



MetroTM

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

Transit Fund

**As of and for the Years Ended June 30, 2022 and 2021
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 Fund) of the City of Commerce, California (the City) which comprise the Fund's statements of net position as of June 30, 2022 and 2021, 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.

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, 2022 and 2021, 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, 2022 and 2021, the changes in its net 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.



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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statements date including any currently known information that may raise substantial doubt shortly thereafter.

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 each of the Funds' 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 Funds' basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the Funds' 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 Funds' basic financial statements or to the Funds' 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 each of the Funds' 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 December 8, 2022 on our consideration of the City's internal control over the Funds' 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 Funds' 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 Funds' 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 Funds' financial reporting and compliance.

**Glendale, California
December 8, 2022**

City of Commerce
Transit Fund
Statements of Net Position

	June 30	
	2022	2021
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets		
Cash and investments	\$ -	\$ -
Due from Metro	52,767	128,369
Due from other governments (Note 2)	2,516,951	10,906
Total current assets	2,569,718	139,275
Capital assets		
Property and equipment (Note 3)	27,901,942	21,932,669
Less: accumulated depreciation (Note 3)	(13,640,657)	(12,547,829)
Total capital assets	14,261,285	9,384,840
Total assets	16,831,003	9,524,115
Deferred outflows of resources		
Deferred outflows of resources related to pensions (Note 7)	675,903	331,626
Deferred outflows of resources related to OPEB (Note 8)	968,342	907,994
Total deferred outflows of resources	1,644,245	1,239,620
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Current liabilities		
Accounts payable	2,812,552	220,827
Accrued salaries and benefits payable	92,506	199,430
Compensated absences payable	142,166	142,166
Due to General Fund	2,956,619	763,389
Total current liabilities	6,003,843	1,325,812
Noncurrent liabilities		
Compensated absences payable	437,930	359,680
Net pension liability (Note 7)	3,701,683	3,212,258
OPEB liability (Note 8)	10,895,996	9,413,626
Total noncurrent liabilities	15,035,609	12,985,564
Total liabilities	21,039,452	14,311,376
Deferred inflows of resources		
Deferred inflows of resources related to pensions (Note 7)	1,798,713	917,990
Deferred inflows of resources related to OPEB (Note 8)	1,117,957	1,463,257
Unavailable revenues	-	94,861
Total deferred inflows of resources	2,916,670	2,476,108
NET DEFICIT		
Net deficit		
Investment in capital assets (Note 3)	14,261,285	9,384,840
Unrestricted	(19,742,159)	(15,408,589)
Net deficit	\$ (5,480,874)	\$ (6,023,749)

See notes to financial statements.

City of Commerce
Transit Fund

Statements of Revenues, Expenses and Changes in Net Position

	Years ended June 30	
	2022	2021
Operating revenues		
Charges for services - bus fares	\$ -	\$ -
Others - advertising	16,097	11,796
Total operating revenues	16,097	11,796
Operating expenses		
Administration	1,610,964	1,891,021
Depreciation	1,092,828	572,253
Operations	6,168,596	3,628,520
Maintenance	944,998	967,587
Total operating expenses	9,817,386	7,059,381
Net operating loss	(9,801,289)	(7,047,585)
Nonoperating revenues		
Intergovernmental (Note 4)	4,041,937	3,757,257
Total nonoperating revenues	4,041,937	3,757,257
Loss before capital grants and operating transfers	(5,759,352)	(3,290,328)
Capital grants	5,445,000	901,000
Capital contributions (Note 5)	532,271	-
Transfers in (Note 6)	324,956	1,686,984
Change in net position	542,875	(702,344)
Net deficit at beginning of year	(6,023,749)	(5,321,405)
Net deficit at end of year	\$ (5,480,874)	\$ (6,023,749)

See notes to financial statements.

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

	Years ended June 30	
	2022	2021
Cash flows from operating activities		
Payments to suppliers	\$ 351,977	\$ (1,945,930)
Payments to employees	(4,410,891)	(2,978,531)
Other receipts	16,097	11,796
Net cash used in operating activities	(4,042,817)	(4,912,665)
Cash flows from capital and related financing activities		
Capital grants and contributions	5,977,271	901,000
Purchases and construction of capital assets, net	(5,969,273)	(937,619)
Net cash provided by (used in) capital and related financing activities	7,998	(36,619)
Cash flows from non-capital financing activities		
Intergovernmental noncapital grants	1,516,633	3,793,024
Contributions received from other funds	324,956	1,686,984
Cash received from (paid to) General Funds	2,193,230	(530,724)
Net cash provided by non-capital financing activities	4,034,819	4,949,284
Net changes in cash and investments	-	-
Cash and investments, beginning of year	-	-
Cash and investments, end of year	\$ -	\$ -
Reconciliation of net operating loss to net cash used in operating activities:		
Net operating loss	\$ (9,801,289)	\$ (7,047,585)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation	1,092,828	572,253
Changes in operating assets and liabilities:		
Decrease (increase) in prepaid expense	-	6,639
Decrease (increase) in deferred outflows of resources related to pensions	(344,277)	403,238
Decrease (increase) in deferred outflows of resources related to OPEB	(60,348)	3,587
Increase in accounts payable	2,591,725	53,147
Increase (decrease) in accrued salaries and benefits payable	(106,924)	35,114
Increase (decrease) in compensated absences payable	78,250	(36,602)
Increase (decrease) in net pension liability	489,425	(1,247,962)
Increase in OPEB liability	1,482,370	1,204,228
Increase in deferred inflows of resources related to pensions	880,723	799,653
Increase (decrease) in deferred inflows of resources related to OPEB	(345,300)	341,625
Net cash used in operating activities	\$ (4,042,817)	\$ (4,912,665)

