

***CITY OF TORRANCE  
ANNUAL FINANCIAL REPORT OF THE  
TRANSIT SYSTEM FUND  
AS OF AND FOR THE FISCAL YEARS ENDED  
JUNE 30, 2019 AND 2018***



Simpson & Simpson, LLP  
Certified Public Accountants

**CITY OF TORRANCE**  
**TRANSIT SYSTEM FUND**

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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 Transit System Fund of the City of Torrance, California (City) as of June 30, 2019 and 2018, and the related notes to the financial statements, as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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



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***Opinion***

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

***Emphasis of Matters***

As discussed in Note 2, the financial statements present only the Transit System Fund and do not purport to, and do not present fairly the financial position of the City of Torrance, California, as of June 30, 2019 and 2018, the changes in its financial position, or, where applicable 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 Transit System Fund's financial statements. The accompanying supplementary information identified in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the Transit System Fund's financial statements. Such 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 Transit System Fund's financial statements or to the Transit System Fund's 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 Transit System Fund's 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 16, 2018, on our consideration of the City's internal controls over the Transit System 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 to describe the scope of our testing of internal control over the Transit System Fund's financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Transit System Fund's 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 &amp; Simpson".

Los Angeles, California  
December 16, 2018

**CITY OF TORRANCE**  
**TRANSIT SYSTEM FUND**  
**STATEMENTS OF NET POSITION**  
For the Fiscal Years Ended June 30

	2019	2018
<b>ASSETS</b>		
Current assets		
Cash and investments	\$ 17,580,229	\$ 12,418,706
Miscellaneous receivables	381,864	347,276
Accrued interest receivable	49,239	27,420
Inventory	1,102,526	1,156,494
Due from other governments (Note 3)	845,775	5,919,298
Total current assets	19,959,633	19,869,194
Noncurrent assets		
Capital assets, net (Note 4)	26,360,283	28,772,520
Total assets	46,319,916	48,641,714
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred pension and OPEB related items	3,458,851	5,043,790
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	762,080	581,170
Contract retainage payable	56,877	-
Compensated absences payable - current	273,865	954,141
Accrued liabilities	5,253,094	148,991
Unearned revenues (Note 5)	7,034,606	6,046,647
Total current liabilities	13,380,522	7,730,949
Noncurrent liabilities		
Compensated absences payable - long term	852,149	126,416
Net pension liability (PERS, Note 7)	14,315,997	15,739,815
Net pension liability (PARS, Note 7)	534,464	537,056
Net OPEB liability (Note 10, restated Note 11)	2,392,650	2,468,800
Total noncurrent liabilities	18,095,260	18,872,087
Total liabilities	31,475,782	26,603,036
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred pension and OPEB related items	1,149,982	662,033
<b>NET POSITION</b>		
Net investment in capital assets	26,360,283	28,772,520
Unrestricted	(9,207,280)	(2,352,085)
Total net position	\$ 17,153,003	\$ 26,420,435

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

**CITY OF TORRANCE**  
**TRANSIT SYSTEM FUND**  
**STATEMENTS OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET POSITION**  
For the Fiscal Years Ended June 30

	2019	2018
<b>OPERATING REVENUES</b>		
Charges for services		
Passenger cash fare	\$ 2,528,264	\$ 2,544,605
Others:		
Advertising	214,770	195,090
Miscellaneous	84,598	98,404
<b>Total operating revenues</b>	2,827,632	2,838,099
 <b>OPERATING EXPENSES</b>		
Salaries and employee benefits	16,325,875	15,255,908
Maintenance and supplies	2,092,241	2,313,391
Pension expense	642,728	1,072,714
Administration	2,891,337	3,199,384
Depreciation	4,080,693	4,158,594
Indirect cost allocation from City (Note 6)	3,627,298	3,434,807
Non-capital acquisitions	1,848	139,671
Claims expense (Note 13)	5,000,000	-
<b>Total operating expenses</b>	34,662,020	29,574,469
<b>Operating loss</b>	(31,834,388)	(26,736,370)
 <b>NON-OPERATING REVENUES</b>		
Proposition A Discretionary	4,122,813	4,042,964
Proposition A Local Return	2,674,323	2,674,323
Proposition 1B - Transit Security Program	-	81,828
Line 4 Express - Expansion	-	16,690
Proposition C Discretionary - Base Restructuring	745,165	725,204
Proposition C Discretionary - Transit Service Expansion Program	831,885	809,601
Proposition C Discretionary - Foothill Mitigation	228,595	179,149
Proposition C Discretionary - 5% Security	190,181	184,772
Proposition C Discretionary - Municipal Operator Service Improvement Program (MOSIP)	1,085,423	771,205
Proposition C Discretionary - Bus System Improvement Plan	247,327	240,702
TDA Article 4 - Operating	6,375,596	6,126,528
State Transit Assistance Fund (STAF)	1,037,566	210,644
Federal grants	305,396	174,772
<b>Subtotal non-operating revenues</b>	17,844,270	16,238,382

