Governments SANBAG Working Together

San Bernardino Associated Governments
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TRANSPORTATION MEASURE I

■ San Bernardino County Transportation Commission ■ San Bernardino County Transportation Authority
■ San Bernardino County Congestion Management Agency ■ Service Authority for Freeway Emergencies

# Additional Support Material for Agenda No. 11

## Mountain/Desert Policy Committee

## February 21, 2014

**Location:**
**Conference Room Change: This Meeting Only**
**Town of Apple Valley – North Side of Conference Center**
**14975 Dale Evans Parkway**
**Apple Valley, CA**

## DISCUSSION CALENDAR

**Review and receive the following Operator financial reports for Fiscal Year 2011/2012 for:**

- Barstow Area Transit (BAT)

# CITY OF BARSTOW, CALIFORNIA

## TRANSPORTATION DEVELOPMENT ACT FUNDS

**Financial Statements**

**Year Ended June 30, 2012**

**CITY OF BARSTOW, CALIFORNIA**

**TRANSPORTATION DEVELOPMENT ACT FUNDS**

**Financial Statements**

**Year Ended June 30, 2012**

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Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

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# INDEPENDENT AUDITORS' REPORT

To the Board of Directors
San Bernardino Associated Governments
San Bernardino, California

We have audited the accompanying financial statements of the Transportation Development Act (TDA) Article 8 Fund (Fund) of the City of Barstow, California (City), as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the management of the City. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present the TDA Fund of the City only and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2012, and the changes in 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.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the TDA Fund of the City as of June 30, 2012, and the changes in financial position and its cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 2, 2013 on our consideration of the City's internal control over financial reporting for the TDA Fund, and 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. 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.



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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
October 2, 2013

**CITY OF BARSTOW, CALIFORNIA**
**TRANSPORTATION DEVELOPMENT ACT FUNDS**

**STATEMENT OF NET ASSETS**
**JUNE 30, 2012**

| | |
|---|---|
| ASSETS | |
| CURRENT ASSETS | |
| Accounts receivable | $ 21,663 |
| Operating grants receivable | 250,176 |
| Capital grants receivable | 474,674 |
| Total Current Assets | 746,513 |
| NON-CURRENT ASSETS | |
| Capital assets: | |
| Equipment | 3,640,008 |
| Accumulated depreciation | (2,799,889) |
| Capital assets, net | 840,119 |
| TOTAL ASSETS | 1,586,632 |
| LIABILITIES | |
| Accounts payable | 282,791 |
| Accrued payroll | 6,527 |
| Due to City of Barstow | 485,648 |
| Unearned revenue | 50,873 |
| Compensated absences | 8,006 |
| TOTAL LIABILITIES | 833,845 |
| NET ASSETS | |
| Invested in capital assets | 840,119 |
| Unrestricted | (87,332) |
| TOTAL NET ASSETS | $ 752,787 |

See accompanying notes to financial statements.

**CITY OF BARSTOW, CALIFORNIA**
**TRANSPORTATION DEVELOPMENT ACT FUNDS**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**
**YEAR ENDED JUNE 30, 2012**

| | |
|---|---|
| OPERATING REVENUES: | |
| Fares | $ 183,318 |
| OPERATING EXPENSES: | |
| Operations | 2,295,362 |
| Maintenance | 14,563 |
| General and administration | 224,524 |
| Depreciation | 406,384 |
| Total Operating Expense | 2,940,833 |
| Operating loss | (2,757,515) |
| NON-OPERATING REVENUES AND EXPENSES: | |
| Local Transportation Fund Article 8 | 1,619,643 |
| Federal Transit Administration Section 5311 | 311,339 |
| Measure I | 113,536 |
| Net decrease in fair value of investments | (3,111) |
| Total Non-operating Revenues (Expenses) | 2,041,407 |
| INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS | (716,108) |
| CAPITAL CONTRIBUTIONS: | |
| State Transit Assistance Fund | 90,401 |
| Congestion Mitigation and Air Quality Improvement Program | 414,655 |
| Total Capital Contributions | 505,056 |
| CHANGE IN NET ASSETS | (211,052) |
| Net Assets at Beginning of Year | 963,839 |
| Net Assets at End of Year | $ 752,787 |

See accompanying notes to financial statements.

