

**CITY OF SOUTH LAKE TAHOE  
TRANSIT ENTERPRISE FUND  
BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
SEPTEMBER 30, 2008 AND 2007**

**CITY OF SOUTH LAKE TAHOE  
TRANSIT ENTERPRISE FUND  
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For the Years Ended  
September 30, 2008 and 2007**

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## INDEPENDENT AUDITOR'S REPORT

Honorable Members of the City Council  
of the City of South Lake Tahoe  
South Lake Tahoe, California

We have audited the financial statements of the Transit Fund, an enterprise fund of the City of South Lake Tahoe as of and for the years ended September 30, 2008 and 2007 as listed in the table of contents. These financial statements are the responsibility of the management of the City of South Lake Tahoe. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America and the standards required by the Transportation Development Act. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements presents only the Transit Fund and are not intended to present fairly the financial position and results of operations of the City of South Lake Tahoe in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2009 on our consideration of the Fund'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.

In our opinion, the financial statements referred to above present fairly in all material respects the financial position of the Transit Fund at September 30, 2008 and 2007 and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

February 6, 2009

CITY OF SOUTH LAKE TAHOE  
TRANSIT FUND  
PROPRIETARY FUND  
COMPARATIVE STATEMENTS OF NET ASSETS  
SEPTEMBER 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
Current Assets:		
Cash and Investments (Note 2)	\$444,755	\$10,013
Accounts receivable - net	109,881	80,655
Prepaid expenses	<u>64,750</u>	<u>64,750</u>
Total current assets	<u>554,636</u>	<u>155,418</u>
Capital assets (Note 4):		
Nondepreciable	1,315,375	1,315,375
Depreciable assets, net of accumulated depreciation	<u>5,136,853</u>	<u>5,505,829</u>
Total Assets	<u>7,006,864</u>	<u>6,976,622</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	10,770	139
Unearned revenue (Note 7)	<u>348,380</u>	<u>139</u>
Total Liabilities	<u>359,150</u>	<u>139</u>
<b>NET ASSETS (Note 1E)</b>		
Invested in capital assets	6,452,228	6,821,204
Unrestricted	<u>195,486</u>	<u>155,279</u>
Total Net Assets	<u>\$6,647,714</u>	<u>\$6,976,483</u>

See accompanying notes to financial statements

CITY OF SOUTH LAKE TAHOE  
TRANSIT FUND  
PROPRIETARY FUND  
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	2008	2007
<b>OPERATING REVENUES</b>		
Farebox revenue	\$509,800	\$526,259
Charges for current services	271,169	262,223
Other income	17,722	68,476
Total Operating Revenues	798,691	856,958
<b>OPERATING EXPENSES</b>		
Personnel services	81,203	91,546
Contracted services	1,248,706	1,303,260
Supplies	258,297	267,223
Communication		1,331
General expenses	1,162	1,204
Depreciation	368,976	303,451
Total Operating Expenses	1,958,344	1,968,015
Operating Loss	(1,159,653)	(1,111,057)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment earnings (loss)	7,596	(5,727)
Local transportation funds	779,613	1,037,814
Other grants		26,147
Total Nonoperating Revenues (Expenses)	787,209	1,058,234
Income (Loss) Before Contributions	(372,444)	(52,823)
<b>Other Financing Sources (Uses)</b>		
Transfers in (Note 3)	43,675	
Transfers (out) (Note 3)		(143,901)
Contributed capital		1,526,376
Change in net assets	(328,769)	1,329,652
BEGINNING NET ASSETS	6,976,483	5,646,831
ENDING NET ASSETS	\$6,647,714	\$6,976,483

