

The Transit Enterprise Fund of the City of Santa Clarita

Financial Report
Year Ended June 30, 2015

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RSM US LLP

Independent Auditor's Report

To the Honorable Mayor and Members of the City Council
of the City of Santa Clarita
Santa Clarita, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Transit Enterprise Fund (the Fund), an enterprise fund of the City of Santa Clarita (the City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, as listed in the table of contents.

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 an opinion 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 of 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 Fund'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 Fund'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2015, and the changes in its financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1 to the financial statements, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2015, the changes in its financial position, or, where applicable, its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters*Required Supplementary Information*

Management has omitted the management's discussion and analysis 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 under a separate cover dated December 24, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the City's internal control over financial reporting and compliance.

RSM US LLP

Irvine, California
December 24, 2015

Financial Statements

The Transit Enterprise Fund of the City of Santa Clarita

Statement of Net Position

June 30, 2015

Assets

Current Assets	
Pooled cash and investments	\$ 4,235,110
Interest receivable	8,749
Prepays	340,784
Due from other governments	2,718,045
Total current assets	<u>7,302,688</u>
 Noncurrent Assets	
Capital assets	
Nondepreciable assets	15,087,880
Depreciable assets, net	63,407,991
Total assets	<u>85,798,559</u>
 Deferred Outflows of Resources of Net Pension Liability	<u>131,436</u>

Liabilities

Current Liabilities	
Accounts payable	3,386,841
Compensated absences payable	37,755
Total current liabilities	<u>3,424,596</u>
 Noncurrent Liabilities	
Compensated absences payable	37,496
Net pension liability	944,480
Total noncurrent liabilities	<u>981,976</u>
Total liabilities	<u>4,406,572</u>
 Deferred Inflows of Resources of Net Pension Liability	<u>260,580</u>

Net Position

Net Investment in Capital Assets	63,407,991
Unrestricted	17,854,852
Total net position	<u>\$ 81,262,843</u>

See Notes to Financial Statements.

The Transit Enterprise Fund of the City of Santa Clarita

**Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2015**

Operating revenues:	
Metrolink and EZ pass revenues	\$ 147,425
Fixed-route passenger fares	3,640,573
Dial-A-Ride passenger fares	111,028
County of Los Angeles operating assistance	1,639,606
Specialized transit services	930,573
Miscellaneous revenues	310,374
Total operating revenues	<u>6,779,579</u>
Operating expenses:	
Salaries and benefits	1,272,559
Administrative services	945,957
Contract transportation services	18,291,568
Insurance	81,940
Supplies, utilities and other	1,924,898
Depreciation	5,545,746
Total operating expenses	<u>28,062,668</u>
Operating loss	<u>(21,283,089)</u>
Nonoperating revenues (expenses):	
Proposition A discretionary	4,605,191
Proposition A specialized transportation	714,636
Proposition C expansion	186,596
Proposition C BSIP	48,434
Proposition C transit mitigation	17,812
Proposition C MOSIP	20,024
Measure R bus operations	2,470,158
Intergovernmental revenues	80,097
Transit mitigation fees	85,400
Interest income	17,592
Total net nonoperating revenues (expenses)	<u>8,245,940</u>
Loss before contributions and transfers	<u>(13,037,149)</u>
Capital contributions:	
Federal Transit Administration capital grants	1,321,532
Proposition C MOSIP	101,908
Total capital contributions	<u>1,423,440</u>
Transfers from other fund of the City of Santa Clarita	7,559,230
Transfers to other fund of the City of Santa Clarita	(229,714)
Change in net position	<u>(4,284,193)</u>
Net position:	
Net position, beginning of year, as restated	85,547,036
Net position, end of year	<u>\$ 81,262,843</u>

See Notes to Financial Statements.

The Transit Enterprise Fund of the City of Santa Clarita

**Statement of Cash Flows
For the Year Ended June 30, 2015**

Cash Flows From Operating Activities	
Cash received from customers and users	\$ 6,469,205
Cash payments to suppliers of goods and services	(19,891,631)
Cash payments to employees	(2,239,751)
Cash received from other sources	310,374
Net cash used in operating activities	<u>(15,351,803)</u>
Cash Flows From Noncapital Financing Activities	
Cash transfers out	(229,714)
Cash transfers in	7,559,230
Federal and state funding received	10,094,278
Net cash provided by noncapital financing activities	<u>17,423,794</u>
Cash Flows From Capital and Related Financing Activities	
Federal and state capital contributions	1,057,418
Acquisition of capital assets	14,342,808
Net cash provided by capital and related financing activities	<u>15,400,226</u>
Cash Flows From Investing Activities	
Interest received	13,361
Net cash provided by investing activities	<u>13,361</u>
Net increase in cash and cash equivalents	<u>17,485,578</u>
Pooled Cash and Cash Equivalents	
Beginning of year	1,837,412
End of year	<u>\$ 19,322,990</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating loss	\$ (21,283,089)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	5,545,746
Changes in operating assets and liabilities:	
(Increase) in prepaids	(99,686)
Increase in accounts payable and accrued liabilities	506,461
Increase in compensated absences	8,861
Increase in net pension liability	(30,096)
Total adjustments	<u>5,931,286</u>
Net cash used in operating activities	<u>\$ (15,351,803)</u>

See Notes to Financial Statements.

