

***CITY OF TORRANCE***  
***ANNUAL FINANCIAL REPORT OF THE***  
***TRANSIT SYSTEM FUND***  
***AS OF AND FOR THE FISCAL YEAR ENDED***  
***JUNE 30, 2016***  
***WITH REPORT OF INDEPENDENT AUDITORS***



Simpson & Simpson, LLP  
Certified Public Accountants

***CITY OF TORRANCE***  
***Transit System Fund***

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## *FINANCIAL SECTION*

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## Independent Auditor's Report

To the Honorable Members of the City Council of the  
City of Torrance, California and the  
Los Angeles County Metropolitan Transportation Authority

### Report on the Financial Statements

We have audited the accompanying financial statements of the Transit System Fund (the Fund) of the City of Torrance, California (City) which comprise the Fund's statement of net position as of June 30, 2016, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

### *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 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 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 opinion.



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### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Transit System Fund of the City of Torrance, California, as of June 30, 2016, and the changes in net position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

#### ***Fund Financial Statements***

As discussed in Note 10, the financial statements present only the Transit System Fund of the City and do not purport to, and do not, present fairly the financial position of the City of Torrance, California, as of June 30, 2016, and the changes in its net position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the Transit System Fund's financial statements as a whole. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information identified in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the Fund's financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the Fund's financial statements or to the Fund's financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the Fund's financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2016 on our consideration of the City's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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* in considering the City's internal control over financial reporting and compliance.

*Simpson & Simpson*

Los Angeles, California  
November 30, 2016

**CITY OF TORRANCE**  
**TRANSIT SYSTEM FUND**  
**STATEMENT OF NET POSITION**  
at June 30

<b>ASSETS</b>	<b>2016</b>
<b>Current assets</b>	
Cash and investments	\$ 14,585,315
Miscellaneous receivables	126,583
Interest receivable	47,810
Inventory	1,317,034
Prepaid expense	-
Due from other governments	4,307,773
<b>Total current assets</b>	<b>20,384,515</b>
<b>Noncurrent assets</b>	
Net noncurrent assets	36,342,173
<b>Total assets</b>	<b>56,726,688</b>
<b>Deferred outflows of resources</b>	
Pension contributions	1,169,966
Total deferred outflows of resources	1,169,966
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Accounts payable	823,636
Accrued salaries and benefits payable	1,412,993
Accrude liabilities	768,027
Unearned revenue	5,692,591
Total current liabilities	8,697,247
<b>Noncurrent liabilities</b>	
Net pension liability(PERS)	10,140,465
Net pension liability(PARS)	499,872
Total noncurrent liabilities	10,640,337
<b>Total liability</b>	<b>19,337,584</b>
<b>Deferred inflows of resources</b>	
Pension actuarial	5,536,602
Total deferred inflows of resources	5,536,602
<b>Net Position</b>	
Net investment in capital assets	36,342,173
Unrestricted	(3,319,705)
<b>Total net position</b>	<b>\$ 33,022,468</b>

The accompanying notes are an integral part of the financial statements.

**CITY OF TORRANCE**  
**TRANSIT SYSTEM FUND**  
**STATEMENT OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET POSITION**  
For the Fiscal Year Ended June 30

