

***CITY OF ARTESIA
ANNUAL FINANCIAL REPORT OF THE
PROPOSITION A LOCAL RETURN FUND
PROPOSITION C LOCAL RETURN FUND
MEASURE R LOCAL RETURN FUND
TRANSPORTATION DEVELOPMENT ACT
ARTICLE 3 FUND***

***FOR THE FISCAL YEARS ENDED
JUNE 30, 2016 AND 2015***



Simpson & Simpson, LLP
Certified Public Accountants

CITY OF ARTESIA
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FINANCIAL SECTION



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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Proposition A Local Return Fund (PALRF), Proposition C Local Return Fund (PCLRF), Measure R Local Return Fund (MRLRF), and Transportation Development Act Article 3 Fund (TDAA3F) of the City of Artesia, California (City) as of and for the year ended June 30, 2016, and the related notes to the financial statements, as listed in the table of contents.

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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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 of 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 entity'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 entity'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 opinions.





Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the PALRF, PCLRF, MRLRF, and TDAA3F of the City of Artesia, California, as of June 30, 2016, and the respective changes in their financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of the PALRF, PCLRF, MRLRF, and TDAA3F as of and for the year ended June 30, 2015, were audited by other auditors, whose report, dated March 10, 2016, expressed an unmodified opinion on those statements.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the PALRF, PCLRF, MRLRF, and TDAA3F and do not purport to, and do not, present fairly the financial position of the City of Artesia, California, as of June 30, 2016 and 2015, and the changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Artesia, California's PALRF, PCLRF, MRLRF, and TDAA3F Fund financial statements as a whole. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

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

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated November 23, 2016, on our consideration of the City of Artesia's internal control over 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, not to provide an opinion on internal control over 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 financial reporting and compliance.

A handwritten signature in black ink, appearing to read 'Simpson & Simpson', written in a cursive style.

Los Angeles, California
November 23, 2016

CITY OF ARTESIA
PROPOSITION A LOCAL RETURN FUND
BALANCE SHEETS
JUNE 30

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and investments	\$ <u>577,016</u>	\$ <u>448,163</u>
Total assets	\$ <u><u>577,016</u></u>	\$ <u><u>448,163</u></u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 603	\$ 10,547
Accrued liabilities	-	750
Wages payable	<u>5,806</u>	<u>-</u>
Total liabilities	<u>6,409</u>	<u>11,297</u>
 Fund Balance		
Restricted	<u>570,607</u>	<u>436,866</u>
Total fund balance	<u>570,607</u>	<u>436,866</u>
 Total liabilities and fund balance	\$ <u><u>577,016</u></u>	\$ <u><u>448,163</u></u>

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

CITY OF ARTESIA

PROPOSITION A LOCAL RETURN FUND

**STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE**

For the Fiscal Years Ended June 30

	<u>2016</u>	<u>2015</u>
REVENUES		
Proposition A	\$ 302,811	\$ 295,008
Proposition A Discretionary Incentive Grant	-	6,053
Interest income	<u>1,172</u>	<u>1,073</u>
Total revenues	<u>303,983</u>	<u>302,134</u>
EXPENDITURES		
Various projects	<u>170,242</u>	<u>218,143</u>
Total expenditures	<u>170,242</u>	<u>218,143</u>
Excess of revenues over expenditures	133,741	83,991
Fund balance at beginning of year	<u>436,866</u>	<u>352,875</u>
Fund balance at end of year	<u>\$ 570,607</u>	<u>\$ 436,866</u>

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

CITY OF ARTESIA

PROPOSITION A LOCAL RETURN FUND

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES

ACTUAL AND METRO APPROVED PROJECT BUDGET

For the Fiscal Year Ended June 30, 2016

(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2015)

