



MetroTM

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

**As of and for the Years Ended June 30, 2024 and 2023
with Independent Auditor's Report**



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FINANCIAL SECTION



Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Transit Fund (the Transit Fund) of the City of Commerce, California (the City) which comprise the Fund's statements of net position as of June 30, 2024 and 2023, the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Transit Fund of the City of Commerce, California, as of June 30, 2024 and 2023, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As described in Note 1, the financial statements present only the Transit Fund of the City and do not purport to, and do not, present fairly the financial position of the City of Commerce, California, as of June 30, 2024 and 2023, 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. Our opinion is not modified with respect to this matter.



Other Matter

As discussed in Note 8, the fiscal year 2023 financial statements have been restated to recognize additional capital contribution from the California STEP grant, capitalize new fixed assets, and account for the related depreciation. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Supplementary Information

Our audits were conducted for the purpose of forming an opinion of the Transit Fund's financial statements as a whole. The supplementary information identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such 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 Fund's basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the Transit Fund's basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the Transit Fund's basic financial statements or to the Transit Fund's basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the Transit Fund's basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2025 on our consideration of the City's internal control over the Transit Fund's financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over the Transit Fund's financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over the Transit Fund's financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over the Transit Fund's financial reporting and compliance.

**Glendale, California
February 5, 2025**

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

	June 30	
	2024	(as restated) 2023
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets		
Cash and investments	\$ -	\$ -
Due from Metro	54,636	39,563
Due from Federal Transit Administration	595,833	900,000
Total current assets	650,469	939,563
Capital assets		
Property and equipment (Note 2)	30,564,065	30,564,065
Less: accumulated depreciation (Note 2)	(16,476,171)	(15,058,414)
Total capital assets	14,087,894	15,505,651
Total assets	14,738,363	16,445,214
Deferred outflows of resources		
Deferred outflows of resources related to pensions (Note 6)	2,382,051	2,718,770
Deferred outflows of resources related to OPEB (Note 7)	855,316	1,143,442
Total deferred outflows of resources	3,237,367	3,862,212
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Current liabilities		
Accounts payable	274,773	465,534
Accrued salaries and benefits payable	165,129	161,790
Compensated absences payable	211,257	142,166
Due to General Fund	6,758,728	5,276,887
Total current liabilities	7,409,887	6,046,377
Noncurrent liabilities		
Compensated absences payable	464,230	491,916
Net pension liability (Note 6)	3,975,997	3,309,811
OPEB liability (Note 7)	14,976,458	14,450,391
Total noncurrent liabilities	19,416,685	18,252,118
Total liabilities	26,826,572	24,298,495
Deferred inflows of resources		
Deferred inflows of resources related to pensions (Note 6)	168,677	353,281
Deferred inflows of resources related to OPEB (Note 7)	1,573,154	2,218,529
Total deferred inflows of resources	1,741,831	2,571,810
NET DEFICIT		
Net deficit		
Net investment in capital assets (Note 2)	14,087,894	15,505,651
Unrestricted	(24,680,567)	(22,068,530)
Net deficit \$	(10,592,673)	\$ (6,562,879)

See notes to financial statements.

**City of Commerce
Transit Fund**

Statements of Revenues, Expenses and Changes in Net Position

	Years ended June 30	
	2024	(as restated) 2023
Operating revenues		
Charges for services - bus fares	\$ -	\$ -
Others - advertising	-	25,206
Total operating revenues	-	25,206
Operating expenses		
Administration	658,540	5,018,589
Depreciation	1,417,757	1,417,757
Operations	7,536,076	2,853,255
Maintenance	1,292,357	1,156,128
Total operating expenses	10,904,730	10,445,729
Net operating loss	(10,904,730)	(10,420,523)
Nonoperating revenues		
Intergovernmental (Note 3)	5,812,035	5,254,179
Total nonoperating revenues	5,812,035	5,254,179
Loss before capital contributions and operating transfers	(5,092,695)	(5,166,344)
Capital contributions (Note 4)	-	2,662,123
Operating transfers (Note 5)	1,062,901	1,336,234
Change in net position	(4,029,794)	(1,167,987)
Net deficit at beginning of year	(6,562,879)	(5,394,892)
Net deficit at end of year	\$ (10,592,673)	\$ (6,562,879)

See notes to financial statements.

