Mendocino Transit Authority
Ukiah, California

Basic Financial Statements and Independent Auditors' Report

Fiscal Year Ended June 30, 2013

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Mendocino Transit Authority

Basic Financial Statements

Fiscal year ended June 30, 2013

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BPM
BURR PILGER MAYER

60 South Market Street, Suite 800, San Jose, CA 95113
Phone 408.961.6300 **Fax** 408.961.6324 **Email** bpm@bpmcpa.com **Web** bpmcpa.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Mendocino Transit Authority
Ukiah, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the major fund of the Mendocino Transit Authority (the Authority) as of and for the year ended June 30, 2013, and the related notes to the financial statements, as shown on pages 12–22.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the major fund of the Authority, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, during the year ended June 30, 2013, the Authority adopted new accounting guidance, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted budgetary comparison information 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2014, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority's internal control over financial reporting and compliance.

Burr Pilger Mayer, Inc.

San Jose, California
March 19, 2014

This section of Mendocino Transit Authority's (the Authority) basic financial statements presents management's overview and analysis of the financial activities of the organization for the fiscal year ended June 30, 2013. The Authority is a Joint Powers Authority entered into by the County of Mendocino and the four incorporated cities in the county. It administers transportation programs to the public with specialized services for seniors and the disabled.

Introduction to the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's audited financial statements, which are comprised of the basic financial statements prepared in accordance with the accounting principles generally accepted in the United States of America. Effective for the fiscal year ended June 30, 2013, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which incorporates a standard format to properly structure a balance sheet using new terms. The statement previously reported as the Statement of Net Assets is now the Statement of Net Position and the statement previously reported to as the Statement of Revenues, Expenses and Changes in Net Assets is now the Statement of Revenues, Expenses and Changes in Net Position.

The required financial statements include the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; the Statement of Cash Flows, and the Notes to Basic Financial Statements. All sections must be considered together to obtain a complete understanding of the financial picture of the Authority.

Statement of Net Position

This statement includes all assets and liabilities using the accrual basis of accounting as of the statement date. The difference between the two classifications is represented as "Net Position"; this section of the statement identifies major categories of restrictions on these assets and reflects the overall financial position of the Authority as a whole.

Statement of Revenues, Expenses and Changes in Net Position

This statement presents the revenues earned and the expenses incurred during the year using the accrual basis of accounting. Under accrual basis, all changes in net position are reported as soon as the underlying event occurs, regardless of the timing of the cash flow. Consequently revenues and/or expenditures reported during this fiscal year may result in changes to cash flows in a future period.

Statement of Cash Flows

This statement reflects inflows and outflows of cash, summarized by operating non-capital financing and relating financing, capital, financing, and investing activities. The direct method was used to prepare this information, which means the gross rather than net amounts were presented for the year's activities.

Notes to the Financial Statements

This additional information is essential to a full understanding of the data reported in the basic financial statements.

Analytical Overview

Table 1
Business-Type Net Position

	2013	2012
Cash and investments	$ 1,044,810	$ 3,721,865
Other assets	1,694,934	1,367,666
Capital assets	12,144,960	8,794,770
Total assets	14,884,704	13,884,301
Accounts payable	189,545	838,054
Other liabilities	1,152,893	3,314,897
Total liabilities	1,342,438	4,152,951
Net position		
Invested in capital assets	12,144,960	8,794,770
Restricted	77,512	77,175
Unrestricted	1,319,794	859,405
Total net position	$ 13,542,266	$ 9,731,350

The Authority's governmental net position amounted to $13,542,266 as of June 30, 2013, an increase of $3,810,916 from 2012. The increase in the Change in Net Position is reflected in the Statement of Revenues, Expenses and Changes in Net Position. The Authority's net position as of June 30, 2013 is comprised of the following:

- Cash and investments of $1,044,810 held with the Mendocino County Treasury.
- Other assets comprised of Accounts Receivables of $133,828; Grants Receivables of $1,448,510; Inventory items of $68,135; and prepaid items of $44,461.
- Capital assets of $12,144,960, net of depreciation charges, which include all the Authority's capital assets.
- Accounts payable totaling $189,545.
- Other liabilities comprised of Deferred Revenue of $730,249; Compensated Absences of $258,016; and an Accrued Liability for Self-insurance of $164,628.
- Net position invested in capital assets of $12,144,960, representing the Authority's investment in capital assets.
- Restricted net position totaling $77,512 may only be used for specialized transportation program services.
- Unrestricted net position, the part of net position that can be used to finance day-to-day operations and capital without constraints or other legal requirements or restrictions. The Authority had $1,319,794 of unrestricted net position as of June 30, 2013.

Summary

The Authority's total assets increased this year by $1,000,403. This classification is comprised of Current Assets, which decreased by $2,349,787; and Property, Plant and Equipment, which increased overall by $3,350,190.

Liabilities have decreased this year, in this case by $2,810,513, mainly as the result of the decrease in deferred revenue, which was used for vehicle acquisition and construction of the maintenance facility.

Unrestricted Net Assets have increased by $460,389. The overall change in Net Position is an increase of $3,810,916, resulting in a June 30, 2013 balance of $13,542,266.

Comparative Analysis of Current and Prior Year Activities and Balances

Table 2
Changes in Net Position

	2013	2012	Increase (Decrease)	
Operating revenues	$ 807,799	$ 811,417	$ (3,618)	Note 1
Operating expenses	5,028,077	4,879,041	149,036	Note 2
Net operating income	$ (4,220,278)	$ (4,067,624)	$ (152,654)	
Non-operating revenues	$ 8,031,191	$ 8,702,672	$ (671,481)	Note 3

As shown in Table 2 above, $807,799, or 10% of the Authority's fiscal year 2013 revenue, came from operating revenues which consisted of fares, contract services, charters, advertisements, and Sonoma County participation; and $8,031,191, or 90%, came from non-operating revenues such as local transportation funds, capital grants, and planning grants.

Note 1 – The decrease in operating revenues related to the decrease in charter revenue.

Note 2 – This increase in operating expenses relates to increases associated with specialized transportation services and depreciation.

Note 3 – The decrease in non-operating revenues was related to an increase in Local Transportation Revenue and Operating Grant Revenue, and decreases in Capital Grants and Local Transit Reserve.

Capital Assets

As of June 30, 2013, the Authority's investment in capital assets was $12,144,960, net of accumulated depreciation. The Authority added $4,160,310 of facilities, vehicles and equipment in fiscal year 2013. Additional information on the Authority's capital assets can be found in Note 4 in the Notes to the Basic Financial Statements.

Debt Administration

The Authority does not utilize long-term debt to fund operations or growth.

Economic Outlook and Major Initiatives

Financial planning is based on specific assumptions from recent trends, State of California economic forecasts and historical growth patterns in the communities served by the Authority.

The economic condition of the Authority as it appears on the balance sheet reflects financial stability. The Authority will continue to maintain a watchful eye over expenditures and remain committed to sound fiscal management practices to deliver the highest quality of service to the citizens of the area.

Contacting the Authority's Financial Management

This set of Basic Financial Statements is intended to provide citizens, taxpayers, and creditors with a general overview of the Authority's finances. Questions about this report should be directed to Mendocino Transit Authority, 241 Plant Road, Ukiah, CA 95482.