Project Code	Project Name	2016		Variance Favorable (Unfavorable)	2015 Actual
		Metro Budget	Actual		
120-06	Dial-A-Ride	\$ 155,000	\$ 73,419	\$ 81,581	\$ 141,476
	Youth and Senior Recreation				
140-01	Transportation Services	20,000	11,597	8,403	13,729
190-04	O&M of Prop A Vehicles	7,000	848	6,152	320
480-05	General Program Administration	50,850	56,082	(5,232)	36,363
480-07	Prop A Vehicle - Personnel Salary	36,726	28,297	8,429	26,255
	Total expenditures	<u>\$ 269,576</u>	<u>\$ 170,242</u>	<u>\$ 99,334</u>	<u>\$ 218,143</u>

See accompanying independent auditor's report.

CITY OF ARTESIA

PROPOSITION A LOCAL RETURN FUND

**SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS**

June 30, 2016

<u>Date Acquired</u>	<u>Description</u>	<u>Balance 7/1/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2016</u>
1990	7 Passenger Wagon	\$ 18,169	\$ -	\$ -	\$ 18,169
1993	12 Passenger Ford Cab	11,872	-	-	11,872
1995	Mobile Radio Units	3,878	-	-	3,878
2003	Pock Drill	5,170	-	-	5,170
2003	Barricade Type 1	3,428	-	-	3,428
2003	Computer System Upgrade	20,000	-	-	20,000
2012	2012 Grand Caravan SXT	27,868	-	-	27,868
2012	2012 Grand Caravan SXT	27,869	-	-	27,869
Total		<u>\$ 118,254</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 118,254</u>

See accompanying independent auditor's report.

CITY OF ARTESIA
PROPOSITION C LOCAL RETURN FUND
BALANCE SHEETS
JUNE 30

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and investments	\$ <u>245,471</u>	\$ <u>168,730</u>
Total assets	\$ <u><u>245,471</u></u>	\$ <u><u>168,730</u></u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 33,576	\$ 2,706
Accrued liabilities	-	385
Wages payable	<u>724</u>	<u>-</u>
Total liabilities	<u>34,300</u>	<u>3,091</u>
 Fund Balance		
Restricted	<u>211,171</u>	<u>165,639</u>
Total fund balance	<u>211,171</u>	<u>165,639</u>
 Total liabilities and fund balance	\$ <u><u>245,471</u></u>	\$ <u><u>168,730</u></u>

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

CITY OF ARTESIA

PROPOSITION C LOCAL RETURN FUND

**STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE**

For the Fiscal Years Ended June 30

	<u>2016</u>	<u>2015</u>
REVENUES		
Proposition C	\$ 234,433	\$ 245,058
Interest income	<u>463</u>	<u>434</u>
Total revenues	<u>234,896</u>	<u>245,492</u>
EXPENDITURES		
Various projects	<u>189,364</u>	<u>201,550</u>
Total expenditures	<u>189,364</u>	<u>201,550</u>
Excess of revenues over expenditures	45,532	43,942
Fund balance at beginning of year	<u>165,639</u>	<u>121,697</u>
Fund balance at end of year	\$ <u><u>211,171</u></u>	\$ <u><u>165,639</u></u>

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

CITY OF ARTESIA

PROPOSITION C LOCAL RETURN FUND

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES

ACTUAL AND METRO APPROVED PROJECT BUDGET

For the Fiscal Year Ended June 30, 2016

(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2015)

Project Code	Project Name	2016		Variance	2015 Actual
		Metro Budget	Actual	Favorable (Unfavorable)	
400-02	Implement Synchronized Traffic Signals	\$ 30,000	\$ -	\$ 30,000	\$ -
440-08	Pioneer, Artesia, I Norwalk & South Street	150,000	122,220	27,780	-
440-15	Traffic Stripping Maintenance	20,000	17,685	2,315	24,998
440-7	Pioneer, Artesia, I Norwalk Landscaped Median	125,000	-	125,000	122,522
450-04	Cycle 4 HSIP Local Match	42,000	-	42,000	-
450-3	Pavement Resurfacing and Handicapped Ramps	-	-	-	24,518
480-11	General Program Administration	45,621	49,458	(3,837)	29,512
	Total expenditures	<u>\$ 412,621</u>	<u>\$ 189,364</u>	<u>\$ 223,257</u>	<u>\$ 201,550</u>

See accompanying independent auditor's report.