The Transit Enterprise Fund of the City of Santa Clarita

Notes to Financial Statements

Note 1. Nature of Business and Summary of Significant Accounting Policies

Nature of business: The financial statements of the Transit Enterprise Fund (the Fund) of the City of Santa Clarita, California (the City) are intended to present the financial position and results of bus line services operation. The financial statements of the Fund are included as a business-type (enterprise fund) activity in the basic financial statements of the City.

A summary of the Fund's significant accounting policies is as follows:

The accounting policies of the Fund are in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) applicable to proprietary activities of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles.

Financial presentation: The financial statements of the Fund include the statement of net position, the statement of revenues, expenses, and changes in net position, and the statement of cash flows.

The financial statements are prepared using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the statement of net position. The statement of revenues, expenses, and changes in net position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recorded in the period in which the liability is incurred.

Operating revenues and expenses result from the local public transit services for the local, commuter, Dial-A-Ride and Access Services, Inc., specialized and transit operations and maintenance. The operating revenues consist of charges to customers and users for the transit services provided. Operating expenses include the costs of providing these services, administrative expenses, and depreciation expense. All revenues and expenses not meeting these definitions and which are not capital in nature are reported as non-operating revenues and expenses.

The Fund recognizes assets of non-exchange transactions in the period when the underlying transaction occurs, when an enforceable legal claim has arisen, or when all eligibility requirements are met. Non-exchange transactions occur when the Fund receives value from another party without giving equal or nearly equal value in return. Various intergovernmental revenues and most donations are examples of non-exchange transactions. Under the terms of grant agreements, the Fund has an enforceable claim with other governmental agencies when specific program expenses are incurred. The Fund has an enforceable claim to local funding allocations when the allocations are determined by the other governmental agencies on an annual basis.

Pooled cash and investments: The Fund's cash balance was pooled with various other City funds for deposit and investment purposes. The City's treasury is responsible for the cash management of the Fund's cash balance, which pools available cash for investment purposes. The cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturity of three months or less from the date of acquisition. Each City fund owns a share of pooled cash and investments, which are separately maintained, and interest income was apportioned based on its average month-end cash balances to the total of the pooled cash and investments.

The Fund's cash balance is considered to be a cash equivalent since it has the ability deposit or withdraw funds from the pool on demand.

The Transit Enterprise Fund of the City of Santa Clarita

Notes to Financial Statements

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Prepaids: Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

Administrative services: The Fund has no direct employees, as all personnel-related services are provided by vendors through transportation service contracts or through City employees. Costs for such City employees, including the allocation of accrued compensated absences liabilities and pension costs, are allocated to the Fund based on an approved cost allocation plan.

Grants: Grant revenues and receivables are recorded when earned on grants that have been approved and funded by the grantor, and when eligibility requirements for the grant have been met. Grant sources include Federal Transit Administration grants.

Capital assets: Capital assets include land, site improvements, buildings and improvements, and vehicles and equipment assets. Capital assets are defined by the City as assets with an initial cost of more than \$5,000 (\$25,000 for site improvements and building improvements and \$100,000 for infrastructure) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Site improvements	5-25 years
Buildings and improvements	5-50 years
Equipment	5-25 years

Pension: The Fund reports a proportion of the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, of the collective net pension liability for the pension plan of the City of Santa Clarita. The Fund's proportion of the net pension liability was based on the Fund's share of contributions made to the City's pension plan relative to the contributions of the City.

Net position: Net position represents the difference between assets and deferred outflows, and liabilities and deferred inflows, and is classified into three categories:

- **Net investment in capital assets:** This amount consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets, and excludes unspent debt proceeds.
- **Restricted:** Represents the net position that is constrained for use by either (a) external creditors, grantors, contributors, or laws or regulations of other governments or (b) by law through constitutional provisions or enabling legislation.
- **Unrestricted net position:** This amount represents the residual of amounts not classified in the other two categories and represents the net position available for the City.

When an expense is incurred for purposes for which both restricted and unrestricted resources are available, the Fund's policy is to apply restricted resources first.

The Transit Enterprise Fund of the City of Santa Clarita

Notes to Financial Statements

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Employee compensated absences: It is the City's policy to permit employees to accumulate earned but unused vacation (compensated absences). This accumulation is recorded as an expense and liability of the Fund in the fiscal year earned. The outstanding balance as of June 30, 2015 was \$75,251 of which \$37,755 was considered due within one year, and \$37,496 was considered due greater than one year.

Use of estimates: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

Accounting changes: The accompanying financial statements reflect the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation impacts the accounting and reporting of net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, for the year ended June 30, 2015. The retroactive effect of implementing this change in reporting pension expenses and obligations resulted in a restatement of the beginning net position as described further in Note 8.