The accompanying notes are an integral part of the financial statements

**CITY OF TORRANCE**  
**TRANSIT SYSTEM FUND**  
**STATEMENTS OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET POSITION (CONTINUED)**  
For the Fiscal Years Ended June 30

	2019	2018
<b>NON-OPERATING REVENUES (EXPENSES) (CONTINUED)</b>		
Subtotal of non-operating revenues	17,844,270	16,238,382
Air Quality Management District	8,750	-
Cap and Trade	-	68,432
Measure R 20% Bus Operations	2,591,096	2,484,959
Measure M 20% Bus Operations	4,982,682	-
Federal Capital Maintenance	-	2,250,000
Interest	390,537	27,219
Gain on sale of capital assets	350	53,500
Write-off uncollectible due from other governments (Note 12)	(4,500,000)	-
<b>Total non-operating revenues</b>	21,317,685	21,122,492
<b>Loss before capital grants and operating transfers</b>	(10,516,703)	(5,613,878)
Capital grants	1,302,898	49,969
Transfer out to General Fund	(53,627)	(53,404)
<b>Change in net position</b>	(9,267,432)	(5,617,313)
<b>Net position at beginning of year</b>	26,420,435	32,037,748
<b>Net position at end of year</b>	\$ 17,153,003	\$ 26,420,435

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



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

	2019	2018
<b>Cash flows from operating activities</b>		
Receipts from customers and users	\$ 2,528,264	\$ 2,544,605
Payments to suppliers for goods and services	(8,345,380)	(9,333,798)
Payments to employees for services	(16,315,769)	(15,322,343)
Other receipts	299,368	293,494
<b>Net cash used in operating activities</b>	<b>(21,833,517)</b>	<b>(21,818,042)</b>
 <b>Cash flows from capital and related financing activities</b>		
Cash received from capital grants and subsidies	1,302,898	293,173
Purchases and construction of capital assets, net	(1,611,578)	(84,232)
Proceeds from the sale of capital assets	350	53,500
<b>Net cash provided by capital and related financing activities</b>	<b>(308,330)</b>	<b>262,441</b>
 <b>Cash flows from non-capital financing activities</b>		
Cash contributions from other governments	24,313,957	15,903,498
Cash received from other funds	2,674,323	2,674,323
Cash transferred to other funds	(53,627)	(53,404)
<b>Net cash provided by non-capital financing activities</b>	<b>26,934,653</b>	<b>18,524,417</b>
 <b>Cash flows from investing activities</b>		
Cash received from interest on investments	368,717	23,959
 <b>Change in cash and investments</b>	5,161,523	(3,007,225)
 <b>Cash and investments, beginning of year</b>	12,418,706	15,425,931
<b>Cash and investments, end of year</b>	<b>\$ 17,580,229</b>	<b>\$ 12,418,706</b>

Noncash investing, capital and financing activities:

During fiscal years 2019 and 2018, there were no significant noncash investing, capital, or financing activities.

