

*CITY OF TORRANCE
ANNUAL FINANCIAL REPORT OF THE
TRANSIT SYSTEM FUND
AS OF AND FOR THE FISCAL YEARS ENDED
JUNE 30, 2020 AND 2019*



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, 2020 and 2019, 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, 2020 and 2019, 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, 2020 and 2019, 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, 2020, 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 & Simpson".

Los Angeles, California
December 16, 2020

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

	2020	2019
ASSETS		
Current assets		
Cash and investments	\$ 13,687,471	\$ 17,580,229
Accounts receivable	430,326	381,864
Accrued interest receivable	23,096	49,239
Inventory	1,106,024	1,102,526
Due from other governments (Note 3)	5,010,930	845,775
Total current assets	20,257,847	19,959,633
Noncurrent assets		
Capital assets, net (Note 4)	24,913,467	26,360,283
Total assets	45,171,314	46,319,916
DEFERRED OUTFLOWS OF RESOURCES		
Pension and OPEB contributions	2,222,449	3,458,851
LIABILITIES		
Current liabilities		
Accounts payable	1,216,560	762,080
Contract retainage payable	157,305	56,877
Accrued compensated absences - current	254,001	273,865
Accrued liabilities	530,610	5,253,094
Unearned revenues (Note 5)	6,359,442	7,034,606
Total current liabilities	8,517,918	13,380,522
Noncurrent liabilities		
Accrued compensated absences - long term	1,058,368	852,149
Net pension liability (CalPERS, Note 7)	14,612,700	14,315,997
Net pension liability (PARS, Note 7)	526,528	534,464
Net OPEB liability (Note 10)	2,227,200	2,392,650
Total noncurrent liabilities	18,424,796	18,095,260
Total liabilities	26,942,714	31,475,782
DEFERRED INFLOWS OF RESOURCES		
Pension and OPEB actuarial	1,084,563	1,149,982
NET POSITION		
Net investment in capital assets	24,756,162	26,360,283
Unrestricted	(5,389,676)	(9,207,280)
Total net position	\$ 19,366,486	\$ 17,153,003

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

	2020	2019
OPERATING REVENUES		
Charges for services		
Passenger cash fare	\$ 1,778,689	\$ 2,528,264
Others:		
Advertising	128,088	214,770
Miscellaneous	31,231	84,598
Total operating revenues	1,938,008	2,827,632
 OPERATING EXPENSES		
Salaries and employee benefits	18,231,861	16,968,603
Maintenance and supplies	1,818,205	2,092,241
Administration	2,597,034	2,891,337
Depreciation	4,066,615	4,080,693
Indirect cost allocation from City (Note 6)	4,099,480	3,627,298
Non-capital acquisitions	19,350	1,848
Claims expense (Note 12)	-	5,000,000
Total operating expenses	30,832,545	34,662,020
Operating (loss)	(28,894,537)	(31,834,388)

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

	2020	2019
NON-OPERATING REVENUES		
Proposition A Discretionary	4,233,624	4,122,813
Proposition A Local Return	2,674,323	2,674,323
Proposition 1B - Transit Security Program	12,240	-
Proposition C Discretionary - Base Restructuring	762,154	745,165
Proposition C Discretionary - Transit Service Expansion Program	850,852	831,885
Proposition C Discretionary - Foothill Mitigation	258,023	228,595
Proposition C Discretionary - 5% Security	218,199	190,181
Proposition C Discretionary - Municipal Operator Service Improvement Program (MOSIP)	1,628,344	1,085,423
Proposition C Discretionary - Bus System Improvement Plan	252,966	247,327
TDA Article 4 - Operating	6,824,827	6,375,596
State Transit Assistance Fund (STAF)	2,277,991	1,037,566
Federal grants	-	305,396
Air Quality Management District	-	8,750
Measure R 20% Bus Operations	2,821,287	2,591,096
Measure M 20% Bus Operations	2,918,136	4,982,682
Federal Capital Maintenance	2,589,926	-
Interest	381,890	390,537
Gain on sale of capital assets	-	350
Write-off uncollectible due from other governments (Note 11)	-	(4,500,000)
Total non-operating revenues	28,704,782	21,317,685
Loss before capital grants and operating transfers	(189,755)	(10,516,703)
Capital grants	2,457,306	1,302,898
Transfer out to General Fund	(54,068)	(53,627)
Change in net position	2,213,483	(9,267,432)
Net position at beginning of year	17,153,003	26,420,435
Net position at end of year	\$ 19,366,486	\$ 17,153,003