Pronouncements issued but not yet adopted: The GASB has issued pronouncements that have an effective date subsequent to June 30, 2015, which may impact future financial results. Except as noted below, management has not currently determined what, if any, impact implementation of the following statements may have on future financial statements of the Fund:

- GASB Statement No. 72, *Fair Value Measurement and Application*, effective for the Fund's fiscal year ending June 30, 2016.
- GASB Statement No. 75, *Fair Value Measurement and Application*, effective for the Fund's fiscal year ending June 30, 2018.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for the Fund's fiscal year ending June 30, 2016.

Note 2. Pooled Cash and Investments

The Fund's pooled cash and investments consisted of \$4,235,110 of pooled cash and investments at June 30, 2015.

The deposit and investment disclosures required by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, as they relate to the pooled cash and investments, are reported in the annual report of the City. The pooled cash and investments are unrated, and average maturity is 30 days or less.

As of June 30, 2015, none of the Fund's pooled cash was subject to concentration of credit risk or custodial credit risk.

The Transit Enterprise Fund of the City of Santa Clarita

Notes to Financial Statements

Note 3. Due From Other Governments

Due from other governments consists of the following at June 30, 2015:

Agency

Los Angeles County	\$ 1,740,767
Federal Transit Administration	633,950
Other agencies	343,328
	<u>\$ 2,718,045</u>

Note 4. Capital Assets

Changes in capital assets of the Fund at June 30, 2015 consisted of the following:

	Balance June 30, 2014	Additions	Deletions	Transfers	Balance June 30, 2015
Non-depreciable assets:					
Land	\$ 15,087,880	\$ -	\$ -	\$ -	\$ 15,087,880
Construction in progress	83,252	697,642	-	(780,894)	-
Total nondepreciable assets	<u>15,171,132</u>	<u>697,642</u>	<u>-</u>	<u>(780,894)</u>	<u>15,087,880</u>
Depreciable assets:					
Site improvements	12,160,382	-	-	780,894	12,941,276
Building and improvements	41,483,799	-	-	-	41,483,799
Equipment	48,880,303	47,430	(3,050,600)	-	45,877,133
Total depreciable assets	<u>102,524,484</u>	<u>47,430</u>	<u>(3,050,600)</u>	<u>780,894</u>	<u>100,302,208</u>
Less accumulated depreciation:					
Site improvements	(1,590,164)	(536,985)	-	-	(2,127,149)
Building and improvements	(9,275,693)	(883,346)	-	-	(10,159,039)
Equipment	(23,533,214)	(4,125,415)	3,050,600	-	(24,608,029)
Total accumulated depreciation	<u>(34,399,071)</u>	<u>(5,545,746)</u>	<u>3,050,600</u>	<u>-</u>	<u>(36,894,217)</u>
Total depreciable assets, net	<u>68,125,413</u>	<u>(5,498,316)</u>	<u>-</u>	<u>780,894</u>	<u>63,407,991</u>
Capital assets, net	<u>\$ 83,296,545</u>	<u>\$ (4,800,674)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 78,495,871</u>

Note 5. Interfund Activity

During the year ended June 30, 2015, the Fund transferred \$229,714 to the General Fund and nonmajor governmental funds of the City for support of transit operations. The management of the City approved the transfer in from the General Fund and the nonmajor governmental funds to the Fund of \$7,559,230 as follows:

General Fund	\$ 7,360
Proposition A	3,610,553
Proposition C	3,941,317
	<u>\$ 7,559,230</u>

The Transit Enterprise Fund of the City of Santa Clarita

Notes to Financial Statements

Note 6. Pension Plan

At June 30, 2015, the Fund reported a liability of \$944,480 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total net pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date for the City. The Fund's proportion of the net pension liability at June 30, 2014 was 3.5 percent, which is unchanged for its proportion measured at June 30, 2013.

For the year ended June 30, 2015, the Fund recognized pension expense of \$101,344. At June 30, 2015, the Fund reported deferred outflows of resources and deferred inflows of resources related to the pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	260,580
Changes in proportion and differences between Fund contributions and proportionate share of contributions	-	-
District contributions subsequent to the measurement date	131,436	-
Total	<u>\$ 131,436</u>	<u>\$ 260,580</u>

The pension plan disclosures required by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as they relate to the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, are reported in the annual report of the City.

Note 7. Administrative and Personnel Costs

Certain general and administrative costs are allocated to the Fund by the City based upon an approved cost allocation plan. Such allocated costs were \$697,140 for the year ended June 30, 2015.

Note 8. Restatement of Net Position

As a result of the implementation of GASB Statement of No. 68 and GASB Statement No. 71, the beginning net position was restated for the net pension liability that was measured at June 30, 2014. The following is a summary of the effect of this restatement:

Net position, as previously reported at June 30, 2014	\$ 86,650,756
Net pension liability (measurement date as of June 30, 2014)	(1,228,904)
Deferred outflows of net pension liability—Fund contributions made for the year ended June 30, 2014	<u>125,184</u>
Net position, as restated at June 30, 2014	<u>\$ 85,547,036</u>