



MetroTM

**City of Bell Gardens
Annual Financial Report of its**

**Proposition A Local Return Fund
Proposition C Local Return Fund
Measure R Local Return Fund
Transportation Development Act Article 3 Fund**

**As of and for the Year Ended June 30, 2016
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 Bell Gardens, 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, Proposition C Local Return Fund, Measure R Local Return Fund and the Transportation Development Act Article 3 Fund (collectively, the Funds), of the City of Bell Gardens, California (the City) which comprise the Funds' balance sheets as of June 30, 2016, and the related statements of revenues, expenditures and changes in fund balances for the year 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 opinions 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 audits 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 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.



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Proposition A Local Return Fund, the Proposition C Local Return Fund, the Measure R Local Return Fund and the Transportation Development Act Article 3 Fund of the City of Bell Gardens, California, as of June 30, 2016, and the respective changes in 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 Proposition A Local Return Fund, the Proposition C Local Return Fund, the Measure R Local Return Fund and the Transportation Development Act Article 3 Fund, as of and for the year ended June 30, 2015, were audited by other auditors, whose report, dated October 29, 2015, expressed an unmodified opinion on those statements.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the Proposition A Local Return Fund, the Proposition C Local Return Fund, the Measure R Local Return Fund and the Transportation Development Act Article 3 Fund of the City and do not purport to, and do not present fairly the financial position of the City as of June 30, 2016, and the changes in its financial position for the year 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.

Supplementary Information

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

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 Funds' basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the Funds' basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the Funds' basic financial statements or to the Funds' basic financial statements themselves, and other additional procedures in accordance with 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 each of the Funds' basic financial statements as a whole.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2016 on our consideration of the City's internal control over the Funds' financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over the Funds' financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over the Funds' financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over the Funds' financial reporting and compliance.

Vacques & Company LLP

Los Angeles, California
December 22, 2016

**City of Bell Gardens
Proposition A Local Return Fund
Balance Sheets**

		June 30	
		2016	2015
ASSETS			
Cash and investments	\$	162,637	\$ 104,661
Due from LACMTA		-	67,182
Interest receivable		-	66
Total assets	\$	162,637	\$ 171,909
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	64,864	\$ 65,242
Total liabilities		64,864	65,242
Deferred inflow of resources			
Unavailable revenue		-	67,182
Total deferred inflow of resources		-	67,182
Fund balance			
Restricted		97,773	39,485
Total fund balance		97,773	39,485
Total liabilities, deferred inflows of resources and fund balance	\$	162,637	\$ 171,909

See notes to Funds financial statements.

City of Bell Gardens
Proposition A Local Return Fund
Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2016	2015
Revenues		
Proposition A	\$ 770,150	\$ 750,510
Proposition A Discretionary Incentive Grant	67,182	-
Interest income	954	893
Total revenues	838,286	751,403
 Expenditures		
Various projects	779,998	866,224
Total expenditures	779,998	866,224
 Excess (deficiency) of revenues over expenditures	58,288	(114,821)
 Fund balance at beginning of year	39,485	154,306
 Fund balance at end of year	\$ 97,773	\$ 39,485

See notes to Funds financial statements.

City of Bell Gardens
Proposition A Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2016
(With Comparative Actuals for 2015)

Project Code	Project Name	2016			2015 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
110-05	Fixed Route Transit	\$ 114,000	\$ -	\$ 114,000	\$ -
120-01	General Public Transit	521,000	611,595	(90,595)	710,165
130-01	Medical Taxi Service	30,000	30,365	(365)	24,786
140-01	Recreational Transit Services	16,000	15,017	983	13,537
270-01	Project Planning and Coordination	-	-	-	1,305
270-02	Pre-Planning Study for Transportation Plan	-	-	-	3,095
480-01	Direct Administration	28,400	123,021	(94,621) *	113,336
	Total expenditures	\$ 709,400	\$ 779,998	\$ (70,598)	\$ 866,224

* See Compliance Matrix and Schedule of Findings and Questioned Costs.

See report of independent auditors.

City of Bell Gardens
Proposition A Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2016

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>
1989	Trolley, Town	\$ 172,907	\$ -	\$ -	\$ 172,907
1990	Trolley, Town	172,907	-	-	172,907
1992	Trolley, Town	172,907	-	-	172,907
2009	Bus, Senior	15,963	-	-	15,963
Total		\$ 534,684	\$ -	\$ -	\$ 534,684

See report of independent auditors.

