

**REDWOOD COAST TRANSIT AUTHORITY
TRANSPORTATION DEVELOPMENT ACT FUNDS**

CRESCENT CITY, CALIFORNIA

BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Redwood Coast Transit Authority
Crescent City, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the business-type activities of the Redwood Coast Transit Authority, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Redwood Coast Transit Authority's basic 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. 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, we consider internal control relevant to Redwood Coast Transit Authority'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 Redwood Coast Transit Authority'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 governmental activities and the business-type activities of the Redwood Coast Transit Authority, as of June 30, 2017, 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

As discussed in Note 1, the financial statements present only the Transportation Development Act Funds used by the Redwood Coast Transit Authority and are not intended to present fairly the financial position and results of operations of the Del Norte Local Transportation Commission in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis as listed in the accompanying table of contents, 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 Regulatory Requirements

In accordance with Transportation Development Act statutes, rules and regulations, we have also issued our report dated December 11, 2017, on our consideration of Redwood Coast Transit Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of statutes, rules, regulations, and grant agreements of the Transportation Development Act. 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 Transportation Development Act statutes, rules and regulations in considering Redwood Coast Transit Authority's internal control over financial reporting and compliance.

R.J. Ricciardi, Inc.

R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
December 11, 2017

Redwood Coast Transit Authority
 Transportation Development Act Funds
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2017

This section of Redwood Coast Transit Authority's (the Authority's) financial statements presents management's overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2017. The Authority is a joint powers authority entered into by the County of Del Norte and the City of Crescent City. The Authority administers transportation programs to the public including local and regional bus routes, specialized transportation services for seniors and disabled, and intercity bus routes that connect to national carriers, Greyhound and Amtrak Thruway.

Introduction to the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's audited financial statements. This annual report is prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The required financial statements include the Statement of Net Position - Proprietary Fund; Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Fund; and Statement of Cash Flows - Proprietary Fund.

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 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.

Statement of Revenues, Expenses and Changes in Net Position

This statement presents the revenues earned and expenses incurred during the year using the accrual basis of accounting. Under the accrual basis of accounting, all changes in net position are reported as soon as the underlying event occurs, regardless of the timing of the cash flow.

Statement of Cash Flows

This statement reflects the inflows and outflows of cash, summarized by type of activity. The direct method was used to prepare information for the reporting period activities. This means the gross rather than net amounts were presented for the year's activities.

These statements are supported by notes to the financial statements. All sections must be considered together to obtain a complete understanding of the financial picture of the Authority.

Proprietary Fund Analytical Overview

Table 1
Proprietary Fund Net Position at June 30

	2017	2016
Current assets	\$ 433,531	\$ 643,994
Capital assets	790,658	907,284
Total assets	1,224,189	1,551,278
Current liabilities	133,726	394,773
Total liabilities	133,726	394,773
Net position:		
Invested in capital assets, net of related debt	790,658	907,284
Unrestricted	299,805	249,217
Total net position	\$ 1,090,463	\$ 1,156,501

Redwood Coast Transit Authority
Transportation Development Act Funds
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

The Authority's governmental net position amounted to \$1,090,463 as of June 30, 2017, a change of (\$66,038) from the June 30, 2016 balance. This decrease in the change in net position is reflected in Table 2, the Statement of Changes in Proprietary Fund Net Position.

The Authority's programs are financed through a combination of passenger fares, federal and state grants, and Local Transportation Funds derived from 1/4 cent of the state sales tax collected per dollar in Del Norte County. Since most state and federal grant funds are received on a reimbursement basis, the Authority has a significant Accounts Receivable at the conclusion of each fiscal year. The reliance on reimbursement of grant funds affects available cash, and also results in a significant Accounts Payable balance.

Table 2
Changes in Proprietary Fund Net Position

	2017	2016
<u>Expenses</u>		
Services and supplies	\$ 1,303,483	\$ 1,462,075
Total expenses	1,303,483	1,462,075
<u>Revenues</u>		
Program revenues:		
Charges for services	205,807	200,150
Government grants	452,825	454,923
Total program revenues	658,632	655,073
General revenues:		
Interest	5,608	5,137
Taxes	573,205	684,441
Total general revenues	578,813	689,578
Total revenues	1,237,445	1,344,651
<u>Change in net position</u>	\$ (66,038)	\$ (117,424)

As shown in Table 2, above, \$658,632 or 53% of the Authority's 2017 revenue, came from operating revenues which consisted of passenger fares and government grants. \$578,813, or 47% of the Authority's 2017 revenue, came from non-operating revenues consisting of sales taxes, gas taxes, local transportation funds, and other revenue.

Government grants changed (\$3,559) in 2017. This change is due to a variety of factors including timing of federal operating assistance grants, and the use of federal capital grants for the purchase of equipment and vehicles.