	<u>2016</u>
<b>OPERATING REVENUES</b>	
Charges for services	
Passenger cash fare	\$ 2,945,881
Others:	
Advertising	218,034
Miscellaneous	<u>108,624</u>
<b>Total operating revenues</b>	<u>3,272,539</u>
<b>OPERATING EXPENSES</b>	
Salaries and employee benefits	13,938,073
Maintenance and supplies	2,762,513
Pension Expense	2,758,880
Administration	2,121,134
Depreciation	2,981,865
Indirect cost allocation from city	3,134,673
Capital acquisitions	<u>119,246</u>
<b>Total operating expenses</b>	<u>27,816,384</u>
<b>Operating loss</b>	<u>\$ (24,543,845)</u>
<b>NON-OPERATING REVENUES</b>	
Proposition A Discretionary	3,937,292
Proposition A Local Return	2,674,323
Proposition A Exchange Revenue	200,000
Prop 1B-Public Transp Modernization Imprv & Serv Enhancemt Program	98,250
Proposition C Discretionary - Base Restructuring	699,785
Proposition C Discretionary - Transit Service Expansion Program	781,224
Proposition C Discretionary - Foothill Mitigation	178,742
Proposition C Discretionary - 5% Security	110,549
Proposition C Discretionary - MOSIP	390,627
Proposition C Discretionary - Bus System Improvement Plan	232,265
TDA Article 4 - Operating	5,939,241
State Transit Assistance Fund (STAF)	930,966
AQMD Revenues	166,250
Federal Grants	211,372
MTA Grant	1,090,525
Measure R 20% Bus Operations	2,418,356
Capital maintenance revenues	2,250,000
Rapid Bus Grant	274,588
Express Lane Grant	-
Interest	193,883
Gain on sale of capital assets	<u>-</u>
<b>Total non-operating revenues</b>	<u>\$ 22,778,238</u>
<b>Loss before contributions and operating transfers</b>	<u>(1,765,607)</u>
Capital Grants	13,239,824
Operating transfer-out of General Fund	<u>(62,127)</u>
<b>Total contributions and operating transfers</b>	<u>13,177,697</u>
<b>Change in net position</b>	11,412,090
<b>Net position at beginning of year,</b>	<u>21,610,378</u>
<b>Net position at end of year</b>	<u><u>\$ 33,022,468</u></u>

The accompanying notes are an integral part of the financial statements.



**CITY OF TORRRANCE**  
**TRANSIT SYSTEM FUND**  
**STATEMENT OF CASH FLOWS**  
For the Fiscal Year Ended June 30

	2016
<b>Cash flows from operating activities</b>	
Receipts from customers and users	\$ 2,945,881
Payments to suppliers for good and services	(7,477,747)
Payments to employees	(13,965,526)
Other receipt	326,658
<b>Net cash used in operating activities</b>	<u>(18,170,734)</u>
<b>Cash flows from capital and related financing activities</b>	
Cash received from capital grants and subsidies	14,707,971
Purchases and construction of capital assets, net	(16,143,023)
<b>Net cash used in capital and related financing activities</b>	<u>(1,435,052)</u>
<b>Cash flows from non-capital financing activities</b>	
Cash contributions from other governments	15,452,306
Cash received from other funds	2,874,323
Cash transferred to other funds	(62,127)
<b>Net cash provided by non-capital financing activities</b>	<u>18,264,502</u>
<b>Cash flows from Investing Activities</b>	
Interest received	199,643
<b>Change in cash and investments</b>	(1,141,641)
<b>Cash and investments, beginning of year</b>	15,726,956
<b>Cash and investments, end of year</b>	<u>\$ 14,585,315</u>
<b>Reconciliation of operating loss to net cash used in Operating activities:</b>	
Net operating loss	\$ (24,543,845)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	2,981,865
Changes in operating assets and liabilities:	
Accounts receivables	(60,773)
Inventory	25,275
Prepaid expenses	23,176
Accrued salaries and benefits payable	(27,053)
Vouchers payable	214,603
Pension contributions	(138,838)
Net pension liability	1,021,874
Other accrued liabilities	457,138
Pension actuarial	1,875,844
<b>Net cash used in operating activities</b>	<u>\$ (18,170,734)</u>

The accompanying notes are an integral part of the financial statements.

## ***CITY OF TORRANCE***

### **NOTES TO FINANCIAL STATEMENTS**

For the Fiscal Year Ended June 30, 2016

(Continued)

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Transit System Fund (the Fund) of the City of Torrance (the City) is a Proprietary Fund of the City created in 1940 by resolution of the City Council. The Fund accounts for all revenues and expenses related to the operations of the City's transit service. The accounting policies of the Fund conform to the accounting principles generally accepted in the United States of America. The following is a summary of the significant policies applied in the preparation of the financial statements.

