Governments SANBAG Working Together

San Bernardino Associated Governments
1170 W. 3rd Street, 2nd Floor San Bernardino, CA 92410-1715
Phone: (909) 884-8276 Fax: (909) 885-4407 Web: www.sanbag.ca.gov

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 Agenda Item No. 3

Mountain/Desert Policy Committee

March 20, 2015

9:30 a.m.

Location:
Town of Apple Valley
14975 Dale Evans Parkway
Apple Valley, CA 92307

Discussion Calendar

Administrative Matters

Review Financial Audit for Transit Operator

That the Committee recommend the Board review and receive the financial report for Barstow Area Transit for Fiscal Year 2012/2013.

Full financial report is attached.

CITY OF BARSTOW, CALIFORNIA

TRANSPORTATION DEVELOPMENT ACT FUNDS

Financial Statements

Year Ended June 30, 2013

CITY OF BARSTOW, CALIFORNIA

TRANSPORTATION DEVELOPMENT ACT FUNDS

Financial Statements

Year Ended June 30, 2013

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Transportation Development Act (TDA) Article 8 Fund (TDA Fund) of the City of Barstow, California (City), as of and for the year ended June 30, 2013, 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.

Auditors' 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 of 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 risk 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 previously present fairly, in all material respects, the financial position of the TDA Fund of the City as of June 30, 2013, and the respective 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.

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Emphasis of Matter

As discussed in Note 1, the financial statements present only the TDA Fund of the City and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2013, and the changes in financial position and cash flows thereof 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.

As described in Note 2 to the financial statements, the TDA Funds of the City adopted Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective July 1, 2012. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's TDA Fund. The schedule of allocations received and expended by project year are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of allocations received and expended by project year is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United State of America. In our opinion the schedule of allocations received and expended by project year is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated March 4, 2014, 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.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
March 4, 2014

CITY OF BARSTOW, CALIFORNIA
TRANSPORTATION DEVELOPMENT ACT FUNDS

STATEMENT OF NET POSITION
JUNE 30, 2013

ASSETS	
CURRENT ASSETS	
Operating grants receivable	$ 400,771
Total Current Assets	400,771
CAPITAL ASSETS	
Equipment	3,640,008
Accumulated depreciation	(3,151,688)
Capital assets, net	488,320
TOTAL ASSETS	889,091
LIABILITIES	
Accounts payable	183,595
Accrued liabilities	6,911
Due to City of Barstow	285,237
Unearned revenue	12,358
TOTAL LIABILITIES	488,101
NET POSITION	
Net investment in capital assets	488,320
Unrestricted	(87,330)
TOTAL NET POSITION	$ 400,990

See accompanying notes to financial statements.

CITY OF BARSTOW, CALIFORNIA
TRANSPORTATION DEVELOPMENT ACT FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2013

OPERATING REVENUES:	
Fares	$ 178,593
OPERATING EXPENSES:	
Operations	2,113,985
Maintenance	13,421
General and administration	231,821
Depreciation	351,798
Total Operating Expense	2,711,025
Operating loss	(2,532,432)
NON-OPERATING REVENUES:	
Local Transportation Fund Article 8	1,521,793
Federal Transit Administration Section 5311	400,771
Measure I	252,790
Net increase in fair value of investments	5,281
Total Non-operating Revenues	2,180,635
CHANGE IN NET POSITION	(351,797)
Net Position at Beginning of Year	752,787
Net Position at End of Year	$ 400,990

See accompanying notes to financial statements.