Capital Assets

GASB Statement No. 34 requires the Authority to record all its capital assets that were not recorded in prior years. Detail on capital assets can be found in Note 3 of the financial statements.

Debt Administration

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

Economic Outlook and Major Initiatives

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

Redwood Coast Transit Authority
Transportation Development Act Funds
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

Contacting the Authority's Financial Management

These financial statements are intended to provide citizens, taxpayers, and creditors with a general overview of the Authority's finances. Questions about this Report should be directed to Redwood Coast Transit Authority, c/o TMTP Consulting LLC, 1275 Fourth Street #733, Santa Rosa, CA 95404.

Redwood Coast Transit Authority
Transportation Development Act Funds
STATEMENT OF NET POSITION
Public Transit Fund
June 30, 2017

ASSETS

Current assets:

Cash	\$ 141,750
Prepaid items	1,875
Accounts receivable	<u>289,906</u>
Total current assets	<u>433,531</u>

Capital assets, net of accumulated depreciation	<u>790,658</u>
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Total assets	<u>1,224,189</u>
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LIABILITIES AND NET POSITION

Current liabilities:

Accounts payable	<u>133,726</u>
Total current liabilities	<u>133,726</u>

Net Position:

Invested in capital assets, net of related debt	790,658
Unrestricted	<u>299,805</u>
Total net position	<u>\$ 1,090,463</u>

Redwood Coast Transit Authority
Transportation Development Act Funds
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
Public Transit Fund
For the Fiscal Year Ended June 30, 2017

Enterprise Fund

Operating revenue:	
Fares	\$ 205,807
Total operating revenue	<u>205,807</u>
Operating expenses:	
Purchased transportation	888,374
Administrative services and supplies	256,584
Depreciation	<u>158,525</u>
Total operating expenses	<u>1,303,483</u>
Net operating income (loss)	<u>(1,097,676)</u>
Other revenues and (expenses):	
Local Transportation Funds	513,476
State Transit Assistance Funds	59,729
Federal 5311 Operating assistance	452,825
Other income	3,998
Interest	<u>1,610</u>
Total other revenues and expenses	<u>1,031,638</u>
Change in net position	(66,038)
Net position, beginning of period	<u>1,156,501</u>
Net position, end of period	<u>\$ 1,090,463</u>

Redwood Coast Transit Authority
Transportation Development Act Funds
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2017

Transit Fund

Cash flows from operating activities:	
Receipts from customers	\$ 205,807
Payments to suppliers	<u>(1,406,005)</u>
Net cash provided (used) by operating activities	<u>(1,200,198)</u>
Cash flows from non-capital financing activities:	
Taxes and aid from other governments	<u>964,838</u>
Net cash provided (used) by non-capital financing activities	<u>964,838</u>
Cash flows from capital and related financing activities:	
Purchase of fixed assets	<u>(41,899)</u>
Net cash provided (used) by capital and related financing activities	<u>(41,899)</u>
Cash flows from investing activities:	
Interest earned	<u>1,610</u>
Net cash provided by investing activities	<u>1,610</u>
Net increase (decrease) in cash and cash equivalents	(275,649)
Cash and cash equivalents - beginning of period	<u>417,399</u>
Cash and cash equivalents - end of period	<u><u>\$ 141,750</u></u>
Reconciliation of operating income (loss) to net cash provided (used in) operating activities:	
Operating income (loss)	<u>\$ (1,097,676)</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	158,525
Changes in certain assets and liabilities:	
Accounts payable	<u>(261,047)</u>
Total adjustments	<u>(102,522)</u>
Net cash provided (used) by operating activities	<u><u>\$ (1,200,198)</u></u>

Redwood Coast Transit Authority
Transportation Development Act Funds
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The financial statements are intended to present the financial position and results of operations of only those transactions attributable to the Transportation Development Act Funds used by the Redwood Coast Transit Authority (the Authority).

This summary of significant accounting policies of the Authority is presented to assist in understanding the financial statements. The financial statements and notes are representations of management, who is responsible for their integrity and objectivity. These accounting policies have been consistently applied in the preparation of the financial statements.

The Authority owns buses and related equipment, and contracts with a third party, First Transit, Inc., for the operations of the bus routes in Del Norte County and surrounding areas. The financial statements are intended to present the financial position and results of operations of only those transactions attributable to the Authority. The Authority does not exercise control over any other governmental agency. Criteria used in determining the reporting entity was based on control or dependence determined on the basis of budget adoption, funding, and appointment of the respective governing board.