##### *Fund Accounting*

All transactions of the Transit System Fund are included in the reporting entity of the City and are recorded in a separate fund of the City. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording resources, related liabilities, obligations, reserves and equities, segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The Fund follows the Uniform System of Accounts and Records prescribed by the Federal Transportation Administration (FTA) and the California State Controller. Transit system operations provide transportation services to the general public.

##### *Measurement Focus and Basis of Accounting*

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded, regardless of the measurement focus applied. The accompanying financial statements are reported using the "economic resources measurement focus", and the "accrual basis of accounting." Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The City adopted the provisions of GASB Statement No. 34 of the Governmental Accounting Standards Board, " *Basic Financial Statements- and Management's Discussion and Analysis- For State and Local Governments*" as amended by GASB Nos. 63 and 65. Statement No. 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net position, a statement of revenues, expenses, and changes in net positions, and a statement of cash flows.

It requires the classification of net position into three components- net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

## ***CITY OF TORRANCE***

### **NOTES TO FINANCIAL STATEMENTS**

For the Fiscal Year Ended June 30, 2016

(Continued)

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

- Net investment in capital assets- This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation.
- Restricted- This component of net position consists of external constraints placed on the use of net position imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted- This component of net position consists of net position that do not meet the definition of “restricted” or “net investment in capital assets”.

When both restricted and unrestricted resources are available for use, the Fund uses restricted resources, then any unrestricted resources.

#### *Operating and Non-operating Revenues and Expenses*

Operating Revenues in the proprietary funds are those revenues that are generated from the primary operations of the Fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the Fund. All other expenses are reported as non-operating expenses.

#### *Cash and Investments*

Cash and Investments of the Transit System Fund are maintained in the City’s cash and investment pool for the purpose of increasing income through investment activities.

The Fund’s portion of cash and investments are \$14,585,315 as of June 30, 2016. Available cash balances consist primarily of certificates of deposit, deposits in the State Treasurers Local Agency Investment Fund, bankers’ acceptances and Federal agency investments and repurchase agreements. All of the City’s investments are authorized by State statute. Cash and Investments are stated at fair value.

For purposes of reporting cash flows for the Fund, cash and cash equivalents include cash on hand and investments purchased with original maturities of 90 days or less. Cash includes deposits in the cash management pool that has the general characteristics of a demand deposit account.

Further information concerning the City’s investment pool and a full description of the risks relating to cash and investments can be found in the City’s CAFR.

#### *Inventory*

Inventory is stated at lower of cost or market. Cost is determined on a first-in, first-out basis. Inventory balance represents expendable supplies held for consumption.

**CITY OF TORRANCE**

**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2016  
(Continued)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Capital Assets*

Capital Assets are recorded at cost. The provision for depreciation is determined using the straight-line method with no allowance for salvage value.

The carrying amounts of assets are reviewed at each fiscal year-end date to determine whether there is an indication of impairment. If any such indication exists, the assets recoverable amount is estimated to determine the amount of impairment loss.

The estimated useful lives used in computing the provision for depreciation of capital assets are as follows:

Buildings	30 to 40 years
Buses and other vehicles	5 to 12 years
Equipment	5 to 7 years

*Unearned Revenue*

Grants received by the City for the acquisition of capital assets and certain operating expenses are recorded as unearned revenues until such time as the capital assets are acquired or as the expenses are incurred.

*Pension Plan*

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Government of the City of Torrance's California Public Employees' Retirement System (CalPERS) plans (Plans) and addition to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payment (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Governmental Accounting Standards Board Statement 68 (GASB 68) requires that the reported results must pertain to liability and asset information with certain defined timeframes. For this report the following timeframes are used:

Valuation Date	June 30, 2014
Measurement Date (MD)	June 30, 2015
Measurement Period (MP)	July 1, 2014 to June 30, 2015

**CITY OF TORRANCE**

**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2016  
(Continued)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Vacation and Sick Leave*

It is the policy of the City to record the cost of vested vacation and sick leave as earned and reported as a liability.

*Deferred Outflows and Deferred Inflows of Resources*

In addition to assets, the Statement of Net Position reports a separate section of deferred outflows of resources. This separate financial statement element represents a consumption of the net position that applies to future periods and so will not be recognized as an outflow of resources (expenditure) until then. This item represents contributions made to CalPERS subsequent to the measurement date.