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

	2020	2019
Cash flows from operating activities		
Receipts from customers and users	\$ 1,730,227	\$ 2,528,264
Payments to suppliers for goods and services	(12,805,571)	(8,345,380)
Payments to employees for services	(16,751,206)	(16,315,769)
Other receipts	159,319	299,368
Net cash used in operating activities	(27,667,231)	(21,833,517)
 Cash flows from capital and related financing activities		
Cash received from capital grants	2,457,306	1,302,898
Purchases and construction of capital assets, net	(2,519,371)	(1,611,578)
Proceeds from the sale of capital assets	-	350
Net cash used in capital and related financing activities	(62,065)	(308,330)
 Cash flows from non-capital financing activities		
Cash contributions from other governments	20,808,250	24,313,957
Cash received from other funds	2,674,323	2,674,323
Cash transferred to other funds	(54,068)	(53,627)
Net cash provided by non-capital financing activities	23,428,505	26,934,653
 Cash flows from investing activities		
Cash received from interest on investments	408,033	368,717
 Change in cash and investments	(3,892,758)	5,161,523
 Cash and investments, beginning of year	17,580,229	12,418,706
Cash and investments, end of year	\$ 13,687,471	\$ 17,580,229

Noncash investing, capital and financing activities:

During fiscal years 2020 and 2019, 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

	2020	2019
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (28,894,537)	\$ (31,834,388)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	4,066,615	4,080,693
Changes in operating assets and liabilities:		
Increase in accounts receivable	(48,462)	(34,588)
(Increase) decrease in inventory	(3,498)	53,968
Increase in accounts payable	454,480	180,910
Increase in accrued compensated absences	186,355	45,457
(Decrease) increase in accrued liabilities	(4,722,484)	5,104,103
Decrease in pension and OPEB contributions	1,236,402	1,584,939
Increase (decrease) in net pension and OPEB liability	123,317	(1,502,560)
(Decrease) increase in pension and OPEB actuarial	(65,419)	487,949
Net cash used in operating activities	\$ (27,667,231)	\$ (21,833,517)

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, 2020 and 2019

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, 2020 and 2019
(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 \$13,687,471 and \$17,580,229 as of June 30, 2020 and 2019, 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, 2020 and 2019
(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.

Reclassification

Certain reclassifications have been made to fiscal year 2019 amounts in order to conform to the fiscal year 2020 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, 2020 and 2019, 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, 2020 and 2019
(Continued)

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Amounts due from other governments as of June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Los Angeles County	\$ 1,900,088	\$ 586,383
State Transit Assistance Fund	555,704	259,392
Federal Transit Administration	<u>2,555,138</u>	<u>-</u>
Total	<u>\$ 5,010,930</u>	<u>\$ 845,775</u>

NOTE 4 – CAPITAL ASSETS, NET

Capital assets as of June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</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	11,960,069	11,617,334
Vehicles	36,625,429	36,625,429
Furniture and fixtures	917,849	917,849
Construction in progress	<u>3,933,519</u>	<u>1,656,455</u>
Total property and equipment	61,489,973	58,870,174
Less accumulated depreciation	<u>(36,576,506)</u>	<u>(32,509,891)</u>
Capital assets, net	<u>\$ 24,913,467</u>	<u>\$ 26,360,283</u>

CITY OF TORRANCE
TRANSIT SYSTEM FUND
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2020 and 2019
(Continued)

NOTE 5 – UNEARNED REVENUES

Unearned revenues as of June 30, 2020 and 2019 are as follows:

	2020	2019
Proposition C 5% Transit Security	\$ 1,142,172	\$ 1,049,505
Proposition C Discretionary - MOSIP	1,075,890	1,878,682
Proposition 1B - PTMISEA	1,559,446	1,559,446
Proposition 1B - PTMISEA Interest	61,152	-
Proposition 1B - PTMISEA (Regional Transportation Center Project) FY 2010-11 allocation	1,367,118	1,446,982
Proposition 1B - PTMISEA (Regional Transportation Center Project) Interest	263,715	231,082
Proposition 1B - Transit Security Program	180,949	193,189
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	25,831	21,587
Measure R Regional Clean Fuel Bus Fund	137,208	137,208
Cap and Trade - Low Carbon Transit Operations Program	296,886	273,837
Cap and Trade - Low Carbon Transit Operations Program Interest	16,067	10,080
Total unearned revenues	\$ 6,359,442	\$ 7,034,606

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 \$4,099,480 and \$3,627,298 for the fiscal years ended June 30, 2020 and 2019, respectively.

CITY OF TORRANCE
TRANSIT SYSTEM FUND
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2020 and 2019
(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 \$15,139,228 and \$14,850,461 as of June 30, 2020 and 2019, 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, 2020 and 2019
(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, 2020 and 2019
(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 \$2,227,200 and \$2,392,650 as of June 30, 2020 and June 30, 2019, 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 – 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. There were no write-off of uncollectible due from other governments in FY 2019-20.

NOTE 12 – 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. There were no claims expenses in FY 2019-20.

NOTE 13 – SUBSEQUENT EVENTS

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries. To date, it is unknown how long these conditions will last and what the complete financial effect will be to businesses and other affected organizations, including local governmental entities.

CITY OF TORRANCE
TRANSIT SYSTEM FUND
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2020 and 2019
(Continued)

NOTE 13 – SUBSEQUENT EVENTS (Continued)

Additionally, during the development of the City's Fiscal Year 2020-21 budget, adjustments and reductions were needed to balance the overall operating budget. The budget included a proposal to issue Lease Revenue Bonds in an effort to lower our Unfunded Actuarial Liability (UAL) with CalPERS and effectively refinance at a lower interest rate (true interest cost of 3.43%). The City successfully closed this transaction on October 22, 2020 paying down \$338.4 million dollars in overall CalPERS UAL and an additional \$26.3 million in UAL related to the current fiscal year by issuing \$349,515,000 in Lease Revenue Bonds. This has increased the City's funded status with CalPERS to approximately 92%. The City projects annual savings each year over the life of the bonds with estimated total savings of approximately \$172 million through fiscal year 2043-44. These models include assumptions that are not guaranteed over the term of the bond issue due to the unpredictable nature of investment returns.

The City has evaluated subsequent events through December 16, 2020, the date the financial statements were available to be issued and concluded no other events have occurred that require disclosure or adjustments to the 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, 2020, and have issued our report thereon dated December 16, 2020. 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 & Simpson".

Los Angeles, California
December 16, 2020

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 (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, 2020.

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, 2020.



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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 requirements of the Guidelines. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script, reading "Simpson & Simpson", is written in black ink.

Los Angeles, California
December 16, 2020

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

CITY OF TORRANCE
TRANSIT SYSTEM FUND
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2020

No findings were noted.

SUPPLEMENTARY INFORMATION

CITY OF TORRANCE
TRANSIT SYSTEM FUND
EXHIBIT I
50% EXPENDITURE LIMITATION TEST AND MAINTENANCE OF EFFORT TEST
For the Fiscal Year Ended June 30, 2020

50% EXPENDITURE LIMITATION TEST

1 Total operating cost before depreciation	\$	26,054,320 *
2 Total depreciation		4,066,615
3 Total capital requirements		-
4 Total debt service requirements		-
5 Total (Lines 1-4)		<u>30,120,935</u>
6 Less: Federal grants received		3,322,416
7 Less: State Transit Assistance Fund received		<u>2,277,991</u>
8 Total (Lines 6 & 7)		<u>5,600,407</u>
9 Net (Line 5 minus Line 8)	\$	<u>24,520,528</u>
10 Total permissible Local Transportation Fund (LTF) under Article 4 (50% of Line 9)	\$	<u>12,260,264</u>
11 TDA Article 4 allocation	\$	<u>6,824,827</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 of \$711,610. Based on the result of testing, TDA Article 4 allocation did not exceed 50% expenditure limitation.

