

*CITY OF TORRANCE
ANNUAL FINANCIAL REPORT OF THE
TRANSIT SYSTEM FUND
AS OF AND FOR THE FISCAL YEARS ENDED
JUNE 30, 2023 AND 2022*



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

Opinions

We have audited the accompanying financial statements of the Transit System Fund (the Fund) of the City of Torrance, California (the City) as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund of the City, as of June 30, 2023 and 2022, and the changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the Fund of the City, and do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2023 and 2022, the changes in its financial position, for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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.



The CPA. Never Underestimate The Value.™



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 opinions on the Fund's financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. 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 Fund's financial statements. The 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 Fund's financial statements or to the 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 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 18, 2023, on our consideration of the City's internal control over the Fund's financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over the Fund's financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over the Fund's financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over the Fund's financial reporting and compliance.

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

Los Angeles, California
December 18, 2023

CITY OF TORRANCE
TRANSIT SYSTEM FUND
STATEMENTS OF NET POSITION
JUNE 30

	2023	2022
ASSETS		
Current assets		
Cash and investments	\$ 44,906,722	\$ 26,052,623
Accounts receivable	42,354	595,780
Accrued interest receivable	282,508	17,519
Inventory	1,524,517	1,273,732
Due from other governments (Note 3)	6,508,092	6,284,175
Prepaid expense	141,039	-
Total current assets	53,405,232	34,223,829
Noncurrent assets		
Capital assets, net (Note 4)	17,839,314	20,022,223
Net pension asset (CalPERS, Note 7)	-	3,550,963
Total noncurrent assets	17,839,314	23,573,186
Total assets	71,244,546	57,797,015
 DEFERRED OUTFLOWS OF RESOURCES		
Pension and OPEB contributions	5,825,670	1,557,070
 LIABILITIES		
Current liabilities		
Accounts payable	453,156	381,931
Contract retainage payable	142,132	208,633
Accrued compensated absences - current	307,087	282,501
Accrued interest payable	11,118	-
Accrued liabilities	644,132	801,773
Due to Metro (Note 12)	2,994,806	-
SBITA liabilities – short term (Note 13)	129,089	-
Unearned revenues (Note 5)	11,642,655	5,644,261
Total current liabilities	16,324,175	7,319,099
Noncurrent liabilities		
Accrued compensated absences - long term	874,017	804,041
Total pension liability (CalPERS and PARS, Note 7)	7,362,640	833,518
Total OPEB liability (Note 10)	2,511,137	2,134,761
SBITA liabilities – long term (Note 13)	446,483	-
Total noncurrent liabilities	11,194,277	3,772,320
Total liabilities	27,518,452	11,091,419

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

CITY OF TORRANCE
TRANSIT SYSTEM FUND
STATEMENTS OF NET POSITION (CONTINUED)
JUNE 30

	2023	2022
DEFERRED INFLOWS OF RESOURCES		
Receivables from Metro	\$ -	\$ 64,983
Pension and OPEB actuarial	657,403	6,901,752
Total deferred inflows of resources	657,403	6,966,735
 NET POSITION		
Net investment in capital assets	17,697,182	19,813,590
Restricted	31,197,179	21,482,341
 Total net position	\$ 48,894,361	\$ 41,295,931

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

	2023	2022
OPERATING REVENUES		
Charges for services		
Passenger cash fare	\$ 959,099	\$ 469,011
Others	630	70,496
Total operating revenues	959,729	539,507
OPERATING EXPENSES		
Salaries and employee benefits	14,401,554	13,676,030
Services and supplies	2,509,611	2,086,626
Other professional services	2,413,433	1,737,935
Depreciation and amortization	3,342,452	3,897,646
Indirect cost allocation from City (Note 6)	5,881,955	4,969,689
Insurance and claims	476,539	239,741
Other costs	95,142	76,758
Interest expense - SBITAs	11,118	-
Total operating expenses	29,131,804	26,684,425
Operating loss	(28,172,075)	(26,144,918)

