



MetroTM

**City of Commerce
Annual Financial Report of the**

Transit Fund

**As of and for the Years Ended June 30, 2019 and 2018
with Report of Independent Auditors**

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FINANCIAL SECTION

Report of Independent Auditors

**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 Fund (the Fund) of the City of Commerce, California (the City) which comprise the Fund's statements of net position as of June 30, 2019 and 2018, and the related statements of revenues, expenses and changes in net position, and cash flows for the years 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 an opinion 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 audit 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 City'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 City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Transit Fund of the City of Commerce, California, as of June 30, 2019 and 2018, and the changes in its financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 9 to the financial statements, the 2018 financial statements were restated to adjust the fund's allocated share of net pension liability, deferred inflows and outflows of resources and pension expense. Our opinion is not modified with respect to this matter.

As more fully described in Note 1, the financial statements present only the Transit Fund of the City and do not purport to, and do not present fairly the financial position of the City of Commerce, California, as of June 30, 2019 and 2018, and the changes in its net position and its cash flows for the years 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 an opinion on the Fund's 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 Fund's basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the Fund's 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 Fund's basic financial statements or to the Fund's 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 the Fund's basic financial statements as a whole.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2019 on our consideration of the City's internal control over the Transit Fund's 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 solely to describe the scope of our testing of internal control over the Transit Fund's financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over the Transit Fund's 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 Transit Fund's financial reporting and compliance.

Glendale, California
December 12, 2019

**City of Commerce
Transit Fund
Statements of Net Position**

	June 30	
	2019	(as restated) 2018
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets		
Cash and investments	\$ -	\$ -
Due from LACMTA	604,520	8,555
Due from other governments	30,954	338,376
Prepaid expenses	14,058	-
Total current assets	649,532	346,931
Capital assets		
Property and equipment	22,823,931	20,366,491
Less: accumulated depreciation	(13,276,170)	(12,747,883)
Total capital assets	9,547,761	7,618,608
Total assets	10,197,293	7,965,539
Deferred outflows of resources		
Deferred outflows of resources related to pensions	797,163	1,055,890
Deferred outflows of resources related to OPEB	215,461	217,854
Total deferred outflows of resources	1,012,624	1,273,744
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Current liabilities		
Accounts payable	136,301	237,592
Accrued salaries and benefits payable	160,534	166,230
Compensated absences payable	128,364	136,552
Unearned revenue	19,255	155,529
Due to General Fund	1,475,399	1,464,354
Total current liabilities	1,919,853	2,160,257
Noncurrent liabilities		
Compensated absences payable	394,599	433,054
Net pension liability	3,872,887	3,900,735
OPEB liability	6,592,692	7,570,213
Total noncurrent liabilities	10,860,178	11,904,002
Total liabilities	12,780,031	14,064,259
Deferred inflows of resources		
Deferred inflows of resources related to pensions	101,214	95,240
Deferred inflows of resources related to OPEB	1,367,389	326,908
Total deferred inflows of resources	1,468,603	422,148
NET DEFICIT		
Net deficit		
Investment in capital assets	9,547,761	7,618,608
Unrestricted	(12,586,478)	(12,865,732)
Total net deficit \$	(3,038,717)	(5,247,124)

See notes to financial statements.

City of Commerce
Transit Fund

Statements of Revenues, Expenses and Changes in Net Position

	Years ended June 30	
	2019	(as restated) 2018
Operating revenues		
Charges for services	\$ -	\$ -
Total operating revenues	-	-
Operating expenses		
Administration	371,135	499,876
Depreciation	528,287	368,108
Operations	4,069,161	4,426,460
Maintenance	778,728	764,897
Total operating expenses	5,747,311	6,059,341
Net operating loss	(5,747,311)	(6,059,341)
Nonoperating revenues		
Intergovernmental	5,766,084	2,893,234
Total nonoperating revenues	5,766,084	2,893,234
Income (loss) before operating transfers	18,773	(3,166,107)
Operating transfers		
Transfers in	2,189,634	1,669,861
Change in net position	2,208,407	(1,496,246)
Net deficit at beginning of year	(5,247,124)	(3,750,878)
Net deficit at end of year	\$ (3,038,717)	\$ (5,247,124)

See notes to financial statements.

