



MetroTM

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

Transit Fund

**As of and for the Years Ended June 30, 2018 and 2017
with Report of Independent Auditors**

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FINANCIAL SECTION

Report of Independent Auditors

**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 Financial Statements

We have audited the accompanying 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, 2018 and 2017, and 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.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the 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, 2018 and 2017, and the changes in its net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 8 to the financial statements, the 2017 financial statements were restated to adjust the fund's allocated share of net pension liability, deferred inflows and outflows of resources and pension expense. Our opinion is not modified with respect to this matter.

As more fully 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, 2018 and 2017, and 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.

Implementation of New Accounting Standards

As discussed in Note 1, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB)* effective for the fiscal year ended June 30, 2018. As a result of this implementation, the Fund's financial statements were restated to retroactively report the Fund's share in the net OPEB liability of \$7,688,891, deferred outflows of resources of \$277,898 and deferred inflows of resources of \$0 as of June 30, 2017. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the Fund's financial statements as a whole. The supplementary information identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information identified in the table of contents 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the Fund's basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the Fund's basic financial statements or to the Fund's basic 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 basic financial statements as a whole.



Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2018 on our consideration of the City's internal control over the Transit Fund's financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over the Transit Fund's financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over the Transit Fund's financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over Transit Fund's financial reporting and compliance.

Vaquero & Company LLP

**Glendale, California
November 30, 2018**

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

	June 30	
	2018	(as restated) 2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets		
Cash and investments	\$ -	\$ 209,992
Due from LACMTA	8,555	402,001
Due from other governments	338,376	173,700
Total current assets	346,931	785,693
Capital assets		
Property and equipment	20,366,491	20,366,491
Less: accumulated depreciation	(12,747,883)	(12,379,775)
Total capital assets	7,618,608	7,986,716
Total assets	7,965,539	8,772,409
Deferred outflows of resources		
Deferred outflows of resources related to pensions	518,098	842,948
Deferred outflows of resources related to OPEB	217,854	277,898
Total deferred outflows of resources	735,952	1,120,846
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Current liabilities		
Accounts payable	237,592	295,786
Accrued salaries and benefits payable	166,230	138,089
Compensated absences payable	136,552	116,913
Unearned revenue	155,529	-
Due to General Fund	1,464,354	1,783,413
Total current liabilities	2,160,257	2,334,201
Noncurrent liabilities		
Compensated absences payable	433,054	402,795
Net pension liability	3,900,735	3,122,082
OPEB liability	7,570,213	7,688,891
Total noncurrent liabilities	11,904,002	11,213,768
Total liabilities	14,064,259	13,547,969
Deferred inflows of resources		
Deferred inflows of resources related to pensions	25,307	96,164
Deferred inflows of resources related to OPEB	326,908	-
Total deferred inflows of resources	352,215	96,164
NET POSITION (DEFICIT)		
Net position (deficit)		
Investment in capital assets	7,618,608	7,986,716
Unrestricted	(13,333,591)	(11,737,594)
Total net position (deficit) \$	(5,714,983)	\$ (3,750,878)

See notes to financial statements.

City of Commerce
Transit Fund

Statements of Revenues, Expenses and Changes in Net Position

	Years ended June 30	
	2018	(as restated) 2017
Operating revenues		
Charges for services	\$ -	\$ -
Total operating revenues	-	-
Operating expenses		
Administration	499,876	477,774
Depreciation	368,108	584,571
Operations	4,894,319	3,414,277
Maintenance	764,897	576,333
Total operating expenses	6,527,200	5,052,955
Net operating loss	(6,527,200)	(5,052,955)
Nonoperating revenues		
Intergovernmental	2,893,234	2,549,195
Advertising	-	16,000
Interest	-	6,268
Total nonoperating revenues	2,893,234	2,571,463
Loss before operating transfers	(3,633,966)	(2,481,492)
Operating transfers		
Transfers in	1,669,861	1,663,310
Change in net position	(1,964,105)	(818,182)
Net position (deficit) at beginning of year	(3,750,878)	(2,932,696)
Net position (deficit) at end of year	\$ (5,714,983)	\$ (3,750,878)

See notes to financial statements.

