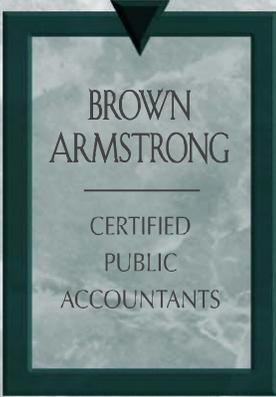
**INDEPENDENT AUDITOR'S REPORTS,  
FUND FINANCIAL STATEMENTS, AND  
SUPPLEMENTARY INFORMATION**

**FOR THE FISCAL YEARS ENDED  
JUNE 30, 2012 AND 2011**

**CITY OF DELANO  
TRANSPORTATION DEVELOPMENT ACT FUNDS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011**

**TABLE OF CONTENTS**

	<u>Page</u>
Independent Auditor's Report .....	1
 <u>Fund Financial Statements</u>	
Balance Sheets – TDA Streets and Roads Special Revenue Fund .....	3
Statements of Revenues, Expenditures, and Changes in Fund Balance – TDA Streets and Roads Special Revenue Fund.....	4
Statements of Net Assets – Transit Enterprise Fund.....	5
Statements of Revenues, Expenses, and Changes in Net Assets – Transit Enterprise Fund.....	6
Statements of Cash Flows – Transit Enterprise Fund .....	7
Notes to the Fund Financial Statements .....	8
 <u>Supplementary Information</u>	
Budgetary Comparison Schedule – TDA Streets and Roads Special Revenue Fund .....	14
Schedules of Operating Expenses – Transit Enterprise Fund.....	15
Note to Supplementary Information .....	16
 <u>Other Report</u>	
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 <i>Government</i> <i>Auditing Standards</i> and the Transportation Development Act .....	17
Status of Prior Year and Current Year Finding and Recommendation.....	19



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

5250 CLAREMENT AVENUE

SUITE 237  
STOCKTON, CA 95207  
TEL 209.451.4833

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, 2012, 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 audit. The June 30, 2011, summarized comparative information has been derived from the 2011 financial statements and is included for additional analysis only.

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 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 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, 2012, 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.



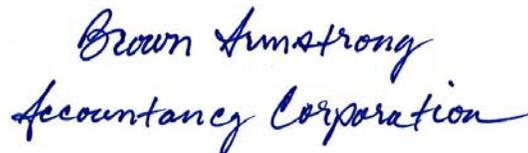
REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2013, on our consideration of 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 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 financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the 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 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 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 financial statements taken as a whole.

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 29, 2013

**CITY OF DELANO  
TDA STREETS AND ROADS SPECIAL REVENUE FUND  
BALANCE SHEETS  
JUNE 30, 2012 AND 2011**

	2012	2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 117,862	\$ 121,750
Accounts receivable	448,177	-
Total assets	\$ 566,039	\$ 121,750
 <b>LIABILITIES AND FUND BALANCE</b>		
Current liabilities:		
Accounts payable	\$ 216,152	\$ 5,927
Total current liabilities	216,152	5,927
Fund balance:		
Assigned	349,887	115,823
Total liabilities and fund balance	\$ 566,039	\$ 121,750

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, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>REVENUES</b>		
Local transportation fund	\$ 664,346	\$ 322,589
Interest income	1,466	1,835
Other income	-	501
	<u>665,812</u>	<u>324,925</u>
<b>EXPENDITURES</b>		
Streets and roads	<u>431,748</u>	<u>400,395</u>
Change in fund balance	234,064	(75,470)
Fund balance, beginning	<u>115,823</u>	<u>191,293</u>
Fund balance, ending	<u><u>\$ 349,887</u></u>	<u><u>\$ 115,823</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, 2012 AND 2011**

	2012	2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ -	\$ -
Accounts receivable	1,511,532	6,731
Due from other governments	-	251,524
	1,511,532	258,255
Total current assets		
Capital assets:		
Land	93,245	93,245
Buildings	1,563,206	1,563,206
Improvements	4,735	4,735
Equipment	2,376,011	2,370,811
	4,037,197	4,031,997
Total capital assets		
Less: accumulated depreciation	(2,187,840)	(1,939,350)
	1,849,357	2,092,647
Capital assets, net of accumulated depreciation		
Total assets	\$ 3,360,889	\$ 2,350,902
 <b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Bank overdraft	\$ 843,884	\$ 161,123
Accounts payable	19,826	10,691
Accrued payroll tax	3,142	1,551
Accrued payroll	16,196	20,494
Compensated absences payable	16,224	86,135
	899,272	279,994
Total current liabilities		
Net assets:		
Invested in capital assets, net of related debt	1,849,357	2,092,647
Unrestricted	612,260	(21,739)
	2,461,617	2,070,908
Total net assets		
	\$ 2,461,617	\$ 2,070,908

