

CITY OF BEAUMONT, CALIFORNIA
Transit System
Financial Statements
(With Independent Auditor's Reports Thereon)
For the Fiscal Year Ended June 30, 2018
(With Comparative Totals for 2017)



Certified
Public
Accountants

CITY OF BEAUMONT, CALIFORNIA
Transit System

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Independent Auditor's Report

Board of Commissioners
Riverside County Transportation Commission
Riverside, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Transit System (the System) of the City of Beaumont, California (the City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2018, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the accompanying financial statements present only the Transit System and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2018, the changes in its financial position or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Prior Year Comparative Information

Other auditors have previously audited the System's June 30, 2017 financial statements, and expressed an unmodified audit opinion on those audited financial statements in their report dated June 15, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2019 on our consideration of the City's internal control over financial reporting as it relates to the System, 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 related to the System. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance related to the System.

Macias Gini & O'Connell LLP

Newport Beach, California
March 28, 2019

CITY OF BEAUMONT, CALIFORNIA
TRANSIT SYSTEM
Statements of Net Position
June 30, 2018
(With Comparative Totals for 2017)

	2018	2017
Assets:		
Current Assets:		
Pooled Cash	\$ 955,761	\$ 300,448
Due from Other Fund of the City	18,906	69,568
Due from Other Governmental Agencies	67,607	594,670
Total Current Assets	1,042,274	964,686
Non current assets:		
Restricted Cash and Investments	198,360	142,707
Capital Assets, Net of Accumulated Depreciation	1,367,921	1,785,220
Total Noncurrent Assets	1,566,281	1,927,927
Total Assets	2,608,555	2,892,613
Deferred Outflows of Resources:		
Deferred Pension Related Items	556,223	449,346
Liabilities:		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	84,213	124,108
Unearned Revenues	198,360	142,707
Compensated Absences	66,259	23,563
Total Current Liabilities	348,832	290,378
Noncurrent Liabilities:		
Compensated Absences	189,312	212,070
Net Pension Liability	1,222,460	1,017,719
Total Noncurrent Liabilities	1,411,772	1,229,789
Total Liabilities	1,760,604	1,520,167
Net Position:		
Net Investment in Capital Assets	1,367,921	1,785,220
Unrestricted	36,253	36,572
Total Net Position	\$ 1,404,174	\$ 1,821,792

See accompanying notes to the financial statements.

CITY OF BEAUMONT, CALIFORNIA
TRANSIT SYSTEM

Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2018
(With Comparative Totals for 2017)

	<u>2018</u>	<u>2017</u>
Operating Revenues:		
Charges For Services	\$ 234,182	\$ 219,522
Total Operating Revenues	<u>234,182</u>	<u>219,522</u>
Operating Expenses:		
Salaries	1,366,401	1,254,260
Fringe Benefits	757,068	654,978
Fuels, Lubricants and Maintenance	374,406	306,606
Administration	127,745	126,529
Contract Services	9,077	27,920
Utilities	27,336	23,413
Supplies	13,270	9,275
Office	4,148	4,517
Depreciation	518,763	582,719
Total Operating Expenses	<u>3,198,214</u>	<u>2,990,217</u>
Operating Loss	<u>(2,964,032)</u>	<u>(2,770,695)</u>
Non-Operating Revenues (Expenses):		
Interest Income	4,984	4,475
Local Transportation Fund	2,426,067	2,203,702
Total Nonoperating Revenues	<u>2,431,051</u>	<u>2,208,177</u>
Loss Before Transfers And Capital Contributions	(532,981)	(562,518)
Transfers Out To Other City Funds	(322)	-
Capital Contributions		
Capital Grants	115,685	532,289
Total Transfers And Capital Contributions	<u>115,363</u>	<u>532,289</u>
Change in Net Position	(417,618)	(30,229)
Net Position, Beginning of Year	<u>1,821,792</u>	<u>1,852,021</u>
Net Position, End of Year	<u>\$ 1,404,174</u>	<u>\$ 1,821,792</u>

See accompanying notes to the financial statements.