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

	Years ended June 30	
	2024	(as restated) 2023
Cash flows from operating activities		
Payments to suppliers	\$ (3,588,275)	\$ (5,285,531)
Payments to employees	(5,057,596)	(5,366,493)
Other receipts	-	25,206
Net cash used in operating activities	(8,645,871)	(10,626,818)
Cash flows from capital and related financing activities		
Capital grants and contributions	-	2,662,123
Purchases and construction of capital assets, net	-	(2,662,123)
Net cash provided by capital and related financing activities	-	-
Cash flows from non-capital financing activities		
Intergovernmental noncapital grants	6,101,129	6,884,334
Contributions received from other funds	1,062,901	1,336,234
Cash received from General Funds	1,481,841	2,320,268
Net cash provided by non-capital financing activities	8,645,871	10,540,836
Net changes in cash and cash equivalents	-	(85,982)
Cash and cash equivalents, beginning of year	-	85,982
Cash and cash equivalents, end of year	\$ -	\$ -
Reconciliation of net operating loss to net cash used in operating activities:		
Net operating loss	\$ (10,904,730)	\$ (10,420,523)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation	1,417,757	1,417,757
Changes in operating assets and liabilities:		
Increase in deferred outflows of resources related to pensions	336,719	(2,042,867)
Increase in deferred outflows of resources related to OPEB	288,126	(175,100)
Increase (decrease) in accounts payable	(190,761)	(2,347,018)
Increase (decrease) in accrued salaries and benefits payable	3,339	69,284
Increase in compensated absences payable	41,405	53,986
Increase (decrease) in net pension liability	666,186	(391,872)
Increase in OPEB liability	526,067	3,554,395
Increase (decrease) in deferred inflows of resources related to pensions	(184,604)	(1,445,432)
Increase (decrease) in deferred inflows of resources related to OPEB	(645,375)	1,100,572
Net cash used in operating activities	\$ (8,645,871)	\$ (10,626,818)

See notes to financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Transit Fund (the Transit Fund) of the City of Commerce (the City) is an enterprise fund of the City created by resolution of the City Council. The Fund accounts for the activities necessary to provide transportation service to the citizen and the industrial community. The accounting policies of the Fund conform to accounting principles generally accepted in the United States of America. The following is a summary of the significant policies applied in the preparation of the Fund's financial statements.

Reporting Entity and Fund Accounting

All transactions of the Transit Fund are included in the reporting entity of the City of Commerce and are recorded in a separate fund of the City. As such, the accompanying financial statements present only the Transit Fund and do not purport to, and do not present fairly the financial position and the changes in financial position of the City of Commerce, California, as of and for the years ended June 30, 2024 and 2023. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording resources, related liabilities, deferred inflows and outflows, reserves, revenues and expenses and fund equities segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The Fund follows the Uniform System of Accounts and Records prescribed by the Federal Transportation Administration (FTA) and the California State Controller. Transit system operations provide transportation services to the general public.

Fair Value Measurement

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

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

Cash, Cash Equivalents and Investments

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

Available cash balances consist primarily of certificates of deposit, deposits in the State Treasurer's Local Agency Investment Fund, bankers' acceptances and Federal agency investments and repurchase agreements. All of the City's investments are authorized by State statute. Cash and investments are stated at cost, which approximates fair value. The Transit Fund reported zero balance of cash and investments as of June 30, 2024 and 2023.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash, Cash Equivalents and Investments (Continued)

For purposes of reporting cash flows for the Transit Fund, cash and cash equivalents include cash on hand and investments purchased with original maturities of 90 days or less. Cash includes deposits in the cash management pool that has the general characteristics of a demand deposit account. Further information concerning the City's investment pool and a full description of risks relating to cash and investments can be found in the City's ACFR.

