



MetroTM

**City of Torrance
Annual Financial Report of its**

**Measure R 20% Bus Operations Fund
Measure R Regional Clean Fuel Bus Capital Fund**

**As of and for the Year Ended June 30, 2015
with Report of Independent Auditors**

An Independently Owned Member
McGLADREY ALLIANCE



 **Vasquez**
& Company LLP
Certified Public Accountants and Business Consultants

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FINANCIAL SECTION

Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure R 20 % Bus Operations Fund and the Measure R Regional Clean Fuel Bus Capital Fund (collectively, the Funds) of the City of Torrance, California (the City) which comprise the Funds' balance sheets as of June 30, 2015 and the related statements of revenues, expenditures and changes in fund balance 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from 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 Measure R 20 % Bus Operations Fund and the Measure R Regional Clean Fuel Bus Capital Fund of the City of Torrance, California, as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the Measure R 20 % Bus Operations Fund and the Measure R Regional Clean Fuel Bus Capital Fund of the City and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2015, and the changes in its financial position 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.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on each of the Funds' financial statements as a whole. The supplementary information identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic 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 Funds' basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the Funds' 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 Funds' basic financial statements or to the Funds' basic 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 each of the Funds' basic 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 April 13, 2016 on our consideration of the City'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* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Vaguez & Company LLP".

Los Angeles, California
April 13, 2016

City of Torrance
Measure R 20% Bus Operations Fund
Balance Sheet
June 30, 2015

ASSETS

Cash and investments	\$	-
Total assets	\$	-

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$	-
Total liabilities	\$	-

Commitments and contingencies

Fund balance

Restricted	-
Total fund balance	-
Total liabilities and fund balance	\$ -

See notes to financial statements.

City of Torrance
Measure R 20% Bus Operations Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30, 2015

Revenues

Measure R 20% Bus Operation		\$	2,495,458
	Total revenues		<u>2,495,458</u>

Expenditures

Transit operating costs			2,495,458
	Total expenditures		<u>2,495,458</u>

Excess of revenues over expenditures	-
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Fund balance at beginning of year	<u>-</u>
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Fund balance at end of year	<u><u>\$ -</u></u>
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See notes to financial statements.

City of Torrance
 Measure R 20% Bus Operations Fund
 Supplementary Information
 Schedule of Expenditures – Actual and LACMTA Approved Project Budget
 Year ended June 30, 2015

<u>Project Name</u>	<u>LACMTA Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Transit Operating Costs	\$ 2,495,458	\$ 2,495,458	\$ -
Total expenditures	<u>\$ 2,495,458</u>	<u>\$ 2,495,458</u>	<u>\$ -</u>

See report of independent auditors.

City of Torrance
Measure R Regional Clean Fuel Bus Capital Fund
Balance Sheet
June 30, 2015

ASSETS

Cash and investments	\$ 150,921
Total assets	<u>\$ 150,921</u>

LIABILITIES AND FUND BALANCE

Liabilities

Unearned revenues	\$ 150,921
Total liabilities	<u>150,921</u>

Fund balance

Restricted	<u>-</u>
Total fund balance	<u>-</u>
Total liabilities and fund balance	<u>\$ 150,921</u>

See notes to financial statements.

City of Torrance
Measure R Regional Clean Fuel Bus Capital Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30, 2015

Revenues

Measure R Regional Clean Fuel Bus Capital	\$ _____	-
Total revenues	_____	-

Expenditures

Compressed Natural Gas (CNG) Buses	_____	-
Total expenditures	_____	-

Excess of revenues over expenditures		-
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Fund balance at beginning of year	_____	-
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Fund balance at end of year	\$ _____	-
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See notes to financial statements.

City of Torrance
 Measure R Regional Clean Fuel Bus Capital Fund
 Supplementary Information
 Schedule of Expenditures – Actual and LACMTA Approved Project Budget
 Year Ended June 30, 2015

Project Name	LACMTA Budget	Actual	Variance Positive (Negative)
None	\$ -	\$ -	\$ -
Total expenditures	\$ -	\$ -	\$ -

See report of independent auditors.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The operations of the Measure R 20% Bus Operations Fund (MRBOF) and Measure R Regional Clean Fuel Bus Capital Fund (MRRCFBCF) are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures.

The MRBOF represents 20% of a half-cent sales tax which is allocated among the eligible municipal operators according to the shares calculated by the Formula Allocation Procedure (FAP) for the year in which funds are allocated. Funds are distributed to the jurisdictions within Los Angeles County that have submitted an LACMTA approved Measure R 20% Improvement Plan that includes a description of how these funds will be spent. Eligible projects include operating expenses for county-wide bus service operations, maintenance and expansion, and any other operating expenses that will contribute to meet the program's purpose and objectives.

THE MRRCFBCF represents a total of \$150 million which is set aside for the total life of the Measure R Program to cover LACMTA and municipal regional clean fuel bus capital facilities and rolling stock which is allocated among the included and eligible municipal operators according to the shares calculated by the Capital Allocation Procedure (CAP). The purpose of the Measure R Regional Clean Fuel Bus Capital program is to construct transit facilities and/or repairs, procure rolling stock and fund related components.

Basis of Accounting

MRBOF and MRRCFBCF are accounted for using the modified accrual basis of accounting whereby revenues are recognized when they become both measurable and available to finance expenditures of the current period and expenditures are generally recognized when the related fund liabilities are incurred.

