

MENDOCINO TRANSIT AUTHORITY
UKIAH, CALIFORNIA

BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Mendocino Transit Authority
Ukiah, California

We have audited the accompanying basic financial statements of the business-type activities and the major fund of Mendocino Transit Authority as of June 30, 2014 and for the fiscal year then ended, as listed in the table of contents. These basic financial statements are the responsibility of Mendocino Transit Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the major fund of Mendocino Transit Authority, as of June 30, 2014, 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.

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2015, on our consideration of Mendocino Transit 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 Mendocino Transit Authority’s internal control over financial reporting and compliance.

R. J. Ricciardi, Inc.

R. J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
March 30, 2015

Mendocino Transit Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

This section of Mendocino Transit Authority's (the Authority's) basic financial statements presents management's overview and analysis of the financial activities of the organization for the fiscal year ended June 30, 2014. 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. We encourage the reader to consider the information presented here in conjunction with the basic financial statements as a whole.

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.

The required financial statements include the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Fund 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 increases or decreases 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 that 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.

Mendocino Transit Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2014

Analytical Overview

Table 1
Business-Type Net Position

	2014	2013
Cash and investments	\$ 1,707,420	\$ 1,044,810
Other assets	848,906	1,694,934
Capital assets	<u>13,395,125</u>	<u>12,144,960</u>
Total assets	<u>15,951,451</u>	<u>14,884,704</u>
Accounts payable	286,469	189,545
Other liabilities	<u>642,509</u>	<u>1,152,893</u>
Total liabilities	<u>928,978</u>	<u>1,342,438</u>
Net position		
Invested in capital assets	13,395,125	12,144,960
Unrestricted	1,549,524	1,319,794
Restricted	<u>77,824</u>	<u>77,512</u>
Total net position	<u>\$ 15,022,473</u>	<u>\$ 13,542,266</u>

The Authority's governmental net position amounted to \$15,022,473 as of June 30, 2014, an increase of \$1,480,207 from 2013. This increase in the Change in Net Position is reflected in the Statement of Revenues, Expenses and Changes in Fund Net Assets. The Authority's net assets as of June 30, 2014 comprised the following:

- Cash and investments of \$1,707,420 held with the Mendocino County Treasury.
- Other assets comprised accounts receivables of \$121,087, grants receivables of \$590,261, inventory items of \$63,103 and prepaid items of \$74,455.
- Capital assets of \$13,395,125, net of depreciation charges, which include all the Authority's capital assets.
- Accounts payable totaling \$286,469.
- Other liabilities comprise deferred revenue of \$169,289, compensated absences of \$272,979, and an accrued liability for self-insurance of \$200,241.
- Net position invested in capital assets of \$13,395,125, representing the Authority's investment in capital assets.
- Restricted net position totaling \$77,824 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 established by debt covenants or other legal requirements or restrictions. The Authority had \$1,549,524 of unrestricted net assets as of June 30, 2014.

Mendocino Transit Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2014

Summary

Total assets of the Authority have increased this year by \$1,106,747. This classification is comprised of Current Assets, which decreased overall by \$183,418 and Property, Plant, and Equipment, which increased overall by \$1,250,165.

Liabilities have decreased this year, in this case by \$413,460, mainly as the result of the decrease in deferred revenue, which was used for vehicle acquisition and construction of the solar canopy.

Unrestricted Net Position has increased by \$229,730. The overall change to Net Position is an increase of \$1,480,207, resulting in a June 30, 2014 balance of \$15,022,473.

Comparative Analysis of Current and Prior Year Activities and Balances

Table 2
Changes in Net Position

	<u>6/30/14</u>	<u>6/30/13</u>	<u>Increase (Decrease)</u>	
Operating revenues	\$ 822,579	\$ 807,799	\$ 14,780	Note 1
Operating expenses	<u>5,468,295</u>	<u>5,028,077</u>	<u>440,218</u>	Note 2
Net operating income	<u>\$ (4,645,716)</u>	<u>\$ (4,220,278)</u>	<u>\$ (425,438)</u>	
 Non-operating revenues (expenses)	 <u>\$ 6,125,923</u>	 <u>\$ 8,031,191</u>	 <u>\$ (1,905,268)</u>	 Note 3

As Table 2 above shows, \$822,579, or 12% of the Authority's fiscal year 2014 revenue, came from operating revenues which consisted of fares, contract services, charters, advertisements, and Sonoma County participation, and \$6,125,923, or 88%, came from non-operating revenues such as local transportation funds, capital grants and planning grants.

Note 1 - The increase in operating revenues related to the increase in charters and display ads.