Capital Assets

Capital assets, comprised of property and equipment, are recorded at cost. Depreciation of capital assets in the Transit Fund is charged to operations. Depreciation is provided over the estimated useful lives of the assets using the straight-line method with no allowance for salvage values. The estimated useful lives used in computing depreciation of capital assets are as follows:

Description	Estimated Useful Life
Buildings	10-40 years
Improvements other than buildings	20-30 years
Distribution system	20-30 years
Infrastructure	20-40 years
Machinery and equipment	5-13 years

Unearned Revenues

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

Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement Nos. 63 and 65, the City recognizes deferred outflows and inflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period. Deferred outflows and inflows of resources as of June 30, 2024 and 2023 represent pension and OPEB related deferrals reported in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Statement of Cash Flows

The City maintains the Statement of Net Position for the entire Transit Fund. The individual Statement of Net Position components cannot be broken down by projects. Thus, the Statement of Cash Flows cannot be presented separately for the Fixed Route, Dial-A-Ride and Recreational Transit projects.

Use of Estimates

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

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Postemployment Benefits Other Than Pensions (OPEB)

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

Governmental Accounting Standards Update

During the year ended June 30, 2024, the Transit Fund implemented Governmental Accounting Standards Board (GASB) Statement No. 100 - *Accounting Changes and Error Corrections*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this standard are effective for reporting periods beginning after June 15, 2023. The financial statements included herein apply the requirements and provisions of the new standard.

NOTE 2 CAPITAL ASSETS

Capital assets at June 30, 2024 and 2023 is composed of:

	<u>2024</u>	<u>(as restated) 2023</u>
Building improvements	\$ 9,204,145	\$ 9,204,145
Machinery and equipment	18,938,521	18,938,521
Land	<u>2,421,399</u>	<u>2,421,399</u>
Total capital assets	<u>30,564,065</u>	<u>30,564,065</u>
Less: Accumulated depreciation	<u>(16,476,171)</u>	<u>(15,058,414)</u>
Capital assets, net	<u>\$ 14,087,894</u>	<u>\$ 15,505,651</u>

NOTE 3 INTERGOVERNMENTAL REVENUES

Intergovernmental revenues for the years ended June 30, 2024 and 2023 consisted of the following:

	<u>2024</u>	<u>2023</u>
Proposition A 40% Discretionary Fund	\$ 308,858	\$ 391,840
Transportation Development Act (TDA) Article 3	14,210	12,051
TDA Article 4	753,721	462,628
State Transit Assistance Fund	77,826	43,948
Proposition C Local Return Fund	267,016	278,896
Proposition C Discretionary – Zero-Fare Compensation	1,079,403	900,736
Proposition C Discretionary – Base Restructuring	280,219	270,194
Proposition C Discretionary – Foothill Mitigation	22,349	13,963
Proposition C Discretionary – Security	50,350	24,796
Proposition C Discretionary – MOSIP	88,965	59,758
Measure R Local Return	200,199	209,112
Measure R Clean Fuel Bus Capital Facility and Rolling Stock Fund	35,807	-
Measure R 20% Bus Operations	283,981	164,959
Measure R 20% Highway Capital	-	3,890
Measure M Local Return	226,068	236,550
Measure M 20% Transit Operations	283,741	164,700
Senate Bill 1 - State Transit Assistance	59,751	33,899
Senate Bill 1 - State of Good Repair	14,346	12,123

NOTE 3 INTERGOVERNMENTAL REVENUES (CONTINUED)

	<i>(continued)</i>	
	<u>2024</u>	<u>2023</u>
FTA	\$ -	\$ 900,000
FTA CRRSAA Funds	577,945	22,357
FTA Comprehensive Operational Analyst	14,777	4,109
FTA Transit Facility at CREA Site	1,172,503	649,951
On-demand Transit Software Technology	-	118,443
South Coast Air Quality Management District Grant Funding	-	275,000
Others	-	276
Total	<u>\$ 5,812,035</u>	<u>\$ 5,254,179</u>

NOTE 4 CAPITAL CONTRIBUTIONS

In May 2021, the City entered into a grant agreement for the Sustainable Transportation Equity Program (STEP) with the California Air Resources Board (CARB) for the Commerce Moving Forward Project. CARB approved the grant amounting to \$3,240,078.