MENDOCINO TRANSIT AUTHORITY

STATEMENT OF NET POSITION

June 30, 2013

ASSETS

Current assets:		
Cash and investments	$	232,932
Restricted cash and investments		811,878
Accounts receivable		133,828
Grants receivable		1,448,510
Inventories		68,135
Prepaid costs		44,461
Total current assets		2,739,744
Capital assets:		
Non-depreciable assets		360,782
Depreciable assets, net of accumulated depreciation		11,784,178
Total capital assets		12,144,960
Total assets		14,884,704

LIABILITIES

Current liabilities:		
Accounts payable and accrued liabilities		189,545
Deferred revenue		730,249
Compensated absences		258,016
Accrued liability for self-insurance		164,628
Total liabilities		1,342,438

NET POSITION

Invested in capital assets		12,144,960
Restricted for specialized services		77,512
Unrestricted		1,319,794
Total net position	$	13,542,266

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

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MENDOCINO TRANSIT AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION

Fiscal year ended June 30, 2013

Operating revenues:	
Fares	$ 553,959
Public service contract	57,606
Charters	40,354
Advertisement	2,450
Sonoma County participation	153,430
Total revenues	807,799
Operating expenses:	
Transportation	2,616,576
Transportation - specialized	399,009
Maintenance	422,759
Administrative and overhead	680,244
Mobility management	99,366
Depreciation	810,120
Total operating expenses	5,028,074
Operating loss	(4,220,275)
Non-operating revenues:	
Local transportation fund	2,165,103
Local transportation fund - specialized	399,009
State transit assistance	350,000
Operating grants	772,572
Capital grants	4,231,998
Planning grants	14,481
Senior center revenue	22,503
Interest income	3,046
Other income	29,347
Local transit reserve	9,511
Maintenance labor	33,621
Total non-operating revenues	8,031,191
Change in net position	3,810,916
Net position at beginning of the year	9,731,350
Net position at end of the year	$ 13,542,266

MENDOCINO TRANSIT AUTHORITY

STATEMENT OF CASH FLOWS

Fiscal year ended June 30, 2013

Cash flows from operating activities:		
Receipts from customers	$	780,738
Payments to suppliers		(2,400,623)
Payments to employees		(2,825,760)
Net cash used in operating activities		(4,445,645)
Cash flows from non-capital financing activities:		
Local transportation funds		2,564,112
Operating grants		772,572
State transit assistance		350,000
Planning grants		14,481
Senior center revenue		22,503
Other income		880
Maintenance labor		33,621
Net cash provided by non-capital financing activities		3,758,169
Cash flows from capital and related financing activities:		
Capital grants		2,129,707
Local transit reserve		9,511
Senior center capital outlay		(69,511)
Proceeds from the senior center		60,000
Proceeds from rebates		18,055
Proceeds from sale of capital assets		19,923
Purchase of fixed assets		(4,160,310)
Net cash used in capital and related financing activities		(1,992,625)
Cash flows from investing activities:		
Interest earned		3,046
Net cash provided by investing activities		3,046
Net decrease in cash and cash equivalents		(2,677,055)
Cash and cash equivalents - beginning of the year		3,721,865
Cash and cash equivalents - end of year	$	1,044,810

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

Mendocino Transit Authority

Statement of Cash Flows (Continued)

Fiscal year ended June 30, 2013

Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$	(4,220,275)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation		810,120
Changes in certain assets and liabilities:		
Accounts receivable		(27,061)
Grants receivable		(319,461)
Inventories		27,971
Prepaid costs		(8,717)
Accounts payable and accrued liabilities		(648,509)
Accrued liability for self insurance		(22,271)
Compensated absences		(37,442)
Net cash used in operating activities	$	(4,445,645)
Supplementary disclosures of cash flow information:		
Cash and investments	$	232,932
Restricted cash and investments with fiscal agent		811,878
Total cash and cash equivalents	$	1,044,810

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

1. Organization

(a) Reporting Entity

The Mendocino Transit Authority (the Authority) was formed as a pilot project in January 1975, through a Joint Powers Agreement entered into by the County of Mendocino (the County) and the four incorporated cities in the County. In April 1976, the Authority began the pilot program with five 23-passenger buses and on July 1, 1979 was established as a permanent program through a new Joint Powers Agreement. The Authority also administers five senior transportation programs that can be open to the public, but with priority for seniors and handicapped. The Specialized Transportation Services and the General Public Transportation Services are accounted for as separate operating branches of the Authority due to their different fare ratio requirements and methods of providing services. The Specialized Transportation Services are provided under contracts, while the General Public Transportation is a transit operation.

