

**CITY OF BEAUMONT, CALIFORNIA
TRANSIT SYSTEM
Financial Statements
(With Independent Auditor's Reports Thereon)
For the Fiscal Year Ended June 30, 2019
(With Comparative Totals for 2018)**

**CITY OF BEAUMONT, CALIFORNIA
TRANSIT SYSTEM**
For the Fiscal Year Ended June 30, 2019
(With Comparative Totals for 2018)

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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, 2019, 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, 2019, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the System and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2019, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Prior Year Comparative Information

We have previously audited the System's June 30, 2018 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated March 28, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2020 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 solely 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 effectiveness of the City's 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
May 4, 2020

CITY OF BEAUMONT, CALIFORNIA
TRANSIT SYSTEM
Statements of Net Position
June 30, 2019
(With Comparative Totals for 2018)

	2019	2018
Assets:		
Current Assets:		
Pooled Cash	\$ 18,673	\$ 955,761
Due from Other Fund of the City	- -	18,906
Accounts Receivable	2,408	-
Prepaid Expenses	5,998	-
Due from Other Governmental Agencies	878,049	67,607
Total Current Assets	<u>905,128</u>	<u>1,042,274</u>
Non current assets:		
Restricted Cash and Investments	147,616	198,360
Capital Assets, Net of Accumulated Depreciation	<u>2,450,310</u>	<u>1,367,921</u>
Total Noncurrent Assets	<u>2,597,926</u>	<u>1,566,281</u>
Total Assets	<u>3,503,054</u>	<u>2,608,555</u>
Deferred Outflows of Resources:		
Deferred Pension Related Items	<u>502,423</u>	<u>556,223</u>
Liabilities:		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	83,380	84,213
Unearned Revenues	147,616	198,360
Compensated Absences	<u>21,539</u>	<u>66,259</u>
Total Current Liabilities	<u>252,535</u>	<u>348,832</u>
Noncurrent Liabilities:		
Compensated Absences	210,025	189,312
Net Pension Liability	<u>1,194,120</u>	<u>1,222,460</u>
Total Noncurrent Liabilities	<u>1,404,145</u>	<u>1,411,772</u>
Total Liabilities	<u>1,656,680</u>	<u>1,760,604</u>
Deferred Inflows of Resources:		
Deferred Pension Related Items	<u>12,029</u>	<u>-</u>
Net Position:		
Net Investment in Capital Assets	2,450,310	1,367,921
Unrestricted (Deficit)	<u>(113,542)</u>	<u>36,253</u>
Total Net Position	<u>\$ 2,336,768</u>	<u>\$ 1,404,174</u>

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, 2019
(With Comparative Totals for 2018)

	2019	2018
Operating Revenues:		
Charges For Services	\$ 184,282	\$ 234,182
Total Operating Revenues	<u>184,282</u>	<u>234,182</u>
Operating Expenses:		
Salaries	1,438,417	1,366,401
Fringe Benefits	699,757	757,068
Fuels, Lubricants and Maintenance	417,603	374,406
Administration	153,065	127,745
Contract Services	63,958	9,077
Utilities	26,923	27,336
Supplies	33,083	13,270
Office	13,197	4,148
Depreciation	<u>507,920</u>	<u>518,763</u>
Total Operating Expenses	<u>3,353,923</u>	<u>3,198,214</u>
Operating Loss	<u>(3,169,641)</u>	<u>(2,964,032)</u>
Non-Operating Revenues (Expenses):		
Interest Income	2,784	4,984
Operating Assistance Grants	2,511,473	2,426,067
Capital Grants - capitalized acquisitions	1,590,309	115,685
Capital Grants - noncapitalized acquisitions	30,668	-
Sale of Property	<u>4,169</u>	<u>-</u>
Total Nonoperating Revenues	<u>4,139,403</u>	<u>2,546,736</u>
Loss Before Transfers And Capital Contributions	<u>969,762</u>	<u>(417,296)</u>
Transfers In From Other City Funds	322	-
Transfers Out To Other City Funds	<u>(37,490)</u>	<u>(322)</u>
Total Transfers And Capital Contributions	<u>(37,168)</u>	<u>(322)</u>
Change in Net Position	932,594	(417,618)
Net Position, beginning of year	<u>1,404,174</u>	<u>1,821,792</u>
Net Position, End of Year	<u>\$ 2,336,768</u>	<u>\$ 1,404,174</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, 2019
(With Comparative Totals for 2018)