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

	Years ended June 30	
	2018	(as restated) 2017
Cash flows from operating activities		
Payments to suppliers	\$ (1,471,406)	\$ (864,039)
Payments to employees	<u>(3,366,921)</u>	<u>(3,223,744)</u>
Net cash used in operating activities	<u>(4,838,327)</u>	<u>(4,087,783)</u>
Cash flows from capital and related financing activities		
Purchases and construction of capital assets, net	-	(107,126)
Net cash used in capital and related financing activities	<u>-</u>	<u>(107,126)</u>
Cash flows from non-capital financing activities		
Intergovernmental noncapital grants	3,277,533	2,719,323
Contributions received from other funds	1,669,861	1,663,310
Cash paid to General Funds	(319,059)	-
Interest received	-	6,268
Advertising income	-	16,000
Net cash provided by non-capital financing activities	<u>4,628,335</u>	<u>4,404,901</u>
Changes in cash and investments	<u>(209,992)</u>	<u>209,992</u>
Cash and investments, beginning of year	<u>209,992</u>	<u>-</u>
Cash and investments, end of year	<u>\$ -</u>	<u>\$ 209,992</u>
Reconciliation of net operating loss to net cash used in operating activities:		
Net operating loss	\$ (6,527,200)	\$ (5,052,955)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation	368,108	584,571
Changes in operating assets and liabilities:		
(Increase) decrease in deferred outflows of resources related to pensions	324,850	(523,203)
Decrease in deferred outflows of resources related to OPEB	60,044	-
Increase (decrease) in accounts payable	(58,194)	204,779
Increase in accrued salaries and benefits payable	28,141	20,352
Increase in compensated absences payable	49,898	9,251
Increase in net pension liability	778,653	814,698
Decrease in OPEB liability	(118,678)	-
Decrease in deferred inflows of resources related to pensions	(70,857)	(145,276)
Increase in deferred inflows of resources related to OPEB	326,908	-
Net cash used in operating activities	<u>\$ (4,838,327)</u>	<u>\$ (4,087,783)</u>

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, 2018 and 2017. 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, 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. 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 Comprehensive Annual Financial Report (CAFR) for detailed disclosures regarding the City's investments policy and fair value measurement disclosures.

Cash, Cash Equivalents and Investments

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

Available cash balances consist primarily of certificates of deposit, deposits in the State Treasurer's Local Agency Investment Fund, bankers' acceptances and Federal agency investments and repurchase agreements. All of the City's investments are authorized by State statute. Cash and investments are stated at cost, which approximates fair value. The Transit Fund's portion of cash and investments are \$0 and \$209,992 as of June 30, 2018 and 2017, respectively.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash, Cash Equivalents and Investments (continued)

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 CAFR.

Depreciation of Capital Assets

Capital assets (property and equipment) are recorded at cost. Depreciation of capital assets in the Transit Fund is charged to operations. The provision for 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 the provision for depreciation of capital assets are as follows:

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

Unearned Revenues

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

Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement Nos. 63 and 65, the City recognizes deferred outflows and inflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period. Deferred outflows and inflows of resources as of June 30, 2018 and 2017 represent pension 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 CAFR.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Statement of Cash Flows

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

Use of Estimates

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

Implementation of New Accounting Pronouncements

During the fiscal year ended June 30, 2018, the City adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed in this Statement.

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, 2018 and 2017, amounts due from other governmental agencies consisted of the following:

	2018	2017
Federal Transit Administration	\$ -	\$ 159,341
State of California	338,376	14,359
Total	\$ 338,376	\$ 173,700

NOTE 3 CAPITAL ASSETS (PROPERTY AND EQUIPMENT)

Property and equipment at June 30, 2018 and 2017 is composed of:

	2018	2017
Building improvements	\$ 8,210,447	\$ 8,210,447
Machinery and equipment	9,734,645	9,734,645
Land	2,421,399	2,421,399
Total property and equipment	20,366,491	20,366,491
Less: Accumulated depreciation	(12,747,883)	(12,379,775)
Capital assets, net	\$ 7,618,608	\$ 7,986,716

NOTE 4 UNEARNED REVENUES

Unearned revenues as of June 30, 2018 and 2017 were as follows:

	2018	2017
Proposition 1B - PTMISEA	\$ 103,492	\$ -
Proposition 1B - PTMISEA Bus Lift	49,421	-
Proposition 1B - Bus Stop Signage Project	1,775	-
Proposition 1B - Security Fund	841	-
Total	\$ 155,529	\$ -

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

NOTE 5 INTERGOVERNMENTAL REVENUES

Intergovernmental revenues for the years ended June 30, 2018 and 2017 consisted of the following:

	2018	2017
Proposition A 40% Discretionary Fund	\$ 274,611	\$ 239,200
Transportation Development Act (TDA) Article 3	8,563	8,667
TDA Article 4	416,134	371,457
State Transit Assistance Fund	15,682	29,822
Proposition 1B – Security Fund	16,233	21,343
Proposition C Local Return Fund	202,761	198,007
Proposition C Discretionary – Zero-Fare Compensation	706,427	640,479
Proposition C Discretionary – Base Restructuring	249,565	245,273
Proposition C Discretionary – Foothill Mitigation	12,168	10,833
Proposition C Discretionary – Security	40,716	39,038
Proposition C Discretionary – MOSIP	83,458	72,387
Measure R Local Return	152,124	148,290
Measure R Clean Fuel Bus Capital Facility and Rolling Stock Fund	32,878	-
Measure R 20% Bus Operations	168,786	151,164
Proposition 1B - PTMISEA	3,340	-
Proposition 1B - PTMISEA Bus Lift	2,123	-
Proposition 1B - PTMISEA Bus Stop Signage	178,225	-
Measure M Local Return	137,859	-
Measure M 20% Transit Operations	160,753	-
Federal Transit Administration (FTA) 5307 (CA-90-Y671-01)	-	3,975
FTA 5% Greenhouse Gas Reduction	-	14,359
FTA Transit Capital Phase 3 (CA-90-Z093)	-	131,681
FTA (CA-90-Z093)	-	197,048
FTA Spare Parts (CA-03-0593)	30,828	26,172
Total	\$ 2,893,234	\$ 2,549,195

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, 2018 and 2017, the Operating Transfers consisted of the following:

	2018	2017
Proposition A Local Return Fund	\$ 244,861	\$ 238,310
Proposition A Exchange	1,425,000	1,425,000
Total	\$ 1,669,861	\$ 1,663,310

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.

In accordance with GASB Statement No. 68, the City allocated the following pension related accounts to the Fund as of June 30, 2018 and 2017:

	2018	2017 (as restated)
Net pension liability	\$ 3,900,735	\$ 3,122,082
Deferred outflows of resources	518,098	842,948
Deferred inflows of resources	25,307	96,164

Refer to the City's CAFR for the fiscal years ended June 30, 2018 and 2017 for more information about the City's pension plan and required note disclosures.

NOTE 8 POSTEMPLOYMENT BENEFITS PLAN

Plan Description

The City administers a single-employer defined benefit plan with medical insurance benefits to eligible retirees and their spouses in accordance with various labor agreements. The City has not established a trust for the purpose of holding assets accumulated for plan benefits. After age 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 age 50 with at least 5 years of service, and are eligible for a PERS pension.

Net OPEB Liability

The City's net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017.

In accordance with GASB Statement No. 75, the City allocated 12.83% of the City's total OPEB liability, expense and deferred inflows and outflows of resources to the Fund as of June 30, 2018 and 2017. Amounts are as follows:

	2018	2017
Net OPEB liability	\$ 7,570,213	\$ 7,688,891
Deferred outflows of resources	217,854	277,898
Deferred inflows of resources	326,908	-

Refer to the City's CAFR for the fiscal years ended June 30, 2018 and 2017 for more information about the City's postemployment benefits plan and required note disclosures.

NOTE 9 RESTATEMENT OF 2017 FINANCIAL STATEMENTS

The 2017 financial statements were restated to reflect the following:

- a. Retroactively report the net OPEB liability as of the beginning of the fiscal year as a result of implementing GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The City made adjustments for these items as a cumulative effect of change in accounting principle. This resulted in a decrease in the net position by \$7,410,993 and reporting net OPEB liability of \$7,688,891 in the June 30, 2017 financial statements.
- b. Adjustment on the Fund's allocated share of net pension liability, deferred inflows and outflows of resources and pension expense.

	Deferred outflows related to		Net OPEB Liability	Deferred inflows related to		Net Position	Operating Expenses
	OPEB	Pension		Pension			
Balance as previously reported	\$ -	\$ 740,817	\$ -	\$ (65,775)	\$ (4,478,297)	\$ 3,486,019	
Prior period adjustment:							
Adjustment to record the retroactive effect of implementing GASB Statement No.75	277,898	-	(7,688,891)	-	7,410,993		
Adjustment on the Fund's allocated share of net pension liability, deferred inflows and outflows of resources and pension expense	-	102,131	-	(30,389)	-	(71,742)	
Balance as restated	<u>\$ 277,898</u>	<u>\$ 842,948</u>	<u>\$ (7,688,891)</u>	<u>\$ (96,164)</u>	<u>\$ 2,932,696</u>	<u>\$ 3,414,277</u>	

NOTE 10 SUBSEQUENT EVENTS

The City has evaluated events through November 30, 2018, the date the financial statements were available to be issued, and concluded no events occurred that require disclosure in or adjustments to the Fund financial statements.

Report of Independent Auditors 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, 2018, and the related notes to the financial statements, and have issued our report thereon dated November 30, 2018.

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 the Fund's financial reporting (internal control) to determine the 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 Fund's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

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

A handwritten signature in black ink that reads "Vaqueria & Company LLP". The signature is written in a cursive, flowing style.

**Glendale, California
November 30, 2018**

COMPLIANCE SECTION

Report of Independent Auditors 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

We have audited the compliance of 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, 2018.