CITY OF ARTESIA

PROPOSITION C LOCAL RETURN FUND

**SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS**

June 30, 2016

<u>Date Acquired</u>	<u>Description</u>	<u>Balance 7/1/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2016</u>
2007	Computer-Senior & Youth Transportation Svc	\$ <u>1,388</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,388</u>
	Total	\$ <u><u>1,388</u></u>	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>	\$ <u><u>1,388</u></u>

See accompanying independent auditor's report.

CITY OF ARTESIA

MEASURE R LOCAL RETURN FUND

BALANCE SHEETS

JUNE 30

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and investments	\$ <u>70,489</u>	\$ <u>424,158</u>
Total assets	\$ <u><u>70,489</u></u>	\$ <u><u>424,158</u></u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ <u>7,063</u>	\$ <u>-</u>
Total liabilities	<u>7,063</u>	<u>-</u>
 Fund Balance		
Restricted	<u>63,426</u>	<u>424,158</u>
Total fund balance	<u>63,426</u>	<u>424,158</u>
 Total liabilities and fund balance	\$ <u><u>70,489</u></u>	\$ <u><u>424,158</u></u>

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

CITY OF ARTESIA

MEASURE R LOCAL RETURN FUND

**STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE**

For the Fiscal Years Ended June 30

	<u>2016</u>	<u>2015</u>
REVENUES		
Measure R	\$ 188,494	\$ 183,568
Interest income	<u>695</u>	<u>903</u>
Total revenues	<u>189,189</u>	<u>184,471</u>
EXPENDITURES		
Various projects	<u>549,921</u>	<u>6,142</u>
Total expenditures	<u>549,921</u>	<u>6,142</u>
Excess (deficiency) of revenues over expenditures	(360,732)	178,329
Fund balance at beginning of year	<u>424,158</u>	<u>245,829</u>
Fund balance at end of year	\$ <u><u>63,426</u></u>	\$ <u><u>424,158</u></u>

The accompanying notes are an integral part of the financial statements

CITY OF ARTESIA

MEASURE R LOCAL RETURN FUND

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES

ACTUAL AND METRO APPROVED PROJECT BUDGET

For the Fiscal Year Ended June 30, 2016

(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2015)

Project Code	Project Name	2016		Variance Favorable (Unfavorable)	2015 Actual
		Metro Budget	Actual		
1.90	Pioneer Blvd. Downtown Improvement Project	\$ 541,858	\$ 541,858	\$ -	\$ -
7.10	Eco Rapid Transit Dues	6,142	8,063	(1,921)	6,142
	Total expenditures	<u>\$ 548,000</u>	<u>\$ 549,921</u>	<u>\$ (1,921)</u>	<u>\$ 6,142</u>

See accompanying independent auditor's report.

CITY OF ARTESIA

MEASURE R LOCAL RETURN FUND

**SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS**

June 30, 2016

<u>Date Acquired</u>	<u>Description</u>	<u>Balance 7/1/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2016</u>
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See accompanying independent auditor's report.

CITY OF ARTESIA

**TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND
(PURSUANT TO PUBLIC UTILITIES CODE SECTION 99234)**

BALANCE SHEETS

JUNE 30

	<u>2016</u>	<u>2015</u>
ASSETS		
Due from LACMTA	\$ <u>-</u>	\$ <u>-</u>
Total assets	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ <u>-</u>	\$ <u>-</u>
Total liabilities	<u>-</u>	<u>-</u>
 Fund Balance		
Reserved	<u>-</u>	<u>-</u>
Total fund balance	<u>-</u>	<u>-</u>
 Total liabilities and fund balance	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>

