MENDOCINO TRANSIT AUTHORITY
UKIAH, CALIFORNIA

BASIC FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

Fiscal Year Ended June 30, 2012

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MENDOCINO TRANSIT AUTHORITY

BASIC FINANCIAL STATEMENTS

Fiscal year ended June 30, 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Mendocino Transit Authority
Ukiah, California

We have audited the accompanying financial statements of the business-type and the major fund of the Mendocino Transit Authority (the Authority) as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Authority as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2013, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has omitted the *management's discussion and analysis* and *budgetary comparison information* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operations, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Burr Pilger Mayer, Inc.

San Jose, California
March 13, 2013

Mendocino Transit Authority

Statement of Net Assets

June 30, 2012

Assets		
Current assets:		
Cash and investments	$	706,583
Restricted cash and investments		3,015,282
Accounts receivable		106,767
Grants receivable		1,129,049
Inventories		96,106
Prepaid items		35,744
Total current assets		5,089,531
Capital assets:		
Non-depreciable assets		360,782
Depreciable assets, net of accumulated depreciation		8,433,988
Total assets	$	13,884,301
Liabilities		
Current liabilities:		
Accrued liabilities	$	838,054
Deferred revenue		2,832,540
Compensated absences		295,458
Accrued liability for self-insurance		186,899
Total liabilities		4,152,951
Net Assets		
Invested in capital assets		8,794,770
Restricted for specialized services		77,175
Unrestricted		859,405
Total net assets	$	9,731,350

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

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MENDOCINO TRANSIT AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS

Fiscal year ended June 30, 2012

Operating revenues:		
Fares	$	554,130
Public service contract		57,776
Charters		48,706
Advertisement		3,805
Sonoma County participation		147,000
Total revenues		811,417
Operating expenses:		
Transportation		2,602,854
Transportation - specialized		367,477
Maintenance		446,666
Administrative and overhead		711,149
Mobility management		101,270
Depreciation		649,625
Total operating expenses		4,879,041
Operating income (loss)		(4,067,624)
Non-operating revenues:		
Local transportation fund		1,980,954
Local transportation fund - specialized		367,477
State transit assistance		345,445
Operating grants		499,226
Capital grants		5,260,458
Planning grants		59,830
Senior center revenue		20,589
Interest income		6,169
Other income		23,925
Local transit reserve		107,810
Maintenance labor		30,789
Total non-operating revenues		8,702,672
Change in net assets		4,635,048
Net assets at beginning of the year		5,096,302
Net assets at end of the year	$	9,731,350

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

MENDOCINO TRANSIT AUTHORITY

STATEMENT OF CASH FLOWS

Fiscal year ended June 30, 2012

Cash flows from operating activities:		
Receipts from customers	$	791,519
Payments to suppliers		(904,532)
Payments to employees		(3,002,554)
Net cash provided by operating activities		(3,115,567)
Cash flows from non-capital financing activities:		
Local transportation funds		2,348,431
Operating grants		499,226
State transit assistance		345,445
Planning grants		59,830
Senior center revenue		20,589
Other income		23,925
Maintenance labor		30,789
Net cash provided by non-capital financing activities		3,328,235
Cash flows from capital and related financing activities:		
Capital grants		6,965,361
Local transit reserve		107,810
Disposal of capital assets		490
Purchase of fixed assets		(5,773,631)
Net cash provided by capital and related financing activities		1,300,030
Cash flows from investing activities:		
Interest earned		6,169
Net cash provided by investing activities		6,169
Net increase in cash and cash equivalents		1,518,867
Cash and cash equivalents - beginning of the year		2,202,998
Cash and cash equivalents - end of year	$	3,721,865

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

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating loss	$	(4,067,624)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation		649,625
Changes in certain assets and liabilities:		
Accounts receivable		(19,898)
Grants receivable		(188,409)
Inventories		2,978
Prepaid costs		(22,345)
Accrued liabilities		522,783
Accrued liability for self insurance		(16,466)
Compensated absences		23,789
Net cash provided by (used in) operating activities	$	(3,115,567)
Cash and investments	$	706,583
Restricted cash and investments with fiscal agent		3,015,282
Total cash and cash equivalents	$	3,721,865

1. Organization

(a) Reporting Entity

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

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

2. Summary of Significant Accounting Policies

(a) Basis of Accounting and Presentation

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

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

2. Summary of Significant Accounting Policies, continued

(b) Use of Estimates

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

(c) Cash and Cash Equivalents

Cash and cash equivalents 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.

(d) Inventory

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

(e) Prepaid Costs

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

(f) Capital Assets

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

(g) Compensated Absences

Vacation

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

Sick Leave

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

At June 30, 2012, the full value of accrued vacation was $174,324 and 25% of the value of accrued sick leave was $121,134, which is recorded by the Authority as a liability. The total compensated absences liability was $295,458 at June 30, 2012.