**City of Bell Gardens
Proposition C Local Return Fund
Balance Sheets**

		June 30	
		2016	2015
ASSETS			
Cash and investments	\$	533,781	\$ 451,663
Interest receivable		-	167
Total assets	\$	533,781	\$ 451,830
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	138,826	\$ 93,150
Total liabilities		138,826	93,150
Fund balance			
Restricted		394,955	358,680
Total fund balance		394,955	358,680
Total liabilities and fund balance	\$	533,781	\$ 451,830

See notes to Funds financial statements.

City of Bell Gardens
 Proposition C Local Return Fund
Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2016	2015
Revenues		
Proposition C	\$ 642,076	\$ 625,884
Project generated revenues	72,311	80,864
PCA management rebate	48,000	48,000
Interest income	2,154	1,388
Total revenues	764,541	756,136
 Expenditures		
Various projects	728,266	527,953
Total expenditures	728,266	527,953
 Excess of revenues over expenditures	 36,275	 228,183
Fund balance at beginning of year	358,680	130,497
Fund balance at end of year	\$ 394,955	\$ 358,680

See notes to Funds financial statements.

City of Bell Gardens
Proposition C Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2016
(With Comparative Actuals for 2015)

Project Code	Project Name	2016			2015 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
110-05	Fixed Route Transit	\$ -	\$ 480,714 *	\$ (480,714)	\$ 376,450
120-01	General Public Transit	425,825	-	425,825	-
270-01	Garfield and Clara Safety Improvements	-	9,500 *	(9,500)	-
440-01	Street Resurfacing Improvements on Florence Avenue	12,200	9,915	2,285	20,912
440-18	Street Improvements No. 4	53,000	43,824	9,176	-
480-01	Direct Administration	-	184,313 *	(184,313)	105,591
500-01	Intersection Feasibility Study	-	-	-	25,000
Total expenditures		\$ 491,025	\$ 728,266	\$ (237,241)	\$ 527,953

* See Compliance Matrix and Schedule of Findings and Questioned Costs.

See report of independent auditors.

City of Bell Gardens
Proposition C Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2016

Date Acquired	Description	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See report of independent auditors.

**City of Bell Gardens
Measure R Local Return Fund
Balance Sheets**

		June 30	
		2016	2015
ASSETS			
Cash and investments	\$	501,878	\$ 663,734
Prepaid expense		3,387	-
Interest receivable		-	238
Total assets	\$	<u>505,265</u>	<u>\$ 663,972</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	20,678	\$ 7,162
Total liabilities		<u>20,678</u>	<u>7,162</u>
Fund balance			
Restricted		484,587	656,810
Total fund balance		<u>484,587</u>	<u>656,810</u>
Total liabilities and fund balance	\$	<u>505,265</u>	<u>\$ 663,972</u>

See notes to Funds financial statements.

City of Bell Gardens
Measure R Local Return Fund

Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2016	2015
Revenues		
Measure R	\$ 479,404	\$ 467,002
Interest income	3,258	2,060
Total revenues	482,662	469,062
 Expenditures		
Various projects	654,885	115,310
Total expenditures	654,885	115,310
 Excess (deficiency) of revenues over expenditures	(172,223)	353,752
Fund balance at beginning of year, as previously reported	656,810	285,198
Prior period adjustment	-	17,860
Fund balance at beginning of year, as restated	484,587	303,058
Fund balance at end of year	\$ 484,587	\$ 656,810

See notes to Funds financial statements.