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

CITY OF ARTESIA

TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND

**STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE**

For the Fiscal Years Ended June 30

	<u>2016</u>	<u>2015</u>
REVENUES		
Payment from prior year reserve	\$ <u>-</u>	\$ <u>3,500</u>
Total revenues	<u>-</u>	<u>3,500</u>
EXPENDITURES		
Construction/Maintenance	<u>-</u>	<u>3,500</u>
Total expenditures	<u>-</u>	<u>3,500</u>
Excess of revenues over expenditures	-	-
Fund balance at beginning of year	<u>-</u>	<u>-</u>
Fund balance at end of year	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>

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

CITY OF ARTESIA

**TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND
SUPPLEMENTARY INFORMATION**

**SCHEDULE OF TRANSPORTATION DEVELOPMENT ACT
ALLOCATION FOR SPECIFIC PROJECTS**

For the Fiscal Year Ended June 30, 2016

<u>Project Description</u>	<u>Program Year</u>	<u>Allocations</u>	<u>Expenditures</u>	<u>Unexpended Allocations</u>	<u>Project Status</u>
Local allocations					
None	2015-16	\$ -	\$ -	\$ -	
	Total	\$ -	\$ -	-	
Unexpended interest accumulated to date				-	
Fund balance at beginning of year				-	
Fund balance at end of year				\$ -	

See accompanying independent auditor's report.

CITY OF ARTESIA

NOTES TO FINANCIAL STATEMENTS For the Fiscal Years Ended June 30, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The operations of the Proposition A Local Return Fund (PALRF) and Proposition C Local Return Funds (PCLRF), Measure R Local Return Fund (MRLRF), and Transportation Development Act Article 3 Fund (TDAA3F) are accounted for in separate sets of self-balancing accounts that comprise their assets, liabilities, fund balance, revenues, and expenditures.

PALRF and PCLRF represent 25% and 20% respectively, of the ½ cent Proposition A and ½ cent Proposition C sales taxes which are distributed to the jurisdictions within Los Angeles County based on population and must be used exclusively for transportation related programs and projects.

MRLRF represents 15% of the ½ cent sales tax which is distributed to the jurisdictions within Los Angeles County based on a per capita basis and must be used exclusively for transportation purposes.

Transportation Development Act Article 3 Fund (TDAA3F) is a Special Revenue Fund that accounts for the City's share of the Transportation Development Act Article 3 allocations which are legally restricted for specific purposes.

Basis of Accounting and Measurement Focus

PALRF, PCLRF, MRLRF, and TDAA3F are accounted for using the modified accrual basis of accounting whereby revenues are recognized when they become both measurable and available to finance expenditures of the current period and expenditures are generally recognized when the related fund liabilities are incurred.

Special Revenue funds are reported on a spending or "financial flow" measurement focus. This means that generally only current assets, current liabilities and deferred inflows and outflows of resources are included on their balance sheets. Statements of revenues, expenditures and changes in fund balances for Special Revenue Funds generally present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Budgets and Budgetary Accounting

The budgeted amounts presented in this report for comparison to the actual amounts are presented in accordance with accounting principles generally accepted in the United States of America.

CITY OF ARTESIA

NOTES TO FINANCIAL STATEMENTS For the Fiscal Years Ended June 30, 2016 and 2015 (Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurement

In accordance with GASB Statement No. 72, Fair Value Measurement and Application, which became effective for the fiscal year ended June 30, 2016, 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 2016 Comprehensive Annual Financial Report for detailed disclosures regarding the City's investments policy and fair value measurements.

Fund Balance Reporting

Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, establishes the fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The PALRF, PCLRF, MRLRF, and TDAA3F report the following fund balance classification as of June 30, 2016:

- Restricted – Amounts that are constrained for specific purposes, which are externally imposed by providers, such as creditors, or amounts constrained due to constitutional provisions or enabling legislation. The use of the Funds' remaining fund balances are restricted for projects approved by LACMTA.