In accordance with Section 6680 of Article 7 of the Transportation Development Act, the Authority has been designated Consolidated Transportation Service Agency by Mendocino Council of Governments in accordance with the action plan adopted pursuant to Section 15975 of the Government Code.

2. Summary of Significant Accounting Policies

(a) Basis of Accounting and Presentation

The activities of the Authority are accounted for as an a Proprietary Fund. Proprietary Funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In compliance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* the Authority has chosen to apply all applicable GASB pronouncements and all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities. The Authority may fund programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The Authority's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

(b) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Authority management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Summary of Significant Accounting Policies, continued

(c) Cash and Cash Equivalents

Cash and cash equivalents with an original maturity of 90 days or less are used in preparing the statement of cash flows because these assets are highly liquid.

(d) Inventory

Inventory represents vehicle parts and various related materials that have been stated at cost determined by the first-in, first-out method. The costs of inventories are recorded as expenses when consumed rather than when purchased.

(e) Prepaid Costs

Prepaid costs are calculated and adjusted at year-end to properly charge funds in the period benefited.

(f) Capital Assets

Property and equipment are recorded at historical cost. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets of 1 to 30 years. All capital assets over $1,000 and with a useful life of more than one year are capitalized.

(g) Compensated Absences

Vacation

Employees accrue vacation at the rate of 1 hour for every 26 hours worked. The accrual increases to 1 hour for every 17.33 hours after four years of service and 1 hour for every 13 hours after seven years of service. Employees become eligible for vacation benefits after they have completed six months of employment.

Sick Leave

Employees accrue sick leave at the rate of 1 hour for every 20 hours worked and become eligible for sick leave benefits after they have completed three months of employment. Employees may receive additional pay or vacation time for sick leave accruals in excess of 96 hours, at the rate of 25% of the amount converted.

At June 30, 2013, the full value of accrued vacation was $167,353 and 25% of the value of accrued sick leave was $90,663, which is recorded by the Authority as a liability. The total compensated absences liability was $258,016 at June 30, 2013.

(h) Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of accounts, payroll and payroll related accruals.

2. Summary of Significant Accounting Policies, continued

(i) Net Position

The Authority reports information regarding its net position and activities according to three classes of net position: invested in capital assets, restricted and unrestricted. A description of these categories is as follows:

Invested in Capital Assets – This amount consists of capital assets net of accumulated depreciation.

Restricted – The portion of net position that is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions that the Authority cannot unilaterally alter. These principally include funds received for specialized service contracts.

Unrestricted – The portion of net position that is not restricted from use.

(j) Vehicle Replacement Reserve

The Mendocino Council of Governments maintains vehicle and non-vehicle replacement reserve funds for the benefit of the Authority. The amount due to the Authority at June 30, 2013 was $467,814.

(k) Recent Accounting Pronouncements

The Authority adopted GASB Statement No. 63, *Reporting Deferred Outflows, Deferred Inflows, and Net Position*, which incorporates a standard format and new terms. The statement previously reported as the Statement of Net Assets is now the Statement of Net Position and the statement previously reported to as the Statement of Revenues, Expenses and Changes in Net Assets is now the Statement of Revenues, Expenses and Changes in Net Position.

3. Cash and Investments

(a) Summary of Cash and Investments

Cash and investments as of June 30, 2013 consist of the following:

Cash with fiscal agent	$	79,273
County of Mendocino		907,278
Cash on deposit with banks		57,919
Petty cash		340
Total cash and investments	$	1,044,810

The Authority maintains a cash and investment pool with the County, which allocates interest to the various funds based upon the average monthly cash balances. The Authority's cash on deposit with the County Treasury was $986,551 at June 30, 2013.