City of Bell Gardens
Measure R Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2016
(With Comparative Actuals for 2015)

Project Code	Project Name	2016			2015 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
1.05	Street Improvement - Suva Street, Emil to Scout (6027.151)	\$ 20,000	\$ 16,480	\$ 3,520	\$ 3,837
1.05	Alley Improvements Project	480,000	75,095	404,905	-
2.03	Replacement of Illuminated Street Name Signs (6027.181)	407,000	364,833	42,167	34,650
3.05	Citywide Safety Enhancement Project - ATP (6027.187)	68,000	-	68,000	-
4.20	Senior Bus Driver	21,025	18,191	2,834	28,257
5.05	Bus Shelter Maintenance	12,400	11,979	421	7,103
5.10	Senior Bus - Vehicle Repairs and Maintenance	7,300	5,808	1,492	-
6.30	Bus Pass Purchases	10,000	10,860	(860)	12,782
7.90	Council of Governments (COG) Dues	11,400	10,945	455	11,339
8.10	Fund Administration (20% cap)	-	140,694	(140,694) *	17,342
Total expenditures		\$ 1,037,125	\$ 654,885	\$ 382,240	\$ 115,310

* See Compliance Matrix and Schedule of Findings and Questioned Costs.

See report of independent auditors.

City of Bell Gardens
Measure R Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2016

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See report of independent auditors.

City of Bell Gardens
Transportation Development Act Article 3 Fund
Pursuant to Public Utilities Code Section 99234
Balance Sheets

		June 30	
		2016	2015
ASSETS			
Cash and investments	\$	32	\$ 2,889
Total assets	\$	32	\$ 2,889
LIABILITIES AND FUND BALANCE			
Liabilities			
Due to other funds	\$	-	\$ -
Total liabilities		-	-
Fund balance			
Restricted		32	2,889
Total fund balance		32	2,889
Total liabilities and fund balance	\$	32	\$ 2,889

See notes to Funds financial statements.

City of Bell Gardens
Transportation Development Act Article 3 Fund
Pursuant to Public Utilities Code Section 99234
Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2016	2015
Revenues		
Intergovernmental allocations:		
Article 3	\$ 13,494	\$ -
Interest income	9	15
Total revenues	13,503	15
 Expenditures		
Various projects	16,360	-
Total expenditures	16,360	-
Excess (deficiency) of revenues over expenditures	(2,857)	15
Fund balance at beginning of year	2,889	2,874
Fund balance at end of year	\$ 32	\$ 2,889

See notes to Funds financial statements.

City of Bell Gardens
Transportation Development Act Article 3 Fund
Pursuant to Public Utilities Code Section 99234
Supplementary Information
Schedule of Transportation Development Act Allocation for Specific Projects
Year ended June 30, 2016

Project Description	Program Year	Totals to Date			Project Status
		Allocations	Expenditures	Unexpended Allocations	
Local Allocations:					
Preliminary Bike Master Plan	2016	\$ 13,494	\$ 16,360	\$ (2,866)	Completed
Totals		\$ 13,494	\$ 16,360	\$ (2,866)	
Interest income				9	
Fund balance at beginning of year				2,889	
Fund balance at end of year				\$ 32	

See report of independent auditors.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The operations 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) (collectively, the Funds) 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 is derived from 15% of a county-wide 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.

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

The PALRF, PCLRF, MRLRF, and TDAA3F are reported as Special Revenue Funds of the City and are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become "susceptible to accrual", that is, measurable and available to finance expenditures of the current period. Expenditures are recorded when the liability is 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.

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 do not purport to, and do not present fairly the City's financial position as of June 30, 2016, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

NOTE 3 PROPOSITION A AND PROPOSITION C LOCAL RETURN COMPLIANCE REQUIREMENTS

The Proposition A Ordinance requires that Local Return (LR) funds be used exclusively to benefit public transit. Expenditures related to fixed route and paratransit services, Transportation Demand Management, Transportation Systems Management and fare subsidy programs that exclusively benefit transit are all eligible uses of Proposition A LR funds. Proposition A LR funds may also be traded with other Jurisdictions in exchange for general or other funds.

The Proposition C Ordinance directs that LR funds also be used to benefit public transit, as described above, but provides an expanded list of eligible project expenditures including Congestion Management Programs, bikeways and bike lanes, street improvements supporting public transit service, and Pavement Management System projects. Proposition C LR funds cannot be traded.

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. See accompanying Compliance Matrix.

NOTE 4 MEASURE R LOCAL RETURN COMPLIANCE REQUIREMENTS

The Measure R Ordinance specifies that LR funds be used exclusively for transportation purposes.

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. See accompanying Compliance Matrix.

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. See accompanying Compliance Matrix.

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.

Please refer to the City's Comprehensive Annual Financial Report (CAFR) for a full description of risks relating to cash and investments.

