

***CITY OF TORRANCE
ANNUAL FINANCIAL REPORT OF THE
MEASURE R 20% BUS OPERATIONS FUND
MEASURE R REGIONAL CLEAN FUEL BUS FUND
FOR THE FISCAL YEARS ENDED
JUNE 30, 2017 AND 2016***



Metro[®]



Simpson & Simpson, LLP
Certified Public Accountants

CITY OF TORRANCE
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FINANCIAL SECTION



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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the 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, 2017 and 2016, 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.

Auditor's 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 Measure R Regional Clean Fuel Bus Fund of the City of Torrance, California, as of June 30, 2017 and 2016, and the respective changes in their financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the Measure R 20% Bus Operations Fund and Measure R Regional Clean Fuel Bus Fund and do not purport to, and do not, present fairly the financial position of the City of Torrance, California, as of June 30, 2017 and 2016, and the changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Torrance, California's Measure R 20% Bus Operations Fund and Measure R Regional Clean Fuel Bus Fund financial statements as a whole. The accompanying Supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

The Supplementary schedule of expenditures are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The Supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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 6, 2017 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 cursive script that reads "Simpson & Simpson".

Los Angeles, California
December 6, 2017

CITY OF TORRANCE

MEASURE R 20% BUS OPERATIONS FUND

BALANCE SHEETS

JUNE 30

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and investments	\$ -	\$ -
Total assets	<u>\$ -</u>	<u>\$ -</u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>
 Fund Balance		
Restricted	<u>-</u>	<u>-</u>
Total fund balance	<u>-</u>	<u>-</u>
 Total liabilities and fund balance	<u>\$ -</u>	<u>\$ -</u>

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

CITY OF TORRANCE

MEASURE R 20% BUS OPERATIONS FUND

**STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE**

For the Fiscal Years Ended June 30

	<u>2017</u>	<u>2016</u>
REVENUES		
Measure R 20% Bus Operation	\$ 2,532,998	\$ 2,417,878
Total revenues	<u>2,532,998</u>	<u>2,417,878</u>
EXPENDITURES		
Transit operating Costs	<u>2,532,998</u>	<u>2,417,878</u>
Total expenditures	<u>2,532,998</u>	<u>2,417,878</u>
Excess of revenues over expenditures	-	-
Fund balance at beginning of year	<u>-</u>	<u>-</u>
Fund balance at end of year	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements

CITY OF TORRANCE

MEASURE R 20% BUS OPERATIONS FUND

**SUPPLEMENTAL INFORMATION
SCHEDULE OF EXPENDITURES
ACTUAL AND METRO APPROVED PROJECT BUDGET**

For the Fiscal Year Ended June 30, 2017
(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2016)

Project Code	Project Name	2017			2016 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
N/A	Transit Operating Costs	\$ 2,532,998	\$ 2,532,998	\$ -	\$ 2,417,878
	Total expenditures	<u>\$ 2,532,998</u>	<u>\$ 2,532,998</u>	<u>\$ -</u>	<u>\$ 2,417,878</u>

See accompanying independent auditor's report.

CITY OF TORRANCE

MEASURE R REGIONAL CLEAN FUEL BUS FUND

BALANCE SHEETS

JUNE 30

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and investments	\$ <u>137,208</u>	\$ <u>137,208</u>
Total assets	\$ <u><u>137,208</u></u>	\$ <u><u>137,208</u></u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Unearned Revenue	\$ <u>137,208</u>	\$ <u>137,208</u>
Total liabilities	<u>137,208</u>	<u>137,208</u>
Fund Balance		
Restricted	<u>-</u>	<u>-</u>
Total fund balance	<u>-</u>	<u>-</u>
Total liabilities and fund balance	\$ <u><u>137,208</u></u>	\$ <u><u>137,208</u></u>

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

CITY OF TORRANCE

MEASURE R REGIONAL CLEAN FUEL BUS FUND

**STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE**

For the Fiscal Years Ended June 30

	<u>2017</u>	<u>2016</u>
REVENUES		
Measure R Regional Clean Fuel Bus Capital Fund	\$ -	\$ 152,857
Total revenues	<u>-</u>	<u>152,857</u>
EXPENDITURES		
CNG Station	<u>-</u>	<u>152,857</u>
Total expenditures	<u>-</u>	<u>152,857</u>
Excess of revenues over expenditures	-	-
Fund balance at beginning of year	<u>-</u>	<u>-</u>
Fund balance at end of year	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements

CITY OF TORRANCE

MEASURE R REGIONAL CLEAN FUEL BUS FUND

SUPPLEMENTAL INFORMATION

SCHEDULE OF EXPENDITURES

ACTUAL AND METRO APPROVED PROJECT BUDGET

For the Fiscal Year Ended June 30, 2017

(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2016)

Project Code	Project Name	2017			2016 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
N/A	Clean Bus Vehicle Acquisitions	\$ -	\$ -	\$ -	\$ 152,857
	Total expenditures	\$ -	\$ -	\$ -	\$ 152,857

See accompanying independent auditor's report.