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

**CITY OF TORRANCE**  
**TRANSIT SYSTEM FUND**  
**STATEMENTS OF CASH FLOWS (CONTINUED)**  
For the Fiscal Years Ended June 30

	2019	2018
<b>Reconciliation of operating loss to net cash used in operating activities:</b>		
Operating loss	\$ (31,834,388)	\$ (26,736,370)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	4,080,693	4,158,594
Changes in operating assets and liabilities:		
Increase in miscellaneous receivables	(34,588)	(247,994)
Decrease in inventory	53,968	154,405
Decrease in prepaid expenses	-	1,501
Increase (decrease) in compensated absences payable	45,457	(21,880)
Increase (decrease) in accounts payable	180,910	(184,984)
(Decrease) increase in pension and OPEB contributions	1,584,939	(429,354)
(Decrease) increase net pension and OPEB liability	(1,502,560)	1,727,733
Increase in accrued liabilities	5,104,103	29,872
Increase (decrease) in pension and OPEB actuarial	487,949	(269,565)
<b>Net cash used in operating activities</b>	<b>\$ (21,833,517)</b>	<b>\$ (21,818,042)</b>

The accompanying notes are an integral part of the financial statements

**CITY OF TORRANCE**  
**TRANSIT SYSTEM FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Years Ended June 30, 2019 and 2018

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Fund Accounting*

The Transit System Fund (the Fund) of the City of Torrance (the City) is a Proprietary Fund of the City created in 1940 by resolution of the City Council. The Fund accounts for all revenues and expenses related to the operations of the City's transit service. 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 financial statements.

All transactions of the Transit System Fund are included in the reporting entity of the City and are recorded in a separate fund of the City. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording resources, related liabilities, obligations, reserves and 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.

*Measurement Focus and Basis of Accounting*

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded, regardless of the measurement focus applied. The accompanying financial statements are reported using the "economic resources measurement focus", and the "accrual basis of accounting." Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 of the Governmental Accounting Standards Board, "*Basic Financial Statements – and Management's Discussion and Analysis - For State and Local Governments*" as amended by GASB Nos. 63 and 65. Statement No. 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net position, a statement of revenues, expenses and changes in net position and a statement of cash flows.

It requires the classification of net position into three components – net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

- Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation.
- Restricted - This component of net position consists of external constraints placed on the use of net position imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted - This component of net position consists of net position that do not meet the definition of "restricted" or "net investment in capital assets".

**CITY OF TORRANCE**  
**TRANSIT SYSTEM FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Years Ended June 30, 2019 and 2018  
(Continued)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

When both restricted and unrestricted resources are available for use, the Fund uses restricted resources, then any unrestricted resources.

*Operating and Nonoperating Revenues and Expenses*

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the Fund. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the Fund. All other expenses are reported as nonoperating expenses.

*Cash and Investments*

Cash and investments of the Transit System Fund are maintained in the City's cash and investment pool for the purpose of increasing income through investment activities.

The Fund's portion of cash and investments are \$17,580,229 and \$12,418,706 as of June 30, 2019 and 2018, respectively. Available cash balances consist primarily of certificates of deposit, deposits in the State Treasurer's Local Agency Investment Fund (LAIF), bankers' acceptances and Federal agency investments and repurchase agreements. All of the City's investments are authorized by the State statute. Cash and investments are stated at fair value.

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 regarding the City's cash and investments may be found in the City's CAFR.

*Inventory*

Inventory is stated at lower of cost or market. Cost is determined on a first-in, first-out basis. Inventory balance represents expendable supplies held for consumption.

*Capital Assets*

Capital assets are recorded at cost. The provision for depreciation is determined using the straight-line method with no allowance for salvage value. The carrying amounts of assets are reviewed at each fiscal year-end date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss. The estimated useful lives used in computing the provision for depreciation of capital assets are as follows:

Buildings and building improvements	30 to 40 years
Buses, other vehicles, and machinery	5 to 12 years
Equipment, furniture and fixtures	5 to 7 years

**CITY OF TORRANCE**  
**TRANSIT SYSTEM FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Years Ended June 30, 2019 and 2018  
(Continued)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Unearned Revenues*

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

*Compensated Absences Payable*

It is the policy of the City to record the cost of vested vacation and sick leave as earned and reported as liability.

*Deferred Outflows and Inflows of Resources*

Pursuant to GASB Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and No. 65, *Items Previously Reported as Assets and Liabilities*, 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.

*Use of Estimates*

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

*Reclassifications*

Certain reclassifications have been made to fiscal year 2018 amounts in order to conform to the fiscal year 2019 presentation. Such reclassifications had no effect on the previously reported change in net position.