NOTE 7 PROPOSITION A DISCRETIONARY INCENTIVE GRANT – PALRF

The City entered into various Memorandum of Understanding (MOU) agreements with the Los Angeles County Metropolitan Transportation Authority (LACMTA) to receive Proposition A discretionary incentive grants for participating in the Consolidated National Transit Database (NTD) Voluntary Reporting. The City received \$67,182 for the year ended June 30, 2016. No grants were received for the year ended June 30, 2015.

NOTE 8 PROJECT GENERATED REVENUES – PCLRF

Project generated revenues for the years ended June 30, 2016 and June 30, 2015 consisted of the following:

		2016		2015
DART fares	\$	20,717	\$	23,190
Trolley fares		51,594		57,674
	\$	72,311	\$	80,864

NOTE 9 PCA MANAGEMENT REBATES – PCLRF

In September 2008, the City Council awarded a five-year service contract to Parking Company of America (PCA) commencing on January 1, 2009 through December 31, 2013. The City purchased new transit vehicles for the Fixed Route, Dial-A-Ride and Senior Bus programs and presently have been fully paid by the City. PCA desired to share the cost savings with the City. As an incentive for the City to consider the contract extension, PCA offered to provide monthly discount of \$4,000. The monthly discount was retroactively applied on January 1, 2013, under the conditions that the contract extension is approved. On April 22, 2013, the City Council approved a five-year extension of the contract which expires on December 31, 2018.

The City received rebates totaling \$48,000 for each of the years ended June 30, 2016 and 2015, respectively.

NOTE 10 PRIOR PERIOD ADJUSTMENT – MRLRF

The prior period adjustment reported under MRLRF for the year ended June 30, 2015 represents the adjustment of the fund's expenditures incurred on the Lubic Street Improvement project in fiscal year ended June 30, 2012 for a total amount of \$17,860. The City received reimbursement from the State of California in fiscal year ended June 30, 2014. The result was a restatement of the beginning fund balance in the financial statement adjusted to \$303,058 for the year ended June 30, 2015, by other auditors, in their report dated October 29, 2015.

NOTE 11 TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND REVENUE ALLOCATION

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

		2016		2015
FY 2014/15 allocation	\$	13,494	\$	-
	\$	13,494	\$	-

NOTE 12 TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUNDS RESERVED

In accordance with TDA Article 3 (SB821) Guidelines, funds which will not be 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 LACMTA. As of June 30, 2016 and 2015, the City has funds on reserve as follows:

		2016		2015
FY 2014/15 reserve	\$	14,521	\$	28,015
FY 2015/16 allocation		27,196		-
	\$	41,717	\$	28,015

For FY 2015/16, any TDA Article 3 funds left on reserve for FY 2011/12 or prior, are subject to lapse if not claimed by the City by June 30, 2016. There were no funds that lapsed in FY 2015/16.

NOTE 13 SUBSEQUENT EVENTS

The City has evaluated subsequent events through December 22, 2016, the date the financial statements were available to be issued, and concluded no events have occurred that require disclosure or adjustments to the 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 Bell Gardens, California and the
Los Angeles County Metropolitan Transportation 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 Proposition A Local Return Fund, the Proposition C Local Return Fund, the Measure R Local Return Fund and the Transportation Development Act Article 3 Fund (collectively, the Funds) of the City of Bell Gardens, California (the 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 December 22, 2016.

Internal Control over Financial Reporting

In planning and performing our audits of the Funds' financial statements, we considered the City's internal control over the Funds' financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the Funds' financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Funds' 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 audits 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 Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund, and Transportation Development Act Article 3 Fund financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, 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 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 "Vaquez & Company LLP".

Los Angeles, California
December 22, 2016

COMPLIANCE SECTION

Report of Independent Auditors on Compliance

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

Report on Compliance

We have audited the compliance of the City of Bell Gardens, California (the 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 Transportation Development Act Article 3 Bicycle and Pedestrian Funds (collectively, the Guidelines) for the year ended June 30, 2016.

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 with the Guidelines 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 Proposition A Local Return Program, Proposition C Local Return Program, Measure R Local Return Program, and Transportation Development Act Article 3 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 with the Guidelines. However, our audit does not provide a legal determination of the City's compliance with the Guidelines.