Budgets and Budgetary Accounting

The budgeted amounts presented in this report for comparison to the actual amounts are presented in accordance with accounting principles generally accepted in the United States of America.

NOTE 2 ANNUAL FINANCIAL STATEMENTS

The financial statements reflect only the financial position and results of operations of the MRBOF and MRRCFBCF and their compliance with the Measure R Guidelines and the City's Memorandum of Understanding (MOU) for both programs.

NOTE 3 MEASURE R 20% BUS OPERATIONS COMPLIANCE REQUIREMENTS

In accordance with *Measure R 20% Program Guidelines for Bus Operations*, funds received pursuant to the Guidelines may only be used for eligible operating expenses that include bus operation for countywide bus service operations, maintenance, and expansion and any other operating expenses that will contribute to meet the program purpose and/or objective. See Compliance Matrix.

NOTE 4 MEASURE R REGIONAL CLEAN FUEL BUS CAPITAL COMPLIANCE REQUIREMENTS

In accordance with *Measure R Program Guidelines for LACMTA and Municipal Operators for Regional Clean Fuel Bus Capital*, funds received pursuant to the Guidelines can be used for cost associated with transit facilities construction and/or repairs, procurement of rolling stock and related components. See Compliance Matrix.

NOTE 5 SUBSEQUENT EVENTS

The City has evaluated subsequent events through April 13, 2016, the date the financial statements were available to be issued, and concluded that no events have occurred that require disclosure in or adjustments to the Funds' financial statements.

**Report of Independent Auditors 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 Transportation Authority**

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 Measure R 20 % Bus Operations Fund and the Measure R Regional Clean Fuel Bus Capital Fund (collectively, the Funds) of the City of Torrance, California (the City) as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated April 13, 2016.

Internal Control over Financial Reporting

In planning and performing our audits of the Funds' 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 opinions on the Funds' 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 City'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 audits 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 Measure R 20 % Bus Operations Fund and the Measure R Regional Clean Fuel Bus Capital Fund financial statements are free from 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 audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are 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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Vaqueria & Company LLP". The signature is written in a cursive, flowing style.

Los Angeles, California
April 13, 2016

COMPLIANCE SECTION

Report of Independent Auditors on Compliance

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

Report on Compliance

We have audited the compliance of the City of Torrance, California (the City) with the Measure R 20% Program Guidelines for Bus Operations and the Measure R Program Guidelines for LACMTA and Municipal Operators for Regional Clean Fuel Bus Capital (collectively, the Guidelines) as well as its MOU with the LACMTA for the year ended June 30, 2015.

Management's Responsibility

Management is responsible for the City's compliance with the Guidelines.

Auditors' 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 the 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 City's Measure R 20 % Bus Operations Fund and the Measure R Regional Clean Fuel Bus Capital Fund program 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 with the Guidelines. However, our audit does not provide a legal determination of the City's compliance with the Guidelines.

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, 2015.



Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the 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 a 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 based on the requirements of the Guidelines. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Vaqueria & Company LLP". The signature is written in a cursive, flowing style.

Los Angeles, California
April 13, 2016

**City of Torrance
Compliance Matrix
Year Ended June 30, 2015**

Compliance Requirements	In Compliance		Questioned Costs	If no, provide details and management response.
	Yes	No		
A. Measure R 20% Bus Operations Fund				
1. Timely use of funds.	X		None	
2. Measure R 20% Improvement Plan (Expenditure Plan) was submitted to LACMTA.	X		None	
3. Expenditures were approved before being incurred.	X		None	
4. Funds were used on approved projects only.	X		None	
5. Funds were not used to supplant any funds authorized by other provisions of law and allocated by LACMTA for public transit.	X		None	
6. Federal National Transit Database report has been provided to LACMTA.	X		None	
7. A completed Transportation Performance Measurement (TPM) form was submitted to LACMTA on time.	X		None	
8. An Annual Report has been provided to LACMTA.	X		None	
9. Accounting procedures, record keeping and documentation are adequate.	X		None	
B. Measure R Regional Clean Fuel Bus Capital Fund				
1. Timely use of funds.	X		None	
2. Expenditure Plan was submitted to LACMTA.				Not applicable. No revenue allocation in FY 2014/15.
3. Expenditures were approved before being incurred.				Not applicable. There were no expenditures reported in FY 2014/15.
4. Funds were used on approved projects only.				Not applicable. There were no expenditures reported in FY 2014/15.
5. An annual financial audit report was submitted on time.	X		None	
6. An annual report has been provided to LACMTA.				Not applicable. There were no expenditures reported in FY 2014/15.
7. Accounting procedures, record keeping and documentation are adequate.	X		None	

**City of Torrance
Schedule of Findings and Recommendations
Year Ended June 30, 2015**

There were no reportable findings noted during the fiscal year ended June 30, 2015

EXIT CONFERENCE

An exit conference was held on April 13, 2016 with City of Torrance representatives. Those in attendance were:

Vasquez and Company LLP representatives:
Roger A. Martinez – Partner
Marialyn Salvador – Audit Manager

City of Torrance representatives:
Kenneth Flewellyn – Assistant Finance Director
Joyce Reyes – Accounting Manager
Brenda Sum – Accountant
James Lee – Transit Administration Analyst

Matters discussed:

Results of the audit disclosed no significant compliance or financial statement issues.

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

Joyce Reyes – Accounting Manager
James Lee – Transit Administration Analyst
Kerry Kehoe – Senior Accountant
Brenda Sum – Accountant



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