In addition to liabilities, the Statement of Net Position reports a separate section of deferred inflows of resources. This separate financial statement element represents acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. This amount is the net difference between the projected and actual earnings on the City's pension plans investments as determined by CalPERS in accordance with the application of GASB 68.

Further information concerning the City's pension can be found in the City's CAFR.

*Statement of Cash Flows*

The City maintains the statements of net position for the entire Transit System Fund. The individual statement of net position components cannot be broken down by projects. Thus, the Statement of Cash Flows cannot be presented separately for the Fixed Route and Dial-A-Lift Projects.

**NOTE 2 – DUE FROM OTHER GOVERNMENTAL AGENCIES**

Amounts due from other governmental agencies as of June 30, 2016 are as follows:

Los Angeles County	\$ 1,666,596
Federal Transit Administration	<u>\$2,641,177</u>
Total	<u><u>\$4,307,773</u></u>

**CITY OF TORRANCE**

**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Years Ended June 30, 2016 and 2015  
(Continued)

**NOTE 3 CAPITAL ASSETS**

Capital assets as of June 30, 2016 are as follows:

Land	\$	1,507,719
Buildings		5,073,745
Building improvements		418,812
Machinery and equipment		10,612,022
Vehicles		36,644,663
Furniture and fixtures		900,619
Construction in progress		4,261,519
Total property and equipment		59,419,099
Less accumulated depreciation		(23,076,926)
Capital assets, net	\$	<u>36,342,173</u>

**NOTE 4 UNEARNED REVENUES**

Unearned revenues as of June 30, 2016 are as follows:

Proposition C 5% Transit Security Funds	\$	814,796
Proposition C Discretionary- MOSIP		1,529,758
Prop 1B-PTMISEA (Regional Transportation Center Project) FY 2010-11 allocation		2,500,000
Prop 1B-PTMISEA (Regional Transportation Center Project) Interest		107,484
Prop 1B- Transit Security Program Funds		321,363
Prop 1B- Transit Security Program Funds Interest		9,418
Prop 1B- Security Bridge Program:		
FY 2008-09 allocation		42,980
FY 2009-10 allocation		36,118
FY 2013-14 allocation		46,228
FY 2014-15 allocation		53,076
FY 2015-16 allocation		54,606
Measure R Capital Grant		137,208
Cap and Trade Program Grant		39,556
Total Unearned Revenues	\$	<u>5,692,591</u>

## ***CITY OF TORRANCE***

### **NOTES TO FINANCIAL STATEMENTS**

For the Fiscal Year Ended June 30, 2016

(Continued)

#### **NOTE 4 – UNEARNED REVENUES (continued)**

Restricted funding received is recorded as unearned revenues until the funds are spent. Accordingly, amounts are recorded as capital contributions or revenues as they are utilized for the purpose granted.

#### **NOTE 5 – INDIRECT COST ALLOCATION**

The City allocates certain administrative and overhead cost to the Fund based upon a fixed rate applied to direct salaries and wages of the fund. Allocated cost amounted to \$3,134,673 for the year ended June 30, 2016.

#### **NOTE 6 – EMPLOYEE BENEFITS**

##### *California Public Employer's Retirement System (CalPERS)*

All qualified permanent and probationary employees are eligible to participate in the Local Government's separate Safety (police and fire) and Miscellaneous (all other) Plans, agent multi-employer, defined benefit pension plans administered by the California Public Employees Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS' website under Forms and Publications.

CalPERS provide services retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited services, equal to one year of full time employment.

##### *PARS Enhanced Retirement Defined Benefit Pension Plan*

Pursuant to a Plan Document dated January 25, 2004, the City provides an enhanced retirement benefit to members of the Torrance Profession and Supervisory Association (TPSA), the Engineering Bargaining Unit, the Fiscal Bargaining Unit, and certain Information Technology Specialists who migrated to the TPSA on October 19, 2004. This benefit takes the form of a single employer defined benefit pension plan. The authority to establish and amend the funding policy is the City Council. Currently it is the City's policy to annually fund an amount budgeted to approximate the required annual contribution for that fiscal year.