3. Cash and Investments, continued

(b) Risk Disclosures

The Authority maintains specific cash deposits with the County and participates in the external investment pool for the County. The County is restricted by state code in the types of investments it can make. Furthermore, the County Treasurer has a written investment policy approved by the Board of Supervisors, which is more restrictive than state code as to terms of maturity and type of investment. Also, the County has an investment committee that performs regulatory oversight for its pool, as required by California Government Code Section 27134.

At June 30, 2013, the Authority's cash with the County Treasurer is stated at fair value. However, the value of the pool shares in the County that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the Authority's position in the pool.

Custodial Credit Risk - Deposits

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the Authority's cash on deposit or first trust deed mortgage notes with a value of 150% of the deposit as collateral for these deposits. Under California Law, this collateral is held in the Authority's name and is placed ahead of general creditors of the institution. The Authority has waived collateral requirements for the portion of deposits covered by the Federal Depository Insurance Corporation.

Credit Risk

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Local Agency Investment Fund (LAIF) was unrated at June 30, 2013.

Concentration of Credit Risk

The investment policy of the Authority contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total Authority investments that are required to be disclosed.

Investment in State Investment Pool

The Authority, whose investments are held by the County, is a voluntary participant in the LAIF, which is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements and amounts are based upon the Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

3. Cash and Investments, continued

(b) Risk Disclosures, *continued*

Restricted and Designated Cash and Cash Equivalents

The Authority segregates certain cash and cash equivalents that have legal or Board of Director's designated restrictions as to their uses.

The Authority is required under the terms of specialized service contracts to segregate and maintain certain funds. The balance of these funds was $811,878 at June 30, 2013.

4. Capital Assets, net

Capital assets as of June 30, 2013 consist of the following:

	Balance as of July 1, 2012	Additions	Deletions	Balance as of June 30, 2013
Nondepreciable assets:				
Land	$ 360,782	$ -	$ -	$ 360,782
Depreciable assets:				
Facility	7,750,668	1,717,823	-	9,468,491
Staff vehicles	242,707	-	-	242,707
Radios, fare boxes, steps	278,302	26,850	-	305,152
Garage equipment	146,577	33,822	-	180,399
Shelters	360,195	49,072	-	409,267
Office equipment	284,537	30,719	(8,124)	307,132
Revenue vehicles	5,311,976	2,302,024	(1,357,590)	6,256,410
Total depreciable assets	14,374,962	4,160,310	(1,365,714)	17,169,558
Accumulated depreciation	(5,940,974)	(810,120)	1,365,714	(5,385,380)
Total	$ 8,794,770	$ 3,350,190	$ -	$ 12,144,960

Depreciation expense was $810,120 for the year ended June 30, 2013.

5. Defined Benefit Pension Plan and Defined Contribution Plan

The Authority maintains two pension plans for its employees: one covering temporary and casual part-time employees (less than 20 hours a week) and another for full-time and part-time employees.

Defined Contribution Plan

The plan covering temporary employees and casual part-time employees is a defined contribution plan that is also a deferred compensation plan established under the provisions of the Internal Revenue Code Section 457. Required contributions to the plan are 7.769% of earnings for the Authority and 7% of earnings for employees. Vesting is 100% immediate for both the employer and employee contributions. The Authority contributed $5,070 to the plan in 2013.

5. Defined Benefit Pension Plan and Defined Contribution Plan, continued

Defined Benefit Pension Plan

The Authority contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for the cost sharing plans that are administered by CalPERS. Copies of CalPERS' annual financial reports may be obtained from its executive office at 400 "Q" Street, Sacramento, California 95811.

Miscellaneous participants are required to contribute 7% of their annual covered salary on a payroll deduction basis. The Authority makes the contributions required of Authority employees on their behalf and for their account at an actuarial determined rate; the current rate is 7.769%.