B. Basis of Presentation

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. In the financial statements in this report, the various funds are grouped into two generic fund types and one broad fund category as described below:

Proprietary Funds:

Enterprise Funds (Public Transit Fund) - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

Redwood Coast Transit Authority
Transportation Development Act Funds
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting (concluded)

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when earned and their expenses are recognized when incurred.

The fixed assets of the Proprietary Fund are recorded on a historical cost basis. Depreciation is provided for on the straight-line method over the remaining useful life of the asset, which ranges from five to forty years. The threshold for capitalizing capital expenses is \$5,000.

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. *Non-operating* revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities. The Authority may fund programs with a combination of cost-reimbursement 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 other revenues if necessary.

D. Use of Estimates

The 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.

E. Cash and Cash Equivalents

Cash and investments 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.

Fair Value Hierarchy

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs - other than quoted prices included within level 1 - that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

Redwood Coast Transit Authority
Transportation Development Act Funds
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

F. 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. Although that is a possibility, management currently deems the contingency remote based upon their knowledge of the objectives of the grantors and the provisions of the grants. Accordingly, no amount has been accrued as a contingent liability in the accompanying financial statements.

NOTE 2 - CASH & INVESTMENTS

The Treasurer of the Del Norte County Treasurer is responsible for maintaining the cash and investment pool. The total cash deposited with the County was \$141,750 as of June 30, 2017.

Credit Risk, Carrying Amount and Market Value of Investments:

The Authority maintains specific cash deposits with the County and involuntarily participates in the external investment pool of the County. The County is restricted by state code in the types of investments it can make. The County investment pool would be classified as Level 2 under the fair value hierarchy. 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. At June 30, 2017, 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.

NOTE 3 - FIXED ASSETS

A summary of changes in fixed assets of the Proprietary Fund is as follows:

	Balance 6/30/16	Additions	Deletions	Balance 6/30/17
Vehicles	\$ 2,154,796	\$ -	\$ 624,026	\$ 1,530,770
Buildings	990,299	41,899	-	1,032,198
Subtotal	3,145,095	\$ 41,899	\$ 624,026	2,562,968
Less accumulated depreciation	(2,237,811)			(1,772,310)
Total fixed assets	<u>\$ 907,284</u>			<u>\$ 790,658</u>

Depreciation was \$158,525 for the year ended June 30, 2017. Depreciation was calculated using the straight-line method over the useful life of the asset. Useful lives of the assets ranges from five to ten years.

Redwood Coast Transit Authority
Transportation Development Act Funds
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 4 - FARE REVENUE RATIO

The Authority is required under the Transportation Development Act to maintain a fare revenue to operating expenses ratio of 10%. The calculation of the fare revenue ratio for the year ending June 30, 2017 is as follows:

	2017
Fare revenues	\$ 205,807
Excluded revenues per extension of service	-
Total	\$ 205,807
Operating expenses	\$ 1,303,483
Less: Depreciation	(158,525)
Lease on vehicles	-
Exempted services	-
Total	\$ 1,144,958
Fare revenue ratio	18%

NOTE 5 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The Authority engages contractors for its operations and management services, and requires all of these contractors to provide commercial insurance covering such risks of loss.

NOTE 6 - CONCENTRATIONS

The Authority receives a substantial amount of its support from Transportation Development Act funding as well as Federal Transit Administration Grants. A reduction in the level of support may have a significant effect on the Authority's activities.

NOTE 7 - LEASES

The Authority entered into a non-cancelable operating ground lease through 2024. Minimum future rental payments under the operating ground lease for future years in aggregate are:

<u>Fiscal Year Ending February 28:</u>	
2018	\$ 22,500
2019	22,500
2020	22,500
2021	22,500
2022	22,500
2023	22,500
2024	22,500
Total	\$ 157,500

NOTE 8 - 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
Redwood Coast Transit Authority
Crescent City, California

We have audited the basic financial statements of the Redwood Coast Transit Authority allocated for transit purposes as of and for the year ended June 30, 2017 and have issued a report thereon dated December 11, 2017. 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 the Redwood Coast 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 Redwood Coast Transit Authority were made in accordance with the allocation instructions and resolutions of the Del Norte Local Transportation Commission 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 6666 and 6667 that are applicable to Redwood Coast Transit Authority. In connection with our audit, nothing came to our attention that caused us to believe the Transportation Development Act Funds allocated for transit purposes to the Redwood Coast Transit Authority failed to comply with the Statutes, Rules, and Regulations of the California Transportation Development Act and the allocation instructions and resolutions of the Del Norte Local Transportation Commission. 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.

Also as part of our audit, we performed tests of compliance to determine whether certain state funds were received and expended in accordance with the applicable bond act and the state accounting requirements.

This report is intended solely for the information and use of management of Redwood Coast Transit Authority, the Del Norte Local Transportation Commission, 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
December 11, 2017