**CITY OF TORRANCE**

**NOTES TO FINANCIAL STATEMENTS**

For the Fiscal Year Ended June 30, 2016

(Continued)

**NOTE 6 – EMPLOYEE BENEFITS (continued)**

Benefits are available to members hired on or before January 25, 2004 that retire from the City at an age of 55 or greater and with five or more years of City service specific to the eligible bargaining unit, as identified above. New hires after December 31, 2012 are not eligible for this benefit.

Generally, the enhanced benefit is expressed as 0.46951% times years of CalPERS eligible service time the member's highest annual compensation while a bargaining group member. This plan is administered for the City of Torrance through a third party administrator, PARS. Copies of PARS' annual financial report may be obtained from its executive office at 4350 Von Karman Avenue, Suite 100, Newport Beach, California 92660.

As a result of the implementation of GASB No. 68, the Fund reported net pension liability of \$10,640,337 as of June 30, 2016.

Further information concerning the City's pension plans, and corresponding assumptions, assets and liabilities can be found in the City's CAFR.

**NOTE 7- OTHER POST EMPLOYMENT BENEFITS (OPEB)**

*Eligibility.* Employees are generally eligible for postemployment benefits if they retire from the City on or after age 50 with at least 5 years of service, and are eligible for a CalPERS pension benefit. As of June 30, 2016, there were 1,224 active participants potentially eligible for the benefit and 1,147 total service and disability retirees currently receiving benefits.

*Annual Required Contribution (ARC), Annual OPEB Cost (AOC) and Net OPEB Obligation (NOO).* The Annual Required Contribution is the sum of the Normal Cost plus a 22-year level percent of pay amortization of the Unfunded Actuarial Accrued Liability (UAAL) or less an amortization of excess assets determined as of the end of the fiscal year. The 2015/16 Annual Required Contribution determined by this valuation includes the Normal Cost plus a combined 22-year amortization as a level of percent of pay and determined as of the end of the fiscal year.

The AOC Cost is the expense recognized on the City's income statement for providing post-retirement healthcare benefits. The AOC will equal the ARC, adjusted for prior differences between the ARC and actual contributions. The AOC is equal to the ARC, except when the City has a Net OPEB Obligation (NOO) at the beginning of the year. When that happens, the AOC will equal the ARC adjusted for expected interest on the NOO and reduced by an amortization of the NOO. The NOO is the historical difference between the ARC and actual contributions. If an agency has always contributed the ARC, then the NOO equals zero. However, contributions have not been "made" for purposes of GASB 45 unless they have been segregated in an irrevocable trust for the sole purpose of paying plan benefits.



***CITY OF TORRANCE***

**NOTES TO FINANCIAL STATEMENTS**

For the Fiscal Year Ended June 30, 2016

(Continued)

**NOTE 7- OTHER POST EMPLOYMENT BENEFITS (OPEB) (continued)**

To date the City has not contributed any amounts into an irrevocable trust. Pursuant to established City practice and employee Memorandums of understanding (MOU), the postemployment benefits are funded on a “pay as you go” basis.

Further information concerning the City's Other Post Employment Benefits can be found in the City's CAFR.

**NOTE 8- DEFERRED COMPENSATION PLAN**

During fiscal year 1973-74, the City Council adopted Resolution 74-120 establishing a deferred compensation plan (Plan) for the benefit of its eligible employees. The City established the Plan to attract and hold well-qualified City employees by permitting them to make special provisions for monthly payments upon retirement. The Plan was qualified under the applicable provisions of the Federal Internal Revenue Code and complies with the provisions of Sections 53212 and 53214 of the California Government Code. Prior to fiscal year 1996-97, in accordance with Section 457 of the Internal Revenue Code, all assets of the Plan remained the property of the City until paid or made available to participants, subject only to the claims of the City's general creditors.