For each of the fiscal years shown below, the Authority has contributed at the actuarially determined rate provided by CalPERS' actuaries. Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2012 to June 30, 2013 has been determined by an actuarial valuation of the plan as of June 30, 2010. The contribution rate indicated for the period is 7.769% of payroll for the miscellaneous plan. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2012, the contribution rate is multiplied by the payroll of covered employees that were paid during the period from July 1, 2012 to June 30, 2013.

A summary of principle assumptions and methods used to determine the ARC is shown below.

Valuation Date	June 30, 2010
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	9 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.50% (net of administrative expenses)
Projected Salary Increases	3.30% to 14.20% depending on Age, Service, and type of employment
Inflation	2.75%
Payroll Growth	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

5. Defined Benefit Pension Plan and Defined Contribution Plan, continued

Defined Benefit Pension Plan, continued

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling 30-year period, which results in an amortization of 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

Since the Authority has less than 100 active members in the miscellaneous plan, it is required to participate in a risk pool. The Authority participates in the Miscellaneous 2% at 60 Risk Pool. The schedule of funding progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll as a pooled plan and plan specific. The schedule also presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time, relative to the actuarial accrued liability for benefits.

Miscellaneous Plan

Miscellaneous 2% at 60 Risk Pool (*in thousands*)

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (UAAL) (Excess Assets)	Funded Status	Annual Covered Payroll	UAAL As a % of Payroll
6/30/2010	$ 624,423	$ 594,492	$ 29,931	95.2%	$ 186,778	16.0%
6/30/2011	682,376	639,237	43,139	93.7%	193,877	22.3%
6/30/2012	736,232	701,224	35,008	95.2%	208,517	16.8%

Plan Specific Information

Valuation Date	Accrued Liability	Actuarial Value of Assets (AVA)	Market Value of Assets (MVA)	Funded Ratio AVA	Funded Ratio MVA	Annual Covered Payroll
6/30/2011	$ 4,203,441	$ 3,945,708	3,530,723	93.9%	84.0%	$ 1,968,801
6/30/2012	4,640,249	4,418,479	3,717,456	95.2%	80.1%	1,998,481

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2011	$ 136,563	100%	$ -
6/30/2012	153,752	100%	-
6/30/2013	150,860	100%	-

6. Operating Leases

The Authority has several operating leases as lessee. The leases are primarily for office space, parking and areas for loading of passengers. Lease terms are all month-to-month at this time. None of these leases have non-cancelable lease terms, provisions for contingent rentals, purchase options, or unusual restrictions. Renewals of leases are negotiated with the lessor when appropriate.

The Authority leases parking lot space for vehicles from the Redwood Coast Fire Protection District for $600 per quarter, plus $25 in utilities which increases 2% each year, ending on April 30, 2014. The Authority also leases parking lot space for vehicles from the City of Willits for $1,500 per quarter, ending on December 31, 2020. As of June 30, 2013, lease amounts are as follows:

Year Ending June 30,		
2014	$	8,092
2015		6,000
2016		6,000
2017		6,000
2018		6,000
Thereafter		15,000
Total	$	47,092

For the year ended June 30, 2013, rent expenses were $24,677.

7. Contingencies

The Authority receives revenue from Federal, State and Local agencies that have requirements to be followed when expending these revenues. If the requirements are not followed, the unauthorized expenditures would be a liability to be refunded to the appropriate agency.

The Authority is involved in various claims and litigation arising in the ordinary course of business. Authority management, based upon the opinion of legal counsel, is of the opinion that the ultimate resolution of such matters will not have a materially adverse effect of the Authority's financial position or results of operations.