**City of Commerce
Transit Fund
Statements of Cash Flows**

	Years ended June 30	
	2019	(as restated) 2018
Cash flows from operating activities		
Payments to suppliers	\$ (1,073,153)	\$ (1,003,547)
Payments to employees	(4,011,353)	(3,834,780)
Net cash used in operating activities	(5,084,506)	(4,838,327)
Cash flows from capital and related financing activities		
Purchases and construction of capital assets, net	(2,457,440)	-
Net cash used in capital and related financing activities	(2,457,440)	-
Cash flows from non-capital financing activities		
Intergovernmental noncapital grants	5,341,267	3,277,533
Contributions received from other funds	2,189,634	1,669,861
Cash received from (paid to) General Funds	11,045	(319,059)
Net cash provided by non-capital financing activities	7,541,946	4,628,335
Changes in cash and investments	-	(209,992)
Cash and investments, beginning of year	-	209,992
Cash and investments, end of year	\$ -	\$ -
Reconciliation of net operating loss to net cash used in operating activities:		
Net operating loss	\$ (5,747,311)	\$ (6,059,341)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation	528,287	368,108
Changes in operating assets and liabilities:		
Increase in prepaid expense	(14,058)	-
Decrease (increase) in deferred outflows of resources related to pensions	258,727	(212,942)
Decrease in deferred outflows of resources related to OPEB	2,393	60,044
Decrease in accounts payable	(101,291)	(58,194)
Increase (decrease) in accrued salaries and benefits payable	(5,696)	28,141
Increase (decrease) in compensated absences payable	(46,643)	49,898
Increase (decrease) in net pension liability	(27,848)	778,653
Decrease in OPEB liability	(977,521)	(118,678)
Increase (decrease) in deferred inflows of resources related to pensions	5,974	(924)
Increase in deferred inflows of resources related to OPEB	1,040,481	326,908
Net cash used in operating activities	\$ (5,084,506)	\$ (4,838,327)

See notes to financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Transit Fund (the Fund) of the City of Commerce (the City) is an enterprise fund of the City created by resolution of the City Council. The Fund accounts for the activities necessary to provide transportation service to the citizen and the industrial community. The accounting policies of the Fund conform to 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 Fund's financial statements.

Reporting Entity and Fund Accounting

All transactions of the Transit Fund are included in the reporting entity of the City of Commerce and are recorded in a separate fund of the City. As such, the accompanying financial statements present only the Transit Fund and do not purport to, and do not present fairly the financial position and the changes in financial position of the City of Commerce, California, as of and for the years ended June 30, 2019 and 2018. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording resources, related liabilities, deferred inflows and outflows, reserves, revenues and expenses and fund 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.

Fair Value Measurement

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, the City categorizes its fair value measurement within the fair value hierarchy that is based on the valuation inputs used to measure the fair value of the investment. Level 1 inputs are quoted prices in active markets for identical investments; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Accordingly, the City reports its investments at fair value and recognizes unrealized gain (loss) on investments.

Refer to the City's Comprehensive Annual Financial Report (CAFR) for detailed disclosures regarding the City's investments policy and fair value measurement disclosures.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash, Cash Equivalents and Investments

Cash and investments of the Transit 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 Fund reported zero balance of cash and investments as of June 30, 2019 and 2018.

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 risks relating to cash and investments can be found in the City's CAFR.