**NOTE 2 – ANNUAL FINANCIAL STATEMENTS**

The financial statements present only the Transit System Fund and do not purport to, and do not present fairly the financial position of the City as of June 30, 2019 and 2018, the changes in its financial position, or, where applicable its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**CITY OF TORRANCE**  
**TRANSIT SYSTEM FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Years Ended June 30, 2019 and 2018  
(Continued)

**NOTE 3 – DUE FROM OTHER GOVERNMENTS**

Amounts due from other governments as of June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Los Angeles County	\$ 586,383	\$ 1,386,200
State Transit Assistance Fund	259,392	-
Federal Transit Administration	<u>-</u>	<u>4,533,098</u>
Total	<u>\$ 845,775</u>	<u>\$ 5,919,298</u>

**NOTE 4 – CAPITAL ASSETS, NET**

Capital assets as of June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 1,507,719	\$ 1,507,719
Buildings	5,073,745	5,073,745
Building improvements	1,471,643	1,471,643
Machinery and equipment	11,617,334	11,605,333
Vehicles	36,625,429	36,625,429
Furniture and fixtures	917,849	917,849
Construction in progress	<u>1,656,455</u>	<u>-</u>
Total property and equipment	58,870,174	57,201,718
Less accumulated depreciation	<u>(32,509,891)</u>	<u>(28,429,198)</u>
Capital assets, net	<u>\$ 26,360,283</u>	<u>\$ 28,772,520</u>

**CITY OF TORRANCE**  
**TRANSIT SYSTEM FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Years Ended June 30, 2019 and 2018  
(Continued)

**NOTE 5 – UNEARNED REVENUES**

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

	2019	2018
Proposition C 5% Transit Security	\$ 1,049,505	\$ 954,031
Proposition C Discretionary - MOSIP	1,878,682	1,715,495
Proposition 1B - PTMISEA	1,559,446	-
Proposition 1B - PTMISEA (Regional Transportation Center Project) FY 2010-11 allocation	1,446,982	2,500,000
Proposition 1B - PTMISEA (Regional Transportation Center Project) Interest	231,082	180,365
Proposition 1B - Transit Security Program	193,189	205,189
FY2008-09 allocation	42,980	42,980
FY2009-10 allocation	36,118	36,118
FY2013-14 allocation	46,228	46,228
FY2014-15 allocation	53,076	53,076
FY2015-16 allocation	54,606	54,606
Proposition 1B - Transit Security Program - Interest	21,587	17,027
Measure R Regional Clean Fuel Bus Fund	137,208	137,208
Cap and Trade - Low Carbon Transit Operations Program	273,837	100,007
Cap and Trade - Low Carbon Transit Operations Program Interest	10,080	4,317
Total unearned revenues	\$ 7,034,606	\$ 6,046,647

Restricted funding received is recorded as unearned revenues until the funds are spent. Accordingly, amounts are recorded as capital grants or nonoperating revenues as they are utilized for the purpose granted.

**NOTE 6 – INDIRECT COST ALLOCATION FROM CITY**

The City allocates certain administrative and overhead costs to the Fund based upon a fixed rate applied to direct salaries and wages of the Fund. Allocated costs amounted to \$3,627,298 and \$3,434,807 for the fiscal years ended June 30, 2019 and 2018, respectively.

**CITY OF TORRANCE**  
**TRANSIT SYSTEM FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Years Ended June 30, 2019 and 2018  
(Continued)

**NOTE 7 – EMPLOYEE BENEFITS**

*California Public Employers' Retirement System (CalPERS)*

All qualified permanent and probationary employees are eligible to participate in the Local Government's separate Safety (police and fire) and Miscellaneous (all other) Plans, agent multiple-employer defined benefit pension plans administered by the California Public Employees' Retirement System (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 provide 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

*PARS Enhanced Retirement Defined Benefit Pension Plan*

Pursuant to a Plan Document dated January 25, 2004, the City provides an enhanced retirement benefit to members of the Torrance Professional and Supervisory Association (TPSA), the Engineer Bargaining Unit, the Fiscal Bargaining Unit, and certain Information Technology Specialists who migrated to the TPSA on October 19, 2004. This benefit takes the form of a single employer defined benefit pension plan. The authority to establish and amend the funding policy is the City Council. Currently it is the City's policy to annually fund an amount budgeted to approximate the required annual contribution for that fiscal year.

Benefits are available to members hired on or before January 25, 2004 that retire from the City at an age of 55 or greater and with five or more years of City service specific to the eligible bargaining unit, as identified above. New hires after December 31, 2012 are not eligible for this benefit.