Note 2 - This increase in operating expenses relates to increases associated with depreciation and insurances.

Note 3 - The non-operating revenues (expenses) decrease was related to a decrease in capital grants due to the completion of the maintenance facility and solar canopy projects.

Capital Assets

As of June 30, 2014, the Authority's investment in capital assets was \$13,395,125 (net of accumulated depreciation). The Authority added \$2,358,770 of facilities, vehicles and equipment in fiscal year 2014. 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.

Mendocino Transit Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

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
STATEMENTS OF NET POSITION
 Proprietary Fund - Enterprise
 June 30, 2014

ASSETS

Current assets:

Cash and investments	\$	1,433,255
Restricted cash and investments		274,165
Accounts receivable		121,087
Grants receivable		590,261
Inventories		63,103
Prepaid items		74,455
Total current assets		2,556,326

Capital assets:

Non-depreciable		360,782
Depreciable, net of accumulated depreciation		13,034,343
Total assets		15,951,451

LIABILITIES

Current liabilities:

Accounts payable		286,469
Deferred revenue		169,289
Compensated absences		272,979
Accrued liability for self-insurance		200,241
Total current liabilities		928,978

NET ASSETS

Invested in capital assets		13,395,125
Restricted for specialized services		77,824
Unrestricted		1,549,524
Total net assets	\$	15,022,473

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

Mendocino Transit Authority
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION

Proprietary Fund - Enterprise
For the Year Ended June 30, 2014

Operating revenues:	
Fares	\$ 548,391
Nonpublic service contract	56,779
Charters	49,466
Advertisement	9,303
Sonoma County participation	158,640
Total revenues	822,579
Operating expenses:	
Transportation	2,686,051
Transportation - specialized	428,519
Maintenance	455,719
Administrative and overhead	750,601
Mobility management	38,801
Depreciation	1,108,603
Total operating expenses	5,468,294
Operating income (loss)	(4,645,715)
Non-operating revenues (expenses):	
Local transportation fund	2,309,528
Local transportation fund - specialized	428,519
State transit assistance	300,000
Operating grants	652,678
Capital grants	2,307,793
Planning grants	6,223
Senior center revenue	24,004
Interest income	2,138
Other income	853
Local transit reserve	56,710
Maintenance labor	37,476
Total non-operating revenues (expenses)	6,125,922
Change in net assets	1,480,207
Net assets - beginning of period	13,542,266
Net assets - end of period	\$ 15,022,473

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

Mendocino Transit Authority
STATEMENTS OF CASH FLOWS
 Proprietary Fund - Enterprise
 For the Year Ended June 30, 2014

Cash flows from operating activities:	
Receipts from customers	\$ 1,132,609
Payments to suppliers	(1,083,352)
Payments to employees	(3,153,801)
Net cash provided (used) by operating activities	<u>(3,104,544)</u>
Cash flows from noncapital financing activities:	
Local transportation funds	2,738,047
Operating grants	652,678
State transit assistance	300,000
Planning grants	6,223
Senior center revenue	24,004
Other income	853
Maintenance labor	37,476
Net cash provided (used) by noncapital financing activities	<u>3,759,281</u>
Cash flows from capital and related financing activities:	
Capital grants	2,239,695
Local transit reserve	56,710
Senior center capital outlay	68,098
Proceeds from the senior center	-
Proceeds from rebates	-
Proceeds from sale of capital assets	1,504,529
Purchase of fixed assets	(3,863,299)
Net cash provided (used) by capital and related financing activities	<u>5,733</u>
Cash flows from investing activities:	
Interest earned	2,140
Net cash provided by investing activities	<u>2,140</u>
Net increase (decrease) in cash and cash equivalents	662,610
Cash and cash equivalents - beginning of period	<u>1,044,810</u>
Cash and cash equivalents - end of period	<u>\$ 1,707,420</u>
Reconciliation of operating income (loss) to net cash provided (used in) operating activities:	
Operating income (loss)	<u>\$ (4,645,715)</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	1,108,603
Changes in certain assets and liabilities:	
Accounts receivable	12,741
Grants receivable	858,249
Inventories	5,032
Prepaid costs	(29,994)
Deferred revenue	(560,960)
Accounts payable and accruals	96,924
Accrued liability for self insurance	35,613
Compensated absences	14,963
Total adjustments	<u>1,541,171</u>
Net cash provided (used) by operating activities	<u>\$ (3,104,544)</u>
Cash and investments	\$ 1,433,255
Restricted cash and investments with fiscal agent	<u>274,165</u>
Total cash and cash equivalents	<u>\$ 1,707,420</u>

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

Mendocino Transit Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 - ORGANIZATION

A. Reporting Entity

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation and Accounting

The activities of the Authority are accounted for as 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.