**CITY OF BARSTOW, CALIFORNIA**
**TRANSPORTATION DEVELOPMENT ACT FUNDS**

**STATEMENT OF CASH FLOWS**
**YEAR ENDED JUNE 30, 2012**

| | |
|---|---|
| **Cash flows from operating activities:** | |
| Cash received from fares | $ (284,154) |
| Payments to employees | (225,854) |
| Payments to vendors for services | (2,183,110) |
| Interfund borrowing | 485,648 |
| Net cash used in operating activities | (2,207,470) |
| **Cash flows from non-capital financing activities:** | |
| Operating grants received | 2,492,490 |
| Net cash provided by non-capital financing activities | 2,492,490 |
| **Cash flows from capital and related financing activities:** | |
| Purchase of capital assets | (470,183) |
| Net cash provided by capital and related financing activities | (470,183) |
| **Cash flows from investing activities:** | |
| Interest paid | (3,111) |
| Net cash used in investing activities | (3,111) |
| Net decrease in cash and cash equivalents | (188,274) |
| Cash and cash equivalents, beginning of year | 188,274 |
| Cash and cash equivalents, end of year | $ - |
| **Reconciliation of operating loss to net cash used in operating activities:** | |
| Operating income (loss) | $ (2,757,515) |
| Adjustments to reconcile operating (loss) to net cash used in operating activities: | |
| Depreciation expense | 406,384 |
| Reclassification of work in progress to expense | 187,519 |
| Changes in assets and liabilities: | |
| (Increase) in assets: | |
| Accounts receivable | (467,472) |
| (Decrease) in liabilities: | |
| Accounts payable and accrued liabilities | 423,614 |
| Total Adjustments | 550,045 |
| Net cash used in operating activities | $ (2,207,470) |

See accompanying notes to financial statements.

## *NOTE 1 – GENERAL INFORMATION*

The financial statements are intended to reflect the financial position and changes in financial position and cash flows of the Transportation Development Act (TDA) Article 8 Funds (Fund) only. Accordingly, the financial statements do not purport to, and do not, present fairly the financial position of the City of Barstow and changes in financial position, or, where applicable, its cash flows thereof for the years then ended in conformity with generally accepted accounting principles in the United States of America.

### Article 8

San Bernardino Associated Governments (SANBAG) receives and passes through Article 8 funding to the local claimants for the purposes of local streets and roads in accordance with Section 99400 of the California Public Utilities Code, which may include those purposes necessary and convenient to the development, construction, and maintenance of the city or county's streets and highways network, which further includes planning and contributions to the transportation planning process, acquisition of real property, construction of facilities and buildings. The fund may also be used for passenger rail service operations and capital improvements.

The City of Barstow utilizes these TDA Article 8 funds to provide operation and maintenance for the City's transit system. The funding is also used to purchase assets related to transportation, such as buses, bus benches, bus shelters, bus stop signs and fareboxes.

Article 8 subdivision C further allows payments to counties, cities, and transit districts for their administrative and planning cost with respect to transportation services. A claimant may also receive payments for capital expenditures to acquire vehicles and related equipment, bus shelters, bus benches, and communication equipment for the transportation services.

Payment of Article 8 to any entity that provides public transportation services under contract with the local county, city, or transit district for any group with special transportation assistance need must be determined by SANBAG.

## *NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES*

The accounting policies of the TDA Fund of the City conform to accounting principles generally accepted in the United States of America. The following is a 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, net assets segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The Article 8 TDA Funds are accounted for within a separate enterprise fund of the City.

## *NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)*

Measurement Focus and Basis of Accounting

The TDA fund of the City is an enterprise fund and maintains its records on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred, regardless of the timing of related cash flows. The City has elected under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements, as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The City has elected not to follow subsequent private sector guidance.