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, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>OPERATING REVENUES</b>		
Fares	\$ 87,085	\$ 81,120
Total operating revenues	<u>87,085</u>	<u>81,120</u>
<b>OPERATING EXPENSES</b>		
Operations	897,571	924,375
Vehicle maintenance	257,652	316,851
Depreciation	248,490	193,286
General administration	<u>271,392</u>	<u>240,779</u>
Total operating expenses	<u>1,675,105</u>	<u>1,675,291</u>
Operating loss	<u>(1,588,020)</u>	<u>(1,594,171)</u>
<b>NON-OPERATING REVENUES</b>		
Local transportation fund	1,318,437	443,737
State transit assistance	518,760	251,524
Federal operating assistance	118,920	-
Proposition 1B (PTMISEA)	-	41,548
Interest income	2,118	1,765
Miscellaneous revenues	<u>20,494</u>	<u>12,023</u>
Total non-operating revenues	<u>1,978,729</u>	<u>750,597</u>
Change in net assets	390,709	(843,574)
Net assets, beginning	<u>2,070,908</u>	<u>2,914,482</u>
Net assets, ending	<u>\$ 2,461,617</u>	<u>\$ 2,070,908</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, 2012 AND 2011**

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash receipts from customers	\$ (1,417,716)	\$ 82,018
Cash disbursements to employees	(1,003,550)	(966,959)
Cash disbursements to suppliers	(486,548)	(533,706)
	<u>(2,907,814)</u>	<u>(1,418,647)</u>
Net cash used for operating activities		
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Local transportation fund	1,569,961	192,213
State transit assistance	518,760	251,524
Federal operating assistance	118,920	-
Proposition 1B (PTMISEA)	-	41,548
Miscellaneous income	20,494	12,023
	<u>2,228,135</u>	<u>497,308</u>
Net cash provided by noncapital financing activities		
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets	(5,200)	(460,540)
	<u>(5,200)</u>	<u>(460,540)</u>
Net cash used for capital and related financing activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	2,118	1,765
	<u>2,118</u>	<u>1,765</u>
Net cash provided by investing activities		
Net decrease in cash and cash equivalents	(682,761)	(1,380,114)
Cash and cash equivalents, beginning	(161,123)	1,218,991
Cash and cash equivalents, ending	<u>\$ (843,884)</u>	<u>\$ (161,123)</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES</b>		
Operating loss	\$ (1,588,020)	\$ (1,594,171)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	248,490	193,286
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(1,504,801)	898
Increase (decrease) in accounts payable	9,135	(15,833)
Decrease in accrued wages and benefits	(72,618)	(2,827)
	<u>(2,907,814)</u>	<u>(1,418,647)</u>
Net cash used for operating activities		

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, 2012 AND 2011**

**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.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### F. Net Assets/Fund Balance

The Transit Enterprise Fund financial statements 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 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.

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, 2012 and 2011, was \$16,224 and \$86,135, respectively, and is reported separately in the statements of net assets.

### H. Grants

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

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

### I. Pension Benefits

Employees of the Transit Enterprise Fund participate in the City's defined benefit plan. Contributions to the plan for Transit Enterprise Fund employees were \$55,219 and \$50,539 for the years ended June 30, 2012 and 2011, respectively. Information regarding the City's plan is available in the City's basic financial statements for the fiscal year ended June 30, 2012.

### 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, 2012 and 2011, the charged premiums amounted to \$27,100 and \$29,610, respectively.

### K. Use of Estimates

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

### L. Reclassifications

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

### M. Comparative Data

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

### N. Contingencies

The City receives funding for specific purposes that are subject to review and audit by the granting agencies funding source. Such audits could result in a request for reimbursement for expenditures disallowed under 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, 2012 and 2011:

	July 1, 2011	Additions	Deletions	June 30, 2012
Land	\$ 93,245	\$ -	\$ -	\$ 93,245
Building and structures	1,563,206	-	-	1,563,206
Improvements	4,735	-	-	4,735
Equipment	2,370,811	5,200	-	2,376,011
	4,031,997	5,200	-	4,037,197
Accumulated depreciation	(1,939,350)	(248,490)	-	(2,187,840)
	<u>\$ 2,092,647</u>	<u>\$ (243,290)</u>	<u>\$ -</u>	<u>\$ 1,849,357</u>
	July 1, 2010	Additions	Deletions	June 30, 2011
Land	\$ 93,245	\$ -	\$ -	\$ 93,245
Building and structures	1,563,206	-	-	1,563,206
Improvements	4,735	-	-	4,735
Equipment	1,910,271	460,540	-	2,370,811
	3,571,457	460,540	-	4,031,997
Accumulated depreciation	(1,746,064)	(193,286)	-	(1,939,350)
	<u>\$ 1,825,393</u>	<u>\$ 267,254</u>	<u>\$ -</u>	<u>\$ 2,092,647</u>

Depreciation expense for the years ended June 30, 2012 and 2011, was \$248,490 and \$193,286, respectively.

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

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

The Transit Enterprise Fund is subject to the provision of Section 6633.2 of Title 21, Chapter 3, Subchapter 2 of the California Code of Regulations requiring the calculation and adherence of fare and local support ratios for TDA transit funding. Accordingly, the City's Transit Enterprise Fund must maintain a ratio equaling or exceeding 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, 2012 and 2011, 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 2012 marks the tenth consecutive year of noncompliance and the difference between required and actual fare revenue is \$55,600.