MAINTENANCE OF EFFORT TEST

Total operating budget	\$	34,809,270
Total local return funds received	\$	8,204,162
5% of total operating budget	\$	1,740,464 **
25% of total local return funds received	\$	2,051,041 **

**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, 2020, 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 \$1,740,464, 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, 2020

PROPOSITION A DISCRETIONARY ELIGIBILITY TEST

1	TDA Article 4 Allocation	\$	6,824,827
2	State Transit Assistance Fund		1,667,112 (a)
3	Farebox revenues		1,906,777 (b)
4	Local subsidies		12,396,524
5	Total operating revenues (Lines 1-4)		<u>22,795,240</u>
6	Less: operating cost before depreciation		<u>26,765,930</u>
7	Eligible transit operator subsidy (Line 5 less Line 6)		3,970,690
8	Proposition A Discretionary Grant allocation		<u>4,233,624</u>
9	Excess Proposition A Discretionary Grant received	\$	<u><u>262,934</u></u> (c)

- (a) This excludes Senate Bill 1 (SB1) revenues of \$610,879 that are related to FY 2018-19 allocations and expended in FY 2018-19.
- (b) This excludes other miscellaneous revenues.
- (c) Under the Proposition A Discretionary Guidelines, unexpended funds must be returned to Los Angeles County Metropolitan Transportation Authority (LACMTA) within sixty (60) days following the completion of the financial and compliance audit. There were \$262,934 of unexpended funds as of June 30, 2020 that are required to be returned to LACMTA by February 21, 2021.

See accompanying independent auditor's report

CITY OF TORRANCE
TRANSIT SYSTEM FUND
EXHIBIT III
SCHEDULE OF CAPITAL ASSETS
June 30, 2020

Description	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020
Land	\$ 1,507,719	\$ -	\$ -	\$ 1,507,719
Buildings	5,073,745	-	-	5,073,745
Building improvements	1,471,643	-	-	1,471,643
Machinery & equipment	11,617,334	342,735	-	11,960,069
Furniture & fixtures	917,849	-	-	917,849
Vehicles	36,625,429	-	-	36,625,429
Construction in progress	<u>1,656,455</u>	<u>2,619,799</u>	<u>342,735</u>	<u>3,933,519</u>
Total capital assets	\$ <u>58,870,174</u>	\$ <u>2,962,534</u>	\$ <u>342,735</u>	\$ 61,489,973
Less: accumulated depreciation				<u>(36,576,506)</u>
Capital assets, net				\$ <u>24,913,467</u>

See accompanying independent auditor's report

CITY OF TORRANCE
TRANSIT SYSTEM FUND
EXIT CONFERENCE
June 30, 2020

An exit conference was held on December 23, 2020 with the City of Torrance. Those in attendance were:

Simpson & Simpson Representative:

Austine Cho – Audit Manager

City’s Representative(s):

Ian Dailey – Accounting Manager
James Lee – Transit Administration Manager
Christine Canlas – Senior Accountant
Clarissa Murillo - Accountant

Matters Discussed:

Results of the audit disclosed no significant control deficiencies and non-compliance issues with LACMTA 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:

Ian Dailey – Accounting Manager
James Lee – Transit Administration Manager
Christine Canlas – Senior Accountant
Clarissa Murillo - Accountant

Simpson & Simpson, LLP
633 West 5th 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, 2020 AND 2019.

I have received the annual financial report of the Transit System Fund for the years ended June 30, 2020 and 2019 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