Generally, the enhanced benefit is expressed as 0.46951% times years of CalPERS eligible service times the member's highest annual compensation while a bargaining group member. This plan is administered for the City of Torrance through a third-party administrator, PARS. Copies of PARS' annual financial report may be obtained from its executive office at 4350 Von Karman Avenue, Suite 100, Newport Beach, California 92660.

As a result of implementing GASB Statement No. 68, the Fund reported net pension liability of \$14,850,461 and \$16,276,871 as of June 30, 2019 and 2018, respectively. Further information concerning the City's pension plans, and corresponding assumptions, assets, liabilities, deferred inflows and outflows of resources can be found in the City's CAFR.



**CITY OF TORRANCE**  
**TRANSIT SYSTEM FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Years Ended June 30, 2019 and 2018  
(Continued)

**NOTE 8 – DEFERRED COMPENSATION PLAN**

During fiscal year 1973-74, the City Council adopted Resolution 74-120 establishing a deferred compensation plan (Plan) for the benefit of its eligible employees. The City established the Plan to attract and hold well-qualified City employees by permitting them to make special provisions for monthly payments upon retirement. The Plan was qualified under the applicable provisions of the Federal Internal Revenue Code and complies with the provisions of Sections 53212 and 53214 of the California Government Code. Prior to fiscal year 1996-97, in accordance with Section 457 of the Internal Revenue Code, all assets of the Plan remained the property of the City until paid or made available to participants, subject only to the claims of the City's general creditors.

As a result of changes to Section 457 deferred compensation plans resulting from the Small Business Job Protection Act of 1996, the City's deferred compensation plan administrator, Great West Life & Annuity Insurance Company (GWLAIC) established a custodial account on behalf of the Plan participants. Effective July 1, 1998, all amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts are held in the custodial account for the exclusive benefit of the employee participants and their beneficiaries.

While the City has full power and authority to administer and to adopt rules and regulations for the Plan, all investment decisions under the Plan are the responsibility of the Plan participants. The City has no liability for losses under the Plan, but does have the duty of due care that would be required of an ordinary prudent investor. Under certain circumstances, employees may modify their arrangements with the Plan to provide for greater or lesser contributions or to terminate their participation. If participants retire under the Plan or terminate service with the City, they may be eligible to receive payments under the Plan in accordance with provisions thereof. In the event of serious financial emergency, the City may approve, upon request, withdrawals from the Plan by the participants, along with their allocated contributions.

Further information concerning the City's deferred compensation plan can be found in the City's CAFR.

**NOTE 9 – SELF-INSURANCE PROGRAM**

The City is self-insured for State unemployment insurance, general liability claims and for up to \$2,000,000 per occurrence for workers' compensation risks. The City purchases commercially available insurance to cover long-term disability claims. Settlements have not exceeded coverage for each of the past three fiscal years. No liability claim is specific to the Fund; accordingly, no obligation is presented herein.

**CITY OF TORRANCE**  
**TRANSIT SYSTEM FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Years Ended June 30, 2019 and 2018  
(Continued)

**NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

*Plan Descriptions and Eligibility.* In addition to the pension benefits described above, the City provides certain health insurance benefits, in accordance with memorandums of understanding, to retired employees through the California Employers' Retiree Benefit Trust (CERBT) Fund, which is an agent multiple-employer plan administered by CalPERS. The City provides medical insurance for employees in accordance with agreements reached with various bargaining groups. The City shall pay the single retiree medical premium rate, for qualified retirees, for a medical insurance plan in which the retiree is enrolled from among those medical plans provided by the City. These contributions of the City for such medical premiums shall cease on the date the retiree becomes eligible to enroll in the Federal Medicare program and/or any Medicare supplemental plans.

As a result of implementing GASB Statement No. 75 effective July 1, 2017, the Fund reported net OPEB liability of \$2,392,650 and \$2,468,800 as of June 30, 2019 and June 30, 2018, respectively.

Further information concerning the City's OPEB plans, and corresponding assumptions, assets, liabilities, deferred inflows and outflows of resources can be found in the City's CAFR.

