

CITY OF COMMERCE
ANNUAL FINANCIAL REPORT OF THE
TRANSIT SYSTEM FUND
FOR THE FISCAL YEARS ENDED
JUNE 30, 2015 AND 2014



CITY OF COMMERCE

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SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

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

Independent Auditor's Report

To the Honorable Members of the City Council of the
City of Commerce, 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 of the City of Commerce, California (City) as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 audit opinions.



Opinions

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 Commerce, California, as of June 30, 2015 and 2014, and the respective changes in their financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 2, the financial statements present only the Transit System Fund and do not purport to, and do not, present fairly the financial position of the City of Commerce, California, as of June 30, 2015 and 2014, and the changes in financial position thereof for the years 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.

Implementation of New Accounting Pronouncements

As discussed in Note 10 to the financial statements, on July 1, 2014 the City implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* – an Amendment of GASB Statement No. 27 as well as GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*; an amendment of GASB Statement No. 68. Our opinion is not modified with respect to this matter.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2015 on our consideration of the City of Commerce's internal control 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 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.

A handwritten signature in cursive script that reads "Simpson & Simpson".

Los Angeles, California
December 22, 2015

FINANCIAL SECTION

CITY OF COMMERCE
TRANSIT SYSTEM FUND
STATEMENTS OF NET POSITION

June 30

ASSETS	2015	2014
Current assets		
Accounts receivable	\$ 370,268	\$ -
Due from other governments (Note 3)	348,484	337,343
Total current assets	718,752	337,343
Noncurrent assets		
Property and equipment (Note 4)	20,259,365	19,997,700
Less: accumulated depreciation	(11,136,369)	(10,066,187)
Total noncurrent assets	9,122,996	9,931,513
Total assets	9,841,748	10,268,856
Deferred outflows of resources	163,137	-
LIABILITIES		
Current liabilities		
Accounts payable	97,841	159,671
Accrued salaries and benefits payable	86,355	70,080
Compensated absences	449,641	351,075
Due to General Fund	1,783,413	2,197,582
Total current liabilities	2,417,250	2,778,408
Noncurrent liabilities		
Net pension liability	1,876,373	-
Total noncurrent liabilities	1,876,373	2,778,408
Total liability	4,293,623	2,778,408
Deferred inflows of resources	631,447	-
Net Position		
Invested in capital assets	9,122,996	9,931,513
Unrestricted	(4,043,181)	(2,441,065)
Total net position	\$ 5,079,815	\$ 7,490,448

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

CITY OF COMMERCE

TRANSIT SYSTEM FUND

STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION

For the Fiscal Years Ended June 30

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
Charges for services	\$ -	\$ -
Total operating revenues	<u>-</u>	<u>-</u>
OPERATING EXPENSES		
Administration	429,029	350,903
Depreciation	1,070,182	1,041,453
Operations	2,982,610	2,780,309
Maintenance	500,518	551,715
Total operating expenses	<u>4,982,339</u>	<u>4,724,380</u>
Net operating loss	<u>(4,982,339)</u>	<u>(4,724,380)</u>
NON-OPERATING REVENUES		
Intergovernmental (Note 5)	<u>2,726,291</u>	<u>1,952,128</u>
Total non-operating revenues	<u>2,726,291</u>	<u>1,952,128</u>
Operating transfer-in/(out) (Note 6)	<u>2,229,809</u>	<u>(1,925,799)</u>
Total transfer-in/(out)	<u>2,229,809</u>	<u>(1,925,799)</u>
Change in net position	(26,239)	(4,698,051)
Net position at beginning of year, as restated (Note 7)	<u>5,106,054</u>	<u>12,188,499</u>
Net position at end of year	<u>\$ 5,079,815</u>	<u>\$ 7,490,448</u>

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

CITY OF COMMERCE
TRANSIT SYSTEM FUND
STATEMENTS OF CASH FLOWS
For the Fiscal Years Ended June 30