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

	2023	2022
NON-OPERATING REVENUES (EXPENSES)		
Proposition A Discretionary	\$ 5,070,845	\$ 4,741,868
Proposition C Discretionary - Base Restructuring	785,150	760,068
Proposition C Discretionary - Transit Service Expansion Program	876,524	848,523
Proposition C Discretionary - Foothill Mitigation	313,760	226,245
Proposition C Discretionary - 5% Security	371,942	191,265
Proposition C Discretionary - Municipal Operator Service Improvement Program (MOSIP)	1,412	2,146
Proposition C Discretionary - Bus System Improvement Plan	260,598	252,273
TDA Article 4 - Operating	6,140,266	6,921,081
State Transit Assistance Fund (STAF)	1,848,392	1,033,968
Measure R 20% Bus Operations	1,133,476	2,792,335
Measure M 20% Bus Operations	64,898	2,782,822
Rapid Bus Transit	1,556	764
Federal Capital Maintenance	2,250,000	4,500,000
State of Good Repair	1,101,415	-
Federal Grants	11,274,783	7,559,530
Air Quality Management District Revenues	27,392	-
Investment income (loss)	506,189	(218,857)
Gain on sale of capital assets	3,500	16,650
Total non-operating revenues (expenses)	32,032,098	32,410,681
 Gain before capital grants and operating transfers	 3,860,023	 6,265,763
Capital grants	810,131	804,414
Operating transfer in from other funds (Note 11)	3,000,000	2,674,323
Transfer out to other funds (Note 11)	(71,724)	(63,482)
Change in net position	7,598,430	9,681,018
Net position at beginning of year	41,295,931	31,614,913
Net position at end of year	\$ 48,894,361	\$ 41,295,931

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

	2023	2022
Cash flows from operating activities		
Receipts from customers and users	\$ 959,099	\$ 469,011
Payments to suppliers for goods and services	(10,725,922)	(9,363,858)
Payments to employees for services	(14,363,480)	(15,805,805)
Other receipts	630	70,496
Net cash used in operating activities	(24,129,673)	(24,630,156)
Cash flows from capital and related financing activities		
Cash received from capital grants	810,131	804,414
Purchases and construction of capital assets, net	(1,226,044)	(1,195,618)
Proceeds from the sale of capital assets	3,500	16,650
Net cash used in capital and related financing activities	(412,413)	(374,554)
Cash flows from non-capital financing activities		
Cash contributions from other governments	40,226,709	36,726,531
Cash received from other funds	3,000,000	2,674,323
Cash transferred to other funds	(71,724)	(63,482)
Net cash provided by non-capital financing activities	43,154,985	39,337,372
Cash flows from investing activities		
Cash received from interest on investments	241,200	-
Cash paid for interest on investments	-	(220,735)
Net cash provided by (used in) investing activities	241,200	(220,735)
Change in cash and investments	18,854,099	14,111,927
Cash and investments, beginning of year	26,052,623	11,940,696
Cash and investments, end of year	\$ 44,906,722	\$ 26,052,623

Noncash investing, capital and financing activities:

During fiscal years 2023 and 2022, there were no significant noncash investing, capital, intangible, 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

	2023	2022
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (28,172,075)	\$ (26,144,918)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation/amortization	3,342,452	3,897,646
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	553,426	(506,586)
(Increase) in prepaids	(141,039)	-
(Increase) in inventory	(250,785)	(126,776)
Increase (decrease) in accounts payable	71,225	(11,414)
Increase (decrease) in accrued compensated absences	94,562	(253,328)
(Decrease) increase in accrued liabilities	(157,641)	391,667
Increase (decrease) in SBITA liabilities	575,572	-
(Increase) decrease in pension and OPEB contributions	(4,268,600)	7,387,032
Increase (decrease) in net pension and OPEB liability	10,456,461	(15,746,310)
(Decrease) increase in pension and OPEB actuarial	(6,244,349)	6,482,831
Net cash used in operating activities	\$ (24,129,673)	\$ (24,630,156)

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, 2023 and 2022

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, 2023 and 2022
(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 \$44,906,722 and \$26,052,623 as of June 30, 2023 and 2022, 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 Annual Comprehensive Financial Report (ACFR).

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, 2023 and 2022
(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 2022 amounts in order to conform to the fiscal year 2023 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, 2023 and 2022, 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, 2023 and 2022
(Continued)

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Amounts due from other governments as of June 30, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Los Angeles County	\$ 1,513,561	\$ 461,478
State Transit Assistance Fund	1,563,513	258,492
Federal Transit Administration	<u>3,431,018</u>	<u>5,564,205</u>
Total	<u>\$ 6,508,092</u>	<u>\$ 6,284,175</u>

NOTE 4 – CAPITAL ASSETS, NET

Capital assets as of June 30, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Land	\$ 1,507,719	\$ 1,507,719
Buildings	7,848,745	5,073,745
Building improvements	1,471,643	1,471,643
Machinery and equipment	13,691,984	13,039,917
Vehicles	36,815,902	36,674,401
Furniture and fixtures	917,849	917,849
Construction in progress	2,063,184	5,219,113
Intangible – SBITAs (Note 13)	<u>746,904</u>	<u>-</u>
Total property and equipment	65,063,930	63,904,387
Less: accumulated depreciation and amortization	<u>(47,224,616)</u>	<u>(43,882,164)</u>
Capital assets, net	<u>\$ 17,839,314</u>	<u>\$ 20,022,223</u>

Further information can be found in the Schedule of Capital Assets (Exhibit III).