Opinion

In our opinion, the City of Bell Gardens, California complied, in all material respects, with the compliance requirements of the Guidelines for the year ended June 30, 2016.



Other Matters

The results of our auditing procedures disclosed instances of noncompliance with the requirements, which are described in the accompanying Schedule of Findings and Questioned Costs as Findings #2016-001 to #2016-007. Our opinion is not modified with respect to these matters.

The City's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. 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 responses.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We consider the deficiencies as discussed in the accompanying Schedule of Findings and Questioned Costs as Finding #2016-001 to Finding #2016-007, collectively, to be material weaknesses

The City's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. 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 responses.

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".

**Los Angeles, California
December 22, 2016**

**City of Bell Gardens
Compliance Matrix
Year ended June 30, 2016**

Compliance Requirements	In Compliance			Questioned Costs	If no, provide details and management response.
	Yes	No	N/A		
A. Proposition A and Proposition C Local Return Funds					
1. Uses the State Controller's Uniform System of Accounts and Records.	X				
2. Timely use of funds.	X				
3. Funds expended were approved and have not been substituted for property tax.		X			See Finding #2016-001
4. Expenditures that exceeded 25% of approved project budget have approved amended Project Description Form (Form A)		X			See Finding #2016-002
5. Administrative expenses are within the 20% cap of the total annual Local Return Expenditures.		X		\$48,325	See Finding #2016-003
6. All on-going and carryover projects were reported on Form B.	X				
7. Annual Project Summary Report (Form B) was submitted on time.	X				
8. Annual Expenditure Report (Form C) was submitted on time.	X				
9. Cash or cash equivalents are maintained.	X				
10. Accounting procedures, record keeping and documentation are adequate.		X			See Finding #2016-004
11. Pavement Management System (PMS) is in place and being used for Street Maintenance or Improvement Projects Expenditures.	X				
12. Local Return Account is credited for reimbursable expenditures.			X		
13. Self-Certification was completed and submitted for Intelligent Transportation Systems projects or elements.			X		
14. Assurances and Understandings form was on file.	X				
15. Recreational Transit Form was submitted on time.		X			See Finding #2016-005

**City of Bell Gardens
Compliance Matrix
Year ended June 30, 2016**

Compliance Requirements	In Compliance			Questioned Costs	If no, provide details and management response.
	Yes	No	N/A		
B. Measure R Local Return Fund					
1. Funds were expended for transportation purposes.	X				
2. Funds were used to augment, not supplant, existing local revenues being used for transportation purposes unless there is a funding shortfall.	X				
3. Signed Assurances and Understandings on file.	X				
4. Separate Measure R Local Return Account was established.	X				
5. Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure R Local Return Account.	X				
6. Funds were expended with LACMTA's approval.		X			See Finding #2016-006
7. Expenditure Plan (Form One) was submitted on time.	X				
8. Expenditure Report (Form Two) was submitted on time.	X				
9. Timely use of funds.	X				
10. Administrative expenses are within the 20% cap.		X		\$12,146	See Finding #2016-007
11. Fund exchanges were approved by LACMTA.			X		
12. A separate account was established for Capital reserve funds and Capital reserve was approved by LACMTA.			X		
13. Recreational transit form was submitted on time.			X		
C. Transportation Development Act Article 3 Fund					
1. Timely use of funds.	X				
2. Expenditures were incurred for activities relating to pedestrian and bicycle facilities and amenities.	X				

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Bell Gardens
Schedule of Findings and Questioned Costs
Year ended June 30, 2016