2. Summary of Significant Accounting Policies, continued

(h) Accounts Payable and Accrued Liabilities

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

(i) 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 at June 30, 2012 was $474,548.

3. Cash and Investments

(a) Summary of Cash and Investments

Cash and investments as of June 30, 2012 consist of the following:

Cash with fiscal agent	$	102,903
County of Mendocino		3,558,207
Cash on deposit with banks		60,755
Total cash and investments	$	3,721,865

The Authority maintains a cash and investment pool with the County, which allocates interest to the various funds based upon the average monthly cash balances. The Authority's cash on deposit with the County Treasury was $3,661,110 at June 30, 2012.

(b) Risk Disclosures

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

At June 30, 2012, the Authority's cash with the County Treasurer is stated at fair value. However, the value of the pool shares in the County that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the Authority's position in the pool.

Custodial Credit Risk - Deposits

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

3. Cash and Investments, continued

(b) Risk Disclosures, *continued*

Credit Risk

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF was unrated at June 30, 2012.

Concentration of Credit Risk

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

Investment in State Investment Pool

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

Restricted and Designated Cash and Cash Equivalents

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

The Authority is required under the terms of specialized service contracts to segregate and maintain certain funds. The balance of these funds was $3,015,282 at June 30, 2012.

4. Capital Assets, net

Capital assets as of June 30, 2012 consist of the following:

	Balance as of July 1, 2011	Additions	Deletions	Balance as of June 30, 2012
Nondepreciable assets:				
Land	$ 360,782	$ -	$ -	$ 360,782
Depreciable assets:				
Facility	2,586,222	5,164,446	-	7,750,668
Staff vehicles	183,761	58,946	-	242,707
Radios, fare boxes, steps	268,669	9,633	-	278,302
Garage equipment	145,200	1,377	-	146,577
Shelters	358,679	1,516	-	360,195
Office equipment	243,553	52,834	(11,850)	284,537
Revenue vehicles	5,432,873	484,878	(605,775)	5,311,976
Total depreciable assets	9,218,957	5,773,630	(617,625)	14,374,962
Accumulated depreciation	(5,908,484)	(649,625)	617,135	(5,940,974)
Total	$ 3,671,255	$ 5,124,005	$ (490)	$ 8,794,770

Depreciation expense was $649,625 for the year ended June 30, 2012.

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 7.652% 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 $3,947 to the plan in 2012.

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

Defined Benefit Pension Plan

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

Miscellaneous participants are required to contribute 7% of their annual covered salary on a payroll deduction basis. The Authority makes the contributions required of Authority employees on their behalf and for their account at an actuarial determined rate; the current rate is 7.652%.

For each of the fiscal years shown below, the Authority has contributed at the actuarially determined rate provided by CalPERS' actuaries. Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2011 to June 30, 2012 has been determined by an actuarial valuation of the plan as of June 30, 2010. The contribution rate indicated for the period is 7.652% of payroll for the miscellaneous plan. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2012, the contribution rate is multiplied by the payroll of covered employees that were paid during the period from July 1, 2011 to June 30, 2012.

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

Valuation Date	June 30, 2011
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	9 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.50% (net of administrative expenses)
Projected Salary Increases	3.30% to 14.20% depending on Age, Service, and type of employment
Inflation	2.75%
Payroll Growth	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

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

Defined Benefit Pension Plan, continued

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

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

Miscellaneous Plan

Miscellaneous 2% at 60 Risk Pool (in thousands)

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (UAAL) (Excess Assets)	Funded Status	Annual Covered Payroll	UAAL As a % of Payroll
6/30/2009	$ 582,842	$ 553,954	$ 28,888	95.00%	$ 184,320	15.7%
6/30/2010	624,423	594,492	29,931	95.20%	186,778	16.0%
6/30/2011	682,376	639,237	43,139	93.70%	193,877	22.3%

Plan Specific Information

Valuation Date	Accrued Liability	Actuarial Value of Assets (AVA)	Market Value of Assets (MVA)	Funded Ratio AVA	Funded Ratio MVA	Annual Covered Payroll
6/30/2011	$ 4,203,441	$ 3,945,708	$ 257,733	93.9%	84.0%	$ 1,968,801

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2010	$ 138,766	100%	$ -
6/30/2011	136,563	100%	-
6/30/2012	153,752	100%	-

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.