	2019	2018
Cash Flows From Operating Activities:		
Cash Received From Customers and Users	\$ 184,282	\$ 234,182
Cash Paid to Suppliers for Goods and Services	(708,662)	(595,877)
Cash Paid to Employees for Services	(2,124,692)	(2,005,667)
Net Cash Used for Operating Activities	<u>(2,649,072)</u>	<u>(2,367,362)</u>
Cash Flows From Noncapital Financing Activities:		
Transfer Out	(30,933)	(322)
Transfer In	322	-
Operating Grants Received	1,602,681	3,008,783
Net Cash Provided By Noncapital Financing Activities	<u>1,572,070</u>	<u>3,008,461</u>
Cash Flows From Capital And Related Financing Activities:		
Purchases of Capital Assets	(1,590,309)	(101,464)
Proceeds from Sale of Capital Assets	4,169	-
Capital Grants Received	1,672,526	166,347
Net Cash Provided by Capital and Related Financing Activities	<u>86,386</u>	<u>64,883</u>
Cash Flows From Investing Activities:		
Interest on Cash and Cash Equivalents	2,784	4,984
Net Cash Provided By Investing Activities	<u>2,784</u>	<u>4,984</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(987,832)	710,966
Cash and Cash Equivalents - Beginning of Year	<u>1,154,121</u>	<u>443,155</u>
Cash and Cash Equivalents - End of Year	<u>\$ 166,289</u>	<u>\$ 1,154,121</u>
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash and Investments	\$ 18,673	\$ 955,761
Restricted Cash and Investments	<u>147,616</u>	<u>198,360</u>
Total Cash and Cash Equivalents	<u>\$ 166,289</u>	<u>\$ 1,154,121</u>

Continued

See accompanying notes to the financial statements.

CITY OF BEAUMONT, CALIFORNIA
TRANSIT SYSTEM
 Statements of Cash Flows (Continued)
 For the Fiscal Year Ended June 30, 2019
 (With Comparative Totals for 2018)

	2019	2018
Reconciliation Of Operating Loss To Net		
Cash Used For Operating Activities:		
Operating Loss	\$ (3,169,641)	\$ (2,964,032)
Adjustments to Reconcile Operating Loss to Net		
Cash Used For Operating Activities:		
Depreciation and Amortization	507,920	518,763
Change in Operating Assets and Liabilities:		
(Increase) Decrease in Deferred Outflows - Pension	53,800	(106,877)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(833)	(39,895)
Increase (Decrease) in Net Pension Liability	(28,340)	204,741
Increase (Decrease) in Deferred Inflows - Pension	12,029	-
Increase (Decrease) in Compensated Absences Payable	<u>(24,007)</u>	<u>19,938</u>
Net Cash Used For Operating Activities	<u>\$ (2,649,072)</u>	<u>\$ (2,367,362)</u>

See accompanying notes to the financial statements.

**CITY OF BEAUMONT, CALIFORNIA
TRANSIT SYSTEM
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2019**

1. GENERAL INFORMATION

The financial statements of the Transit System (the System) are intended to present the financial position and results of operations of only those transactions attributable to the System, operated by the City of Beaumont, California (the City). The financial statements of the 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 conforms 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 Year Ended June 30, 2019**

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 with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Donated capital assets are recorded at acquisition value as of the date received. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, which range from three to five years. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

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.

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 \$2,450,310 of net investment in capital assets as of June 30, 2019.

Restricted - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other government. There was no restricted net position for transportation as of June 30, 2019.