PCLRF: Finding #2016-001

Compliance Reference	Section 1(C) states that, "Jurisdiction shall submit for approval a Project Description Form prior to the expenditure of funds for: 1) a new project; 2) a new route; 3) a 25 percent change (increase or decrease) in route or revenue vehicle miles for an established LR Funded transit service; 4) a 0.75 miles or greater service change that duplicates/overlays an existing transit service; or 5) a 25 percent greater change in an approved LR project budget on all operating or capital LR projects."
Condition	<p>The City claimed expenditures under the following PCLRF projects with no prior approval from LACMTA.</p> <ul style="list-style-type: none"> a. Project code 110-05, Fixed Route Transit, totaling \$480,714; b. Project code 270-01, Garfield and Clara Safety Improvements, totaling \$9,500; and c. Project 480-01, Direct Administration, totaling \$184,313 <p>Although we found the expenditures to be eligible for Local Return funding, these projects had no prior approval from LACMTA.</p> <p>LACMTA Program Manager granted a retroactive approval of the said projects on October 14, 2016 and December 22, 2016.</p>
Cause	The City concurs with the finding that Project Form A should have been submitted for prior approval on our transit and capital project expenditures. The finding was caused by an oversight by City staff.
Effect	Proposition C funds of \$674,527 were expended towards project expenditures without prior approval by the LACMTA.
Recommendation	We recommend for the City to establish procedures and controls to ensure that approval is obtained from LACMTA prior to spending on any local return-funded projects.
Management's Response	The City is going to reevaluate the processes that are in place to ensure forms are submitted to LACMTA and prior approval is received prior to the expenditure of funds.

City of Bell Gardens
Schedule of Findings and Questioned Costs
Year ended June 30, 2016

PALRF: Finding #2016-002

Compliance Reference	Section I(C) of the Proposition A and C Local Return Guidelines states that, "Jurisdictions shall submit for approval a Project Description Form (Form A) prior to the expenditure of funds for: 1) a new project; 2) a new route; 3) a 25 percent change (increase or decrease) in route or revenue vehicle miles for an established LR funded transit service; 4) a 0.75 miles or greater service change that duplicates/overlays an existing transit service; or 5) a 25 percent or greater change in an approved LR project budget or scope on all operating or capital LR projects."
Condition	<p>The City exceeded LACMTA's approved budget by more than 25% without obtaining prior approval through a revised Form A for PALRF's project code 480-01, Direct Administration. Amount in excess of 25% of the approved budget was \$87,521.</p> <p>Projects with greater than 25% change from the approved project budget should be amended by submitting an amended Project Description Form (Form A).</p> <p>LACMTA Program Manager granted a retroactive approval of the said projects on December 22, 2016.</p>
Cause	The City concurs with the finding that an amended Project Form A should have been submitted for approval for the projects that would exceed 25% of the approved budget. The finding was caused by an oversight by City staff.
Effect	The City's PCLRF project expenditures exceeded 25 percent of LACMTA's approved budget without LACMTA's approval and the City did not comply with the Guidelines. This may result in the City's return of the funds to LACMTA.
Recommendation	We recommend for the City to submit a Form A to obtain LACMTA's approval for the change in project budget and for the City to implement control to ensure compliance with this requirement at all times.
Management's Response	The City is going to reevaluate the processes that are in place to ensure amended forms are submitted to LACMTA for projects that will exceed 25% of the approved budget.

City of Bell Gardens
Schedule of Findings and Questioned Costs
Year ended June 30, 2016

PCLRF: Finding #2016-003

Compliance Reference	Proposition A and Proposition C Local Return Guidelines Section II(A)(15) states that, "The administrative expenditures for any year shall not exceed 20 percent of the total LR annual expenditures, based on the year-end expenditures, and will be subject to an audit finding if the amount exceeds 20 percent".
Condition	The City's administration expenditures exceeded more than 20 percent of its PCLRF total annual local return expenditures by \$48,325.
Cause	The City is aware of the 20% limit of actual expenditures on Direct Administration. However, budgeted project expenditures were lower than expected which reduced the threshold for allowable administrative costs.
Effect	Administrative expenses exceeded over 20% of the total annual local return expenditures. The City is required to return the questioned cost of \$48,325 to the PCLRF account.
Recommendation	We recommend for the City to reimburse the questioned cost of \$48,325 to the PCLRF account. In addition, the City should establish procedures to ensure that administrative expenditures claimed under the local return funds be limited to 20 percent of the fund's total annual expenditures.
Management's Response	The City has reimbursed PCLRF \$48,325 for the excess amount of Direct Administration. A journal entry has been booked to transfers the funds from the City's General Fund, and a copy of the recorded journal entry has been provided to the auditors.
Finding Corrected During the Audit	The City has reimbursed the City's PCLRF account the amount of \$48,325 in FY 2016/17. No follow up is required.