The Authority leases parking lot space for vehicles from the Redwood Coast Fire Protection District for $625 per quarter, ending on July 20, 2015. The Authority also leases parking lot space for vehicles from the City of Willits for $1,500 per quarter, ending on December 31, 2020. As of June 30, 2012, lease amounts are as follows:

Year Ending June 30,		
2013	$	8,500
2014		8,500
2015		8,500
2016		6,000
2017		6,000
Thereafter		21,000
Total	$	58,500

7. Contingencies

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

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

8. Deferred Revenue

Deferred revenue at June 30, 2012 consisted of $2,749,476 of Proposition 1B PTMISEA funding and $79,870 of TSSSDRA funding that was not expended by the end of fiscal year 2012. The balance of the deferred revenue consists of $3,194 of charter revenue deposits for the following fiscal year. The total deferred revenue at June 30, 2012 was $2,832,540.

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, 2012 is as follows:

Fare revenues	$	543,811
Operating expenses	$	4,879,041
Less depreciation		649,625
Less cost of specialized services		367,477
Less contract and charter services, senior administration and maintenance labor		267,225
Total	$	3,594,714
Fare revenue ratio		15.1%

10. Risk Management

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

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

Risk Coverage

The Authority is a member of the California Transit Insurance Pool (CalTIP), which covers liability and vehicle damage claims up to $5,000,000. The Authority has a self-insured retention or deductible of $5,000 on physical damage and $25,000 on liability per claim. Once the Authority's self-insured retention for claims is met, CalTIP becomes responsible for payment of all claims up to $1,000,000. For claims above that amount, CalTIP purchases excess coverage up to $5,000,000. During the fiscal year ended June 30, 2012, the Authority contributed $56,220 for coverage.

10. Risk Management, continued

Risk Coverage, *continued*

The Authority is also a member of the Special District Risk Management Authority (SDRMA) Workers' Compensation Program, which covers workers' compensation claims up to $1,000,000. During the fiscal year ended June 30, 2012, the Authority contributed $147,974 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, 1415 L Street, Suite 320, Sacramento, CA 95814 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, 2012 are as follows:

Employee benefits	$	63,758
Vehicle collision		16,927
Workers' compensation		59,289
Cafeteria plan		18,565
Deductible on liability insurance		28,360
Total	$	186,899

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, 2012.

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 actuary estimate on the ultimate unpaid losses incurred for vehicle collision and deductible on liability insurance as of June 30, 2012 was $40,123.

11. Concentration

The Authority receives a substantial amount of revenue from the Mendocino Council of Governments under the Transportation Development Act and State Transit Assistance. Transportation Development Act fund allocation is based on sales tax revenue. During the fiscal year ended June 30, 2012, the Authority received $2,693,876, which represented 28% of total revenue for the year.

12. Net Assets

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

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

Restricted – The portion of net assets 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 assets that is not restricted from use.

13. Public Transportation Modernization Improvement and Service Enhancement Account

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

During the fiscal year ended June 30, 2009, the Authority applied for PTMISEA funds for the design phase of an Alternative Fuel Infrastructure at the Authority facilities. The application was rejected. The Authority resubmitted an application for the construction phase of the Alternative Fuel Infrastructure Project. During the fiscal year ended June 30, 2010, the Authority received $1,257,982 in PTMISEA proceeds. Additional PTMISEA proceeds of $4,572 were received as of June 30, 2011. As of June 30, 2012, the amount of qualifying expenditure incurred totaled $819,684. 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, 2012, PTMISEA funds received and expended were verified in the course of our audit as follows:

Balance at July 1, 2011	$	1,095,269	
PTMISEA received - interest		9,217	1)
PTMISEA proceeds received		2,467,016	2)
Expenditures incurred:			
Maintenance Facility Project		(822,026)	
Unexpended proceeds at June 30, 2012	$	2,749,476	

1) Additional PTMISEA received as of June 30, 2012.
2) Received in April 2012.

14. Subsequent Events

The Authority evaluated subsequent events for recognition and disclosure through March 13, 2013, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2012 that required recognition or disclosure in such financial statements.

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

To the Board of Directors
Mendocino Transit Authority
Ukiah, California

We have audited the financial statements of the Transportation Development Act Funds of Mendocino Transit Authority (the Authority) as of and for the year ended June 30, 2012 and have issued a report thereon dated March 13, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

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

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

Burr Pilger Mayer, Inc.

San Jose, California
March 13, 2013

ACCOUNTANTS & CONSULTANTS

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

To the Board of Directors
Mendocino Transit Authority
Ukiah, California

We have audited the financial statements of the business-type activities and the major fund of the Mendocino Transit Authority (the Authority) as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 13, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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*.

We noted certain matters that we reported to management of the Authority in a separate letter dated March 13, 2013.

This report is intended solely for the information and use of management, the Board of Directors, and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties.

Burr Pilger Mayer, Inc.

San Jose, California
March 13, 2013