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

	<u>2012</u>	<u>2011</u>
Fare revenues	<u>\$ 87,085</u>	<u>\$ 81,120</u>
Operating expenses	\$ 1,675,105	\$ 1,675,291
Allowable TDA adjustments		
Depreciation	<u>(248,490)</u>	<u>(193,286)</u>
Net operating expenses	<u>\$ 1,426,615</u>	<u>\$ 1,482,005</u>
Fare revenue ratio	<u>6.10%</u>	<u>5.47%</u>

The City did not meet the objective for the years ended June 30, 2012 and 2011.

**NOTE 5 – SUBSEQUENT EVENTS**

The date to which events occurring after June 30, 2012, have been evaluated for possible adjustments to the financial statements or disclosures is March 29, 2013, which is the date that the financial statements were available to be issued. There were no events brought to our attention that were deemed to be reportable at that time.

**SUPPLEMENTARY INFORMATION**

**CITY OF DELANO  
TDA STREETS AND ROADS SPECIAL REVENUE FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>2012 Actual</u>	<u>Variance with Final Budget</u>
<b>REVENUES</b>				
Local transportation fund	\$ 564,000	\$ 564,000	\$ 664,346	\$ 100,346
Interest income	-	-	1,466	1,466
Total revenues	<u>564,000</u>	<u>564,000</u>	<u>665,812</u>	<u>101,812</u>
<b>EXPENDITURES</b>				
Streets and roads	<u>590,330</u>	<u>590,330</u>	<u>431,748</u>	<u>158,582</u>
Excess of revenues over expenditures	<u>\$ (26,330)</u>	<u>\$ (26,330)</u>	234,064	<u>\$ 260,394</u>
Fund balance, beginning			<u>115,823</u>	
Fund balance, ending			<u>\$ 349,887</u>	

See note to supplementary information.

**CITY OF DELANO  
TRANSIT ENTERPRISE FUND  
SCHEDULES OF OPERATING EXPENSES  
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>OPERATIONS</b>		
Salaries and benefits	\$ 764,933	\$ 798,306
Insurance	18,999	18,437
Equipment and tools	24,200	25,815
Fuel	89,439	81,817
	<u>897,571</u>	<u>924,375</u>
<b>DEPRECIATION</b>	<u>248,490</u>	<u>193,286</u>
<b>VEHICLE MAINTENANCE</b>	<u>257,652</u>	<u>316,851</u>
<b>GENERAL ADMINISTRATION</b>		
Salaries and benefits	165,999	165,826
Contractual services	73,341	23,552
Advertising	3,810	8,215
Printing and copying	6,982	5,023
Other supplies and services	4,962	18,147
Telephone	6,145	7,133
Meetings and travel	858	1,273
Water	3,029	5,720
Utilities	6,266	5,890
	<u>271,392</u>	<u>240,779</u>
Total general administration	<u>271,392</u>	<u>240,779</u>
Total operating expenses	<u>\$ 1,675,105</u>	<u>\$ 1,675,291</u>

See note to supplementary information.

**CITY OF DELANO  
TRANSPORTATION DEVELOPMENT ACT FUNDS  
NOTE TO SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011**

**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

BROWN ARMSTRONG

*Certified Public Accountants*

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS AND THE  
TRANSPORTATION DEVELOPMENT ACT**

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

To the City Council  
City of Delano  
Delano, California

We have audited the accompanying financial statements of 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, 2012, and have issued our report thereon dated March 29, 2013, 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

Management of the TDA Streets and Roads Special Revenue Fund and the Transit Enterprise Fund is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the TDA Streets and Roads Special Revenue Fund and the Transit Enterprise Fund's internal control over financial reporting 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 TDA Streets and Roads Special Revenue Fund and the Transit Enterprise Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the TDA Streets and Roads Special Revenue Fund and the Transit Enterprise Fund'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.

**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

**5250 CLAREMENT AVENUE**

SUITE 237

STOCKTON, CA 95207

TEL 209.451.4833



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 4 to the financial statements.

This report is intended solely for the information and use of the Board of Directors, City Council, management, 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

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
March 29, 2013

**CITY OF DELANO  
TRANSPORTATION DEVELOPMENT ACT FUNDS  
STATUS OF PRIOR YEAR AND CURRENT YEAR FINDING AND RECOMMENDATION  
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011**

Current Year Finding

Finding 2012-1

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, 2012 and 2011, is 6.10% and 5.47%, respectively, and shows the City is not in conformance with the provisions of the TDA. This marks the City's tenth consecutive year of noncompliance.

Recommendation

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

Management Response

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

Prior Year Finding

Finding 2011-1

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, 2011 and 2010, is 5.47% and 4.72%, respectively, and shows the City is not in conformance with the provisions of the TDA. This marks the City's ninth 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 nine 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, 2012. This continues to be a finding for the current year.