CITY OF BEAUMONT, CALIFORNIA
TRANSIT SYSTEM
Statements of Cash Flows
For the Fiscal Year Ended June 30, 2018
(With Comparative Totals for 2017)

	2018	2017
Cash Flows From Operating Activities:		
Cash Received From Customers and Users	\$ 234,182	\$ 219,522
Cash Paid to Suppliers for Goods and Services	(595,877)	(412,801)
Cash Paid to Employees for Services	(2,005,667)	(1,866,968)
Net Cash Used for Operating Activities	(2,367,362)	(2,060,247)
Cash Flows From Noncapital Financing Activities:		
Transfer out	(322)	-
Operating grants Received	3,008,783	1,886,498
Net Cash Provided By Noncapital Financing Activities	3,008,461	1,886,498
Cash Flows From Capital And Related Financing Activities:		
Purchases of Capital Assets	(101,464)	(515,918)
Capital Grants Received	166,347	449,496
Net Cash Provided by (Used for) Capital and Related Financing Activities	64,883	(66,422)
Cash Flows From Investing Activities:		
Interest on Cash and Cash Equivalents	4,984	8,603
Net Cash Provided By Investing Activities	4,984	8,603
Net Increase (Decrease) in Cash and Cash Equivalents	710,966	(231,568)
Cash and Cash Equivalents - Beginning of Year	443,155	674,723
Cash and Cash Equivalents - End of Year	\$ 1,154,121	\$ 443,155
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash and Investments	\$ 955,761	\$ 300,448
Restricted Cash and Investments	198,360	142,707
Total Cash and Cash Equivalents	\$ 1,154,121	\$ 443,155

See accompanying notes to the financial statements.

CITY OF BEAUMONT, CALIFORNIA
TRANSIT SYSTEM
Statements of Cash Flows
For the Fiscal Year Ended June 30, 2018
(With Comparative Totals for 2017)

	2018	2017
Reconciliation Of Operating Loss To Net		
Cash Used For Operating Activities:		
Operating Loss	\$ (2,964,032)	\$ (2,770,695)
Adjustments to Reconcile Operating Loss to Net		
Cash Used For Operating Activities:		
Depreciation and Amortization	518,763	582,719
Change in Operating Assets and Liabilities:		
(Increase) Decrease in Deferred Outflows - Pension	(106,877)	(144,063)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(39,895)	85,459
Increase (Decrease) in Net Pension Liability	204,741	327,879
Increase (Decrease) in Deferred Inflows - Pension	-	(136,971)
Increase (Decrease) in Compensated Absences Payable	19,938	(4,575)
	<u>\$ (2,367,362)</u>	<u>\$ (2,060,247)</u>
Net Cash Used For Operating Activities	<u>\$ (2,367,362)</u>	<u>\$ (2,060,247)</u>

See accompanying notes to the financial statements.

CITY OF BEAUMONT, CALIFORNIA
Transit System
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2018

1. GENERAL INFORMATION

The financial statements of the Transit System are intended to present the financial position and results of operations of only those transactions attributable to the Transit System (the System), operated by the City of Beaumont, California (the City). The financial statements of the Transit System are included in the basic financial statements of the City.

As an operator of a public transportation system, the City is eligible to receive Transportation Development Act (TDA) Article 4 Funds in accordance with California Public Utilities Code §99260. Pursuant to §99260, Article 4 monies may be used for the support of public transportation systems, aid to public transportation research and demonstration projects, and contributions for the construction of grade separation projects. These Funds were allocated by the Riverside County Transportation Commission (RCTC) to supplement the City's transit operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The accounts of the City are organized on the basis of funds. 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, equity segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The City accounts for the activity of the System in its Transit System, which is an Enterprise Fund.

Enterprise funds are used to account for operations that are financed primarily through user charges, or where the governing body has decided that determination of net income is appropriate.

The accounting policies of the System conform to accounting principles generally accepted in the United States of America as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles in the United States.

Measurement Focus and Basis of Accounting

Enterprise funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred regardless of the timing of related cash flows.

Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with original maturity of three months or less from the date of acquisition. Cash and cash equivalents are combined with investments and displayed as Pooled Cash.