As a result of changes to Section 457 deferred compensation plans resulting from the Small Business Job Prevention Act of 1996, the City's deferred compensation plan administrator, Great West Life & Annuity Insurance Company (GWLAIC) established a custodial account on behalf of the Plan participants. Effective July 1, 1998, all amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts are held in the custodial account for the exclusive benefit of the employee participants and their beneficiaries.

While the City has full power and authority to administer and to adopt rules and regulation for the Plan, all investment decisions under the Plan are the responsibility of the Plan participants. The City has no liability for losses under the Plan, but does have the duty of due care that would be required of an ordinary prudent investor. Under certain circumstances, employees may modify their arrangements with the Plan to provide for greater or lesser contributions or to terminate their participation. If participants retire under the Plan or terminate service with the City, they may be eligible to receive payments under the Plan in accordance with provisions thereof. In the event of serious financial emergency, the City may approve, upon request, withdrawals from the Plan by the participants, along with their allocated contributions.

Further information concerning the City's deferred compensation plan can be found in the City's CAFR.

**NOTE 9- SELF-INSURANCE PROGRAM**

The City is self-insured for State unemployment insurance, general liability claims and for up to \$2,000,000 per occurrence for worker's compensation risks.

***CITY OF TORRANCE***

**NOTES TO FINANCIAL STATEMENTS**

For the Fiscal Year Ended June 30, 2016

(Continued)

**NOTE 9- SELF-INSURANCE PROGRAM (continued)**

The City purchases commercially available insurance to cover long-term disability claims. Settlements have not exceeded coverage for each of the past three fiscal years. No liability claim is specific to the Fund; accordingly, no obligation is presented herein.

**NOTE 10- ANNUAL FINANCIAL STATEMENTS**

The financial statements present only the Transit System Fund and do not purport to, and do not present fairly the City's financial position as of June 30, 2016 and the changes in its financial position and its cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America.

**NOTE 11- SUBSEQUENT EVENTS**

The City has evaluated events or transactions that occurred subsequent to June 30, 2016 through November 30, 2016, the date the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined no subsequent matters require disclosure or adjustment to the accompanying financial statements.



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CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS  
BRAINARD C. SIMPSON, CPA  
MELBA W. SIMPSON, CPA

**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***

To the Honorable Members of the City Council of the  
City of Torrance, California and the  
Los Angeles County Metropolitan Transit Authority

We have audited, 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, the financial statements of the Transit System Fund (the Fund) of the City of Torrance, California (the City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated November 30, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the Fund's 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 Fund's 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.

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 have not been identified.





## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's Transit System 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 no instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

## **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.

A handwritten signature in black ink that reads "Simpson &amp; Simpson".

Los Angeles, California  
November 30, 2016

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## *COMPLIANCE SECTION*

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SIMPSON & SIMPSON  
CERTIFIED PUBLIC ACCOUNTANTS

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## **Independent Auditor's Report on Compliance**

To the Honorable Members of the City Council of the  
City of Torrance, California and the  
Los Angeles County Metropolitan Transit Authority

### **Report on Compliance**

We have audited the compliance of the City of Torrance, California ( the City) with the Transportation Development Act, Proposition A 40% Discretionary and Proposition C 40% Discretionary program Memorandum of Understandings (MOU) and guidelines, and Proposition 1B Guidelines (collectively, the Guidelines) for the year ended June 30, 2016.

### ***Management's Responsibility***

Management is responsible for the City's compliance with those guidelines.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the City's compliance based on our audit. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Guidelines. Those standards and the Guidelines require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the Transit System Fund occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance. Our audit does not provide a legal determination of the City's compliance with those requirements.

### ***Opinion***

In our opinion, the City of Torrance, California complied, in all material respects, with the compliance requirements of the Guidelines, for the year ended June 30, 2016.



## Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads 'Simpson &amp; Simpson'.

Los Angeles, California  
November 30, 2016

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## ***SCHEDULE OF FINDINGS AND RECOMMENDATIONS***

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***CITY OF TORRANCE***

***TRANSIT SYSTEM FUND***

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**

June 30, 2016

No findings were noted.