8. Deferred Revenue

Deferred revenue at June 30, 2013 consisted of $721,988 of Proposition 1B Public Transportation Modernization Improvement and Service Enhancement Account (PTMISEA) funding and $3,573 of Transit System Safety, Security and Disaster Response Account (TSSSDRA) funding that was not expended by the end of fiscal year 2013. The balance of the deferred revenue consists of $4,688 of charter revenue deposits for the following fiscal year. The total deferred revenue at June 30, 2013 was $730,249.

9. Fare Revenue Ratio

The Authority is required under the Transportation Development Act to maintain a fare revenue to operating expenses ratio of 14.7%. The calculation of the fare revenue ratio for the year ended June 30, 2013 is as follows:

Fare revenues	$	542,617
Operating expenses	$	5,028,074
Less depreciation		810,120
Less cost of specialized services		399,009
Less contract and charter services, senior administration, maintenance labor, and mobility management		264,967
Total public service	$	3,553,978
Fare revenue ratio		15.3%

10. Risk Management

The Authority manages risk of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters by participating in the public entity risk pools described below and by retaining certain risks. The Authority maintains insurance coverage from a commercial carrier for its Garage Keepers Insurance, Commercial Property and Inland Marine coverage.

Public entity risk pools are formally organized and separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, those entities exercise full powers and authorities within the scope of the related Joint Powers Agreements, including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts, and the right to sue and be sued. Each risk pool is governed by a board consisting of representatives from member municipalities. Each board controls the operations of the respective risk pool, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on that board. Obligations and liabilities of these risk pools are not the Authority's responsibility.

Risk Coverage

The Authority is a member of the California Transit Insurance Pool (CalTIP), which covers liability and vehicle damage claims up to $5,000,000. The Authority has a self-insured retention or deductible of $5,000 on physical damage and $25,000 on liability per claim. Once the Authority's self-insured retention for claims is met, CalTIP becomes responsible for payment of all claims up to $1,000,000. For claims above that amount, CalTIP purchases excess coverage up to $5,000,000. During the fiscal year ended June 30, 2013, the Authority contributed $41,871 for coverage.

10. Risk Management, continued

Risk Coverage, *continued*

The Authority is also a member of the Special District Risk Management Authority (SDRMA) Workers' Compensation Program, which covers workers' compensation claims up to $5,000,000. During the fiscal year ended June 30, 2013, the Authority contributed $132,509 for coverage.

The contributions made to the risk pool equal the ratio of their respective payrolls to the total payrolls of all entities participating in the same layer of each program, in each program year. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

Financial statements for the risk pools may be obtained from CalTIP, 1750 Creekside Oaks Drive, Suite 200, Sacramento, CA 95833 and SDRMA, 1112 I Street, Suite 300, Sacramento, CA 95814.

Self-Insurance

The Authority maintains liability accounts for employee benefits and self-insurance reserves. The balances of these liabilities at June 30, 2013 are as follows:

Employee benefits	$	64,054
Vehicle collision		4,872
Workers' compensation		47,932
Cafeteria plan		21,671
Deductible on liability insurance		26,099
Total	$	164,628

Self-insurance for employee benefits includes unemployment insurance and an employees' cafeteria plan. Vehicle collision risks are partially self-insured by the Authority. Potential liability claims are insured by an insurance carrier, with a deductible of $25,000 per incident. Management believes there were sufficient reserves to fund these liabilities at June 30, 2013.

Each year, the Authority budgets an amount to be set aside during the year for self-insurance costs, based on actuarial estimates and availability of funds. That amount is expended and accrued to a liability account during the year. Claims are then charged against the liability account and any balance remaining at year end is carried forward to the next fiscal year.

The Authority's actuary estimate for the ultimate unpaid losses incurred for vehicle collision and deductible on liability insurance was derived from the June 30, 2012 valuation report. The fiscal year ending June 30, 2013 estimate was $40,123.

11. Concentration

The Authority receives a substantial amount of revenue from the Mendocino Council of Governments under the Transportation Development Act and State Transit Assistance. Transportation Development Act fund allocation is based on sales tax revenue. During the fiscal year ended June 30, 2013, the Authority received $2,914,112, which represented 33% of total revenue for the year.