CITY OF BARSTOW, CALIFORNIA
TRANSPORTATION DEVELOPMENT ACT FUNDS

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2013

Cash flows from operating activities:	
Cash received from fares	$ 178,593
Payments to employees	(239,443)
Payments to vendors for services	(2,265,116)
Borrowing from City of Barstow	(200,411)
Net cash used in operating activities	(2,526,377)
Cash flows from non-capital financing activities:	
Grants received	2,521,096
Net cash provided by non-capital financing activities	2,521,096
Cash flows from investing activities:	
Interest received	5,281
Net cash used in investing activities	5,281
Net decrease in cash and cash equivalents	-
Cash and cash equivalents, beginning of year	-
Cash and cash equivalents, end of year	$ -
Reconciliation of operating loss to net cash used in operating activities:	
Operating income (loss)	$ (2,532,432)
Adjustments to reconcile operating (loss) to net cash used in operating activities:	
Depreciation expense	351,798
Changes in assets and liabilities:	
(Increase) decrease in assets:	
(Decrease) in liabilities:	
Accounts payable and accrued liabilities	(345,743)
Total Adjustments	6,055
Net cash used in operating activities	$ (2,526,377)

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 year 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 position 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.

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 cost 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. The range of lives used for depreciation purposes for each fixed asset class is as follows:

Machinery and equiment	5-15 years

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.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

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.

New Accounting Pronouncements-Effective in Current Fiscal Year

GASB Statement No. 62- In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: 1) Financial Accounting Standards Board (FASB) Statements and Interpretations, 2) Accounting Principles Board Opinions, and 3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This statements also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* thereby eliminating the election provided in paragraph 7 of the Statement for enterprise funds and business-type activities to apply post- November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. The TDA Fund of the City of Barstow, an enterprise fund of the City, implemented this announcement effective July 2012. Management has determined that there was not a material effect on the financial statements.

GASB Statement No. 63 – In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and amends the net asset reporting requirements in No. 34, *Basic Financial Statements- and Management's Discussion and Analysis for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure by renaming that measure as net position, rather than net assets. The Statement is effective for periods beginning after December 15, 2011. The TDA fund of the City of Barstow, an enterprise fund of the City, implemented this pronouncement, effective July 1, 2012.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

New Accounting Pronouncements- Effective in Future Years

GASB Statement No. 65 – In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012, or the 2013-2014 fiscal year. Management has not determined the effect on the financial statements.

GASB Statement No. 66 – In March 2013, GASB issued Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62.* The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62., *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The Statement is effective for periods beginning after December 15, 2012, or the 2013-2014 fiscal year. Management has not determined if there will be an effect on the financial statements.

GASB Statement No. 67- In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*. The objective of this statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessment of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of *Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and *Statement No. 50, Pension Disclosures*, as they related to pension plans that are not administered through trust covered by the scope of this Statements and to defined contribution plans that provide post-employment benefits other than pensions. The Statement is effective for periods beginning after June 15, 2013, or the 2013-2014 fiscal year. This Statement is specifically for pension plan providers.

GASB Statement No. 68 – In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The Statement is effective for periods beginning after June 15, 2014, or the 2014-2015 fiscal year. Management has not determined the effect on the financial statements.

GASB Statement No. 69 – In January 2012, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations.* The objective of this Statement is to establish reporting standards related to government combinations and disposals of government operations. The Statement is effective for periods beginning after December 15, 2013, or the 2014-2015 fiscal year. Management has not determined the effect on the financial statements.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

New Accounting Pronouncements- Effective in Future Years, (Continued)

GASB Statement No. 70 – In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The Statement is effective for periods beginning after June 15, 2013, or the 2013-2014 fiscal year. Management has not determined the effect on the financial statements.

GASB Statement No. 71 - In November 2013, GASB issued Statement No. 70, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment to GASB Statement No. 68.* This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68. Management has not determined the effect on the financial statements.

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, 2013 was $400,771. As of June 30, 2013, the FTA revenue was a receivable within the Transit Fund.

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 2013 is as follows:

	Operating Funds	Total
Beginning balance, July 1, 2012	$ -	$ -
Gross receipts		
Local Transportation Fund, Article 8	1,534,151	1,534,151
Federal Transportation Admin, Section 5311	400,771	400,771
Measure I	252,790	252,790
Interest income	5,280	5,280
Fares	178,593	178,593
Total gross receipts	2,371,585	2,371,585
Operating expenses, less depreciation	(2,359,227)	(2,359,227)
Receipts over (under) expenses in current period	12,358	12,358
Amounts received in excess of costs as of June 30, 2013	12,358	12,358
Amount deferred at June 30, 2013	$ 12,358	$ 12,358