	2015	2014
CASH FLOW FROM OPERATING ACTIVITIES		
Cash received from fuel sales	\$ (370,285)	\$ 51,272
Payments to suppliers	(1,078,648)	(1,038,444)
Payments to employees	(2,820,195)	(2,786,989)
Net cash used in operating activities	(4,269,128)	(3,774,161)
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases and construction of capital assets, net	(261,665)	3,285,626
Net cash used in capital and related financing activities	(261,665)	3,285,626
CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES		
Cash contributions from other governments	2,715,154	2,468,937
Cash received from other funds	1,815,639	(2,017,973)
Net cash provided by non-capital financing activities	4,530,793	450,964
CHANGES IN CASH AND CASH EQUIVALENTS	-	(37,571)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	-	37,571
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ -	\$ -
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Net operating loss	\$ (4,982,339)	\$ (4,724,380)
Adjustments to reconcile change in fund equity to net cash provided by operating activities:		
Depreciation	1,070,182	1,041,453
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(370,268)	51,272
Decrease in deferred outflows	7,897	
Increase in accounts payable	(61,830)	(155,108)
Increase (decrease) in accrued salaries and benefits payable	16,275	10,358
Increase in compensated absences payable	98,567	2,244
Decreased in net pension liability	(679,059)	-
Increase (decrease) in deferred inflows	631,447	-
Net cash used in operating activities	\$ (4,269,128)	\$ (3,774,161)

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

CITY OF COMMERCE

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2015 and 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Transit System Fund of the City of Commerce (City) is an Enterprise Fund of the City created by resolution of the City Council. The Transit System 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 City. These operations constitute part of the overall financial reporting entity of the City and are accounted for by an Enterprise Fund consistent with accounting principles generally accepted in the United States of America. The accounting policies of the Transit System Fund conform to the full-accrual basis of accounting. Under the full accrual basis of accounting, revenues are recognized when earned and measurable, and expenses are recognized when incurred.

Cash and Cash Equivalents

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.

Available cash balances consist primarily of certificates of deposit, deposits in the State Treasurer's 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 cost, which approximates fair value. The Transit System Fund's portion of cash and investments are \$0 as of June 30, 2015 and 2014.

Restricted cash received is recorded as unearned revenue until the funds are spent. Accordingly, amounts are recorded as revenues as they are utilized for the purpose granted.

Depreciation of Capital Assets

Capital assets (property and equipment) are recorded at cost. Depreciation of capital assets in the Transit System Fund is charged to operations. Accumulated depreciation is reported in the Transit System Fund Balance Sheets as a deduction from the corresponding capital assets. The provision for depreciation is determined using the straight-line method with no allowance for salvage values. Depreciation has been provided over the estimated useful lives of the assets. The estimated useful lives used in computing the provision for depreciation of capital assets are as follows:

Description	Useful Life
Buildings	10-40 years
Improvements other than buildings	20-30 years
Distribution System	20-30 years
Infrastructure	20-40 years
Machinery and Equipment	5-13 years

CITY OF COMMERCE

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2015 and 2014
(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Statement of Cash Flows

The City maintains the Statement 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, Dial-A-Ride and Recreational Transit projects.

NOTE 2 – REPORTING ENTITY

The financial statements present only the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows for the City's Transit System Fund. Since this Fund is only one of the City's funds, these financial statements are not intended to present the entire City's financial position and results of operations.

NOTE 3 – DUE FROM OTHER GOVERNMENTS

As of June 30, 2015 and 2014, amounts due from other governmental agencies consisted of the following:

	2015	2014
Los Angeles County	\$ -	\$ 48,221
Federal Transit Administration	348,484	21,950
LACMTA	-	267,172
Total	<u>\$ 348,484</u>	<u>\$ 337,343</u>

NOTE 4 – CAPITAL ASSETS (PROPERTY AND EQUIPMENT)

Property and equipment at June 30, 2015 and 2014 is composed of:

	2015	2014
Building and improvements	\$ 8,210,447	\$ 8,210,447
Machinery and equipment	9,627,519	9,365,854
Land	2,421,399	2,421,399
Total property and equipment	<u>20,259,365</u>	<u>19,997,700</u>
Less: Accumulated depreciation	<u>(11,136,369)</u>	<u>(10,066,187)</u>
Property and equipment, net	<u>\$ 9,122,996</u>	<u>\$ 9,931,513</u>

CITY OF COMMERCE

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2015 and 2014
(Continued)