CITY OF TORRANCE
TRANSIT SYSTEM FUND
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2023 and 2022
(Continued)

NOTE 5 – UNEARNED REVENUES

Unearned revenues as of June 30, 2023 and 2022 are as follows:

	2023	2022
Proposition C 5% Transit Security	\$ 1,342,947	\$ 1,309,129
Proposition C Discretionary - MOSIP	2,193,150	2,235,819
Proposition 1B - PTMISEA	1,075,776	1,326,508
Proposition 1B - PTMISEA Interest	132,577	97,082
Proposition 1B - PTMISEA (Regional Transportation Center Project) Interest	5,699	5,535
Proposition 1B - Transit Security Program	42,115	42,115
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	15,868	14,194
Measure R 20%	2,573,290	-
Measure M 20%	3,636,056	-
Cap and Trade - Low Carbon Transit Operations Program	356,373	356,373
Cap and Trade - Low Carbon Transit Operations Program Interest	35,796	24,498
Total unearned revenues	\$ 11,642,655	\$ 5,644,261

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 \$5,881,955 and \$4,969,689 for the fiscal years ended June 30, 2023 and 2022, respectively.

CITY OF TORRANCE
TRANSIT SYSTEM FUND
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2023 and 2022
(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.

Following the implementation of GASB Statement No. 68, the Fund's total pension assets were \$0 and \$3,550,963 as of June 30, 2023 and 2022, respectively. Corresponding total pension liability was \$6,343,280 and \$0 as of June 30, 2023 and 2022, respectively.

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.

Following the implementation of GASB Statement No. 68, the Fund's total pension liability was \$1,019,360 and \$833,518 as of June 30, 2023 and 2022, respectively.

CITY OF TORRANCE
TRANSIT SYSTEM FUND
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2023 and 2022
(Continued)

NOTE 7 – EMPLOYEE BENEFITS (Continued)

As of June 30, 2023, the total reported pension liability was \$7,362,640, with CalPERS accounting for \$6,343,280 and PARS for \$1,019,360. As of June 30, 2022, the total reported pension liability was \$833,518, solely attributable to PARS. 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 ACFR.

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 ACFR.

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, 2023 and 2022
(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 total OPEB liability of \$2,511,137 and \$2,134,761 as of June 30, 2023 and June 30, 2022, 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 ACFR.

NOTE 11 – OPERATING TRANSFER IN/OUT FROM/TO OTHER FUNDS

The Transit System Fund operates as a funding shortfall each fiscal year; as such, they use local return funds to subsidize the deficiency in operating revenue. The City transferred \$3,000,000 during the fiscal year ended June 30, 2023, and \$2,674,323 during the fiscal year ended June 30, 2022, from the Proposition A Local Return Fund.

During the fiscal year ended June 30, 2023 and fiscal year ended June 30, 2022, the City transferred \$71,724 and \$63,482, respectively, to various other funds as contributions for various capital acquisitions or replacements.

NOTE 12 – DUE TO METRO

The amount due of \$2,994,806 is payable to Metro. This represents the excess Transportation Development Act Article 4 (TDA 4) funding, which totals \$2,629,694 for the fiscal year ended June 30, 2023, and \$365,112 for the fiscal year ended June 30, 2022. This amount must be returned to the Los Angeles County Metropolitan Transportation Authority (Metro). In return, Metro will reserve these funds for the City's future use. See Exhibit I – 50% Expenditure Limitation Test for further details.

CITY OF TORRANCE
TRANSIT SYSTEM FUND
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2023 and 2022
(Continued)

NOTE 13 – SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS (SBITAs)

As of July 1, 2022, the City adopted the GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)* defines a SBITA and establishes that entering into SBITAs results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; it also provides the capitalization criteria for outlays other than subscription payments, including implementation costs of SBITAs.

A SBITA is defined as a contractual agreement that conveys control of the right to use another party’s (a SBITA vendor’s) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a minimum contractual period of greater than one year, in an exchange or exchange-like transaction.

The City uses various SBITAs that it contracts through cloud computing arrangements, such as software as a service and platform as a service. The related obligations are presented in the amounts equal to the present value of subscription payments, payable during the remaining SBITAs terms. The City had total SBITA liability of \$575,572 as of June 30, 2023. A SBITA asset valued at \$746,904 is reported as Capital Assets and presented in the Capital Assets Note 4 as intangibles.

