

VENTURA COUNTY TRANSPORTATION COMMISSION

VCTC Intercity Services

Financial Statements

Fiscal Year Ended June 30, 2017

VENTURA COUNTY TRANSPORTATION COMMISSION

VCTC Intercity Services

Fiscal Year Ended June 30, 2017

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Board of Commissioners
Ventura County Transportation Commission
Ventura, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the VCTC Intercity Services of the Ventura County Transportation Commission ("VCTC"), as of and for the fiscal year ended June 30, 2017, 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 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 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.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the VCTC Intercity Services of VCTC and do not purport to, and do not present fairly, the financial position of VCTC, as of June 30, 2017, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of VCTC Intercity Services of VCTC, as of June 30, 2017, and the change in financial position of VCTC Intercity Services of VCTC for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated December 14, 2017 on our consideration of VCTC's internal control over financial reporting for VCTC Intercity Services and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering VCTC's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Conrad LLP".

Lake Forest, California
December 14, 2017

VENTURA COUNTY TRANSPORTATION COMMISSION

VCTC Intercity Services

Statement of Net Position

June 30, 2017

Assets

Cash and investments (Note 3)	\$ 503,162
Accounts receivable	1,971
Due from other governments (Note 4)	702,611
Capital asset, net (Note 5)	<u>9,373,125</u>
Total assets	<u>\$ 10,580,869</u>

Deferred Outflows of Resources

Differences between expected and actual experience	\$ 215
Differences between projected and actual investment earnings	13,706
Pension employer contributions made after measurement date	<u>10,740</u>
Total deferred outflows of resources	<u>\$ 24,661</u>

Liabilities

Accounts payable	\$ 612,230
Due to other funds	501,007
Unearned revenue (Note 6)	94,507
Non-current liability due within one year	8,063
Noncurrent liability due beyond one year	<u>86,630</u>
Total liabilities	<u>\$ 1,302,437</u>

Deferred Inflows of Resources

Changes in Assumptions	\$ 2,633
Differences between actual and proportionate share of employer's contributions	7,881
Change due to differences in proportion	<u>7,201</u>
Total deferred inflows of resources	<u>\$ 17,715</u>

Net Position

Net investment in capital asset	\$ 9,373,125
Restricted for transportation expenditure	<u>(87,747)</u>
Total net position	<u><u>\$ 9,285,378</u></u>

See accompanying notes to financial statements.

VENTURA COUNTY TRANSPORTATION COMMISSION

VCTC Intercity Services

Statement of Revenues, Expenses, and Changes in Net Position

For the Fiscal Year Ended June 30, 2017

Operating revenues:	
Passenger fares for transit services	\$ 1,155,920
Passenger route guarantee	<u>1,372,821</u>
Total operating revenues	<u>2,528,741</u>
Operating expenses:	
Operations	<u>10,138,496</u>
Total operating expenses	<u>10,138,496</u>
Operating income (loss)	<u>(7,609,755)</u>
Non-operating revenues:	
FTA grants	4,129,890
Proposition 1B funds	280,848
LCTOP funds	262,948
State transit assistance funds	3,218,347
Interest income	394
Other income	<u>35,000</u>
Total non-operating revenues	<u>7,927,427</u>
Non-operating expenses:	
Capital expenses	<u>-</u>
Total non-operating expenses	<u>-</u>
Income before other revenue, expenses and transfers	317,672
Transfers in (Note 8)	8,967,706
Change in net position	9,285,378
Net position at beginning of year	<u>-</u>
Net position at end of year	<u>\$ 9,285,378</u>

See accompanying notes to financial statements.

