



MetroTM

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

Measure M 20% Transit Operations Fund

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

	<u>PAGE</u>
FINANCIAL SECTION	
Report of Independent Auditors	1
Measure M 20% Transit Operations Fund:	
Basic Financial Statements:	
Balance Sheets	3
Statements of Revenues, Expenditures and Changes in Fund Balance	4
Supplementary Information:	
Schedule of Expenditures – Actual and LACMTA Approved Project Budget	5
Notes to Fund Financial Statements	6
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 <i>Government Auditing Standards</i>	9
 COMPLIANCE SECTION	
Report of Independent Auditors on Compliance	11
Compliance Matrix	13
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS	14
 EXIT CONFERENCE	15

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 Measure M 20% Transit Operations Fund (the Fund) of the City of Commerce, California (the City) which comprise the Fund's balance sheets as of June 30, 2019 and 2018 and the related statements of revenues, expenditures and changes in fund balance 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 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 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.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure M 20% Transit Operations Fund of the City of Commerce, California, as of June 30, 2019 and 2018, and the changes in its financial position 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 2, the financial statements present only the Measure M 20% Transit Operations Fund of the City of Commerce, California, and do not purport to, and do not present fairly the financial position of the City as of June 30, 2019 and 2018, and the changes in its financial position 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 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 each of the Fund's 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 December 17, 2019 on our consideration of the City's internal control over the 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 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 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 the Fund's financial reporting and compliance.

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

**Glendale, California
December 17, 2019**

**City of Commerce
Measure M 20% Transit Operations Fund
Balance Sheets**

		June 30	
		2019	2018
ASSETS			
Cash and investments	\$	-	\$ -
Total assets	\$	-	\$ -
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	-	\$ -
Total liabilities		-	-
Fund balance			
Restricted		-	-
Total fund balance		-	-
Total liabilities and fund balance	\$	-	\$ -

See notes to fund financial statements.

City of Commerce
Measure M 20% Transit Operations Fund
Statements of Revenues, Expenditures and Changes in Fund Balance

		Years ended June 30	
		2019	2018
Revenues			
Measure M 20% Transit Operations	\$	179,357	\$ 160,763
Total revenues		179,357	160,763
 Expenditures			
Transit operating costs		179,357	160,763
Total expenditures		179,357	160,763
Excess of revenues over expenditures		-	-
Fund balance at beginning of year		-	-
Fund balance at end of year	\$	-	\$ -

See notes to fund financial statements.

City of Commerce
Measure M 20% Transit Operations Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2019
(With Comparative Actuals for 2018)

Project Code	Project Name	2019			2018 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
N/A	Transit Operating Costs	\$ 179,357	\$ 179,357	\$ -	\$ 160,763
	Total expenditures	\$ 179,357	\$ 179,357	\$ -	\$ 160,763

See notes to fund financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The operations of the Measure M 20% Transit Operations Fund (MMTOF or the Fund) is accounted for in the City's Transit Fund, with separate funding source account coding to monitor the receipts of revenues and payments of expenditures.

The MMTOF represents 20% of a half-cent Measure M sales tax which is allocated through a Board-adopted Formula Allocation Procedure (FAP) to the countywide transit service operated by LACMTA and the included and eligible municipal operators. The purpose of the Measure M 20% Transit Operations program is to improve countywide transit service operations, maintenance, and expansion. The intent of Measure M is to increase revenues available for the public transit system. The program is flexible to allow each operator to determine how best to accomplish making public transportation more convenient, affordable, and improve quality of life.

Funds are distributed to the jurisdictions based on a Memorandum of Understanding (MOU) between the operator and LACMTA. The operator will have to submit a Measure M 20% Improvement Plan that includes a description of how these funds will be spent. The plan should explain how these services will meet the program objective and benefit transit users. Eligible projects include operating expenses for transit service, maintenance and any other operating expenses that will contribute to meet the program's purpose and objectives.

Basis of Accounting

MMTOF is reported in the accompanying financial statements and is accounted for using the modified accrual basis of accounting. Revenues are recognized when they become "susceptible to accrual", that is, measurable and available to finance expenditures of the current period. Expenditures are recorded when the liability is 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.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurement (Continued)

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

Fund Balance Reporting

Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes the fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

MMTOF reports the following fund balance classification as of June 30, 2019 and 2018:

- Restricted - Amounts that are constrained for specific purposes, which are externally imposed by providers, such as creditors, or amounts constrained due to constitutional provisions or enabling legislation. The use of the Fund's remaining fund balances is restricted for projects approved by LACMTA.