The City has a variety of variable payment clauses, within its SBITA arrangements, including variable payments based on future performance and usage of the underlying asset. Components of variable payments that are fixed in substance, are included in the measurement of the SBITA liabilities presented in the table below. The City did not incur expenses related to its SBITA activities such as termination penalties, not previously included in the measurement of the SBITA liabilities, or losses due to impairment.

The future lease payments are as follows:

	Principal	Interest	Total
Year ending June 30:			
2024	\$ 129,089	\$ 11,149	\$ 140,238
2025	138,577	8,673	147,250
2026	148,648	5,964	154,612
2027	159,258	3,085	162,343
	\$ 575,572	\$ 28,871	\$ 604,443

NOTE 14 – SUBSEQUENT EVENTS

The City has evaluated events or transactions that occurred subsequent to June 30, 2023 through December 18, 2023, the date the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined no subsequent matters require disclosure or adjustment to the accompanying financial statements.



SIMPSON & SIMPSON

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Transit System Fund (the Fund) of the City of Torrance, California (the City), as of and for the year ended June 30, 2023, and the related notes to the financial statements and have issued our report thereon dated December 18, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the Fund’s financial statements, we considered the City’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Fund’s financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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.



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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City Fund's 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 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 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 18, 2023

COMPLIANCE SECTION



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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 Torrance, California and the
Los Angeles County Metropolitan Transit Authority

Report on Compliance

Opinion

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, 2023.

In our opinion, the City of Torrance, California complied, in all material respects, with the compliance requirements of the Guidelines for the year ended June 30, 2023.

Basis for Opinion on Transit System Program

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 requirements of laws, statues, regulations, rules, and provisions of contracts or program agreements applicable to the City's Transit System Program.



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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 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 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.

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

Los Angeles, California
December 18, 2023

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

CITY OF TORRANCE
TRANSIT SYSTEM FUND
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2023

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, 2023

50% EXPENDITURE LIMITATION TEST:

1	Total operating cost before depreciation	\$ 25,211,305	(a)
2	Total depreciation and amortization	3,342,452	
3	Total capital requirements	-	
4	Total debt service requirements	-	
5	Total (Lines 1-4)	<u>28,553,757</u>	
6	Less: Federal grants received	13,694,610	(b)
7	Less: State Transit Assistance Fund received	<u>1,848,392</u>	
8	Total (Lines 6 & 7)	<u>15,543,002</u>	
9	Net (Line 5 minus Line 8)	<u>\$ 13,010,755</u>	
10	Total permissible Local Transportation Fund (LTF) under Article 4 (50% of Line 9)	<u>\$ 6,505,378</u>	
11	TDA Article 4 allocation	<u>\$ 9,135,072</u>	(c)
12	Excess LTF expended (Amount of Line 11 in excess of Line 10)	<u>\$ 2,629,694</u>	(d)

(a) The amount solely expenses from the Fixed Route operations, excluding the Dial-A-Ride project costs of \$578,047.

(b) Total Federal grants received include the following:

<u>Total Federal Grants received</u>	<u>Amount</u>
American Rescue Plan Act	\$ 11,274,783
Federal Capital Maintenance	2,250,000
Capital grants	<u>169,827</u>
Total	<u>\$ 13,694,610</u>

(c) This amount includes a \$6,140,266 TDA Article 4 allocation for fiscal year 2023, and \$2,994,806 payable to Metro. This payment is due to excess allocations of \$2,629,694 for fiscal year 2023 and \$365,112 for fiscal year 2022.

(d) Test results have discovered that the TDA Article 4 allocation for fiscal year 2023 exceeded the 50% expenditure limit by \$2,629,694. In response, the City is set to repay a total of \$2,994,806, which includes an excess allocation from fiscal year 2022 amounting to \$365,112. The entire amount will be returned to Metro, the Regional Transportation Planning entity, and these funds will be reserved for the City's future use. To fulfill this financial commitment, the City has formally recognized its obligation by establishing a 'due to Metro' account for the full amount of \$2,994,806.

See accompanying independent auditor's report.