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 position 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 basic financial statements have been prepared in conformity with U.S. generally accepted accounting principles, and as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those estimates.

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 and are expended to liquidate liabilities arising during the year.

Mendocino Transit Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Depreciation expense was \$1,108,603 for the year ended June 30, 2014. 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.

The full value of accrued vacation was \$174,991 at June 30, 2014, and 25% of the value of accrued sick leave was \$97,988 at June 30, 2014, and are recorded by the Authority as a liability. The total compensated absences liability was \$272,979 at June 30, 2014.

H. Accounts Payable and Accrued Expenses

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

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 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.

Mendocino Transit Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

J. Vehicle Replacement Reserve

The Mendocino Council of Governments maintains vehicle and non-vehicle replacement reserve funds for the benefit of the Authority. The fund balance on June 30, 2014 was \$413,040.

K. Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the City recognizes deferred outflows and inflows of resources.

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. The Authority has no items that qualify for reporting in this category.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the City that is applicable to a future reporting period. The Authority has no items that qualify for reporting in this category.

NOTE 3 - CASH AND INVESTMENTS

Cash and investments as of June 30, 2014 consist of the following:

Cash with Fiscal Agent	\$ 109,144
County of Mendocino	1,393,867
Cash deposit with banks	204,069
Petty cash	<u>340</u>
Total cash and investments	<u>\$ 1,707,420</u>

The Authority maintains a cash and investment pool with the County. The County allocates interest to the various funds based upon the average monthly cash balances. The Authority's cash on deposit with the County Treasury at June 30, 2014 was \$1,393,867.

Credit Risk, Carrying Amount and Market Value of Investments

The Authority maintains specific cash deposits with the County and participates in the external investment pool of 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.

The County's investment policy authorizes the County to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, certificates of deposit, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, and the State Treasurer's investment pool.

Mendocino Transit Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 3 - CASH AND INVESTMENTS (concluded)

At June 30, 2014, the Authority's cash with the County's 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.

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 federal depository insurance.

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, 2014.

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.

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-rate 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.

Restricted and Designated Cash and Equivalents

The Authority segregates certain cash and 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 at June 30, 2014 was \$274,165.

Mendocino Transit Authority
NOTES TO FINANCIAL STATEMENTS
 June 30, 2014

NOTE 4 - CAPITAL ASSETS

Capital assets as of June 30, 2014 consist of the following:

	Beginning Balance	Additions	Dispositions	Ending Balance
Land (not depreciated)	\$ 360,782	\$ -	\$ -	\$ 360,782
Facility	9,468,491	272,258	-	9,740,749
Staff vehicles	242,707	-	-	242,707
Radios, fare boxes, steps	305,152	4,170	-	309,322
Garage equipment	180,399	43,404	(6,364)	217,439
Shelters	409,267	37,833	-	447,100
Office equipment	307,132	6,903	(5,524)	308,511
Revenue vehicles	<u>6,256,410</u>	<u>1,994,202</u>	<u>(1,424,543)</u>	<u>6,826,069</u>
Subtotal	17,530,340	<u>\$ 2,358,770</u>	<u>\$ (1,436,431)</u>	18,452,679
Accumulated depreciation	<u>(5,385,380)</u>			<u>(5,057,554)</u>
Net book value				<u>\$ 13,395,125</u>

NOTE 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 7.964% 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 \$3,941 to the plan in 2014.

Defined Benefit Pension Plan

The Authority contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS 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. PERS issues a publicly available financial report that includes financial statements and required supplementary information for the cost sharing plans that are administered by PERS. Copies of PERS' annual financial report may be obtained from their Executive Office at 400 Q Street, Sacramento, CA 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 actuarially determined rate; the current rate is 7.964%. The contribution requirements of plan members and the Authority are established, and may be amended by PERS.

Mendocino Transit Authority
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 5 - DEFINED BENEFIT PENSION PLAN AND DEFINED CONTRIBUTION PLAN (continued)

For each of the fiscal years shown below, the Authority has contributed at the actuarially determined rate provided by PERS' 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 01, 2013 to June 30, 2014 has been determined by an actuarial valuation of the plan as of June 30, 2010. The contribution rate indicated for the period is 7.964% 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, 2014, the contribution rate is multiplied by the payroll of covered employees that were paid during the period from July 01, 2013 to June 30, 2014.

For 2014, the Authority's annual pension cost of \$165,754 for PERS was equal to the Authority's required and actual contributions. The required contribution was determined as part of the June 30, 2010 actuarial valuation using the entry age normal actuarial cost method. A summary of principle assumptions and methods used to determine the Annual Required Contribution (ARC) is shown below.