PALRF & PCLRF: Finding #2016-004

Compliance Reference	<p>Proposition A and Proposition C Local Return Guidelines Section II states that, "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". Also, Section V states that, "It is the jurisdictions' responsibility to maintain proper accounting records and documentation to facilitate the performance of the audit as prescribed in these Guidelines".</p> <p>On April 29, 2014, the LACMTA Local Return Program Manager issued a memo addressed to all Jurisdictions to provide clarification for adequate salary and related costs documentations for the audit of the Local Return funds.</p> <p>Below are recommendations to ensure that jurisdictions have adequate evidence to support its compliance with the Local Return Guidelines:</p> <ol style="list-style-type: none"> 1. All hours are required to be documented. Develop and/or maintain a system that will keep track of actual hours worked by employees whose salaries and benefits were charged to the LACMTA project. Expenditures claimed based solely on budgeted amounts is not considered adequate documentation because it does not reflect actual expenditures incurred on the LACMTA project and do not provide adequate evidence that labor hours charged has transit/transportation purpose. The record of hours worked must: a) identify the LACMTA project, b) be authenticated by the employee and approved by his/her immediate supervisor, and c) tie to hours reported in the payroll records. 2. Provide adequate support for indirect costs. For indirect expenditures allocated to LACMTA projects, develop and/or maintain a system that distributes allowable expenditures to projects based on causal or beneficial relationships. Expenditures cannot be claimed on LACMTA project if the expenditures are not allowable (i.e., not transportation or transit related) or not allocable to the LACMTA project (i.e., LACMTA project did not cause the incurrence of the expenditure or LACMTA project did not benefit from the expenditure).
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City of Bell Gardens
Schedule of Findings and Questioned Costs
Year ended June 30, 2016

PALRF & PCLRF: Finding #2016-004 (Continued)

<p>Compliance (Continued)</p>	<p>Reference</p> <p>Aside from the memo issued on April 29, 2014, LACMTA and the Auditors conducted annual audit kickoff workshops attended by representatives from the Jurisdictions. During these workshops, Auditors and LACMTA emphasized the importance of maintaining proper documentation that would support allowability of expenditures charged to local return funds including supports for payroll and administration charges.</p>
<p>Condition</p>	<p>The City charged payroll expenditures to project code 480-01, Direct Administration, for both PALRF and PCLRF funds. Indirect costs allocated amounting to \$123,021 under PALRF and \$184,313 under PCLRF were not supported by actual time charges, documented time study, or overhead cost allocation plan.</p>
<p>Cause</p>	<p>When the City contemplated the indirect costs charged to PALRF and PCLRF, the City was focused on ensuring compliance with the 20% limit along with establishing a system that distributed expenditures based on causal or beneficial relationships. This resulted in the reasonable allocation of salaries to Direct Administration. The salary allocation was based on the direct and indirect necessity of the individual to the success of transit related programs. These individuals include the City's finance director, accounting manager, human resources manager, personnel analyst, payroll analyst, accounts payable and receivable technicians, public works director, administrative specialist, and clerk typist. Without these individuals the programs would not be able to function. There are other individuals who are essential to the programs like the city manager, assistant city manager, city attorney and city council who are not allocated. Based on this process and application of the guidelines for PALRF and PCLRF, the City felt compliance was achieved, as the guidelines state:</p> <p style="padding-left: 40px;"><i>Direct Administration is defined as those fully burdened costs which are directly associated with administering Local Return program or projects, and includes salaries and benefits, office supplies and equipment, and other overhead costs...Expenditures must be reasonable and appropriate to the activities undertaken by the locality...The administrative expenditures for any year shall not exceed 20 percent of the total LR annual expenditures, based on year-end expenditures (Guidelines PALRF and PCLRF, p.12).</i></p>
<p>Effect</p>	<p>The amount charged to PALRF and PCLRF may not reflect the most reasonable cost relating to these funds.</p>

City of Bell Gardens
Schedule of Findings and Questioned Costs
Year ended June 30, 2016

PALRF & PCLRF: Finding #2016-004 (Continued)

Recommendation	We recommend for the City to use the actual time charges to record the payroll costs incurred for the project pertaining to these funds.
Management's Response	The auditors noted that the Direct Administration cost, which will include indirect costs, was not supported by actual time charges, documented time study, or overhead cost allocation plan. The City would appreciate additional direction from LACMTA in regards to achieving compliance to the noted compliance reference for this finding.

