



# BROWN ARMSTRONG

*Certified Public Accountants*

Board of Directors  
Gold Coast Transit District  
Oxnard, California

In planning and performing our audit of the financial statements of the Gold Coast Transit District (the District) as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 District'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.

The District's written response to the material weakness identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We consider the following deficiency in internal control to be a material weakness:

## **Current Year Finding and Recommendation**

Finding 1 – Unearned Revenues and Net Position

### **Condition:**

The California Code of Regulations, Section 6633.2 requires that a transit service claimant maintain a system wide ratio of fare revenues to operating cost of at least 20%. Other transit generated revenue from non-Transportation Development Act (TDA) sources, such as route guarantee funds or on-board advertising revenue, may be included as fare revenue in this calculation. During our current year audit, we noted the District recognized \$230,000 in special fare revenue in Account 402040001 from a deferred revenue account 241021001. The balance in the deferred revenue account was \$590,000 at the beginning of the period and \$360,000 at the end of the period. There was potential improper revenue recognition/deferred revenue in prior years.

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Criteria:

Accounting principles generally accepted in the United States of America requires that revenue be recognized in the period earned and matched with related expenses. Deferrals of revenue and (liabilities) should not be established for the purpose of creating reserves to be used to smooth earnings to meet performance standards. The farebox recovery ratio (FBRR) calculation should be based on current year performance.

Cause of Condition:

Beginning in fiscal year (FY) 2007-08, the District received from its joint powers authority (JPA) member cities special transit fare revenue in the form of route guarantees from non-TDA funding sources and included it in its FBRR calculation. In prior years, the District established a deferred income account for some portions of the route guarantee revenue with the intention to utilize the reserve to support FBRR efforts in a future year. See Board Report Budget Change FY 2013-14. Per the Board report, \$225,000 was deferred for the purpose stated above. During FY 2019, we noted \$230,000 was recognized as revenue from the deferred account.

Potential Effect of Condition:

The FBRR is required to be met annually to ensure transit operators are efficient in providing service. The creation of a reserve account in a prior year to supplement revenue in the current year results in a skewed view of the actual performance of the transit operator.

Recommendation:

The District should adjust the deferred revenue account to reflect actual unearned revenues and not include revenues that were not earned in the current period in the calculation of the FBRR. In addition, the practice of establishing reserve accounts to support future performance calculations should be discontinued. In addition, prior period FBRR calculations should be adjusted to reflect the actual performance and the corrections reported to the Transportation Commission.

Management Response:

District management and staff discussed this finding with the auditors from Brown Armstrong. The FBRR of the affected fiscal years were recalculated to verify if the District was compliant with the California Code of Regulations (CCR) Section 6633.2. The results showed that the FBRR were still compliant. This finding and recalculations were also discussed with the Transportation Commission. The District proposed that the balance of the Local Government Route Guarantee Funds will be recognized in FY 2019 (\$230,000.00) and the balance in FY 2020. As recommended, this practice will be discontinued and all future revenue and farebox recovery ratio calculations will be in accordance with accounting principles generally accepted in the United States of America and the CCR.

**Prior Year Finding and Recommendation**

None.

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This communication is intended solely for the information and use of management, the Board of Directors, and others within Gold Coast Transit District, and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong  
Accountancy Corporation*

Bakersfield, California  
November 27, 2019