

Eco-Rapid Transit, formerly known as the Orangeline Development Authority, is a joint powers authority (JPA) created to pursue development of a transit system that moves as rapidly as possible, uses grade separation as appropriate, and is environmentally friendly and energy efficient. The system is designed to enhance and increase transportation options for riders of this region utilizing safe, advanced transit technology to expand economic growth that maximizes ridership in Southern California. The Authority is composed of the following public agencies:

City of Artesia

City of Bell

City of Bell Gardens

City of Bellflower

City of Cudahy

City of Downey

City of Glendale

City of Huntington Park

City of Maywood

City of Paramount

City of South Gate

City of Vernon

Burbank-Glendale-Pasadena
Airport Authority

Chair

Zareh Sinanyan
President
Hollywood Burbank Airport
Mayor
City of Glendale

Vice-Chair

Pedro Aceituno
Council Member
City of Bell Gardens

Secretary

Karina Macias
Council Member
City of Huntington Park

Treasurer

Ali Sajjad Taj
Council Member
City of Artesia

Internal Auditor

Cristian Markovich
Council Member
City of Cudahy

Executive Director
Michael R. Kodama

General Counsel
Teresa L. Highsmith

Ex-Officio
William Rawlings
City Manager Representative

AGENDA REPORT

TO: Members of Eco-Rapid Transit

FROM: Michael Kodama, Executive Director

DATE: August 8, 2018

SUBJECT: **UPDATE AND/OR ACTION REGARDING ECO-RAPID TRANSIT
FISCAL YEAR ENDING JUNE 30, 2017 AUDIT**

Public comments on items on the agenda will be taken at the time the item is called and are limited to 3 minutes per speaker

ISSUE

Eco-Rapid Transit worked with the City of Bellflower and the firm of White Nelson Diehl Evans LLP to conduct an independent audit of the organization for the year ending June 30th, 2017.

BACKGROUND

Eco-Rapid Transit completed an independent audit for the year ending 2016 and the year ending 2017. The audit was conducted in accordance with auditing standards generally accepted in the United States of America. It involves performing procedures to obtain audit evidence and includes an assessment of risks.

The audit reveals an on-going concern regarding financial stability of the organization. This is due to the cash flow issues and delays in project funding that resulted in deficits and losses without substantial guarantee of future funding. The report recognizes the significant contribution of the City of Bellflower in advancing funds for specific projects that are reimbursable through future grant proceeds. As of June 30, 2017, the City advanced \$73,361 of funds that are to be reimbursed through future grant funding.

Eco-Rapid Transit has insurance coverage consisting of:

- General Liability
- Public Officials Liability
- Non-monetary Coverage – Defense Only
- Policy Aggregate Limit of Liability
- Public Officials Crisis Management

There were no settlements or judgements and there is no significant reductions in insured liability coverage.



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Eco-Rapid Transit has taken measures to augment revenues and reduce expenditures so as to eliminate deficits and improve cash flow:

- The Board of Directors approved a reduction in general expenditure fund allocation for the Executive Director and administrative staff support.
- The Board of Directors approved a reduction in general expenditure fund allocation for professional staff.
- Management continues its discussions with other public agencies and local jurisdictions to join the authority. If successful, it is estimated to provide up to \$100,000 in annual general fund revenue
- In February, 2016, the Los Angeles County Metropolitan Transportation Authority (Metro) Board of Directors unanimously approved development of an \$18 million Transit Oriented Communities (TOD) program. An initial allocation of \$230,800 to Eco-Rapid Transit was programmed to develop the TOC program. Metro has also allocated funds through a Third Party Administration Fund (\$700,000 of which \$298,000 is allocated to Eco-Rapid Transit) and Federal Transit Administration Transit Oriented Development Program (\$300,000) for Eco-Rapid Transit.

RECOMMENDATION

It is recommended that the Board:

1. Discuss information presented and offer action items; and/or
2. Receive and file the item

Board of Directors
Orangeline Development Authority
dba Eco-Rapid Transit
Paramount, California

We have audited the financial statements of the governmental activity and the major fund of the Orangeline Development Authority dba Eco-Rapid Transit (the Authority) for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated August 11, 2017, and in our planning letter dated January 31, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The Authority has no sensitive estimates affecting the financial statements.

Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. The most sensitive disclosure affecting the financial statements was Note 5 regarding uncertainties about the Authority's ability to continue as a going concern.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Significant Audit Findings (Continued)

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. As a result of our audit related testwork, we proposed no significant corrections to the financial statements.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 7, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

At the conclusion of our fieldwork and prior to the issuance of our Independent Auditors' Report on the Authority's financial statements, we discussed with the Authority's Chief Executive Officer and acting Finance Director the Authority's financial situation, including the deficit fund balance and the effect of this on our opinion on the Authority's financial statements. Additional information can be found in Note 5 to the Authority's financial statements.

Other Matters

We applied certain limited procedures to the General Fund budgetary comparison schedule, which is required supplementary information (RSI) that supplements the financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.

White Nelson Mick Evans LLP

Irvine, California
May 7, 2018