NOTE 5 – INTERGOVERNMENTAL REVENUE

Grant revenues for the years ended June 30, 2015 and 2014, respectively, consisted of the following:

	2015	2014
Proposition A 40% Discretionary Fund	\$ 208,145	\$ 332,320
Transportation Development Act, Article 3	8,551	10,492
Transportation Development Act, Article 4	328,979	513,366
STAF – TDA Article 6.5	41,289	91,254
TDA Capital Reserve	-	3,008
Proposition 1B – PTMISEA Medi-Van	23,975	-
Proposition 1B – PTMISEA Bus Shelters	136,000	-
Proposition 1B – Security Fund	21,343	-
Proposition 1B – CAL-EMA	21,343	-
Proposition C Discretionary Funds – Zero Fare Compensation	578,413	
Proposition C Discretionary Funds – Base	236,165	230,855
Proposition C Local Return Fund	190,043	182,353
Proposition C Discretionary – Foothill Mitigation	9,255	7,906
Proposition C Discretionary – Security	39,982	38,282
Proposition C Discretionary – MOSIP	61,652	49,091
Measure R Clean Fuel Bus Capital Facility and Rolling Stock fund	-	22,204
Measure R 20% Bus Operations	133,793	103,593
Measure R Local Return	142,345	135,896
Federal Transit Administration (FTA)	183,121	203,078
FTA Bus Washer	-	14,862
FTA Shuttle Bus	173,985	-
FTA Transit Bus	10,897	-
FTA Automatic Voice Sys	-	7,088
FTA Spare Parts	86,894	-
FTA Bus Shelter	90,121	6,480
Total	<u>\$ 2,726,291</u>	<u>\$ 1,952,128</u>

CITY OF COMMERCE

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2015 and 2014
(Continued)

NOTE 6 – OPERATING TRANSFERS

Proposition A Local Return revenues are recorded in the Proposition A Local Return Fund and then transferred to the Transit System Fund as Operating Transfers in. The funds transferred in are used to finance the operations of the Transit System Fund. For the fiscal years ended June 30, 2015 and 2014, the Operating Transfers In consists of the following:

	2015	2014
Proposition A Local Return Fund	\$ 228,759	219,530
Proposition A Exchange	1,000,000	1,000,000
Interest Earned from Proposition A Local Return Fund	1,050	722
General Fund	1,000,000	277,364
Total	\$ 2,229,809	1,497,616

NOTE 7 – PRIOR PERIOD ADJUSTMENT – NEW ACCOUNTING PRONOUNCEMENT

The GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, effective for period beginning after June 15, 2014. This statement replaces the requirements of GASB Statement No. 27 *Accounting for Pensions by State and Local Governmental Employers*, as well as GASB Statement No. 50, *Pension Disclosure*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. It improves the accounting and financial reporting by state and local governments for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity and creating additional transparency. It also establishes standards for measuring and recognizing liabilities, deferred outflows and inflows of resources and expenses/expenditures.

In 2015, the City adopted GASB Statement No. 68, which requires the restatement of the June 30, 2014 net position in governmental activities by the amount of the District’s net pension liability as this liability is now required to be recognized in the financial statements of employers participating in the plan. The result is a decrease in net position at July 1, 2014 of \$2,547,531. This change is in accordance with generally accepted accounting principles.

The GASB has issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to Measurement Date*. The provisions of this statement are required to be applied simultaneously with the provisions of GASB Statement No. 68. This statement requires that at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measure date of the beginning net pension liability. The adoption of this standard in the current fiscal year resulted to a recognition of \$163,137 deferred outflow of resources in the City’s Statement of Net Position in the Transit System Fund Financial Statements.

CITY OF COMMERCE

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2015 and 2014
(Continued)

**NOTE 7 – PRIOR PERIOD ADJUSTMENT – NEW ACCOUNTING PRONOUNCEMENT
(Continued)**

The following table illustrates the cumulative effect of the change in accounting principles as shown on the face of the City’s Statement of Activities:

Net position at beginning of year, as previously reported	\$ 7,490,448
Restatements -	
Adjustment to record retroactive effect of implementing GASB No. 68	<u>(2,384,394)</u>
Net position at beginning of year as restated	<u>\$ 5,106,054</u>

Refer to the City’s Comprehensive Annual Financial Report (CAFR) for more details.