CITY OF TORRANCE
TRANSIT SYSTEM FUND
EXHIBIT I
50% EXPENDITURE LIMITATION TEST AND MAINTENANCE OF EFFORT TEST
For the Fiscal Year Ended June 30, 2023
(Continued)

MAINTENANCE OF EFFORT TEST:

Total operating budget	\$	37,581,108	
Total local funds received	\$	7,680,231	(a)
5% of total operating budget	\$	1,879,055	(b)
25% of total local return funds received	\$	1,920,058	(c)

(a) Total local funds received include the following:

Total local funds received	Amount
Proposition A Discretionary	\$ 5,070,845
Proposition C Discretionary - Foothill Mitigation	313,760
Proposition C Discretionary - Bus System Improvement Plan	260,598
Proposition C Discretionary - MOSIP	1,412
Proposition C Discretionary - Base Restructuring	785,150
Proposition C Discretionary - Transit Service Expansion Program	876,524
Proposition C Discretionary - 5% Security	371,942
Total	\$ 7,680,231

(b) 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.

(c) During the fiscal year ended June 30, 2023, the City made a local contribution of \$3,000,000 from its Proposition A Local Return Fund to the Transit System Fund. Since the amount of the local contribution exceeded the minimum requirement of \$1,879,055, the City is in compliance with the maintenance of effort test.

CITY OF TORRANCE
TRANSIT SYSTEM FUND
EXHIBIT II
PROPOSITION A DISCRETIONARY ELIGIBILITY TEST
For the Fiscal Year Ended June 30, 2023

PROPOSITION A DISCRETIONARY ELIGIBILITY TEST:

1	TDA Article 4 Allocation	\$	9,135,072
2	State Transit Assistance Fund		1,848,392
3	Farebox revenues		959,099 (a)
4	Local subsidies		<u>6,836,708 (b)</u>
5	Total operating revenues (Lines 1-4)		18,779,271
6	Less: operating cost before depreciation		<u>25,211,305</u>
7	Eligible transit operator subsidy (Line 5 less Line 6)		6,432,034
8	Proposition A Discretionary Grant allocation		<u>5,070,845</u>
9	Excess Proposition A Discretionary Grant received	\$	<u>(1,361,189) (c)</u>

(a) This excludes other revenues.

(b) Local subsidies include the following:

<u>Local subsidies (Line 4)</u>	<u>Amount</u>
Proposition A Local Return	\$ 3,000,000
Proposition C Discretionary - Base Restructuring	785,150
Proposition C Discretionary - Transit Service Expansion Program	876,524
Proposition C Discretionary - Foothill Mitigation	313,760
Proposition C Discretionary - 5% Security	371,942
Proposition C Discretionary - MOSIP	1,412
Proposition C Discretionary - Bus System Improvement Plan	260,598
Measure R 20% Bus Operations	1,133,476
Measure M 20% Bus Operations	64,898
Rapid Bus Transit	1,556
Air Quality Management District Revenues	<u>27,392</u>
Total	<u>\$ 6,836,708</u>

(c) Under the Proposition A Discretionary Guidelines, unexpended funds must be returned to Metro within sixty (60) days following the completion of the financial and compliance audit. There were no unexpended funds as of June 30, 2023.

See accompanying independent auditor's report.

CITY OF TORRANCE
TRANSIT SYSTEM FUND
EXHIBIT III
SCHEDULE OF CAPITAL ASSETS
June 30, 2023

Description	Balance July 1, 2022	Additions	Deletions	Balance June 30, 2023
Land	\$ 1,507,719	\$ -	\$ -	\$ 1,507,719
Buildings	5,073,745	2,775,000	-	7,848,745
Building improvements	1,471,643	-	-	1,471,643
Machinery & equipment	13,039,917	652,067	-	13,691,984
Furniture & fixtures	917,849	-	-	917,849
Vehicles	36,674,401	141,501	-	36,815,902
Construction in progress	5,219,113	412,639	3,568,568	2,063,184
Intangibles – SBITAs	-	746,904	-	746,904
Total capital assets	\$ <u>63,904,387</u>	\$ <u>4,728,111</u>	\$ <u>3,568,568</u>	\$ 65,063,930
Less: accumulated depreciation and amortization				<u>(47,224,616)</u>
Capital assets, net				\$ <u>17,839,314</u>

See accompanying independent auditor's report.

CITY OF TORRANCE
TRANSIT SYSTEM FUND
EXIT CONFERENCE
June 30, 2023

An exit conference was held on December 22, 2023 with the City of Torrance. Those in attendance were:

Simpson & Simpson Representative:

Austine Cho – Senior Audit Manager

City’s Representative(s):

Nao Pabalan – Accounting Manager
James Lee – Transit Administration Manager
Christine Sapitan – Senior Accountant

Matters Discussed:

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

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

Nao Pabalan – Accounting Manager
James Lee – Transit Administration Manager
Christine Sapitan – Senior 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, 2023 and 2022.

I have received the annual financial report of the Transit System Fund for the years ended June 30, 2023 and 2022 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