Depreciation of Capital Assets

Capital assets (property and equipment) are recorded at cost. Depreciation of capital assets in the Transit Fund is charged to operations. The provision for depreciation is provided over the estimated useful lives of the assets using the straight-line method with no allowance for salvage values. 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

Unearned Revenues

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement Nos. 63 and 65, the City recognizes deferred outflows and inflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period. Deferred outflows and inflows of resources as of June 30, 2019 and 2018 represent pension and OPEB related deferrals reported in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, and GASB Statement No.75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

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

Statement of Cash Flows

The City maintains the Statement of Net Position for the entire Transit 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Specifically, the Transit Fund has made certain estimates and assumptions relating to the collectability of its receivables and the useful lives of the capital assets. Actual results could differ from those estimates and assumptions.

Pensions

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 City's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions 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 payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the City's OPEB Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

NOTE 2 DUE FROM OTHER GOVERNMENTS

As of June 30, 2019 and 2018, amounts due from other governmental agencies consisted of the following:

	2019	2018
State of California	\$ 30,954	\$ 338,376
Total	\$ 30,954	\$ 338,376

NOTE 3 CAPITAL ASSETS (PROPERTY AND EQUIPMENT)

Property and equipment at June 30, 2019 and 2018 is composed of:

	2019	2018
Building improvements	\$ 8,210,447	\$ 8,210,447
Machinery and equipment	12,192,085	9,734,645
Land	2,421,399	2,421,399
Total property and equipment	22,823,931	20,366,491
Less: Accumulated depreciation	(13,276,170)	(12,747,883)
Capital assets, net	\$ 9,547,761	\$ 7,618,608

NOTE 4 UNEARNED REVENUES

Unearned revenues as of June 30, 2019 and 2018 were as follows:

	2019	2018
Proposition 1B - PTMISEA	\$ 18,414	\$ 103,492
Proposition 1B - PTMISEA Bus Lift	-	49,421
Proposition 1B - Bus Stop Signage Project	-	1,775
Proposition 1B - Security Fund	841	841
Total	\$ 19,255	\$ 155,529

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 INTERGOVERNMENTAL REVENUES

Intergovernmental revenues for the years ended June 30, 2019 and 2018 consisted of the following:

	2019	2018
Proposition A 40% Discretionary Fund	\$ 282,665	\$ 274,611
Transportation Development Act (TDA) Article 3	8,869	8,563
TDA Article 4	437,119	416,134
State Transit Assistance Fund	91,300	15,682
Proposition 1B – Security Fund	-	16,233
Proposition C Local Return Fund	217,549	202,761
Proposition C Discretionary – Zero-Fare Compensation	790,921	706,427
Proposition C Discretionary – Base Restructuring	256,434	249,565
Proposition C Discretionary – Foothill Mitigation	15,673	12,168
Proposition C Discretionary – Security	39,645	40,716
Proposition C Discretionary – MOSIP	85,606	83,458
Measure R Local Return	163,209	152,124
Measure R Clean Fuel Bus Capital Facility and Rolling Stock Fund	-	32,878
Measure R 20% Bus Operations	177,649	168,786
Proposition 1B - PTMISEA	85,078	3,340
Proposition 1B - PTMISEA Bus Lift	49,421	2,123
Proposition 1B - PTMISEA Bus Stop Signage	1,775	178,225
Measure M Local Return	183,886	137,859
Measure M 20% Transit Operations	179,357	160,753
Senate Bill 1 - State Transit Assistance	70,948	-
Senate Bill 1 - State of Good Repair	26,852	-
Federal Transit Administration (FTA) CNG Buses (CA-2017-147-01)	2,530,000	-
FTA 5% Greenhouse Gas Reduction	72,128	-
FTA Spare Parts (CA-03-0593)	-	30,828
Total	\$ 5,766,084	\$ 2,893,234

NOTE 6 OPERATING TRANSFERS

Proposition A Local Return revenues are recorded in the Proposition A Local Return Fund and then transferred to the Transit Fund as Operating Transfers. The funds transferred are used to finance the operations of the Transit Fund.