NOTE 8 – EMPLOYEE BENEFITS

Personnel who perform services for the Transit System Fund are employees of the City. Costs of personnel are allocated to the Transit System Fund in accordance with the City’s cost allocation procedures.

Plan Description

The City contributes to the California Public Employees Retirement System (PERS), a multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California.

All full-time and part-time benefited City employees are eligible to participate in PERS. Benefits vest after five years of service.

Employee and Employer Contribution Obligations

Participants are required to contribute 8% their covered annual salary to PERS, which the City has adopted to assume on behalf of substantially all employees. The City is required to contribute the remaining amounts necessary to fund the benefits for its members using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the Board of Administration. Further information concerning the City’s employee benefits can be found in the City’s CAFR.

CITY OF COMMERCE

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2015 and 2014
(Continued)

NOTE 9 – SELF-INSURANCE PROGRAM

The City is self-insured for State unemployment insurance, general liability claims, long-term disability, and for the (1) first \$30,000 of each loss is charged directly to the member's primary deposit; (2) losses from \$30,000 to \$750,000 and the loss development reserves associated with losses up to \$750,000 are pooled based on the member's share of losses under \$30,000; (3) losses from \$750,000 to \$5,000,000 and the loss development reserves associated with those losses are pooled based on payroll; (4a) costs of covered claims from \$5,000,000 to \$10,000,000 are paid under reinsurance policies and are subject to a \$2,500,000 annual aggregate deductible; (4b) costs of covered claims from \$10,000,000 to \$50,000,000 are covered through excess insurance policies; (4c) cost of covered claims for subsidence losses are paid by excess insurance with a sub-limit of \$25,000,000 per occurrence per member. This \$25,000,000 subsidence sub-limit of \$25,000,000 is composed of \$10,000,000 in reinsurance and \$15,000,000 in excess insurance. The excess insurance layer has a \$15,000,000 annual aggregate. The costs associated with 4a, 4b, and 4c are estimated using actuarial models and pre-funded as part of the primary and retrospective deposits.

NOTE 10 – SUBSEQUENT EVENTS

The City has evaluated events or transactions that occurred subsequent to June 30, 2015 through December 22, 2015, 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.



SIMPSON & SIMPSON
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 Commerce, California and the
Los Angeles County Metropolitan Transit Authority

We have audited the financial statements of the Transit System Fund of the City of Commerce, California (City), as of and for the year ended June 30, 2015, and have issued our report thereon dated December 22, 2015. 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 of the Transit System Fund as a basis for designing our auditing procedures for the purpose of expressing our opinion on this fund's financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting of this fund. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting of the Transit System Fund.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's Transit System Fund 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 entity's internal control or on compliance. This report is integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Los Angeles, California
December 22, 2015

COMPLIANCE SECTION



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

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

Independent Auditor's Report On Compliance

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

Report on Compliance

We have audited the compliance of the City of Commerce, California (City) with the Transportation Development Act, Proposition A 40% Discretionary and Proposition C 40% Discretionary program Memorandum of Understandings (MOU), Proposition 1B, Proposition 1B Security program agreement, and guidelines for the year ended June 30, 2015.

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 referred to in the preceding paragraph. Those standards and the Guidelines require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a local return program occurred. An audit includes examining, on a test basis, evidence about 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 City's compliance with those requirements.

Opinion on the Transit System Fund

In our opinion, the City of Commerce complied, in all material respects, with the compliance requirements referred to above that apply to the Transit System Fund for the year ended June 30, 2015.



Report on Internal Control Over Compliance

Management of the City of Commerce is responsible for establishing and maintaining effective internal control over compliance with the Requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the Requirements that could have a direct and material effect on the Transit System Fund to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Requirements, 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 under the Requirements 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 under the Requirements 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 with the Requirements 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 we consider to 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 may exist that have not been identified.

A handwritten signature in cursive script that reads "Simpson & Simpson".