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## ***SUPPLEMENTARY INFORMATION***

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**CITY OF TORRANCE**  
**TRANSIT SYSTEM FUND**  
**EXHIBIT I**  
**50% EXPENDITURE LIMITATION TEST AND MAINTENANCE OF EFFORT TEST**  
**For the Fiscal Year Ended June 30, 2016**

**50% EXPENDITURE LIMITATION TEST \*\***

1	Total operating cost before depreciation	\$ 24,014,620
2	Total depreciation	2,981,865
3	Total capital requirements	-
4	Total debt service requirements	-
5	Total (Lines 1,2,3, & 4)	<u>26,996,485</u>
6	Less: Federal Grants Received	2,524,588
7	Less: State Transit Assistance Fund (STAF) Received	<u>930,966</u>
8	Total (Lines 6 & 7)	<u>3,455,554</u>
9	Net (Line 5 less Line 8)	<u>\$ 23,540,931</u>
10	Total permissible Local Transportation Fund under Article 4 (50% of Line 9)	<u>\$ 11,770,466</u>
11	TDA Articles 4 allocation	<u>\$ 5,939,241</u>
12	Excess TDA 4 allocation	<u>\$ -</u>

\*\* Amount includes only expenses from the Fixed Route operations

The Article 4 allocation did not exceed the 50% expenditure limitation

**MAINTENANCE OF EFFORT TEST**

Total operating budget	\$ 30,396,751
Total local return funds received	\$ 5,074,412
5% of total operating budget	\$ 1,519,838
25% of total local return funds received	\$ 1,268,603

According to the discretionary guidelines, a local contribution of 5% of the fiscal year's operating budget, or 25% of the fiscal year's local return funds received by the City, whichever is less, is required in meeting the maintenance of effort.

During the fiscal year ended June 30, 2016, the City made a local contribution of \$2,874,323 from its Proposition A & C Local Return Fund to the Transit System Fund. Since the amount of the local contribution exceeded \$1,268,603, the City is in compliance with the maintenance of effort guidelines.

See report of independent auditors

**CITY OF TORRANCE**  
**TRANSIT SYSTEM FUND**  
**EXHIBIT II**  
**PROPOSITION A DISCRETIONARY ELIGIBILITY TEST**  
**For the Fiscal Year Ended June 30, 2016**

**PROPOSITION A DISCRETIONARY ELIGIBILITY TEST**

1	Transportation development act article 4 funds	\$	5,939,241
2	State transit assistance funds		930,966
3	Farebox revenues		3,466,422
4	Local subsidies		<u>8,058,709</u>
5	Total operating revenues (Lines 1, 2, 3, & 4)		18,395,338
6	Less: operating cost, before depreciation		<u>24,896,646</u>
7	Eligible transit operator subsidy (Line 5 less line 6)		(6,501,308)
8	Proposition A discretionary grant allocation		<u>3,937,292</u>
9	Excess Proposition A discretionary received	\$	<u><u>(2,564,016)</u></u> (a)

(a) Under the Proposition A Discretionary Guidelines, unexpended funds must be returned to the LACMTA within sixty (60) days following the completion of the financial and compliance audit. There were no unexpended funds as of June 30, 2016

**CITY OF TORRANCE**  
**TRANSIT SYSTEM FUND**  
**EXHIBIT III**  
Schedule of Capital Assets  
For the Year Ended June 30, 2016

<b>Description</b>	<b>Balance July 1, 2015</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2016</b>
Land	\$ 1,507,719	\$ -	\$ -	\$ 1,507,719
Building	5,073,745	-	-	5,073,745
Building improvements	163,856	400,579	145,623	418,812
Machinery and equipments	10,346,261	302,773	37,012	10,612,022
Vehicles	22,887,157	13,757,506	-	36,644,663
Furnitures and fixtures	13,159	892,662	5,202	900,619
Construction in progress	3,472,016	1,708,702	919,199	4,261,519
 Total Capital Assets	 <u>43,463,913</u>	 <u>17,062,222</u>	 <u>1,107,036</u>	 59,419,099
 Less accumulated depreciation				 <u>(23,076,926)</u>
 Capital assets, net				 \$ <u>36,342,173</u>

See report of independent auditors