Information regarding the fund balance reporting policy adopted by the City is described in the City's Comprehensive Annual Financial Report.

NOTE 2 ANNUAL FINANCIAL STATEMENTS

The financial statements reflect only the financial position and results of operations of MMTOF and do not purport to, and do not present fairly the City's financial position as of June 30, 2019 and 2018, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

NOTE 3 MEASURE M 20% TRANSIT OPERATIONS COMPLIANCE REQUIREMENTS

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

NOTE 4 SUBSEQUENT EVENTS

The City has evaluated subsequent events through December 17, 2019, 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 Fund's 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 Measure M 20% Transit Operations 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 17, 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 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 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 Measure M 20% Transit Operations 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 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.

**Glendale, California
December 17, 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 (the City) with the Measure M 20% Program Guidelines for Transit Operations and the Measure M Program Guidelines for Los Angeles County Metropolitan Transit Authority (LACMTA) (collectively, the Guidelines) as well as its Memorandum of Understanding (MOU) with the LACMTA 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 with the Guidelines 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 M 20% Transit Operations 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 Commerce, California complied, in all material respects, with the compliance requirements of the Guidelines for the year ended June 30, 2019.



Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with the requirements, which is described in the accompanying Schedule of Findings and Questioned Costs as Finding #2019-001. Our opinion is not modified with respect to this matter.

The City's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

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 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 17, 2019**

City of Commerce
Measure M 20% Transit Operations Fund
Compliance Matrix
Year ended June 30, 2019

Compliance Requirements	In Compliance			Questioned Costs	If no, provide details and management response.
	Yes	No	N/A		
A. Measure M 20% Transit Operations Fund					
1. A signed memorandum of understanding exists between LACMTA and the jurisdiction.	X				
2. Timely use of funds.	X				
3. Measure M 20% Improvement Plan (Expenditure Plan) was submitted to LACMTA.	X				
4. Expenditures were approved before being incurred.	X				
5. Funds were used on approved projects only.	X				
6. Funds were not used to supplant any funds authorized by other provisions of law and allocated by LACMTA for public transit.	X				
7. An Annual Report has been provided to LACMTA.	X				
8. Accounting procedures, record keeping and documentation are adequate.	X				
9. Quarterly reports provided to LACMTA		X			Finding #2019-001
10. Lapsed funds returned to LACMTA.			X		

See report of independent auditors on compliance.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Commerce
Measure M 20% Transit Operations Fund
Schedule of Findings and Questioned Costs
Year ended June 30, 2019

Finding #2019-001

Compliance Reference	Article 4.2 of the Measure M 20% Transit Operations Funds Memorandum of Agreement states that, "Grantee shall provide quarterly reports to LACMTA that are consistent with the annual Improvement Plan. The quarterly reports are in addition to the annual Improvement Plans. LACMTA will compile Grantee's quarterly reports into a regional Measure M 20% Program update for the Measure M Independent Taxpayer Oversight Committee."
Condition	The City submitted all quarterly reports on June 11, 2019. The City did not comply with the requirements of submitting those on a quarterly basis.
Cause	The Director of Transportation inadvertently thought that the due date for the Measure M 20% report is annually.
Effect	The City is not in compliance with the provisions of the Memorandum of Agreement.
Recommendation	We recommend that the City submit the reports on a quarterly basis in addition to the annual Improvement Plan to ensure compliance with this requirement.
Management Response	The City will closely monitor the due dates of these quarterly reports and will submit such on or before the deadline.

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 an issue of noncompliance with the Guidelines.

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

 Josh Brooks – Assistant Director of Finance
 Claude McFerguson – Director of Transportation
 Agatha Cheng – Accountant



www.vasquezcpa.com

Vasquez & Company LLP has 50 years of experience in performing audit, accounting & consulting services for all types of nonprofit organizations, for-profit companies, governmental entities and publicly traded companies. Vasquez is a member of the RSM US Alliance. RSM US Alliance provides its members with access to resources of RSM US LLP. RSM US Alliance member firms are separate and independent businesses and legal entities that are responsible for their own acts and omissions, and each are separate and independent from RSM US LLP. RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Members of RSM US Alliance have access to RSM International resources through RSM US LLP but are not member firms of RSM International. Visit rsmus.com/about-us for more information regarding RSM US LLP and RSM International. The RSM™ logo is used under license by RSM US LLP. RSM US Alliance products and services are proprietary to RSM US LLP.