See notes to financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Transit Fund (the 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, 2022 and 2021. 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2022 and 2021.

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 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2022 and 2021 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.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

NOTE 2 DUE FROM OTHER GOVERNMENTS

As of June 30, 2022 and 2021, amounts due from other governmental agencies consisted of the following:

	2022	2021
Federal Transit Administration	\$ 2,516,951	\$ -
State of California	-	10,906
Total	\$ 2,516,951	\$ 10,906

NOTE 3 CAPITAL ASSETS

Capital assets at June 30, 2022 and 2021 is composed of:

	2022	2021
Building improvements	\$ 8,210,447	\$ 8,210,447
Machinery and equipment	17,270,096	11,300,823
Land	2,421,399	2,421,399
Total capital assets	27,901,942	21,932,669
Less: Accumulated depreciation	(13,640,657)	(12,547,829)
Capital assets, net	\$ 14,261,285	\$ 9,384,840

NOTE 4 INTERGOVERNMENTAL REVENUES

Intergovernmental revenues for the years ended June 30, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Proposition A 40% Discretionary Fund	\$ 355,549	\$ 291,336
Transportation Development Act (TDA) Article 3	9,437	7,275
TDA Article 4	453,743	413,359
State Transit Assistance Fund	43,226	72,708
Proposition C Local Return Fund	269,544	217,306
Proposition C Discretionary – Zero-Fare Compensation	846,283	761,580
Proposition C Discretionary – Base Restructuring	261,563	256,434
Proposition C Discretionary – Foothill Mitigation	14,138	12,625
Proposition C Discretionary – Security	39,240	29,795
Proposition C Discretionary – MOSIP	79,368	83,937
Measure R Local Return	202,126	163,206
Measure R Clean Fuel Bus Capital Facility and Rolling Stock Fund	33,515	33,048
Measure R 20% Bus Operations	269,356	48,490
Measure M Local Return	228,728	184,918
Measure M 20% Transit Operations	173,900	141,336
Senate Bill 1 - State Transit Assistance	32,365	46,193
Senate Bill 1 - State of Good Repair	15,772	22,152
FTA	63,306	-
FTA CRRSAA Funds	98,446	-
FTA CARES Act	72,735	93,254
FTA CARES Act Labor	-	668,429
FTA Comprehensive Operational Analyst	14,376	93,269
FTA Transit Facility at CREA Site	450,782	116,607
Others	14,439	-
Total \$	<u>4,041,937</u>	<u>\$ 3,757,257</u>

NOTE 5 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 \$532,271 during the year ended June 30, 2022.

NOTE 6 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, 2022 and 2021, the Operating Transfers consisted of the following:

	2022	2021
Proposition A Local Return Fund	\$ 324,956	\$ 261,984
Proposition A Exchange	-	1,425,000
Total	\$ 324,956	\$ 1,686,984

NOTE 7 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 plans 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, 2021 and 2020 and the total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2020 and 2019, respectively.

NOTE 8 POSTEMPLOYMENT BENEFITS PLAN

California Public Employers' Retirement System (CalPERS) (Continued)

In accordance with GASB Statement No. 68, the City allocated the following pension related accounts to the Fund as of June 30, 2022 and 2021:

	2022	2021
Net pension liability	\$ 3,701,683	\$ 3,212,258
Deferred outflows of resources	675,903	331,626
Deferred inflows of resources	1,798,713	917,990

Refer to the City's ACFR for the fiscal years ended June 30, 2022 and 2021 for more information about the City's pension plan and required note disclosures.

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.

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, 2021 and 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2020 and 2019, respectively.

In accordance with GASB Statement No. 75, the City allocated 16.00% and 13.70% of the City's total OPEB liability, expense and deferred inflows and outflows of resources to the Fund as of June 30, 2022 and 2021, respectively. Amounts allocated are as follows:

	2022	2021
Net OPEB liability	\$ 10,895,996	\$ 9,413,626
Deferred outflows of resources	968,342	907,994
Deferred inflows of resources	1,117,957	1,463,257

Refer to the City's ACFR for the fiscal years ended June 30, 2022 and 2021 for more information about the City's postemployment benefits plan and required note disclosures.

NOTE 9 IMPACT OF CORONAVIRUS

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the United States.