Cash and Investments

Cash and investments are pooled in the City's investment pool to facilitate cash management and maximize investment opportunities and yields. Investment income resulting from this pooling is allocated to the respective funds including the TDA Funds based upon the average cash balance. The investment policies and the risks related to GASB Statement No. 40, *Deposits and Investment Risk Disclosures,* applicable to the TDA Funds, are those of the City and are disclosed in the City's basic financial statements. The City's basic financial statements can be obtained on the City's website. For the purpose of the statement of cash flows, amounts maintained in the City Pool are considered cash and cash equivalents.

Grants

Grants for operating assistance and capital acquisitions are included in revenue in the period in which the grant was earned. Federal capital grant funds claimed on a reimbursement basis have receivables for grant funds recorded as the related obligations are incurred. Capital grant funds advanced but not yet earned are treated as deferred revenues. Also, operating funds advanced from San Bernardino Associated Governments (SANBAG) for working capital are treated as deferred revenues until earned. Operating assistance grants are included in non-operating revenues in the year in which the grant is applicable and the related expenses are incurred. Revenue earned under capital grants are recorded as capital contributions.

Capital Assets

Capital assets are recorded at costs where historical records are available and at estimated historical costs where no historical records exist. Contributed capital assets are valued at their estimated fair market value at the date of the contribution. Generally, capital asset purchases in excess of $1,000 are capitalized if they have an expected useful life of three years or more.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method. Depreciation is charged as an expense against operations and accumulated depreciation is reported in the respective statement of net assets. The range of lives used for depreciation purposes for each fixed asset class is as follows:

| | |
|---|---|
| Machinery and equiment | 3-15 years |

## *NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)*

Estimates

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

Operating and Non-Operating Revenue

The City of Barstow distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from directly providing services in connection with the City's principal operation of bus transit services. These revenues are primarily passenger fares. Non-operating revenues consist of federal, state and local operating grants, fuel tax credits, and investment income.

Operating Expenses

Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. Expenses not meeting this definition are reported as Non-Operating Expenses. Non-operating expenses consist of "loss on disposal of assets."

Capital Contributions

Capital contributions consist of grants that are legally restricted for capital expenses by federal, state, or local law that established those charges.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

## *NOTE 3 – FEDERAL, STATE AND LOCAL GRANTS*

Federal Assistance

Under the provision of the Federal Transit Administration (FTA), funds are available to the City for preventive maintenance, security, and various capital costs. Total FTA revenue recognized during the fiscal year ended June 30, 2012 was $311,339.

## *NOTE 4 – TRANSPORTATION DEVELOPMENT ACT REQUIREMENTS*

The City of Barstow is subject to the provisions pursuant to Section 6634 of the California Code of Regulations and Section 99313.3 of the Public Utilities Code.

The City of Barstow receives allocations of local transportation funds pursuant to the Transportation Development Act of 1971. These funds are generated within San Bernardino County and are allocated based on annual claims filed by the City of Barstow and approved by SANBAG.

## *NOTE 4 – TRANSPORTATION DEVELOPMENT ACT REQUIREMENTS, (CONTINUED)*

The City of Barstow also receives allocated Federal operating assistance funds pursuant to Section 5311 of the Federal Transit Act of 1964. Such funds are apportioned to the local urbanized area by the Federal Transit Authority (FTA). Expenditures of Federal operating assistance funds are subject to final audit and approval by the FTA.

A. Section 6634

Pursuant to Section 6634, a transit claimant is precluded from receiving monies from the local transportation fund and the State Transit Assistance Fund in an amount which exceeds the claimant's costs less the sum of fares received, local support required to meet the fare ratio, federal operating assistance, and the amount received during the year from a city or county to which the operator has provided service beyond its boundaries.

The computation of deferred revenue for 2012 is as follows:

| | Operating Funds | Capital Funds | Total |
|---|---|---|---|
| Beginning balance, July 1, 2011* | $ 61,163 | | $ 61,163 |
| Gross receipts | | | |
| State Transit Assistance Fund | | $ 90,401 | 90,401 |
| Local Transportation Fund, Article 8 | 1,619,643 | | 1,619,643 |
| Federal Transportation Admin, Section 5311** | 250,176 | | 250,176 |
| Measure I | 113,536 | | 113,536 |
| Interest income | (3,111) | | (3,111) |
| Fares | 183,318 | | 183,318 |
| CMAQ | | 414,655 | 414,655 |
| Total gross receipts | 2,163,562 | 505,056 | 2,668,618 |
| Operating expenses, less depreciation | (2,534,449) | | (2,534,449) |
| WIP - Capital paid in previous FY | 222,392 | | |
| Capital acquisitions | | (505,056) | (505,056) |
| Receipts over (under) expenses in current period | (148,495) | | (148,495) |
| Amounts received in excess of costs as of June 30, 2012 | $ (87,332) | $ - | $ (87,332) |
| Amount deferred at June 30, 2012 | $ - | $ - | $ - |