VENTURA COUNTY TRANSPORTATION COMMISSION

VCTC Intercity Services

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2017

Cash flow from operating activities:	
Cash received from passenger fares	\$ 1,156,348
Cash received from route guarantee	1,372,821
Cash paid for operating costs, net of support	<u>(9,029,895)</u>
Net cash used by operating activities	<u>(6,500,726)</u>
Cash flow from noncapital financing activities:	
Cash received from FTA grants	3,802,034
Cash received from state transit assistance funds	3,895,300
Cash received from local contribution revenues	46,907
Cash received from state grants	543,796
Cash to other	<u>(144,205)</u>
Net cash provided by noncapital financing activities	<u>8,143,832</u>
Cash flow from capital financing activities:	
Acquisition and purchase of capital assets	(10,395,722)
Capital contributions - general fund	<u>9,047,241</u>
Net cash used by capital financing activities	<u>(1,348,481)</u>
Cash flow from investing activities:	
Cash received from interest received from investments	<u>394</u>
Net cash provided by investing activities	<u>394</u>
Net increase (decrease) in cash and investments	295,019
Cash and investments, beginning of year	<u>208,143</u>
Cash and investments, end of year	<u><u>\$ 503,162</u></u>

See accompanying notes to the financial statements.

VENTURA COUNTY TRANSPORTATION COMMISSION

VCTC Intercity Services

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2017

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating income (loss)	<u>\$ (7,609,755)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation expense	1,022,597
Changes in operating assets and liabilities:	
Decrease/(increase) in accounts receivable	428
Decrease/(increase) in deferred outflows of resources	(24,661)
Increase/(decrease) in accounts payable	(1,743)
Increase/(decrease) in deferred inflows of resources	<u>112,408</u>
Total adjustments	<u>1,109,029</u>
Net cash used for operating activities	<u>\$ (6,500,726)</u>
NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	
Capital contributions	<u>\$ 9,047,241</u>

See accompanying notes to the financial statements.

VENTURA COUNTY TRANSPORTATION COMMISSION

VCTC Intercity Services

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

(1) **General Information**

The financial statements are intended to reflect the financial position and changes in financial position for VCTC Intercity Services of the Ventura County Transportation Commission ("VCTC") only.

Pursuant to Section 99313.3 of the California Public Utilities Code, State Transit Assistance Fund monies may be used for public transportation purposes, including community transit services.

In November 2006, California voters approved Proposition 1B, the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act, which authorized the State of California to sell \$20 billion in general obligation bonds, of which \$4 billion would be allocated to PTMISEA. Monies from PTMISEA are for transportation infrastructure, including grants for transit system safety, security, and disaster response projects.

(2) **Summary of Significant Accounting Policies**

Fund Accounting

The accounts of VCTC are organized on the basis of funds and account groups. A fund is defined as an independent fiscal and accounting entity wherein operations of each fund are accounted for in a separate set of self-balancing accounts that record resources, related liabilities, obligations, reserves, and equity segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. VCTC accounts for the activity of the VCTC Intercity Services funds in an Enterprise Fund.

Measurement Focus and Basis of Accounting

Enterprise Funds are accounted for using the accrual basis of accounting. The revenues are recognized in the accounting period when they are earned, and expenses are recognized in the accounting period in which the liability is incurred.

VCTC applies pronouncements of the Financial Accounting Standards Board ("FASB") issued on or before November 30, 1989 that are not in conflict with applicable GASB pronouncements.

VENTURA COUNTY TRANSPORTATION COMMISSION

VCTC Intercity Services

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

(2) **Summary of Significant Accounting Policies (Continued)**

Capitalization Policy

VCTC Intercity capitalizes and depreciates assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. The costs of normal maintenances and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Deferred Outflows/Inflows of Resources:

VCTC has adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* that was issued in June 2011. Deferred outflows of resources represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until then. Deferred inflows of resources represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. VCTC Intercity has deferred outflows of resources for pension contributions in the amount of \$24,661 and deferred inflows of resources for its proportionate share of the pooled plan of \$17,715.

Revenue Recognition

Recognition of revenues arising from nonexchange transactions, which include revenues from taxes, certain grants, and contributions, is based on the primary characteristic from which the revenues are received by VCTC.

For VCTC, funds received under Transportation Development Act Article 6.5, Section 99312(c) of the Public Utilities Code possess the characteristic of a voluntary nonexchange transaction similar to a grant. Revenues under TDA Article 6.5, Section 99313 and 99314, TDA Article 3, and revenues under Proposition 1B are recognized when related costs have been incurred. An unearned revenue arises when grant receipts are collected in excess of reimbursable costs incurred.