It is unknown how long these conditions will last and what the complete financial effect will be to businesses and other affected organizations, including local governmental entities. However, the City's management believes that the financial impact, if any, will not materially affect the June 30, 2022 funds financial statements.

NOTE 10 SUBSEQUENT EVENTS

The City has evaluated events subsequent to June 30, 2022 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through December 8, 2022, 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.



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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 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 Fund) of the City of Commerce, California (the City) as of and for the year ended June 30, 2022, and the related notes to the financial statements, and have issued our report thereon dated December 8, 2022.

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 Funds’ 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 Funds’ 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 have not been identified.



Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund, Measure M Local Return Fund and Transportation Development Act Article 3 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
December 8, 2022**

COMPLIANCE SECTION



Independent Auditor's Report on Compliance

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, 2022.

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, 2022.

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 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 the Guidelines referred to above.



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 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 with the requirements, such that there is a reasonable possibility that material noncompliance will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with the requirements that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.



Our consideration of internal control over compliance was for the limited purpose described in the 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
December 8, 2022

**City of Commerce
Transit Fund**

**Transportation Development Act (TDA), State Transit Assistance (STA),
Proposition A (Prop A), Proposition C (Prop C) and Measure R Compliance Matrix
Year ended June 30, 2022**

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), Proposition C (Prop C) and Measure R Compliance Matrix
Year ended June 30, 2022**

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, 2022

Eligibility Test for TDA and STA Funds (CAC 6634)

1. Total Operating Costs (Excluding Depreciation)		\$ <u>8,724,558</u> *
2. Deductions:		
a) Fare Box Revenues		-
b) Local Support Required Specified Under CAC 6633.2		3,025,511 **
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>3,025,511</u>
4. Amount of TDA and STA Funds Eligible (Line 1 minus Line 3)		\$ <u>5,699,047</u>
5. TDA and STA Funds Received		\$ <u>496,969</u>
6. Excess TDA and STA Funds Received (Amount of Line 5 in excess of Line 4)		\$ <u> </u>

* Total Operating Costs

Total Operating Expenses		\$ 9,817,386
Less: Depreciation		<u>(1,092,828)</u>
		<u>\$ 8,724,558</u>

** Local Support

Proposition A Local Return		\$ 324,956
Proposition C Local Return		269,544
Measure R Local Return		202,126
Measure M Local Return		228,728
Proposition A 40% Discretionary Fund		355,549
Proposition C Discretionary Fund - Zero-Fare Compensation		846,283
Proposition C Discretionary - Base Restructuring		261,563
Proposition C Discretionary - Foothill Mitigation		14,138
Proposition C Discretionary - MOSIP		79,368
Measure R 20% Bus Operations		269,356
Measure M 20% Transit Operations		173,900
		<u> </u>
		\$ <u>3,025,511</u>

See independent auditor's report.

City of Commerce
Transit Fund
Exhibit B
Eligibility Test for Proposition A Discretionary Grant
Year ended June 30, 2022

Eligibility Test for Proposition A Discretionary Grant

1. Total Operating Costs (Excluding Depreciation)	\$ <u>8,724,558</u> *
2. Deductions:	
a) UMTA Section 9 Operating Funds	-
b) State Transportation Assistance Funds	43,226
c) TDA Operating Funds	453,743
d) Farebox Revenues	-
e) Local Subsidies (including Local Return, General Revenue, etc.)	1,025,354 **
f) Other	<u>-</u>
3. Total Deductions (Sum a-f)	<u>1,522,323</u>
4. Amount of Proposition A Discretionary Grant Eligible (Line 1 minus Line 3)	\$ <u>7,202,235</u>
5. Proposition A Discretionary Grant Received	\$ <u>355,549</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	\$ 9,817,386
Less: Depreciation	<u>(1,092,828)</u>
	<u>\$ 8,724,558</u>

** Local subsidies:

Proposition A Local Return	\$ 324,956
Proposition C Local Return	269,544
Measure R Local Return	202,126
Measure M Local Return	<u>228,728</u>
	<u>\$ 1,025,354</u>

See independent auditor's report.

City of Commerce
Transit Fund
Exhibit C
Expenditure Limitation Test
Year ended June 30, 2022

50% Expenditure Limitation Test ⁽¹⁾

1	Total Operating Costs Before Depreciation ⁽¹⁾	\$ 5,143,764
2	Total Depreciation	1,092,828
3	Total Capital Requirements	-
4	Total debt service requirements	-
5	Total (Lines 1 - 4)	6,236,592
6	Less: Federal Grants Received	-
7	Less: State Transit Assistance Fund (STAF) Received	43,226
8	Total (Lines 6 & 7)	43,226
9	Net (Line 5 less Line 8)	\$ 6,193,366
10	Total permissible Local Transportation Fund (LTF) under Article 4 (50% of Line 9)	\$ 3,096,683
11	LTF Expended	\$ 453,743
12	Excess LTF Expended (Amount of Line 11 in excess of Line 10)	\$ -

⁽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, 2022**

There were no findings noted.

EXIT CONFERENCE



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