**CITY OF BEAUMONT, CALIFORNIA
TRANSIT SYSTEM
Notes to Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2019**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unrestricted - Unrestricted represents the amount of net position that is either not restricted or does not meet the definition of net investment in capital assets. There was a deficit of \$113,542 in unrestricted net position as of June 30, 2019. Please refer to Note 9 for discussion on how this deficit will be addressed.

Use of Estimates

The preparation of financial statements in accordance 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/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows and inflows 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 outflows and inflows 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 System 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, 2019 were as follows:

Pooled Cash with the City of Beaumont	\$ 18,673
Restricted Cash and Investments	147,616
	<hr/> <hr/> <hr/> <hr/>
	\$ 166,289

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 Year Ended June 30, 2019

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 basic financial statements. See the City's basic financial statements for disclosures related to cash and investments, including those disclosures relating to interest rate risk, credit risk, custodial risk and concentration risk. The City's basic financial statements can be found on the City's website at <https://www.beaumontca.gov/>.

4. DUE FROM OTHER GOVERNMENTAL AGENCIES

Due from other governments as of June 30, 2019 consisted of the following:

City of Banning Transit	\$ 3,432
RCTC	874,617
Total	<u><u>\$ 878,049</u></u>

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2019 was as follows:

	<u>Balance at July 1, 2018</u>	<u>Additions / Adjustments</u>	<u>Retirements / Adjustments</u>	<u>Balance at June 30, 2019</u>
Capital assets, not being depreciated:				
Land	\$ -	\$ 1,007,300	\$ -	\$ 1,007,300
Construction in Progress	14,262	32,643	-	46,905
Total capital assets not being depreciated	<u>14,262</u>	<u>1,039,943</u>	<u>-</u>	<u>1,054,205</u>
Capital assets, being depreciated:				
Vehicles	\$ 3,753,557	516,265	(372,715)	\$ 3,897,107
Building	538,194	-	-	538,194
Equipment	790,335	34,101	-	824,436
Total capital assets being depreciated	<u>5,082,086</u>	<u>550,366</u>	<u>(372,715)</u>	<u>5,259,737</u>
Less: accumulated depreciation	(3,728,427)	(507,920)	372,715	(3,863,632)
Net depreciable assets	1,353,659	42,446	-	1,396,105
Capital assets, net	<u>\$ 1,367,921</u>	<u>\$ 1,082,389</u>	<u>\$ -</u>	<u>\$ 2,450,310</u>

Depreciation expense for the year ended June 30, 2019 was \$507,920.

Activities relating to changes in capital assets by funding source for the year ended June 30, 2019 were as follows:

	STA Funds	LTF Funds	Measure A	Prop 1B	Operator Funds	MSAPR Funds	Total
June 30, 2018	\$ 4,033,732	\$ 528,474	\$ 95,000	\$ 351,116	\$ 88,026	\$ -	\$ 5,096,348
Additions	1,544,372	-	-	20,937	-	25,000	1,590,309
Deletions	(372,715)	-	-	-	-	-	(372,715)
June 30, 2019	<u>\$ 5,205,389</u>	<u>\$ 528,474</u>	<u>\$ 95,000</u>	<u>\$ 372,053</u>	<u>\$ 88,026</u>	<u>\$ 25,000</u>	<u>\$ 6,313,942</u>

**CITY OF BEAUMONT, CALIFORNIA
TRANSIT SYSTEM**
Notes to Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2019

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, 2019 was as follows:

	LTF	LCTOP	Total
Operating Assistance:			
Excess of operating funds at June 30, 2018	\$ 30,767	\$ 143,235	\$ 174,002
Allocations received	2,349,215	129,943	2,479,158
Interest Allocations	2,784	5,776	8,560
Funds available	2,382,766	278,954	2,661,720
Less eligible costs	(2,382,766)	(131,338)	(2,514,104)
Excess of operating funds at June 30, 2019	<u>\$ -</u>	<u>\$ 147,616</u>	<u>\$ 147,616</u>

LTF operating assistance in the amount of \$2,349,215 was received by allocation under Article 4 for the year ended June 30, 2019.