Fund operating revenues, such as passenger fares, 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.

VENTURA COUNTY TRANSPORTATION COMMISSION

VCTC Intercity Services

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

(2) **Summary of Significant Accounting Policies (Continued)**

Net Position

The components of net position reflect the component classifications described below.

- *Net Investment in Capital Assets* – this includes capital assets, net of depreciation, reduced by the outstanding balances of bonds and notes, if any, that are attributable to the acquisition, construction, or improvement of those assets. Applicable deferred outflows of resources and deferred inflows of resources, if any, should also be included in this component of net position.
- *Restricted* – this includes assets, mainly cash and investments, bound by constraints on resources that are externally imposed by creditors, grantors, contributors, or laws and regulations of other governments.
- *Unrestricted* – includes the remaining balance of the net amount of assets, deferred outflows of resources that are not included in the determination of net investment in capital, or the restricted components of net position.

It is VCTC's policy that restricted resources will be applied first, followed by unrestricted resources, in the absence of a formal policy adopted by the Board of Directors.

Use of Estimates

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

(3) **Cash and Investments**

VCTC has pooled its cash and investments in order to achieve a higher return on investments while facilitating management of cash. The balance in the pool account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms. The VCTC Intercity Services' cash and investments as of June 30, 2017 was \$503,162.

VENTURA COUNTY TRANSPORTATION COMMISSION

VCTC Intercity Services

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

(3) Cash and Investments (Continued)

The VCTC Intercity Services' cash is deposited in VCTC's internal investment pool, which is reported at fair value. Interest income is allocated on the basis of average cash balances. Investment policies and associated risk factors applicable to VCTC Intercity Services are those of VCTC and are included in VCTC's basic financial statements.

See VCTC's basic financial statements for disclosures related to cash and investments including those disclosures relating to interest rate risk, credit rate risk, custodial credit risk, and concentration risk.

(4) Due from Other Governments

Due from other governments consists of amounts due from the Federal Transit Administration and Santa Barbara County Association of Governments, totaling \$702,611 for year ended June 30, 2017.

(5) Capital Assets

Capital assets are recorded at cost and are depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation of all capital assets is charged as an expense against operations each year, and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the balance sheet as a reduction in the book value of the capital assets.

Depreciation of capital assets in service is provided using the straight-line method which means the cost of the asset is divided by its expected useful life in years, and the result is charged to expense each year until the asset is fully depreciated. The VCTC assigned useful lives listed below to capital assets.

Bus vehicle and equipment	5-12 years
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VENTURA COUNTY TRANSPORTATION COMMISSION

VCTC Intercity Services

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

(5) **Capital Assets (Continued)**

Capital assets consisted of the following as of June 30, 2017:

	Balance at June 30, 2016	Additions/ Transfers	Retirements	Balance at June 30, 2017
Capital assets being depreciated:				
Vehicles and equipment	\$ -	\$11,591,401	\$ -	\$ 11,591,401
Total capital assets being depreciated	<u>-</u>	<u>11,591,401</u>	<u>-</u>	<u>11,591,401</u>
Less accumulated depreciation for:				
Vehicles and equipment	-	(2,218,276)	-	(2,218,276)
Total Accumulated Depreciation	<u>-</u>	<u>(2,218,276)</u>	<u>-</u>	<u>(2,218,276)</u>
Capital Assets, Net	<u>\$ -</u>	<u>\$ 9,373,125</u>	<u>\$ -</u>	<u>\$ 9,373,125</u>

(6) **Unearned Revenue**

The balance of unearned revenue as of June 30, 2017 consisted of California State University Channel Islands (CSUCI) funds in the amount of \$94,507.

(7) **Transportation Development Act Compliance Requirements**

VCTC Intercity Services is subject to the provisions pursuant to Section 6634 of the California Code of Regulation and Section 99268.3 of the Public Utilities Code.