CITY OF TORRANCE

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

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

The MROF 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 MRRCFBF 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

MROF and MRRCFBF 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 MROF and MRRCFBF and their compliance with the Measure R Guidelines and the City’s Memorandum of Understanding (MOU) for both programs.

CITY OF TORRANCE

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2017 and 2016
(Continued)

NOTE 3 – MEASURE R LOCAL RETURN 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 events or transactions that occurred subsequent to June 30, 2017 through December 6, 2017, the date the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined no subsequent matters require disclosure or adjustment to the accompanying financial statements.



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**Independent Auditor's Report on Internal Control over Financial Reporting
And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Measure R 20% Bus Operations Fund and Measure R Regional Clean Fuel Bus Fund of the City of Torrance, California (City), as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated December 6, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the 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 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's Measure R 20% Bus Operations Fund and Measure R Regional Clean Fuel Bus Fund financial statements will not be prevented, or detected and corrected on a timely basis. A *significant* deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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





Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City’s 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 is required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is 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 "Simpson & Simpson". The signature is written in a cursive, flowing style.

Los Angeles, California
December 6, 2017

COMPLIANCE SECTION



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Independent Auditor's Report on Compliance

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

Report on Compliance

We have audited the compliance of the City of Torrance, California (City) with the Measure R 20% Bus Operations Fund and Measure R Regional Clean Fuel Bus Fund Guidelines as well as its Memorandum of Understanding with the Los Angeles Metropolitan Transit Authority for the year ended June 30, 2017.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Measure R 20% Bus Operations and Measure R Regional Clean Fuel Bus

In our opinion, the City of Torrance complied, in all material respects, with the compliance requirements referred to above that apply to Measure R 20% Bus Operations and Measure R Regional Clean Fuel Bus for the year ended June 30, 2017.



Report on Internal Control Over Compliance

Management of the City of Torrance is responsible for establishing and maintaining effective internal control over compliance with the Requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the Requirements that could have a direct and material effect on the Measure R 20% Bus Operations and Measure R Regional Clean Fuel Bus to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Requirements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance.

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

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

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 cursive script that reads "Simpson & Simpson".

Los Angeles, California
December 6, 2017

CITY OF TORRANCE
COMPLIANCE MATRIX
Year Ended June 30, 2017

Compliance Requirement	In Compliance		Questioned Costs	If no, provide details and management response.
	Yes	No		
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. The 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	

CITY OF TORRANCE
COMPLIANCE MATRIX
Year Ended June 30, 2017
(Continued)

Compliance Requirement	In Compliance		Questioned Costs	If no, provide details and management response.	
	Yes	No			
Measure R Regional Clean Fuel Bus Fund					
1.	Timely use of funds.	X		None	
2.	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.	An annual financial audit report was submitted on time.	X		None	
6.	An Annual Report has been provided to LACMTA.	X		None	
7.	Accounting procedures, record keeping and documentation are adequate.	X		None	

CITY OF TORRANCE

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2017

No findings were noted.

EXIT CONFERENCE

CITY OF TORRANCE

**MEASURE R 20% BUS OPERATIONS AND
MEASURE R REGIONAL CLEAN FUEL BUS FUNDS
EXIT CONFERENCE
June 30, 2017**

An exit conference was held on December 14, 2017, with the City of Torrance. Those in attendance were:

Simpson & Simpson Representative:

Joseph Simpson, Auditor

City's Representative:

Joyce Reyes- Accounting Manager
James Lee - Transit Administration Manger
Kathleen Nebrida- Accountant
Christine Canlas- Accountant

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:

Joyce Reyes- Accounting Manager
James Lee - Transit Administration Manger
Kathleen Nebrida- Accountant
Christine Canlas- Accountant

Simpson & Simpson, CPAs
633 West 5th Street, Suite 3320
Los Angeles, CA 90071

RE: CITY OF TORRANCE ANNUAL FINANCIAL REPORT OF THE MEASURE R 20% BUS OPERATIONS FUND AND MEASURE R REGIONAL CLEAN FUEL BUS FUND FOR THE FISCAL YEAR ENDED JUNE 30, 2017 AND 2016

I have received the annual financial report of the Measure R 20% Bus Operations Fund and Measure R Regional Clean Fuel Bus Fund for the year ended June 30, 2017 for the City of Torrance and agree with the contents of the report except as indicated below:

(Attach additional pages if necessary)

Very truly yours,

Name

Title

Date