Information regarding the fund balance reporting policy adopted by the City is described in Note 1 to the City's Comprehensive Annual Financial Report.

NOTE 2 – ANNUAL FINANCIAL STATEMENTS

The financial statements reflect only the financial position and results of operations of the PALRF, PCLRF, MRLRF, and TDAA3F and their compliance with the Proposition A and Proposition C Local Return Program Guidelines, Measure R Local Return Program Guidelines, and Transportation Development Act Article 3 and the Los Angeles County Metropolitan Transportation Authority Funding and Allocation Guidelines for Transportation Development Act Article 3 Bicycle and Pedestrian Funds.

CITY OF ARTESIA

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2016 and 2015
(Continued)

NOTE 3 – PROPOSITION A AND PROPOSITION C LOCAL RETURN COMPLIANCE REQUIREMENTS

In accordance with Proposition A and Proposition C Local Return Program Guidelines, funds received pursuant to these guidelines may only be used for Proposition A and Proposition C Local Return approved programs.

NOTE 4 – MEASURE R LOCAL RETURN COMPLIANCE REQUIREMENTS

In accordance with Measure R Local Return Program Guidelines, funds received pursuant to these guidelines may only be used for Measure R Local Return approved programs.

NOTE 5 – TRANSPORTATION DEVELOPMENT ACT COMPLIANCE REQUIREMENTS

In accordance with Public Utilities Code Section 99234, funds received pursuant to this Code's section may only be used for activities relating to pedestrians and bicycle facilities.

NOTE 6 – CASH AND INVESTMENTS

The PALRF, PCLRF, MRLRF, and TDAA3F cash balances were pooled with various other City funds for deposit and investment purposes. The share of each fund in the pooled cash account was separately maintained and interest income was apportioned to the participating funds based on the relationship of their average quarterly balances to the total of the pooled cash and investments.

NOTE 7 – TRANSPORTATION DEVELOPMENT ACT FUND REVENUE ALLOCATION

The revenue allocation for the years ended June 30, 2016 and 2015 consisted of the following:

	2016	2015
FY 2012-13 reserve	\$ -	\$ 1,129
FY 2013-14 reserve	-	758
Funds returned in FY 2013-14	-	1,613
Total payment requested	\$ -	\$ 3,500

CITY OF ARTESIA

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2016 and 2015
(Continued)

NOTE 8 – TRANSPORTATION DEVELOPMENT ACT FUNDS RESERVED

In accordance with TDA Article 3 (SB821) Guidelines, funds not spent during the fiscal year have been placed on reserve in the Local Transportation Fund (LTF) account with the County Auditor-Controller to be drawn down whenever the funds become eligible for a specific project and an approved drawdown request is received by Metro. As of June 30, 2016 and 2015, the City has funds on reserve as follows:

	2016	2015
FY 2013-14 reserve	\$ 12,753	\$ 12,769
FY 2014-15 reserve	11,002	11,002
FY 2015-16 allocation	10,703	-
Available reserve balance	\$ 34,478	\$ 23,791

NOTE 9 – SUBSEQUENT EVENTS

The City has evaluated events or transactions that occurred subsequent to June 30, 2016 through November 23, 2016, the date the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined no subsequent matters require disclosure or adjustment to the accompanying financial statements.



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
BRAINARD C. SIMPSON, CPA
MELBA W. SIMPSON, CPA

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Proposition A Local Return Fund (PALRF), Proposition C Local Return Fund (PCLRF), Measure R Local Return Fund (MRLRF), and Transportation Development Act Article 3 (TDAA3F) Fund of the City of Artesia, California (City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated November 23, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the 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 City's local return funds and TDAA3F 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 any 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 financial statements of the Proposition A Local Return Fund (PALRF), Proposition C Local Return Fund (PCLRF), Measure R Local Return Fund (MRLRF), and Transportation Development Act Article 3 Fund (TDAA3F) 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 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 result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Simpson & Simpson".