The City recognized reimbursements for the purchase of Electric Shuttles amounting to \$2,662,123 during the year ended June 30, 2023.

NOTE 5 OPERATING TRANSFERS

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

For the fiscal years ended June 30, 2024 and 2023, the operating transfers consisted of the following:

	<u>2024</u>	<u>2023</u>
Proposition A Local Return Fund	\$ 321,909	\$ 336,234
Proposition A Exchange	740,992	1,000,000
Total	<u>\$ 1,062,901</u>	<u>\$ 1,336,234</u>

NOTE 6 PENSION PLAN

California Public Employers' Retirement System (CalPERS)

All qualified permanent and probationary employees are eligible to participate in the City's Miscellaneous Plan, agent multiple-employer defined benefit pension plan administered by CalPERS, which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS' website under Forms and Publications.

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment.

The City's net pension liability was measured as of June 30, 2023 and 2022 and the total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2022 and 2021, respectively.

At June 30, 2024 and 2023, the Transit Fund's share of the City's pension is 25.20% and 24.94%, respectively.

In accordance with GASB Statement No. 68, the City allocated the following pension related accounts to the Transit Fund as of June 30, 2024 and 2023:

	2024	2023
Net pension liability	\$ 3,975,997	\$ 3,309,811
Deferred outflows of resources	2,382,051	2,718,770
Deferred inflows of resources	168,677	353,281

Refer to the City's ACFR as of and for the fiscal years ended June 30, 2024 and 2023 for more information about the City's pension plan and required note disclosures.

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS PLAN

Plan Description

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

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS PLAN (CONTINUED)

Eligibility

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

Net OPEB Liability

The City's net OPEB liability was measured as of June 30, 2023 and 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2022.

In accordance with GASB Statement No. 75, the City allocated 25.20% and 25.94% of the City's total OPEB liability, expense and deferred inflows and outflows of resources to the Transit Fund as of June 30, 2024 and 2023, respectively. Amounts allocated are as follows:

	2024	2023
Net OPEB liability	\$ 14,976,458	\$ 14,450,391
Deferred outflows of resources	855,316	1,143,442
Deferred inflows of resources	1,573,154	2,218,529

Refer to the City's ACFR for the fiscal years ended June 30, 2024 and 2023 for more information about the City's postemployment benefits plan and required note disclosures.

NOTE 8 RESTATEMENT OF FUND FINANCIAL STATEMENTS

The 2023 financial statements were restated to reflect the adjustments on the following accounts:

	Balance, as previously reported	Adjustment	Balance, as restated
Property and equipment	\$ 29,504,307	\$ 1,059,758	\$ 30,564,065
Accumulated depreciation	14,962,394	96,020	15,058,414
Operating expenses - Depreciation	1,321,737	96,020	1,417,757
Capital contributions	1,602,365	1,059,758	2,662,123
Net deficit	(7,526,617)	963,738	(6,562,879)

The restatement of the financial statements is to recognize additional capital contribution from the California STEP grant, capitalize new fixed assets, and account for the related depreciation.

NOTE 9 SUBSEQUENT EVENTS

The City has evaluated events subsequent to June 30, 2024 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through February 5, 2025, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements.



**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 Commerce, California and the
Los Angeles County Metropolitan Transit Authority**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Transit Fund (the Transit Fund) of the City of Commerce, California (the City) as of and for the year ended June 30, 2024, and the related notes to the Fund financial statements, and have issued our report thereon dated February 5, 2025.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the Funds' financial statements, we considered the City's internal control over the Transit Fund's financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the Transit 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 or significant deficiencies may exist that were not identified.