A. Section 6634

Pursuant to Section 6634, a transit claimant is precluded from receiving monies from the State Transit Assistance Fund in an amount which exceeds the claimant's capital and operating costs less the actual amount of fares received, the amount of local support required to meet the fare ratio, the amount of federal operating assistance, and the amount received during the year from a city or county to which the operator has provided services beyond its boundaries.

During the Fiscal Year 2016/17 the funds received from the State Transit Assistance Fund complied with the above provision.

VENTURA COUNTY TRANSPORTATION COMMISSION

VCTC Intercity Services

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

(7) Transportation Development Act Compliance Requirements (Continued)

B. Section 99268.3

Section 99268.3 indicates that an operator in Ventura County providing regular public transportation shall be eligible for TDA Funds if it maintains for the fiscal year, ratio of fare revenue to operating costs at least equal to 20.00%.

Farebox Revenue*:	
Farebox Revenue	\$ 1,155,920
Route Guarantee – Santa Barbara County Association of Governments	966,663
Route Guarantee – CSU Channel Islands	396,158
Route Guarantee – Moorpark College	10,000
Less Exempted New/Extended Rout Revenue**	<u>(8,493)</u>
Total Farebox Revenue	<u>\$ 2,520,248</u>
Operating Expenses:	\$ 10,464,231
Less Capital Planning Expense	(1,497,278)
Less Vehicle Leases	(1,327,075)
Less Exempted New/Extended Rout Expenses**	<u>(253,208)</u>
Net Adjusted Operating Expenses***	<u>\$ 7,386,670</u>
Total Fare Ratio	<u>34%</u>
Required Fare Ratio Pursuant to: PUC Section 99268.3	<u>20%</u>

* VCTC includes a portion of the local contribution as a route guarantee.

** Revenue/Costs associated with Ox/Cam/CSUCI, new demonstration route launched in October 2016.

*** Difference between Operating Expenses of \$10,138,496 per the Statement of Revenues, Expenses, and Changes in Net Position and Operating Expenses of \$10,456,168 above is \$317,672 that consist of excluded capital expenses related to the lease.

During the Fiscal Year 2016/17, VCTC maintained a ratio of fare revenues to operating costs of 34%. Since the ratio exceeded the minimum ratio of 20%, VCTC is in compliance with PUC Section 99268.3.

VENTURA COUNTY TRANSPORTATION COMMISSION

VCTC Intercity Services

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

(8) **Transfers In**

Transfers in for the year ended June 30, 2017 consisted of the following.

Capital contributions	\$ 9,047,241
Transfers due to GASB 68 adjustment	<u>(79,535)</u>
Net transfers in as of June 30, 2017	<u>\$ 8,967,706</u>

(9) **Restrictions**

Funds received pursuant to the Transportation Development Act of the State of California may only be used for public transportation and transit.

Pursuant to Proposition 1B – Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA) projects approved by CalTrans and funds received from the State Controller's Office may only be used for the VCTC Intercity Services Bus Purchase project.

(10) **Contingencies**

See VCTC's basic financial statements for disclosures related to contingencies including those relating to various legal actions, administrative proceedings, or claims in the ordinary course of operations.

Board of Commissioners
Ventura County Transportation Commission
Ventura, California

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

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, Transportation Development Act Article 6.5, the Local Transportation Development Act Article 3 Local Transportation Fund, and Proposition 1B Fund – Public Transportation Modernization, Improvement, and Service Enhancement Account (“TDA-LTF Fund”) of the Ventura County Transportation Commission (“VCTC”), as of and for the fiscal years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise VCTC’s TDA-LTF Fund financial statements, and have issued our report thereon dated December 14, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered VCTC’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 VCTC’s internal control. Accordingly, we do not express an opinion on the effectiveness of VCTC’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 financial statements of the TDA-LTF Fund of VCTC are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including §6666 of Part 21 of the California Code of Regulations, 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*, including §6666 of Part 21 of the California Code of Regulations.

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.



Lake Forest, California
December 14, 2017