Los Angeles, California
November 23, 2016

COMPLIANCE SECTION



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
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Independent Auditor's Report On Compliance

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

Report on Compliance

We have audited the compliance of the City of Artesia, California (City) with the Proposition A and Proposition C Local Return Guidelines, Measure R Local Return Guidelines, Transportation Development Act Article 3, and the Los Angeles County Metropolitan Transportation Authority's Funding and Allocation Guidelines for the Transportation Development Act Article 3 Bicycle and Pedestrian Funds (Guidelines) for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for the City's compliance with those guidelines.

Auditor's 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 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 referred to in the preceding paragraph. Those standards and the Guidelines require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a local return program 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. Our audit does not provide a legal determination of the City's compliance with those requirements.

Opinion on Each Local Return Program and Transportation Development Act Article 3

In our opinion, except as noted on the Compliance Matrix and the Schedule of Findings and Recommendations, the City of Artesia complied, in all material respects, with the compliance requirements referred to above that apply to Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund, and Transportation Development Act Article 3 (TDAA3F) Fund for the year ended June 30, 2016.



Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Guidelines and which are described in the accompanying Schedule of Findings and Recommendations as Finding No. F2016-001 & Finding No. F2016-002. Our opinion on each local return program is not modified with respect to this matter.

The City's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Recommendations. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

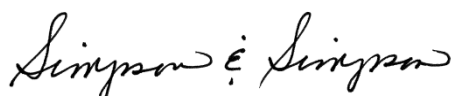
Management of the City of Artesia is responsible for establishing and maintaining effective internal control over compliance with the Requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the Requirements that could have a direct and material effect on the Local Return programs and the TDAA3F to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Requirements, 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 under the Requirements on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance under the Requirements 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and recommendations as Finding No. 2016-001 that we consider to be a material weakness.

The City's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and recommendations. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 requirement of the Guidelines. Accordingly, this report is not suitable for any other purpose.



Los Angeles, California
November 23, 2016

CITY OF ARTESIA
COMPLIANCE MATRIX
Year Ended June 30, 2016

Compliance Requirement		In Compliance		Questioned Costs	If no, provide details and management response.
		Yes	No		
A. Proposition A and Proposition C Local Return Funds					
1.	Timely use of funds.	X		None	
2.	Expenditures were approved before being incurred.	X		None	
3.	Funds were used on approved projects only and expenditures were supported and allowable per Guidelines.		X	PALRF: \$84,379 PCLRF: \$49,458	See Finding 2016-001 on the Summary of Findings and Recommendations
4.	Expenditures did not exceed 25% of Metro's approved budget.	X		None	
5.	Administrative expenses were within the 20% cap.		X	See #3 above	See Finding 2016-001 on the Summary of Findings and Recommendations
6.	All on-going and carryover projects were reported in Form B.	X		None	
7.	Annual Project Summary Report (Form B) was submitted on time.	X		None	
8.	Annual Expenditure Report (Form C) was submitted on time.	X		None	
9.	Recreational Transit Form was submitted on time.	N/A		None	
10.	Cash or cash equivalents were maintained.	X		None	
11.	Accounting procedures, record keeping and documentation were adequate.	X		None	
12.	Revenues received including allocations, project generated revenues, and interest income were properly credited to the PALRF and PCLRF accounts.	X		None	

CITY OF ARTESIA
COMPLIANCE MATRIX
Year Ended June 30, 2016
(Continued)