Los Angeles, California
December 22, 2015

CITY OF COMMERCE

TRANSIT SYSTEM FUND

EXHIBIT I

50% EXPENDITURE LIMITATION TEST AND MAINTENANCE OF EFFORT TEST

For the Fiscal Year Ended June 30, 2015

50% EXPENDITURE LIMITATION TEST **

1	Total operating cost before depreciation	\$	3,912,157
2	Total depreciation		1,070,182
3	Total capital requirements		-
4	Total debt service requirements		-
5	Total (Lines 1,2,3, & 4)		<u>4,982,339</u>
6	Less: Federal Grants Received		545,018
7	Less: State Transit Assistance Fund (STAF) Received		41,289
8	Total (Lines 6 & 7)		<u>586,307</u>
9	Net (Line 5 less Line 8)	\$	<u>4,396,032</u>
10	Total permissible Local Transportation Fund under Article 4 (50% of Line 9)	\$	<u>2,198,016</u>
11	LTF Article 4 Allocated	\$	<u>328,979</u>
12	Excess LTF Expended (Amount of Line 11 in excess of Line 10)	\$	<u>(1,869,037)</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	\$	3,625,283
Total local return funds received	\$	1,561,147
5% of total operating budget	\$	181,264
25% of total local return funds received	\$	390,287

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, 2015, the City made a local contribution of \$1,561,147 from its Measure R, Proposition A & C Local Return Fund to the Transit System Fund. Since the amount of the local contribution exceeded \$390,287, the City is in compliance with the maintenance of effort guidelines.

CITY OF COMMERCE

TRANSIT SYSTEM FUND

EXHIBIT II

PROPOSITION A DISCRETIONARY ELIGIBILITY TEST

For the Fiscal Year Ended June 30, 2015

PROPOSITION A DISCRETIONARY ELIGIBILITY TEST

1	Total Operating Costs (Excluding Depreciation)	\$	<u>3,912,157</u>
2	Deductions:		
	a) UMTA Section 9 Operating Funds		-
	b) State Transportation Assistance Funds		41,289
	c) TDA Operating Funds		328,979
	d) Fare Box Revenue		-
	e) Local Subsidies (including Local Return, General Revenue, etc)		1,561,147
	f) Other		-
3	Total Deductions (Sum a-f)	\$	<u>1,931,415</u>
4	Amount of Proposition A Discretionary Grant Eligible (Line 1 minus Line 3)	\$	<u>1,980,742</u>
5	Proposition A Discretionary Grant Received	\$	<u>208,145</u>
6	Excess Proposition A Discretionary Received (Amount of Line 5 in excess of Line 4)	\$	<u>(1,772,597)</u>

CITY OF COMMERCE

TRANSIT SYSTEM FUND

EXHIBIT III

ELIGIBILITY TEST FOR TDA AND STA FUNDS (CAC 6634)

For the Fiscal Year Ended June 30, 2015

ELIGIBILITY TEST FOR TDA AND STA FUNDS

1	Total Operating Costs (Excluding Depreciation)	\$ <u>3,912,157</u>
2	Deductions:	
	a) Fare box Revenues	-
	b) Local Support Required specified under CAC 6633.2	1,561,147
	c) Federal Operating Assistance Received	-
	d) Amount received from a city or county which are beyond boundaries	-
	e) Local sales tax revenues pursuant to PUC section 130354	-
3	Total Deductions (Sum a-e)	\$ <u>1,561,147</u>
4	Amount of TDA and STA Funds Eligible	\$ <u>2,351,010</u>
5	TDA and STA Funds Received	\$ <u>378,819</u>
6	Excess TDA and STA Funds Received (Amount of Line 5 in excess of Line 4)	\$ <u><u>(1,972,191)</u></u>

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

CITY OF COMMERCE

TRANSIT SYSTEM FUND

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

June 30, 2015

No findings were noted.

EXIT CONFERENCE

CITY OF COMMERCE

TRANSIT SYSTEM FUND

EXIT CONFERENCE

June 30, 2015

An exit conference was held on December 23, 2015 with the City of Commerce. Those in attendance were:

Simpson & Simpson Representative:

Channing Wong, Auditor

City's Representative:

Josh Brooks, Assistant Director of Finance

Matters Discussed:

Results of the audit disclosed no significant financial and compliance issues.

A copy of this report was forwarded to the following City representative for their comments prior to the issuance of the final report:

Josh Brooks, Assistant Director of Finance