CITY OF BEAUMONT, CALIFORNIA
Transit System
Notes to Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants

Grant revenues and amounts due from other governmental agencies are recorded when earned on grants that have been approved and Funded by the grantor. Grant sources include Federal Transit Administration (FTA), State Transit Assistance (STA), Local Transportation Funds (LTF), Public Transportation Modernization, Improvement and Service Enhancement Account (PTMISEA) and Transit System Safety, Security and Disaster Response Account (TSSSDRA) established pursuant to Proposition 1B approved by the voters of the State of California on November 7, 2006, and Measure A.

Capital Assets

All capital assets, consisting primarily of vehicles, buildings and equipment, are stated at cost. The City's policy for the System is to capitalize all assets, regardless of cost. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, which range from three to five years. Donated capital assets received prior to the implementation of GASB 72 were recorded at fair value on the date of donation. Donated capital assets received subsequent to the implementation of GASB 72 are recorded at acquisition value as of the date received.

Net Position

Net position is classified in the following categories:

Net investment in capital assets – Net investment in capital assets represents operating assets net of accumulated depreciation and reduce by outstanding debt that is attributed to acquisition, construction or improvements of assets. There was \$1,367,921 of net investment in capital assets as of June 30, 2018.

Restricted - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other government. There were no restricted net position for transportation as of June 30, 2018.

Unrestricted - Unrestricted represents the amount of net position that is either not restricted or do not meet the definition of net investment in capital assets. There was a balance of \$36,253 unrestricted net position as of June 30, 2018.

Compensated Absences

City employees have a vested interest in varying levels of vacation, sick leave and compensatory time based on their length of employment. It is the policy of the City to pay all accumulated vacation pay and a portion of unused sick pay when an employee retires or terminates. The short-term liability is the amount that will be liquidated with current financial resources and is expected to be paid during the next fiscal year.

CITY OF BEAUMONT, CALIFORNIA
Transit System
Notes to Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred inflows and outflows of resources. The separate financial statement elements represents consumption of net position that applies to future period(s) and so will not be recognized as an inflows or outflow of resources (expense) until then. The System reports deferred inflows and outflows as a result of the System's implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which qualify for reporting in this category.

Unearned Revenue

Unearned revenue arises when the City receives resources before it has a legal claim to them, as when grant monies are received prior to meeting all eligibility requirements. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenue is recognized.

3. UNRESTRICTED AND RESTRICTED CASH AND INVESTMENTS

The City has pooled its cash and investments in order to achieve a higher return on investments while facilitating management of cash. The balance in the pooled 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 System's unrestricted and restricted cash and investments as of June 30, 2018 were as follows:

Pooled Cash with the City of Beaumont	\$ 955,761
Restricted Cash and Investments	<u>198,360</u>
	<u>\$1,154,121</u>

The investments are categorized into its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

CITY OF BEAUMONT, CALIFORNIA
Transit System
Notes to Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2018

3. UNRESTRICTED AND RESTRICTED CASH AND INVESTMENTS (CONTINUED)

The Transit System's cash and investments are combined with the City's pooled investments, and therefore, do not represent specific identifiable investments. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles as described above. Interest income is allocated on the basis of average cash balances. Investment policies and associated risk factors applicable to the System are those of the City and are included in the City's CAFR. See the City's CAFR for disclosures related to cash and investments, including those disclosures relating to interest risk, credit risk, custodial risk and concentration risk.

4. DUE FROM OTHER GOVERNMENTAL AGENCIES

Due from other governments as of June 30, 2018 consisted of the following:

City of Banning Transit	\$	1,669
RCTC		65,938
Total	\$	<u>67,607</u>

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2018 was as follows:

	Balance at June 30, 2017	Additions/ Adjustments	Retirements/ Adjustments	Balance at June 30, 2018
Capital assets, not being depreciated:				
Construction in progress	\$ 14,262	\$ -	\$ -	\$ 14,262
Total capital assets not being depreciated	14,262	-	-	14,262
Capital assets, being depreciated:				
Vehicles	3,753,557	-	-	3,753,557
Buildings	538,194	-	-	538,194
Equipment	688,871	101,464	-	790,335
Total capital assets being depreciated	4,980,622	101,464	-	5,082,086
Less: accumulated depreciation	(3,209,664)	(518,763)	-	(3,728,427)
Capital assets being depreciated, net	1,770,958	(417,299)	-	1,353,659
Capital assets, net	\$ 1,785,220	\$ (417,299)	\$ -	\$ 1,367,921

Depreciation expense for the year ended June 30, 2018 was \$518,763.