For the fiscal years ended June 30, 2019 and 2018, the Operating Transfers consisted of the following:

	2019		2018
Proposition A Local Return Fund	\$ 262,274	\$	244,861
Proposition A Exchange	1,425,000		1,425,000
General Fund	502,360		-
Total	\$ 2,189,634	\$	1,669,861

NOTE 7 PENSION PLAN

California Public Employers' Retirement System (CalPERS)

All qualified permanent and probationary employees are eligible to participate in the City's Miscellaneous Plan, agent multiple-employer defined benefit pension plans administered by 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 provides service 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 service, equal to one year of full time employment.

In accordance with GASB Statement No. 68, the City allocated the following pension related accounts to the Fund as of June 30, 2019 and 2018:

	2019		2018
Net pension liability	\$ 3,872,887	\$	3,900,735
Deferred outflows of resources	797,163		1,055,890
Deferred inflows of resources	101,214		95,240

Refer to the City's CAFR for the fiscal years ended June 30, 2019 and 2018 for more information about the City's pension plan and required note disclosures.

NOTE 8 POSTEMPLOYMENT BENEFITS PLAN

Plan Description

The City administers a single-employer defined benefit plan with medical insurance benefits to eligible retirees and their spouses in accordance with various labor agreements. The City has not established a trust for the purpose of holding assets accumulated for plan benefits. After age 65, Medicare automatically becomes the primary provider of health coverage. The City's defined benefit plan becomes the secondary provider. Eligible retirees will have no noticeable change in health benefits or plan administration; however, there is a reduction in the City's cost of health coverage as the secondary provider. The City's defined benefit plan administrator establishes the cost of secondary provider rates annually. The City will pay 100% for eligible retirees' health coverage.

Eligibility

Employees are eligible for retiree health benefits if they retire from the City on or after age 50 with at least 5 years of service and are eligible for a PERS pension.

Net OPEB Liability

The City's net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018.

In accordance with GASB Statement No. 75, the City allocated 12.83% of the City's total OPEB liability, expense and deferred inflows and outflows of resources to the Fund as of June 30, 2019 and 2018. Amounts allocated are as follows:

	2019	2018
Net OPEB liability	\$ 6,592,692	\$ 7,570,213
Deferred outflows of resources	215,461	217,854
Deferred inflows of resources	1,367,389	326,908

Refer to the City's CAFR for the fiscal years ended June 30, 2019 and 2018 for more information about the City's postemployment benefits plan and required note disclosures.

NOTE 9 RESTATEMENT OF 2018 FINANCIAL STATEMENTS

The 2018 financial statements were restated to reflect the adjustment on the Fund's allocated share of net pension liability, deferred inflows and outflows of resources and pension expense.

	Balance, as previously reported	Adjustment	Balance, as adjusted
Deferred outflows of resources related to pensions	\$ 518,098	\$ 537,792	\$ 1,055,890
Deferred inflows of resources related to pensions	25,307	69,933	95,240
Net position - unrestricted	(13,333,591)	467,859	(12,865,732)
Operating expenses	6,527,200	(467,859)	6,059,341

NOTE 10 SUBSEQUENT EVENTS

The City has evaluated events through December 12, 2019, the date the financial statements were available to be issued, and concluded no events occurred that require disclosure in or adjustments to the Fund 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 Commerce, California and the Los Angeles County Metropolitan Transit 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 Transit Fund (the Fund) of the City of Commerce, California (the City) as of and for the year ended June 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated December 12, 2019.

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 the Fund's 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 Fund'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 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 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 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 "Vaqueria & Company LLP". The signature is written in a cursive, flowing style.

**Glendale, California
December 12, 2019**

COMPLIANCE SECTION

Report of Independent Auditors 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's (the City) compliance with the Transportation Development Act, State Transit Assistance, Proposition A 40% Discretionary and Proposition C 40% Discretionary Program Memorandum of Understanding (MOU) and Guidelines, and Proposition 1B Guidelines (collectively, the Guidelines) for the year ended June 30, 2019.

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 Transit 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 with the Guidelines. Our audit does not provide a legal determination on the City's compliance with the Guidelines.

Opinion

In our opinion, the City of Commerce, California complied, in all material respects, with the compliance requirements of the Guidelines for the year ended June 30, 2019.