12. Public Transportation Modernization Improvement and Service Enhancement Account (PTMISEA)

In November 2006, California Voters passed a bond measure enacting the Highway Safety, Traffic Reduction, Air Quality and Port Security Bond Act of 2006. Of the $19.925 billion of state general obligation bonds authorized, $4 billion was set aside by the State as the PTMISEA, as instructed by statute. 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 Authority applied for PTMISEA funds for the design phase of an Alternative Fuel Infrastructure at the Authority facilities. The application was rejected. The Authority resubmitted an application for the construction phase of the Alternative Fuel Infrastructure Project. As of June 30, 2013, the Authority has received a total of $3,751,579 in PTMISEA proceeds and related interest, of which qualifying expenditures totaled $3,029,500. Qualifying expenditures must be encumbered within three years from the date of the allocation and expended within three years from the date of encumbrance.

As of June 30, 2013, PTMISEA funds received and expended were verified in the course of our audit as follows:

Balance at July 1, 2012	$	2,749,476
PTMISEA received - interest		12,792
Expenditures incurred:		
Transit Buses		(1,827,101)
Maintenance Facility Project		(182,117)
Solar Canopy		(31,061)
Unexpended proceeds at June 30, 2013	$	721,989

The Authority's unexpended proceeds are held in the restricted cash and investments at year end.

13. Subsequent Events

The Authority evaluated subsequent events for recognition and disclosure through March 19, 2014, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2013 that required recognition or disclosure in such financial statements.

BPM
BURR PILGER MAYER

60 South Market Street, Suite 800, San Jose, CA 95113
Phone 408.961.6300 **Fax** 408.961.6324 **Email** bpm@bpmcpa.com **Web** bpmcpa.com

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH THE STATUTES, RULES, AND REGULATIONS OF THE CALIFORNIA TRANSPORTATION DEVELOPMENT ACT AND THE ALLOCATION INSTRUCTIONS AND RESOLUTIONS OF THE LOCAL TRANSPORTATION COMMISSION

To the Board of Directors
Mendocino Transit Authority
Ukiah, California

We have audited the financial statements of the Transportation Development Act Funds of Mendocino Transit Authority (the Authority) as of and for the year ended June 30, 2013 and have issued a report thereon dated March 19, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

As part of obtaining reasonable assurance about whether Mendocino Transit Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provision of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Additionally, we performed tests to determine that expenditures paid by the Mendocino Transit Authority Transportation Development Act Funds were made in accordance with the allocation instructions and resolutions of the Mendocino Council of Governments and in conformance with the California Transportation Development Act. Specifically, we performed each of the specific tasks identified in the California Code of Regulations, Sections 5554 and 6667 that are applicable to Mendocino Transit Authority's use of Transportation Development Act Funds. In connection with the audit, nothing came to our attention that caused us to believe that Mendocino Transit Authority failed to comply with the Statutes, Rules and Regulations of the California Transportation Development Act and the allocation instructions and resolutions of Mendocino Council of Governments. However, providing an opinion on compliance with those provisions was not an objective of the audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the Board of Directors and management of Mendocino Transit Authority, the Board of Directors and management of Mendocino Council of Governments, the California Department of Transportation, and the State Controller's Office and should not be used by anyone other than these specified parties.

Burr Pilger Mayer, Inc.

San Jose, California
March 19, 2014

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BPM
BURR PILGER MAYER
60 South Market Street, Suite 800, San Jose, CA 95113
Phone 408.961.6300 Fax 408.961.6324 Email bpm@bpmcpa.com Web bpmcpa.com

INDEPENDENT AUDITORS' 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*

To the Board of Directors
Mendocino Transit Authority
Ukiah, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and each major fund of the Authority, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 19, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Burr Pilger Mayer, Inc.

San Jose, California
March 19, 2014