Activities relating to changes in capital assets by funding source for the year ended June 30, 2018 were as follows:

	STA Funds	LTF Funds	Measure A	Prop IB	Operator Funds	Total
June 30, 2017	\$ 3,951,282	\$ 528,474	\$ 95,000	\$ 332,102	\$ 88,026	\$ 4,994,884
Additions	82,450	-	-	19,014	-	101,464
Deletions	-	-	-	-	-	-
June 30, 2018	\$ 4,033,732	\$ 528,474	\$ 95,000	\$ 351,116	\$ 88,026	\$ 5,096,348

CITY OF BEAUMONT, CALIFORNIA
Transit System
Notes to Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2018

6. UNEARNED REVENUE

TDA Article 4 Funds allocated to the System by RCTC for specific operating and capital projects are considered earned when they are properly spent for the specific projects authorized. Allocations and any interest received, but not used are recorded as unearned revenue. Unearned revenue activity related to operating assistance and capital projects for the year ended June 30, 2018 was as follows:

Operating Assistance:

	LTF	LCTOP	Total
Balance of operating funds at June 30, 2017	\$ 52,994	\$ 80,518	\$ 133,512
Allocations received	2,403,840	62,717	2,466,557
Funds available	2,456,834	143,235	2,600,069
Less eligible costs	(2,426,067)	-	(2,426,067)
Balance of operating funds at June 30, 2018	<u>\$ 30,767</u>	<u>\$ 143,235</u>	<u>\$ 174,002</u>

Capital Assistance:

	Proposition 1B	STA	Total
Balance of capital funds at June 30, 2017	\$ 9,195	\$ -	\$ 9,195
Allocations received	33,896	96,671	130,567
Interest allocations	281	-	281
Funds available	43,372	96,671	140,043
Less eligible costs	(19,014)	(82,450)	(101,464)
Less eligible costs not capitalized	-	(14,221)	(14,221)
Balance of capital funds at June 30, 2018	<u>\$ 24,358</u>	<u>\$ -</u>	<u>\$ 24,358</u>

LTF operating assistance in the amount of \$2,403,840 was received by allocation under Article 4 for the year ended June 30, 2018.

Unearned revenue related to Proposition 1B capital assistance for the year ended June 30, 2018 was \$24,358. Unearned revenue activities related to STA capital assistance for the year ended June 30, 2018 included allocations received and eligible costs of \$96,671.

6. EMPLOYEES' RETIREMENT PLAN

The City participates in the Public Employees' Retirement System of the State of California covering all of its permanent employees. The excess, if any, of the actuarially computed value of vested benefits over the amounts available in the pension fund would be a liability of the City as a whole, not of the System. Information regarding the plan description, funding status, actuarially determined contribution requirements and contributions made and trend information may be found in the City's CAFR.

CITY OF BEAUMONT, CALIFORNIA
Transit System
Notes to Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2018

7. COMPENSATED ABSENCES

Compensated absences estimated to be paid within one year and after one year as of June 30, 2018 was \$255,571.

8. FAREBOX RECOVERY RATIO

The System is subject to the provisions of the California Public Utilities Code §99268.3 and must maintain a minimum farebox recovery ratio of 10%. During the year ended June 30, 2018, the System's farebox recovery ratio was calculated as follows:

Passenger fares	\$	234,182
Exclusions:		
Fare revenues related to new routes or extension of services		(32,371)
Total operating revenues	\$	<u>201,811</u>
Operating expenses	\$	3,198,214
Exclusions:		
Depreciation		(518,763)
Operating expenses related to new routes or extension of services		(458,185)
Total exclusions		<u>(976,948)</u>
Net operating expenses	\$	<u>2,221,266</u>
Farebox recovery ratio		9.09%

At June 30, 2018, the City did not meet the minimum required farebox recovery ratio of 10%.