**NOTE 11 - PRIOR YEAR RESTATEMENT**

As discussed in Note 1, the City implemented GASB Statement No. 75 effective July 1, 2017. GASB Statement No. 75, among other provisions, amended prior guidance with respect to the reporting of OPEB and established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expenses. The City's net OPEB liability was not previously recorded on the statement of net position. GASB Statement No. 75 requires that accounting changes adopted to conform to the provision of the Statement be applied retroactively by restating financial statements. Accordingly, the beginning net position has been restated as follows:

	2018
Beginning net position, as previously reported	\$ 34,281,798
Change in accounting principle as a result of GASB 75	(2,244,050)
Beginning net position, as restated	\$ 32,037,748

**NOTE 12 – WRITE-OFF UNCOLLECTIBLE DUE FROM OTHER GOVERNMENTS**

The City recorded a write-off uncollectible due from other governments expense in the amount of \$4,500,000 for the fiscal year ended June 30, 2019 to account for uncollectible funding related to the Urbanized Area Formula Program Grant from Federal Transit Administration. The \$4,500,000 is composed of two uncollectible amounts of \$2,250,000 (total of \$4,500,000) which were previously recorded as non-operating revenues in FY 2016-17 and FY 2017-18.

***CITY OF TORRANCE***  
**TRANSIT SYSTEM FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Years Ended June 30, 2019 and 2018  
(Continued)

**NOTE 13 – CLAIMS EXPENSE**

On August 16, 2016, a transit passenger was injured which resulted in significant injury and a settlement claim. The City accrued for the claim's expense of \$5,000,000 related to personal injury for the fiscal year ended June 30, 2019.

**NOTE 14 – SUBSEQUENT EVENTS**

The City has evaluated events or transactions that occurred subsequent to June 30, 2019 through December 16, 2019, the date the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined no subsequent matters require disclosure or adjustment to the accompanying financial statements.



SIMPSON & SIMPSON  
CERTIFIED PUBLIC ACCOUNTANTS  
FOUNDING PARTNERS  
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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 the financial statements of the Transit System Fund of the City of Torrance, California (City), as of and for the year ended June 30, 2019, and have issued our report thereon dated December 16, 2019. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit of the Transit System Fund’s 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 opinion on the Transit System 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 entity’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.



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## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's Transit System Fund financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Los Angeles, California  
December 16, 2019

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*COMPLIANCE SECTION*

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SIMPSON & SIMPSON  
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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 (the City) with the Transportation Development Act, Proposition A 40% Discretionary and Proposition C 40% Discretionary Programs Memorandum of Understandings, Proposition 1B, Proposition 1B Security Program Agreement (collectively, the Guidelines) for the year ended June 30, 2019.

### *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 the Transit System Fund 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 with the Guidelines. However, our audit does not provide a legal determination of City's compliance with the Guidelines.

### *Opinion on the Transit System Fund*

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



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## Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the Guidelines 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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance under the Guidelines 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 Guidelines 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 requirement of the Guidelines. Accordingly, this report is not suitable for any other purpose.

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

Los Angeles, California  
December 16, 2019



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***SCHEDULE OF FINDINGS AND RECOMMENDATIONS***

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***CITY OF TORRANCE***  
**TRANSIT SYSTEM FUND**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
June 30, 2019

No findings were noted.

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***SUPPLEMENTARY INFORMATION***

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**CITY OF TORRANCE**  
**TRANSIT SYSTEM FUND**  
**EXHIBIT I**  
**50% EXPENDITURE LIMITATION TEST AND MAINTENANCE OF EFFORT TEST**  
For the Fiscal Year Ended June 30, 2019

**50% EXPENDITURE LIMITATION TEST\***

1 Total operating cost before depreciation	\$	30,581,327
2 Total depreciation		4,080,693
3 Total capital requirements		-
4 Total debt service requirements		-
5 Total (Lines 1-4)		<u>34,662,020</u>
6 Less: Federal grants received		305,396
7 Less: State Transit Assistance Fund received		<u>1,037,566</u>
8 Total (Lines 6 & 7)		<u>1,342,962</u>
9 Net (Line 5 minus Line 8)	\$	<u>33,319,058</u>
10 Total permissible Local Transportation Fund (LTF) under Article 4 (50% of Line 9)	\$	<u>16,659,529</u>
11 TDA Article 4 allocation	\$	<u>6,375,596</u>
12 Excess LTF expended (Amount of Line 11 in excess of Line 10)	\$	<u>-</u>

\* Amount includes only expenses from the Fixed Route operations and excludes the Dial-A-Ride project. TDA Article 4 allocation did not exceed 50% expenditure limitation.