Management's Responsibility

Management is responsible for the City's compliance with the Guidelines.

Auditors' Responsibility

Our responsibility is to express an opinion on the City's compliance based on our audit. We conducted our audit of compliance in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the Guidelines. Those standards and the Guidelines require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the Transit Fund occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with the Guidelines. Our audit does not provide a legal determination on the City's compliance with the Guidelines.

Opinion

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, 2018.



Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, 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 that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that we consider to be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guidelines. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Vaguez & Company LLP". The signature is written in a cursive, flowing style.

**Glendale, California
November 30, 2018**

**Transportation Development Act (TDA) Article 4, State Transit Assistance (STA),
Proposition A (Prop A), Proposition C (Prop C) and Measure R Compliance Matrix
Year ended June 30, 2018**

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 report of independent auditors on compliance.

Transportation Development Act (TDA) Article 4, State Transit Assistance (STA),
Proposition A (Prop A), Proposition C (Prop C) and Measure R Compliance Matrix
Year ended June 30, 2018

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. <input type="checkbox"/> Proposition A Discretionary <input type="checkbox"/> Transit Service Expansion	Prop A Prop C Measure R	X			

See report of independent auditors on compliance.

**City of Commerce
Transit Fund
Exhibit A
Eligibility Test for TDA and STA Funds (CAC 6634)
Year ended June 30, 2018**

Eligibility Test for TDA and STA Funds (CAC 6634)

1. Total Operating Costs (Excluding Depreciation)	\$ <u>6,159,092</u>
2. Deductions:	
a) Fare Box Revenues	-
b) Local Support Required Specified Under CAC 6633.2	3,818,373
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>3,818,373</u>
4. Amount of TDA and STA Funds Eligible	\$ <u><u>2,340,719</u></u>
5. TDA and STA Funds Received	\$ <u><u>431,816</u></u>
6. Excess TDA and STA Funds Received (Amount of Line 5 in excess of Line 4)	\$ <u><u>-</u></u>

See report of independent auditors.

City of Commerce
Transit Fund
Exhibit B
Eligibility Test for Proposition A Discretionary Grant
Year ended June 30, 2018

Eligibility Test for Proposition A Discretionary Grant

1. Total Operating Costs (Excluding Depreciation)	\$ <u>6,159,092</u>
2. Deductions:	
a) UMTA Section 9 Operating Funds	-
b) State Transportation Assistance Funds	15,682
c) TDA Operating Funds	416,134
d) Farebox Revenues	-
e) Local Subsidies (including Local Return, General Revenue, etc.)	2,162,605
f) Other	-
3. Total Deductions (Sum a-f)	<u>2,594,421</u>
4. Amount of Proposition A Discretionary Grant Eligible (Line 1 minus Line 3)	\$ <u>3,564,671</u>
5. Proposition A Discretionary Grant Received	\$ <u>274,611</u>
6. Excess Proposition A Discretionary Received (Amount of Line 5 in excess of Line 4)	\$ <u>-</u>

See report of independent auditors.

City of Commerce
Transit Fund
Exhibit C
Expenditure Limitation Test
Year ended June 30, 2018

50% Expenditure Limitation Test ⁽¹⁾

1	Total Operating Costs Before Depreciation	\$ 4,491,066
2	Total Depreciation	368,108
3	Total Capital Requirements	-
4	Total debt service requirements	-
5	Total (Lines 1 - 4)	<u>4,859,174</u>
6	Less: Federal Grants Received	30,828
7	Less: State Transit Assistance Fund (STAF) Received	15,682
8	Total (Lines 6 & 7)	<u>46,510</u>
9	Net (Line 5 less Line 8)	\$ <u>4,812,664</u>
10	Total permissible Local Transportation Fund under Article 4 (50% of Line 9)	\$ <u>2,406,332</u>
11	LTF Expended	\$ <u>416,134</u>
12	Excess LTF Expended (Amount of Line 11 in excess of Line 10)	\$ <u>-</u>

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

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

See report of independent auditors.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**City of Commerce
Transit Fund
Schedule of Findings and Questioned Costs
Year ended June 30, 2018**

There were no findings noted.

EXIT CONFERENCE

An exit conference was held on November 30, 2018 with the City of Commerce representatives. Those in attendance were:

Vasquez and Company LLP representatives:
Cristy Canieda – Partner
Marialyn Salvador – Audit Senior Manager
Shweta Mehrotra – Audit Supervisor

City of Commerce representatives:
Josh Brooks – Assistant Director of Finance
Claude McFerguson – Director of Transportation
Agatha Cheng – Accountant

Matters discussed:

Results of the audit disclosed no significant financial and compliance issues.

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

Josh Brooks – Assistant Director of Finance
Claude McFerguson – Director of Transportation
Agatha Cheng – Accountant



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