CITY OF BEAUMONT, CALIFORNIA
Transit System
Notes to Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2018

9. PROPOSITION 1B

On November 7, 2006, the voters of the State of California approved the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Bond Act), known as Proposition 1B. Proposition 1B included a state program of funding in the amount of \$4 billion and \$1 billion to be deposited in the PTMISEA and the TSSSDRA, respectively. PTMISEA funds can be used 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. TSSSDRA funds can be used for transportation-related security and safety projects. Proposition 1B activities during the fiscal year ended June 30, 2018 was as follows:

	PTMISEA
Unspent Prop 1B funds as of June 30, 2017	\$ 9,195
Funds Received	33,896
Interest Allocations	281
Funds Available	43,372
Funds Used	(19,014)
Unspent Prop 1B Funds as of June 30, 2018	\$ 24,358

10. RESTRICTIONS

Systems received pursuant to California Public Utilities Code §99260 (TDA Article 4) may only be used for operations and capital improvements on trolley and bus facilities.

11. COMPARATIVE FINANCIAL DATA

The amounts shown for 2017 in the accompanying financial statements are included only to provide a basis for comparison with 2017 and are not intended to present all information necessary for a fair presentation in accordance with generally accepted accounting principles.

12. CONTINGENCIES

See the City's Comprehensive Annual Financial Report for disclosures related to contingencies including those relating to various legal actions, administrative proceedings or claims in the ordinary course of operations.

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**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***

Board of Commissioners
Riverside County Transportation Commission
Riverside, California

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, the financial statements of the Transit System (the System) of the City of Beaumont, California (the City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated March 28, 2019. Our report includes an emphasis of matter paragraph indicating that the financial statements present only the Transit System of the City.

Internal Control Over Financial Reporting

In planning and performing our audit of the System’s financial statements, we considered the City’s internal control over financial reporting (internal control) as it relates to the System to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control related to the System. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control related to the System.

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 were not identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including Section 6667 of Part 21 of the California Code of Regulations and policies and procedures adopted by Riverside County Transportation Commission, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* including the requirements of Section 6667 of Part 21 of the California Code of Regulations and policies and procedures adopted by the Riverside County Transportation Commission. The instance of noncompliance is described in the accompanying schedule of findings and questioned costs as item 2018-001.

The City of Beaumont’s Response to the Finding

The City’s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 City’s internal control or on compliance related to the System. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City’s internal control and compliance related to the System. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

Newport Beach, California
March 28, 2019

CITY OF BEAUMONT, CALIFORNIA
TRANSIT SYSTEM
Current Year Finding
For the Fiscal Year Ended June 30, 2018

Reference Number:	2018-001
Category of Finding:	Farebox Recovery Ratio
Type of Finding:	Instance of Noncompliance
TDA Guidebook Title:	Fare and Local Support Ratios
TDA Guidebook Reference:	6633.5(b)

Criteria:

According to Public Utilities Code (PUC) Section 99268.4 and California Code of Regulations (CCR) Section 6633.5(b), the ratio of fare revenues to operating cost shall be at least 10 percent or the ratio that the claimant had for the services in 1978-79, whichever is greater. The City of Beaumont is required to meet the minimum ten percent for serving a non-urbanized area.

Condition:

MGO reviewed the System's calculation of the farebox recovery ratio for the fiscal year ended June 30, 2018 and noted that the System's ratio was 9.09% by taking the total operating revenue divided by net operating expenses.

Effect:

The farebox recovery ratio fell below the required ten percent ratio. Failure to comply with the provision of PUC section 99268.4 and CCR Section 6633.5(b) could result in the loss of funding from the State as described in PUC Section 99268.9 and CCR Section 6633.9.

Cause:

The System's operating expenses increased approximately \$226,903 primarily due to an increase in salaries in the amount of \$112,114 and fringe benefits in the amount of \$102,090 from the prior year.

Recommendation:

We recommend that the System continuously monitor the total operating revenues and net operating expenses to ensure the required 10% farebox recovery ratio is met at the end of each fiscal year.

Management's Response

Management has been notified of the finding and will be more cognizant of the elements of the farebox recovery ratio to ensure they meet the ten percent ratio requirement per the TDA Guidebook.