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 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.

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 "Vaguez & Company LLP".

**Glendale, California
December 12, 2019**

**Transportation Development Act (TDA) Article 4, State Transit Assistance (STA),
Proposition A (Prop A), Proposition C (Prop C) and Measure R Compliance Matrix
Year ended June 30, 2019**

Compliance Requirements	Applies To	In Compliance			If no, provide details and management response.
		Yes	No	N/A	
1. Operator's expenditures are in conformity with the Regional Transportation Plan and Metro's Transit Performance Measurement Program adopted March 27, 2001.	TDA STA Prop A	X			
2. Operator has met the fare revenue requirements of PUC Sections 99268.2, 99268.3, 99268.4, 99268.5, and 99268.9 as applicable.	TDA STA			X	
3. Operator has made full use of federal funds available under the Urban Mass Transportation Act of 1964, as amended.	TDA STA Prop A	X			
4. Operator did not exceed the amount of STA and LTF funds it is eligible to receive during the year under Section 6634 (Exhibit A).	TDA STA	X			
5. Operator did not exceed the amount of Proposition A Discretionary Fund it is eligible to receive during the year (Exhibit B).	Prop A	X			
6. Operator did not exceed the 50% Expenditure Limitation under PUC 99268 (Exhibit C).	TDA	X			
7. Operator has given priority consideration to claims to offset reduction in federal operating assistance and the unanticipated rise in the cost of fuel, to enhance existing public transportation services, and to meet high priority regional, countywide, or area wide public transportation needs.	TDA STA	X			
8. Operator has made a reasonable effort to implement the productivity improvement recommended pursuant to PUC Section 99244 and has met the Standards prescribed under Section 1.1 of Proposition A 40% Discretionary Fund Guidelines.	TDA STA Prop A	X			
9. Operator is not precluded by any contract entered into from employing part-time drivers or from contracting with common carriers of persons operating under a franchise or license.	TDA STA	X			

See report of independent auditors on compliance.

**City of Commerce
Transit Fund**

**Transportation Development Act (TDA) Article 4, State Transit Assistance (STA),
Proposition A (Prop A), Proposition C (Prop C) and Measure R Compliance Matrix
Year ended June 30, 2019**

Compliance Requirements	Applies To	In Compliance			If no, provide details and management response.
		Yes	No	N/A	
10. Operator has been certified within the last 13 months by the California Highway Patrol to be in compliance with Section 1808.1 of the Vehicle Code.	TDA STA	X			
11. Operator is in compliance with the eligibility requirements of PUC Section 99314.6.	TDA STA	X			
12. Operator received local support equivalent to 5% of the current fiscal year operating budget or 25% of the current fiscal year Local Return Funds received by the operator's sponsoring municipality, whichever is less.	Prop A	X			
13. Operator's sponsoring municipality has expended at least 50% of the fiscal year Proposition A Local Return allocation.	Prop A	X			
14. Operator utilized the funds in accordance with Metro's guidelines and did not use the funds to substitute for any other funds, service, or projects except as otherwise specifically provided for in the MOUs. <input type="checkbox"/> Proposition A Discretionary <input type="checkbox"/> Transit Service Expansion	Prop A Prop C Measure R	X			

See report of independent auditors on compliance.

City of Commerce
Transit Fund
Exhibit A
Eligibility Test for TDA and STA Funds (CAC 6634)
Year ended June 30, 2019

1. Total Operating Costs (Excluding Depreciation)	\$	<u>5,219,024</u> *
2. Deductions:		
a) Fare Box Revenues		-
b) Local Support Required Specified Under CAC 6633.2		4,040,223 **
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		-
		<u>4,040,223</u>
3. Total Deductions (Sum a-e)		<u>4,040,223</u>
4. Amount of TDA and STA Funds Eligible (Line 1 minus Line 3)	\$	<u><u>1,178,801</u></u>
5. TDA and STA Funds Received	\$	<u><u>528,419</u></u>
6. Excess TDA and STA Funds Received (Amount of Line 5 in excess of Line 4)	\$	<u><u>-</u></u>