*FTA 5311 receipts include the reversal of the beginning deferred revenue balance

| | |
|---|---|
| Federal Transportation Admin, Section 5311 | $ 311,339 |
| Less beginning deferred revenue | (61,163) |
| FTA 5311 gross receipts | $ 250,176 |

**Beginning balance does not include $50,873 unearned revenue pertaining to the CalEMA grant.

Reconciliation of Unearned Revenue to the Financial Statements

| | |
|---|---|
| Unearned amounts for CalEMA Grant | $ 50,873 |
| | $ 50,873 |

## *NOTE 4 – TRANSPORTATION DEVELOPMENT ACT REQUIREMENTS, (CONTINUED)*

B. SANBAG Resolution 94-005

On July 1, 1993, SANBAG adopted Resolution 94-005 which requires a ratio of fare revenues to operating cost at least equal to 10%.

The fare ratio as of June 30, 2012, is calculated as follows:

| | | |
|---|---|---|
| Operating expenses | $ | 2,940,833 |
| Less depreciation | | (406,384) |
| Adjusted operating expenses | $ | 2,534,449 |
| Fare revenue | $ | 183,318 |
| Fare ratio | | 7.23% |

## *NOTE 5 – CAPITAL ASSETS*

Capital asset activity for the fiscal year ended June 30, 2012, is as follows:

| | Balance at July 1, 2011 | Additions | Deletions | Balance at June 30, 2012 |
|---|---|---|---|---|
| Nondepreciable assets | | | | |
| Work in Progress | $ 187,519 | | $ (187,519) | |
| Depreciable Assets | | | | |
| Equipment | 3,259,397 | $ 505,056 | (124,445) | $ 3,640,008 |
| Accumulated Depreciation | | | | |
| Equipment | (2,483,077) | (406,384) | 89,572 | (2,799,889) |
| Total Capital Assets, Net | $ 963,839 | $ 98,672 | $ (222,392) | $ 840,119 |

## *NOTE 6 – DUE TO CITY OF BARSTOW*

At June 30, 2012, the TDA Fund had a deficit cash balance, representing short term borrowings from the City's Investment Pool in the amount of $485,648.

### *NOTE 7 –RECEIVABLES*

Receivables are made up of regular accounts receivable related to the development of the Central Transfer Station and operating and capital grants as follows:

| | |
|---|---|
| Account receivables | $ 21,663 |
| Federal Transit Administration Section 5311 - Operating | 250,176 |
| Congestion Mitgation and Air Quality Improvement Program - Capital | 414,655 |
| State Transit Assistance Fund - Capital | 60,019 |
| Total Receivables | $ 746,513 |

### *NOTE 8 – DEFICIT NET ASSETS*

The City of Barstow's TDA fund has a deficit unrestricted net asset balance of $87,332. This will be remedied through the receipts of Local Transportation Fund revenues, State Transit Assistance Funds, and other grant proceeds.

### *NOTE 9 – COMPENSATED ABSENCES*

Accumulated unpaid personal leave consisting of vacation pay, has been accrued at June 30, 2012 in the amount of $8,006. The City's liability for compensated absences is typically liquidated within one year. The balance related to compensated absences is included in liabilities section of the Balance Sheet.