Report on Compliance and Other Matters

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

Purpose of this Report

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

**Glendale, California
February 5, 2025**

COMPLIANCE SECTION



**Independent Auditor's Report on Compliance
and on Internal Control Over Compliance Required by the Guidelines**

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

Report on Compliance

Opinion

We have audited the City of Commerce, California's (the City) compliance with the Transportation Development Act, State Transit Assistance, Proposition A 40% Discretionary and Proposition C 40% Discretionary Program Memorandum of Understanding (MOU) and Guidelines, and Proposition 1B Guidelines (collectively, the Guidelines) for the year ended June 30, 2024.

In our opinion, the City of Commerce, California complied, in all material respects, with the compliance requirements of the Guidelines for the year ended June 30, 2024.

Basis for Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the Guidelines. Our responsibilities under those standards and the Guidelines are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance with the Guidelines. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for the City's compliance with the Guidelines and for the design, implementation, and maintenance of effective internal control over compliance with the compliance requirements of laws, statutes, regulations, rules, and provisions of contracts or agreements applicable to the City's Transit Fund.



Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Guidelines will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of the Guidelines as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Guidelines, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Guidelines, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 with the Guidelines on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Glendale, California
February 5, 2025

City of Commerce
Transit Fund

**Transportation Development Act (TDA), State Transit Assistance (STA),
Proposition A (Prop A), and Proposition C (Prop C) Compliance Matrix
Year ended June 30, 2024**

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

See independent auditor's report on compliance.

**City of Commerce
Transit Fund**

**Transportation Development Act (TDA), State Transit Assistance (STA),
Proposition A (Prop A), and Proposition C (Prop C) Compliance Matrix
Year ended June 30, 2024**

Compliance Requirements	Applies To	In Compliance			If no, provide details and management response.
		Yes	No	N/A	
10. Operator has been certified within the last 13 months by the California Highway Patrol to be in compliance with Section 1808.1 of the Vehicle Code.	TDA STA	X			
11. Operator is in compliance with the eligibility requirements of PUC Section 99314.6.	TDA STA	X			
12. Operator received local support equivalent to 5% of the current fiscal year operating budget or 25% of the current fiscal year Local Return Funds received by the operator's sponsoring municipality, whichever is less.	Prop A	X			
13. Operator's sponsoring municipality has expended at least 50% of the fiscal year Proposition A Local Return allocation.	Prop A	X			
14. Operator utilized the funds in accordance with Metro's guidelines and did not use the funds to substitute for any other funds, service, or projects except as otherwise specifically provided for in the MOUs. <ul style="list-style-type: none"> • Proposition A Discretionary • Transit Service Expansion • Foothill Mitigation • Bus System Improvement Plan • Base Restructuring • Security • Fuel Mitigation Program • Measure R 	Prop A Prop C Measure R	X			
15. Operator has complied with all requirements of Proposition 1B Ordinance	Prop 1B	X			

See independent auditor's report on compliance.

SUPPLEMENTARY INFORMATION

City of Commerce
Transit Fund
Exhibit A
Eligibility Test for TDA and STA Funds (CAC 6634)
Year ended June 30, 2024

Eligibility Test for TDA and STA Funds (CAC 6634)

1. Total Operating Costs (Excluding Depreciation)	\$ <u>9,486,973</u> *
2. Deductions:	
a) Fare Box Revenues	-
b) Local Support Required Specified Under CAC 6633.2	4,103,700 **
c) Federal Operating Assistance Received	-
d) Amount Received from a City or County which are beyond boundaries	-
e) Local sales tax revenues pursuant to PUC section 130354	<u>-</u>
3. Total Deductions (Sum a-e)	<u>4,103,700</u>
4. Amount of TDA and STA Funds Eligible (Line 1 minus Line 3)	\$ <u>5,383,273</u>
5. TDA and STA Funds Received	\$ <u>845,757</u>
6. Excess TDA and STA Funds Received (Amount of Line 5 in excess of Line 4)	\$ <u><u>-</u></u>

*** Total Operating Costs**

Total Operating Expenses	\$ 10,904,730
Less: Depreciation	<u>(1,417,757)</u>
	<u>\$ 9,486,973</u>