Compliance Requirement		In Compliance		Questioned Costs	If no, provide details and management response.
		Yes	No		
B. Measure R Local Return Fund					
1.	Timely use of funds.	X		None	
2.	Expenditures were approved before being incurred.	X		None	
3.	Funds were used on approved projects only and expenditures were supported and allowable per Guidelines.	X		None	
4.	Fund were not substituted for property tax.	X		None	
5.	Administrative expenses were within the 20% cap.	N/A		None	
6.	Expenditure Plan (Form One) was submitted on time.	X		None	
7.	Expenditure Report (Form Two) was submitted on time.		X	None	See Finding 2016-002 on the Summary of Findings and Recommendations
8.	Cash or cash equivalents were maintained.	X		None	
9.	Accounting procedures, record keeping and documentation were adequate.	X		None	
10.	Revenues received including allocations, project generated revenues, and interest income were properly credited to the Measure R account.	X		None	
11.	Funds were not used to supplant existing local revenues being used for transportation purpose.	X		None	

N/A - Not applicable as the City did not expend funds.

CITY OF ARTESIA
COMPLIANCE MATRIX
Year Ended June 30, 2016
(Continued)

Compliance Requirement		In Compliance		Questioned Costs	If no, provide details and management response.
		Yes	No		
C. Transportation Development Act Article 3 Fund					
1.	Timely use of funds.	X		None	
2.	Expenditures were incurred for activities relating to pedestrian and bicycle facilities and amenities.	X		None	

CITY OF ARTESIA

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

June 30, 2016

PALRF & PCLRF - Finding No. 2016-001

Finding	Entity
Compliance Reference	<p>According to Proposition A & C Local Return Guidelines, Section II, “A proposed expenditure of funds shall be deemed to be for public transit purposes to the extent that it can reasonably be expected to sustain or improve the quality and safety of and/or access to public transit services by the general public or those requiring special public transit assistance” and Section V, “It is jurisdictions’ responsibility to maintain proper accounting records and documentation...”</p> <p>In addition, LACMTA Local Return Program Manager issued a memo dated on April 29, 2014 to jurisdictions to provide recommendations to ensure that jurisdictions have adequate evidence to support its compliance with the Local Return Guidelines, those recommendations are “that an electronic system is acceptable as long as how much time is identified on the project (i.e. not just a clock-in-clock-out system) and this non-timesheet system, excel file or other, is authenticated by the employee and approved by one’s supervisor.” Also, “(4) Where employees work on multiple activities or cost objectives, a distribution or their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:</p> <p style="padding-left: 40px;">(b) A Federal award and non-Federal award.</p> <p>(5) Personnel activity reports or equivalent documentation must meet the following standards:</p> <p style="padding-left: 40px;">(b) They must reflect an after the fact distribution of the actual activity of each employee,</p> <p style="padding-left: 40px;">(f) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that: (i) the governmental unit’s system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) at least quarterly, comparisons of actual costs to budgeted distributions based on monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) the budget estimates or other distribution percentages are revised as least quarterly, if necessary, to reflect changed circumstances.”</p>

CITY OF ARTESIA

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

June 30, 2016

	According to Proposition A and C Local Return Guidelines, Section II (A. 15), "The administrative expenditures for any year shall not exceed 20 percent of the total Local Return annual expenditures, based on year-end expenditures."
Condition	<p>To support the propriety of expenditures being charged to Proposition A & C Local Return Funds, payroll expenditures should be supported by properly executed payrolls, time records, activity reports, vouchers, or other official documentation evidencing in proper detail the nature of the charges. However, the total payroll expenditures of \$56,082 for Proposition A General Program Administration, \$28,297 for the Prop A Vehicle Project and \$49,458 for Proposition C General Program Administration were based on an estimate of a percentage of time spent on Proposition A & C activity rather than employee's actual working hours spent for the Proposition A and Proposition C projects. The City provided us with the payroll register and the timesheets; however, these documents did not adequately support the actual hours or payroll expenditures charged to the projects.</p> <p>Additionally, Proposition A General Program Administration exceeded the 20% administration cap by \$27,542 and Proposition C General Program Administration exceeded the 20% administration cap by \$14,482, these costs are included in the total payroll costs indicated above.</p>
Cause	The City did not comply with MTA guidelines and indicated that it was not aware that its practice of allocating salaries and fringe benefits to a project was not adequate to support labor costs claimed.
Effect	The payroll costs claimed under the Proposition A & C Local Return Funds projects may include expenditures which may not be an allowable Proposition A project expenditures or Proposition C project expenditures, resulting in questioned costs of \$84,379 and \$49,458, respectively.
Recommendation	In accordance with the Guidelines, we recommend that the City reimburse its Proposition A Local Return Fund and Proposition C Local Return Fund accounts by \$84,379 and \$49,458, respectively. In addition, we recommend that the City revise its current labor costs reporting procedures to ensure that labor costs charged to Local Return Funds are adequately supported by time sheets or similar documentation which includes employees' actual working hours. We also recommend that the City establish adequate procedures to ensure they stay within the 20% Administration cap per the MTA Guidelines.