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

To the City Council
City of Barstow, California

We have audited the financial statements of the Transportation Development Act (TDA) Article 8 (TDA Fund) of the City of Barstow, California, (the City), as of and for the year ended June 30, 2012, and have issued our report thereon dated October 2, 2013. Our report included an explanatory paragraph stating that the financial statements of the TDA Fund do not purport to, and do not, present fairly the financial position of the City as of June 30, 2012. In addition, our report included an explanatory paragraph stating that the financial statements do not included Management Discussion and Analysis. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the City is responsible for establishing and maintaining effective 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described as findings 2012-01 and 2012-02 in the accompanying schedule of findings and responses to be material weaknesses.



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**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's TDA Fund financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described as finding 2012-01 in the accompanying schedule of findings and responses.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, City Council, and SANBAG and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
October 2, 2013

**CITY OF BARSTOW, CALIFORNIA**
**TRANSPORTATION DEVELOPMENT ACT FUNDS**

**SCHEDULE OF FINDINGS AND RESPONSES**
**YEAR ENDED JUNE 30, 2012**

**Finding 2012-01**

**FARE REVENUE RATIO**

**Criteria:**

On July 1, 1993, SANBAG adopted Resolution 94-005 which requires the ratio of fare revenues to operating costs to be at least 10 percent.

**Condition:**

Fares as a percentage of operating costs were 7.23%.

**Context:**

The condition noted above was identified during compliance testing.

**Effect:**

The City did not meet the required fare ratio at June 30, 2012.

**Cause:**

The City did not maintain procedures to ensure this compliance requirement is met.

**Recommendation:**

We recommend that the City formalize policies and procedures to ensure that all compliance requirements are met in order to maintain funding.

**View of Responsible Official and Planned Corrective Actions:**

The City concurs with the finding. The City provides transit services, both Fixed Route and Dial-A-Ride services to the rural county residents, in addition to the residents of the City of Barstow. The farebox ratio of the fixed route service does meet the 10 percent farebox recovery; however, the added cost of providing service to rural Dial-A-Ride customers impacts the City's ability to achieve a 10 percent farebox recovery.

Two key factors affecting the cost per Dial-A-Ride passenger are:

1) Fixed route buses use lower cost compressed natural gas while smaller Dial-A-Ride vehicle use higher cost unleaded fuel, and
2) The service area covers 653 square miles; the City of Barstow service area is only 41.394 square miles.

**CITY OF BARSTOW, CALIFORNIA**
**TRANSPORTATION DEVELOPMENT ACT FUNDS**

**SCHEDULE OF FINDINGS AND RESPONSES**
**YEAR ENDED JUNE 30, 2012**

**Finding 2012-02**

**RECONCILIATION OF CASH**

**Criteria:**

Bank reconciliations should be performed in a timely manner.

**Condition:**

The City's June 2012 bank reconciliation was completed on February 27, 2013.

**Context:**

The condition noted above was identified during testing of cash balances.

**Effect:**

The City's internal controls are weakened and proper safeguards are not in place.

**Cause:**

The City did not maintain procedures to ensure that reconciliation procedures were performed in a timely manner.

**Recommendation:**

We recommend that the City strengthen its procedures to ensure that reconciliation procedures are performed in a timely manner.

**View of Responsible Official and Planned Corrective Actions:**

The City concurs with the finding. The City has taken appropriate measure to bring bank reconciliations current and to remain current.

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

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To the City Council
City of Barstow, California

We have audited the Transportation Development Act (TDA) Article 8 Fund and Measure I Fund (Funds) financial statements of the City of Barstow for the year ended June 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards,* as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

Our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 2 of the Funds financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.



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Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the funds' financial statements were:

- Management's estimate of the depreciation of capital assets is based upon the estimated useful lives of the related capital assets.

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 2, 2013.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
October 2, 2013

**CITY OF BARSTOW, CALIFORNIA**

**CORRECTED AND UNCORRECTED MISSTATEMENTS**
**JUNE 30, 2012**

| Number | Fund | Account/Description | DR | CR |
|---|---|---|---|---|
| <1> | Transit (610) | Salaries Expense | $ 1,993 | |
| | | Accrued Payroll | | $ 1,993 |
| | | *To adjust the accrued payroll balance to actual* | | |
| <2> | Transit (610) | Cash | $ 4,502 | |
| | | Salaries Expense | | $ 4,502 |
| | | *To adjust the salaries and benefits account to actual* | | |