	Proposition 1B	STA	MSAPR	Total
Balance of capital funds at June 30, 2018	\$ 24,358	\$ -	\$ -	\$ 24,358
Allocations received	-	1,575,040	25,000	1,600,040
Interest allocations	(3,421)	-	-	(3,421)
Funds available	20,937	1,575,040	25,000	1,620,977
Less eligible costs capitalized	(20,937)	(1,544,372)	(25,000)	(1,590,309)
Less eligible costs not capitalized	-	(30,668)	-	(30,668)
Balance of capital funds at June 30, 2019	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Unearned revenue related to Proposition 1B capital assistance for the year ended June 30, 2019 was \$0. Unearned revenue activities related to STA capital assistance for the year ended June 30, 2019 included allocations received and eligible costs of \$1,575,040. Unearned revenue related to Mobile Source Air Pollution Reduction (MSAPR) capital assistance for the year ended June 30, 2019 was \$0.

7. EMPLOYEES' RETIREMENT PLAN

The City participates in the Public Employees' Retirement System of the State of California (CalPERS) 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 trust fund administered by CalPERS would be a liability of the City as a whole, not of the System, except for those liabilities which are specifically allocated to the System. As a method to demonstrate how the liability will be funded by City resources, portions of the liability were allocated to 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 basic financial statements.

**CITY OF BEAUMONT, CALIFORNIA
TRANSIT SYSTEM**
Notes to Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2019

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, 2019, the System's farebox recovery ratio was calculated as follows:

	<u>2019</u>
Passenger fares	\$ 184,282
LCTOP grant used for free fare program	131,338
Interest	2,784
Transfers in	322
Exclusions:	
Fare revenues related to new routes or extension of services	(49,675)
Total operating revenues	<u>\$ 269,051</u>
Operating expenses	\$ 3,353,923
Exclusions:	
Depreciation	(507,921)
Operating expenses related to new routes or extension of services	(543,313)
Total exclusions	<u>(1,051,234)</u>
Net operating expenses	<u>\$ 2,302,689</u>
Farebox recovery ratio	11.68%

At June 30, 2019, the City did meet the minimum required farebox recovery ratio of 10%.

9. NET POSITION UNRESTRICTED DEFICIT

As of June 30, 2019, the Transit Services Fund ended the year in a deficit unrestricted net position. The unrestricted net position (deficit) results primarily from the recording of the Transit Services Fund's net pension liability.

At June 30, 2015, the Transit Services Fund implemented a new pension accounting standard GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which had a significant impact on unrestricted net position. The respective net pension liability and related deferred inflows of resources exceeds the value of the assets and deferred outflows of resources, resulting in a negative unrestricted net position. The unrestricted deficit does not necessarily indicate a current financial concern of the Fund. Since the net pension is a long-term liability, the City is looking at long-term solutions for mitigating the liability through effective pension management and/or possible modification to the pension plan.

**CITY OF BEAUMONT, CALIFORNIA
TRANSIT SYSTEM
Notes to Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2019**

10. 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, 2019 was as follows:

<u>PTMISEA</u>	
Unspent Prop 1B funds as of June 30, 2018	\$ 24,358
Funds Received	-
Interest Allocations	<u>(3,421)</u>
Funds Available	<u>20,937</u>
Funds Used	<u>(20,937)</u>
Unspent Prop 1B Funds as of June 30, 2019	<u><u>\$ -</u></u>

11. RESTRICTIONS

Funds 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.

12. COMPARATIVE FINANCIAL DATA

The amounts shown for 2018 in the accompanying financial statements are included only to provide a basis for comparison with 2019 and are not intended to present all information necessary for a fair presentation in accordance with accounting principles generally accepted in the United States of America.

13. CONTINGENCIES

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

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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, 2019, and the related notes to the financial statements, and have issued our report thereon dated May 4, 2020. 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 no instances of noncompliance or other matters 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.

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.

Macias Gini & O'Connell LLP

Newport Beach, California
May 4, 2020

**CITY OF BEAUMONT, CALIFORNIA
TRANSIT SYSTEM**

**Schedule of Prior Year Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2019**

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.

Current Year Status

Fully implemented.