**** Local Support**

Proposition A Local Return	\$ 321,909
Proposition A Exchange Revenue	740,992
Proposition C Local Return	267,016
Measure R Local Return	200,199
Measure M Local Return	226,068
Proposition A 40% Discretionary Fund	308,858
Proposition C Discretionary Fund - Zero-Fare Compensation	1,079,403
Proposition C Discretionary - Base Restructuring	280,219
Proposition C Discretionary - Foothill Mitigation	22,349
Proposition C Discretionary - MOSIP	88,965
Measure R 20% Bus Operations	283,981
Measure M 20% Transit Operations	<u>283,741</u>
	<u>\$ 4,103,700</u>

See independent auditor's report.

City of Commerce
Transit Fund
Exhibit B
Eligibility Test for Proposition A Discretionary Grant
Year ended June 30, 2024

Eligibility Test for Proposition A Discretionary Grant

1. Total Operating Costs (Excluding Depreciation)	\$	<u>9,486,973</u> *
2. Deductions:		
a) UMTA Section 9 Operating Funds		-
b) State Transportation Assistance Funds		77,826
c) TDA Operating Funds		753,721
d) Farebox Revenues		-
e) Local Subsidies (including Local Return, General Revenue, etc.)		1,756,184 **
f) Other		<u>-</u>
3. Total Deductions (Sum a-f)		<u>2,587,731</u>
4. Amount of Proposition A Discretionary Grant Eligible (Line 1 minus Line 3)	\$	<u>6,899,242</u>
5. Proposition A Discretionary Grant Received	\$	<u>308,858</u>
6. Excess Proposition A Discretionary Received (Amount of Line 5 in excess of Line 4)	\$	<u><u>-</u></u>

* Total Operating Costs

Total Operating Expenses	\$	10,904,730
Less: Depreciation		<u>(1,417,757)</u>
	\$	<u><u>9,486,973</u></u>

** Local Subsidies

Proposition A Local Return	\$	321,909
Proposition A Exchange Revenue		740,992
Proposition C Local Return		267,016
Measure R Local Return		200,199
Measure M Local Return		<u>226,068</u>
	\$	<u><u>1,756,184</u></u>

See independent auditor's report.

City of Commerce
Transit Fund
Exhibit C
Expenditure Limitation Test
Year ended June 30, 2024

50% Expenditure Limitation Test ⁽¹⁾

1	Total Operating Costs Before Depreciation ⁽¹⁾	\$ 1,387,289
2	Total Depreciation	1,417,757
3	Total Capital Requirements	-
4	Total Debt Service Requirements	-
5	Total (Lines 1 - 4)	<u>2,805,046</u>
6	Less: Federal Grants Received	-
7	Less: State Transit Assistance Fund (STAF) Received	<u>77,826</u>
8	Total (Lines 6 & 7)	<u>77,826</u>
9	Net (Line 5 less Line 8)	<u>\$ 2,727,220</u>
10	Total Permissible Local Transportation Fund (LTF) under Article 4 (50% of Line 9)	<u>\$ 1,363,610</u>
11	LTF Expended	<u>\$ 753,721</u>
12	Excess LTF Expended (Amount of Line 11 in excess of Line 10)	<u>\$ -</u>

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

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

See independent auditor's report.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**City of Commerce
Transit Fund
Schedule of Findings and Questioned Costs
Year ended June 30, 2024**

There were no findings and questioned costs.

EXIT CONFERENCE

An exit conference was held on January 30, 2025 with the City of Commerce representatives. Those in attendance were:

Vasquez and Company LLP representatives:
Cristy Canieda – Audit Partner
Erica Ong – Audit Manager

City of Commerce representatives:
Claude McFerguson – Director of Transportation
Francisco Larios – Contract Accountant

Matters discussed:

Results of the audit disclosed no significant compliance or financial statement issues.

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

Vilko Domic – Assistant City Manager
Claude McFerguson – Director of Transportation
Francisco Larios – Contract Accountant



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