Valuation Date	June 30, 2013
Amortization Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Asset Valuation Method	Market Value
Actuarial Assumptions	
Investment Rate of Return	7.50% (net of administrative expenses)
Projected Salary Increase	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%

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into PERS. 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.

Mendocino Transit Authority
NOTES TO FINANCIAL STATEMENTS
 June 30, 2014

NOTE 5 - DEFINED BENEFIT PENSION PLAN AND DEFINED CONTRIBUTION PLAN (concluded)

Miscellaneous Plan

Miscellaneous 2% at 60 Risk Pool (in thousands)

	(A)	(B)	(C)	(D)	(E)	(F)
Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability/ (Excess Assets) [(A)-(B)]	Funded Status [(B)/(A)]	Annual Covered Payroll	UAAL as a % of Payroll [(A)-(B)]/(E)}
6/30/11	\$682,376	\$639,237	\$43,139	93.7%	\$193,877	22.3%
6/30/12	736,232	701,224	35,008	95.2%	208,517	16.8%

Plan Specific Information

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Market Value of Assets (MVA)	Funded Ratio		Annual Covered Payroll
				AVA	MVA	
6/30/11	\$4,203,441	\$3,945,708	\$3,530,723	93.9%	84.0%	\$1,968,801
6/30/12	4,640,249	4,418,479	3,717,456	95.2%	80.1%	1,998,481

Three-Year Trend Information for PERS:

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/12	\$ 153,752	100%	\$ -0-
6/30/13	150,860	100%	-0-
6/30/14	165,754	100%	-0-

NOTE 6 - OPERATING LEASES

The Authority has entered into 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.

NOTE 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 on the Authority's financial position or results of operations.

Mendocino Transit Authority
NOTES TO FINANCIAL STATEMENTS
 June 30, 2014

NOTE 8 - DEFERRED REVENUE

Deferred revenue at June 30, 2014 consisted of \$108,104 of Proposition 1B Public Transportation Modernization Improvement and Service Enhancement Account (PTMISEA) funding and \$56,916 of Transit System Safety, Security and Disaster Response Account (TSSSDRA) funding that was not expended by the end of fiscal year 2014. The balance of the deferred revenue consists of \$4,269 of charter revenue deposits for the following fiscal year. The total deferred revenue at June 30, 2014 was \$169,289.

NOTE 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, 2014, is as follows:

Fare revenues	\$ <u>540,145</u>
Operating expenses	\$ 5,468,295
Less: depreciation	1,108,603
Less: cost of specialized services	428,519
Less: contract and charter services, senior administration, maintenance labor and mobility management	<u>214,659</u>
Total	<u>\$ 3,716,514</u>
 Fare revenue ratio	 14.54%

NOTE 10 - RISK MANAGEMENT

The Authority manages risk of loss related to torts; theft of, damage to, and destruction of assets; errors 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, 2014, the Authority contributed \$47,648 for coverage.

Mendocino Transit Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 10 - RISK MANAGEMENT (concluded)

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, 2014, the Authority contributed \$108,153 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, 2014 are as follows:

	<u>2014</u>
Employee benefits	\$ 96,080
Vehicle collision	1,355
Workers' compensation	31,037
Cafeteria plan	28,232
Deductible on liability insurance	<u>43,537</u>
Total	<u>\$ 200,241</u>

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, 2014.

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, 2013 valuation report. The fiscal year ending June 30, 2014 estimate was \$27,000.

NOTE 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, 2014, the Authority received \$3,241,920. This amounts to 47% of total revenue for the year.

Mendocino Transit Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 12 - PTMISEA

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

During the fiscal year ended June 30, 2009, the 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, 2014, the Authority has received a total of \$3,753,596 in PTMISEA proceeds and related interest, of which qualifying expenditures totaled \$3,645,492. 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, 2014, PTMISEA funds received and expended were verified in the course of our audit as follows:

Balance at June 30, 2013	\$ 721,989
PTMISEA received (Interest):	2,015
Expenditures incurred:	
Transit Buses	<u>(615,901)</u>
Unexpended proceeds at June 30, 2014	<u>\$ 108,103</u>

NOTE 13 - SUBSEQUENT EVENTS

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were available to be issued.

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

Board of Directors
Mendocino Transit Authority
Ukiah, California

We have audited the financial statements of the Transportation Development Act Funds of Mendocino Transit Authority as of and for the year ended June 30, 2014 and have issued a report thereon dated March 30, 2015.

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 provisions 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.

R. J. Ricciardi, Inc.

R. J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
March 30, 2015