See accompanying notes to financial statements

CITY OF SOUTH LAKE TAHOE  
TRANSIT FUND  
PROPRIETARY FUNDS  
COMPARATIVE STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$769,465	\$869,684
Payments to suppliers	(1,432,784)	(1,604,809)
Payments to employees	(81,203)	(91,546)
	<u>(744,522)</u>	<u>(826,671)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers in	43,675	
Transfers (out)		(143,901)
Due to other funds		(64,748)
Grant revenue	779,613	1,063,961
	<u>823,288</u>	<u>855,312</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proposition 1B collection	348,380	
Acquisition of capital assets		(12,901)
	<u>348,380</u>	<u>(12,901)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest	7,596	(5,727)
	<u>7,596</u>	<u>(5,727)</u>
Net Cash Flows	434,742	10,013
Cash and investments at beginning of period	<u>10,013</u>	
Cash and investments at end of period	<u>\$444,755</u>	<u>\$10,013</u>
<b>Reconciliation of Operating Loss to Cash Flows</b>		
from Operating Activities:		
Operating loss	(\$1,159,653)	(\$1,111,057)
Adjustments to reconcile operating loss to cash flows		
from operating activities:		
Depreciation	368,976	303,451
Change in assets and liabilities:		
Receivables	(29,226)	12,726
Prepaid expenses	64,750	3,201
Accounts payable	10,631	(34,992)
	<u>(\$744,522)</u>	<u>(\$826,671)</u>
Cash Flows from Operating Activities		
Noncash Contributed Capital		
Transit Center Building		<u>\$1,526,376</u>

See accompanying notes to financial statements

**CITY OF SOUTH LAKE TAHOE  
TRANSIT ENTERPRISE FUND  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For The Years Ended September 30, 2008 and 2007**

<b>NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</b>
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**A.     *General***

The City of South Lake Tahoe established the Transit program to provide transportation services within the City limits.

Transit operations do not generate sufficient fare box revenues to cover the operating expenses. Expenses incurred in excess of fare box revenues, interest and other revenues are reimbursed with grant funds. The Tahoe Regional Planning Agency is the regional coordinating agency for the State of California Transportation Development Act grants which subsidize Transit operations.

Capital grants are reimbursement based. Operating grants are advanced quarterly; any grant funds received in excess of operating expenses, net of other revenues, must be returned to the grantor.

The following is a summary of significant accounting policies of the Transit Fund, which conform with generally accepted accounting principles applicable to governments.

**B.     *Fund Accounting***

The Transit Fund is accounted for as an enterprise fund of the City of South Lake Tahoe. This Transit fund is a set of self-balancing accounts which comprise its assets, liabilities, fund equity, revenues and expenses.

**C.     *Basis of Accounting***

Basis of accounting refers to when revenues and expenses are recognized. The Transit Fund is accounted for using the accrual basis of accounting, under which revenues are recognized when they are earned and expenses are recognized when they are incurred.

**D.     *Basis of Presentation***

The City's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

These Statements require that the financial statements described below be presented.

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.

**E.     *Net Assets***

Net Assets are measured on the full accrual basis.

**CITY OF SOUTH LAKE TAHOE  
TRANSIT ENTERPRISE FUND  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For The Years Ended September 30, 2008 and 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Net Assets is the excess of all the City's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions described below:

*Invested in Capital Assets* describes the portion of Net Assets which is represented by the current net book value of the City's capital assets and capacity rights.

*Restricted* describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter.

*Unrestricted* describes the portion of Net Assets which is not restricted to use.

**NOTE 2 - CASH IN CITY TREASURY**

Cash is included in a City-wide cash and investments pool, the details of which are presented in the City's basic financial statements. The City's investment policy and the California Government Code permit investments in a variety of investment securities and investment pools. As of September 30, 2008, the City has invested the majority of its funds in the State of California Local Agency Investment Fund.

The Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations.

**NOTE 3 - TRANSFERS**

In 2008 a transfer was made from the City's general fund to the transit fund for \$43,675 to help fund staffing expenses related to the Explore Tahoe/Transit Center site. In 2007 a transfer was made from the transit fund to the transit center special revenue fund for \$143,901 to fund operations.

**CITY OF SOUTH LAKE TAHOE  
TRANSIT ENTERPRISE FUND  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For The Years Ended September 30, 2008 and 2007**

**NOTE 4 – CAPITAL ASSETS**

Capital assets are recorded at cost and 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 City has assigned the useful lives listed below to capital assets.