**MAINTENANCE OF EFFORT TEST**

Total operating budget	\$	32,211,986
Total local return funds received	\$	2,674,323
5% of total operating budget	\$	1,610,599 **
25% of total local return funds received	\$	668,581 **

\*\*According to the discretionary guidelines, a local contribution of 5% of the fiscal year's operating budget, or 25% of the fiscal year's local return funds received by the City, whichever is less, is required in meeting the maintenance of effort.

During the fiscal year ended June 30, 2019, the City made a local contribution of \$2,674,323 from its Proposition A Local Return Fund to the Transit System Fund. Since the amount of the local contribution exceeded the minimum requirement of \$668,581, the City is in compliance with the maintenance of effort test.

See accompanying independent auditor's report

**CITY OF TORRANCE**  
**TRANSIT SYSTEM FUND**  
**EXHIBIT II**  
**PROPOSITION A DISCRETIONARY ELIGIBILITY TEST**  
For the Fiscal Year Ended June 30, 2019

**PROPOSITION A DISCRETIONARY ELIGIBILITY TEST**

1	TDA Article 4 Allocation	\$	6,375,596
2	State Transit Assistance Fund		1,037,566
3	Farebox revenues		2,827,632 (a)
4	Local subsidies		<u>14,650,445</u>
5	Total operating revenues (Lines 1-4)		24,891,239
6	Less: operating cost before depreciation		<u>30,581,327</u>
7	Eligible transit operator subsidy (Line 5 less Line 6)		5,690,088
8	Proposition A Discretionary Grant allocation		<u>4,122,813</u>
9	Excess Proposition A Discretionary Grant received	\$	<u>(1,567,275) (b)</u>

- (a) This includes the other miscellaneous revenues.
- (b) Under the Proposition A Discretionary Guidelines, unexpended funds must be returned to LACMTA within sixty (60) days following the completion of the financial and compliance audit. There were no unexpended funds as of June 30, 2019.

See accompanying independent auditor's report

**CITY OF TORRANCE**  
**TRANSIT SYSTEM FUND**  
**EXHIBIT III**  
**SCHEDULE OF CAPITAL ASSETS**  
June 30, 2019

Description	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
Land	\$ 1,507,719	\$ -	\$ -	\$ 1,507,719
Buildings	5,073,745	-	-	5,073,745
Building improvements	1,471,643	-	-	1,471,643
Machinery & equipment	11,605,333	12,001	-	11,617,334
Furniture & fixtures	917,849	-	-	917,849
Vehicles	36,625,429	-	-	36,625,429
Construction in progress	<u>-</u>	<u>1,668,455</u>	<u>12,000</u>	<u>1,656,455</u>
Total capital assets	\$ <u>57,201,718</u>	\$ <u>1,680,456</u>	\$ <u>12,000</u>	\$ 58,870,174
Less: accumulated depreciation				<u>(32,509,891)</u>
Capital assets, net				\$ <u>26,360,283</u>

See accompanying independent auditor's report

**CITY OF TORRANCE**  
**TRANSIT SYSTEM FUND**  
**EXIT CONFERENCE**  
June 30, 2019

An exit conference was held on December 11, 2019 with the City of Torrance. Those in attendance were:

***Simpson & Simpson Representative:***

Austine Cho – Audit Senior

***City's Representative:***

Joyce Reyes – Accounting Manager

***Matters Discussed:***

Results of the audit disclosed no significant control deficiencies and non-compliance issues with Metro Guidelines.

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

Joyce Reyes – Accounting Manager  
James Lee – Transit Administration Manager  
Christine Canlas – Senior Accountant

Simpson & Simpson, LLP  
633 West 5<sup>th</sup> Street, Suite 3320  
Los Angeles, CA 90071

RE: CITY OF TORRANCE ANNUAL FINANCIAL REPORT OF THE TRANSIT SYSTEM FUND  
FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018.

I have received the annual financial report of the Transit System Fund for the years ended June 30, 2019 and 2018 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,

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Name

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Title

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Date