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%. This requirement was not met as the fare ratio was 7.57% as noted below:

The fare ratio as of June 30, 2013, is calculated as follows:

Operating expenses	$ 2,711,025
Less depreciation	(351,798)
Adjusted operating expenses	$ 2,359,227
Fare revenue	$ 178,593
Fare ratio	7.57%

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, is as follows:

	Balance at July 1, 2012	Additions	Deletions	Balance at June 30, 2013
Depreciable assets				
Equipment	$ 3,640,008	$ -	$ -	$ 3,640,008
Accumulated Depreciation				
Equipment	(2,799,890)	(351,798)	-	(3,151,688)
Total Capital Assets, net	$ 840,118	$ (351,798)	$ -	$ 488,320

NOTE 6 – DUE TO CITY OF BARSTOW

At June 30, 2013, the TDA Fund had a deficit cash balance, representing short term borrowings from the City's Investment Pool in the amount of $285,237.

NOTE 7 – RECEIVABLES

Receivables are made up of operating grants as follows:

Federal Transit Administration Section 5311- Operating	$400,771
Total	$400,771

NOTE 8 – DEFICIT NET POSITION

The City of Barstow's TDA fund has a deficit unrestricted net position of $87,330. 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 has been accrued at June 30, 2013 in the amount of $5,514. The City's liability for compensated absences is typically liquidated within one year. The balance related to compensated absences is included in accrued liabilities of the Statement of Net Position.

SUPPLEMENTARY INFORMATION

CITY OF BARSTOW, CALIFORNIA
TRANSPORTATION DEVELOPMENT ACT FUNDS

SCHEDULE OF ALLOCATIONS RECEIVED AND EXPENDED, BY PROJECT YEAR
YEAR ENDED JUNE 30, 2013

Project Description	Project Type	Year Allocated	Allocation Amount	Unspent Allocations at 06/30/2012	Receipts	Expenditures	Unspent Allocations at 06/30/2013	Project Status
Transit Program	Local	2012-13	$ 1,534,151	$ -	$ 1,534,151	$ 1,521,793	$ 12,358	Open
Totals			$ 1,534,151	$ -	$ 1,534,151	$ 1,521,793	$ 12,358	

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 Board of Directors
San Bernardino Associated Governments
San Bernardino, 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 Transportation Development Act (TDA) Article 8 (TDA Fund) Fund of the City of Barstow, California, (the City) as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated March 4, 2014. Our report included an emphasis of matter 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, 2013. Our report also included an emphasis of matter paragraph regarding the City's TDA Funds adoption of Governmental Accounting Standards Board (GASB) Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* as of July 1, 2012. In addition, our report included an other matter paragraph stating that the financial statements do not include Management Discussion and Analysis.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of finding and response, we identified a certain deficiency in internal control over financial reporting that we consider to be a 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 *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. 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 deficiency described in the accompanying schedule of finding and response to be a material weakness.

8270 Aspen Street Rancho Cucamonga, CA 91730 Tel: 909.466.4410 Fax: 909.466.4431 www.vtdcpa.com
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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 including Section 6667 of Part 21 of the California Code of Regulations and the allocation instructions of the San Bernardino Associated Governments, 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 2013-01 in the accompanying schedule of finding and response.

City's Response to the Finding

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. 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 result of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. 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. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
March 4, 2014

CITY OF BARSTOW, CALIFORNIA
TRANSPORTATION DEVELOPMENT ACT FUNDS

SCHEDULE OF FINDING AND RESPONSE
YEAR ENDED JUNE 30, 2013

Finding 2013-01

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 7.57%.

Context:

The condition noted above was identified during compliance testing.

Effect:

The City did not meet the required fare ratio at June 30, 2013.

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 PRIOR YEAR AUDIT FINDING
YEAR ENDED JUNE 30, 2013

Finding	Condition/Program	Status
2012-01	Fares as a % of Operating Costs below Compliance Requirements	Not Implemented- See Finding 2013-01
2012-02	Bank Reconciliation Timeliness	Implemented