Buildings	30 years
Buses and Vehicles	10 years

**CITY OF SOUTH LAKE TAHOE  
TRANSIT ENTERPRISE FUND  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For The Years Ended September 30, 2008 and 2007**

**NOTE 4 – CAPITAL ASSETS (Continued)**

Capital assets comprised the following at September 30, 2008 and 2007:

	Balance at Sept 30, 2007	Additions	Retirements	Balance at Sept 30, 2008
Capital Assets not being depreciated:				
Land	\$1,315,375			\$1,315,375
Total capital assets not being depreciated	1,315,375			1,315,375
Capital assets being depreciated:				
Buses and vehicles	1,929,807		(\$24,249)	1,905,558
Buildings	6,512,815			6,512,815
Total capital assets being depreciated	8,442,622		(24,249)	8,418,373
Depreciation:				
Buses and vehicles	(1,674,406)	(\$104,603)	24,249	(1,754,760)
Buildings	(1,262,387)	(264,373)		(1,526,760)
Total accumulated depreciation	(2,936,793)	(368,976)	24,249	(3,281,520)
Capital assets being depreciated, net	5,505,829	(368,976)		5,136,853
Capital assets, net	\$6,821,204	(\$368,976)		\$6,452,228

**NOTE 5 - MAJOR CONTRACTOR**

The Transit Fund has an agreement with a contractor which requires the contractor to operate and maintain Transit's buses. Expenses incurred under this contract amounted to \$1,248,706 and \$1,303,260 for the fiscal years ended September 30, 2008 and 2007, respectively. The original term of the contract was extended until 2010.

As part of this agreement, the contractor reimburses the Transit Fund for fuel purchases and administration costs. During the years ended September 30, 2008 and 2007, the contractor reimbursed \$257,334 and \$249,736, respectively.

**CITY OF SOUTH LAKE TAHOE  
TRANSIT ENTERPRISE FUND  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For The Years Ended September 30, 2008 and 2007**

**NOTE 6 - CONTINGENT LIABILITIES**

The Transit Fund is subject to litigation arising in the normal course of business. In the opinion of the City Attorney there is no pending litigation which is likely to have a material adverse effect on the financial position of Transit.

The Transit Fund participates in federal and State grant programs. These programs have been audited by the Transit's Fund independent accountants in accordance with the provisions of the Federal Single Audit Act amendments of 1996 and applicable State requirements. No cost disallowances were proposed as a result of these audits; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The Transit Fund expects such amounts, if any, to be immaterial.

**NOTE 7 - PROPOSITION 1B**

During fiscal year 2007-08, the City received, but had not expended \$348,380 of State Proposition 1B Funds. This amount has been recorded as Unearned Revenue as of September 30, 2008.

**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**

Honorable Mayor and City Council  
City of South Lake Tahoe, California

We have audited the basic financial statements of the Transit Fund of the City of South Lake Tahoe as of and for the year ended September 30, 2008, and have issued our report thereon dated February 6, 2009. We conducted our audit in accordance with generally accepted auditing standards 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***

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, or prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 City'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 including the applicable statutes, rules and regulations of the Transportation Development Act, including sections 6666 and 6667 of Title 21, Chapter 3, of the California Code of Regulations, and the allocation instructions and resolutions of the Tahoe Regional Planning Agency, and applicable provisions of the Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA) Guidelines issued by the California Department of Transportation. 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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated February 6, 2009.

This report is intended solely for the information and use of management, the audit committee, City Council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

February 6, 2009

**CITY OF SOUTH LAKE TAHOE  
TRANSIT ENTERPRISE FUND**

**CURRENT YEAR STATUS OF PRIOR YEARS FINDINGS**

**Prepared by Management**

**Finding :06-1:** A Triennial Performance Audit has not been completed since fiscal 2002-03. A draft report was released dated July 2005, however, staff have indicated it has not yet been completed.

**Management Response:**

The Tahoe Regional Planning Agency (TRPA) is responsible for commissioning and ensuring the preparation of the Triennial Performance Audit. While City staff did obtain a draft audit report from the TRPA, we have not been able to obtain or verify that a final audit report was issued for fiscal years 2000-1 to 2002-03. The TRPA is currently in the process of issuing a request for proposal to commission the preparation of the Triennial Performance Audit for fiscal years 2003-04 to 2005-06.

**Current Year Status:**

The City received a bound Triennial Performance Audit which was performed for Tahoe Regional Planning Agency (TRPA) for fiscal years 2003 – 04 through 2005 – 06 by LSC Transportation Consultants, Inc.