* Total Operating Costs

Total Operating Expenses	\$	5,747,311
Less: Depreciation		(528,287)
		<u><u>5,219,024</u></u>

** Local Support:

Proposition A Local Return	\$	262,274
Proposition A Exchange Revenue		1,425,000
Proposition C Local Return		217,549
Measure R Local Return		163,209
Measure M Local Return		183,886
Proposition A 40% Discretionary Fund		282,665
Proposition C Discretionary Fund - Zero-Fare Compensation		790,921
Proposition C Discretionary - Base Restructuring		256,434
Proposition C Discretionary - Foothill Mitigation		15,673
Proposition C Discretionary - MOSIP		85,606
Measure R 20% Bus Operations		177,649
Measure M 20% Transit Operations		179,357
	\$	<u><u>4,040,223</u></u>

See report of independent auditors.

City of Commerce
Transit Fund
Exhibit B
Eligibility Test for Proposition A Discretionary Grant
Year ended June 30, 2019

1. Total Operating Costs (Excluding Depreciation)	\$ <u>5,219,024</u> *
2. Deductions:	
a) UMTA Section 9 Operating Funds	-
b) State Transportation Assistance Funds	91,300
c) TDA Operating Funds	437,119
d) Farebox Revenues	-
e) Local Subsidies (including Local Return, General Revenue, etc.)	2,251,918 **
f) Other	-
3. Total Deductions (Sum a-f)	<u>2,780,337</u>
4. Amount of Proposition A Discretionary Grant Eligible (Line 1 minus Line 3)	\$ <u>2,438,687</u>
5. Proposition A Discretionary Grant Received	\$ <u>282,665</u>
6. Excess Proposition A Discretionary Received (Amount of Line 5 in excess of Line 4)	\$ <u>-</u>

* Total Operating Costs

Total Operating Expenses	\$ 5,747,311
Less: Depreciation	<u>(528,287)</u>
Total	\$ <u>5,219,024</u>

** Local subsidies:

Proposition A Local Return	\$ 262,274
Proposition A Exchange Revenue	1,425,000
Proposition C Local Return	217,549
Measure R Local Return	163,209
Measure M Local Return	<u>183,886</u>
Total	\$ <u>2,251,918</u>

See report of independent auditors.

City of Commerce
Transit Fund
Exhibit C
Expenditure Limitation Test
Year ended June 30, 2019

1	Total Operating Costs Before Depreciation ⁽¹⁾	\$	3,682,321
2	Total Depreciation		528,287
3	Total Capital Requirements		-
4	Total debt service requirements		-
5	Total (Lines 1 - 4)		<u>4,210,608</u>
6	Less: Federal Grants Received		-
7	Less: State Transit Assistance Fund (STAF) Received		<u>91,300</u>
8	Total (Lines 6 & 7)		<u>91,300</u>
9	Net (Line 5 less Line 8)	\$	<u>4,119,308</u>
10	Total permissible Local Transportation Fund under Article 4 (50% of Line 9)	\$	<u>2,059,654</u>
11	LTF Expended	\$	<u>437,119</u>
12	Excess LTF Expended (Amount of Line 11 in excess of Line 10)	\$	<u>-</u>

⁽¹⁾ Amount includes only expenses from the Fixed Route operations.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**City of Commerce
Transit Fund
Schedule of Findings and Questioned Costs
Year ended June 30, 2019**

There were no findings noted.

EXIT CONFERENCE

An exit conference was held on December 12, 2019 with the City of Commerce representatives. Those in attendance were:

Vasquez and Company LLP representatives:
Marialyn Salvador – Audit Senior Manager
Arvee Flores – Senior Auditor

City of Commerce representatives:
Josh Brooks – Assistant Director of Finance
Claude McFerguson – Director of Transportation

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
Claude McFerguson – Director of Transportation
Agatha Cheng – Accountant



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