CITY OF ARTESIA

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

June 30, 2016

Management's Response	<p>The City's long time Finance Manager, who we believe was aware of the guidelines issued in 2014, developed a reporting system. This reporting system, according to the legacy accounting staff still in place, was reflective of three factors: (1) the City's payroll system, which is a profoundly antiquated system that supports a percentage distribution entry system; (2) submission to Metro last year (fall 2015) and approval by Metro representatives of this recordation and reporting system (hence the City being unaware that it would be unacceptable this year); and (3) the City's inability to access remotely stored personnel work record and also, personal work logs, in what on the City's side is very short notice (we basically tried to be responsive within a day). We understand that Metro has given their auditor's deadlines, but the effect of those deadlines is that Artesia isn't being given a reasonable amount of time to produce records that were not required last year. Artesia is a tiny city with very simple systems and very few employees, but it's also closed every other Friday, and the two employees who spend the most time on Metro items are both gone for the holidays. The City of Artesia would very much like to be able to retrieve and submit documentation that would meet the new requirements, but it needs to be given a chance to do so. Plainly put, we have to wait until the relevant staff people return to work so that we can get their logs.</p>
Auditor Rejoinder	<p>Aside from the memo issued on April 29, 2014, LACMTA and the Auditors conducted an annual kickoff meeting attended by representatives from the Jurisdictions. During the meeting, the Auditors and LACMTA emphasized the importance of maintaining proper documentation that would support allowable expenditures charged to the local return funds, which includes support for payroll and administration charges.</p> <p>Furthermore, we provided the City an additional week to provide the supporting documentation for the payroll charges and no additional supporting documents were provided, therefore, the finding is valid.</p>

CITY OF ARTESIA

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

June 30, 2016

MRLRF - Finding No. 2016-002

Finding	Entity
Compliance Reference	According to Measure R Guidelines, Section B (II.2), "Jurisdictions shall submit a Form Two, to LACMTA annually, by October 15th (following the conclusion of the fiscal year)."
Condition	The City did not meet the October 15, 2016 deadline for submission of Form Two. The City did not submit the Form Two to LACMTA as of December 14, 2016.
Cause	This was caused due to an oversight by City personnel.
Effect	The City's Form Two was not submitted.
Recommendation	We recommend that the City establish procedures to ensure that the Form Two (Expenditure Report) is properly prepared and submitted prior to the October 15th deadline and that the City retain a confirmation of receipt by LACMTA to comply with the Guidelines.
Management's Response	The City is actually aware of this deadline, thought this task had been done, and will submit. City will establish a procedure for ensuring that this is done timely.

EXIT CONFERENCE

CITY OF ARTESIA

**PROPOSITION A, PROPOSITION C, MEASURE R LOCAL RETURN FUNDS, AND
TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND**

EXIT CONFERENCE

June 30, 2016

An exit conference was held on 12/14/16 with the City of Artesia. Those in attendance were:

Simpson & Simpson Representative:

Caprice McGuire, Senior Auditor

City's Representative:

Tracy Fuller, Interim Finance Director

Jewel Zolman, Financial Analyst

Matters Discussed:

Results of the audit, two findings were noted.

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