City of Bell Gardens
Schedule of Findings and Questioned Costs
Year ended June 30, 2016

PALRF: Finding #2016-005

Compliance Reference	Section III(A) states that “ For Jurisdictions with Recreational Transit projects, Jurisdictions are required to annually submit an accounting of Recreational Transit trips, destinations and costs. This information should be submitted along with the Form C, no later than October 15 after the fiscal year.”
Condition	The Recreational Transit report was submitted on October 27, 2016, which is beyond the due date of October 15, 2016.
Cause	The finding was caused by an oversight, as the form was submitted 12 days beyond the due date.
Effect	The City was not in compliance with the reporting requirements of the Local Return Guidelines.
Recommendation	We recommend for the City to establish procedures and controls to ensure that the Annual Recreational Transit Report is submitted by October 15 as required by the Guidelines.
Management’s Response	The City is going to reevaluate the processes to ensure forms are submitted on time.

City of Bell Gardens
Schedule of Findings and Questioned Costs
Year ended June 30, 2016

Measure R: Finding #2016-006

Compliance Reference	<p>Section B (II) of Measure R Local Return Program Guideline states that, "To maintain legal eligibility and meet Measure R LR program compliance requirements, Jurisdiction shall submit to LACMTA an Expenditure Plan (Form One), annually, by August 1st of each year.</p> <p>Form One provides a listing of projects funded with Measure R LR funds along with estimated expenditures for the year. For both operating and capital projects, Part I is to be filled out. For capital projects (projects over \$250,000), Part II is required. Pursuant to AB2321, LACMTA will provide LR funds to a capital project or program sponsor who submits the required expenditure plan."</p>
Condition	<p>The City claimed expenditures for MRLRF project code 8.10, Fund Administration, for \$140,694 with no prior approval from LACMTA.</p> <p>The City submitted a revised Expenditure Plan (Form One) to the LACMTA Program Manager and obtained a retroactive approval of the said project on December 22, 2016.</p>
Cause	<p>The finding was caused by an oversight by City staff.</p>
Effect	<p>The City claimed expenditures totaling \$140,694 without prior approval from LACMTA. Lack of prior approval results in non-compliance which could impact future funding or result in questioned costs that require funding to be returned to LACMTA.</p>
Recommendation	<p>We recommend for the City to establish procedures and controls to ensure that approval is obtained from LACMTA prior to spending on Measure R-funded projects</p>
Management's Response	<p>The City concurs with the finding that an Expenditure Plan (Form One) should have been submitted by August 1 for the projects that will be funded with Measure R.</p> <p>The City is in the process of submitting a revised Form One to LACMTA for retroactive approval. Additionally, the City is going to reevaluate the processes that are in place to ensure forms are submitted to LACMTA by August 1.</p>
Finding Corrected During the Audit	<p>LACMTA Program Manager granted a retroactive approval of the said project on December 22, 2016. No additional follow up is required.</p>

City of Bell Gardens
Schedule of Findings and Questioned Costs
Year ended June 30, 2016

Measure R: Finding #2016-007

Compliance Reference	Measure R Local Return Program Guidelines Section A(II)(8) states that, "Transportation Administration expenditures are those administrative costs associated with and incurred for the aforementioned eligible projects/program. Direct administration expenditures includes those fully burdened costs that are directly associated with administering LR program or projects, and includes salaries and benefits, office supplies and equipment, and other overhead costs. All costs must be associated with developing, maintaining, monitoring, and coordinating, reporting and budgeting specific LR project(s). Expenditures must be reasonable and appropriate to the activities undertaken by the locality. The administrative expenditures for any year shall not exceed twenty percent (20%) of the total LR annual expenditures".
Condition	The City's administration expenditures exceeded more than 20 percent of its MRLRF total annual local return expenditures by \$12,146.
Cause	The City is aware of the 20% limit of actual expenditures on Direct Administration. However, budgeted project expenditures were lower than expected which reduced the threshold for allowable administrative costs.
Effect	Administrative expenses that exceeded 20% of the total annual local return expenditures are not allowable expenditures under the Measure R Local Return Program Guidelines.
Recommendation	We recommend for the City to reimburse the questioned cost of \$12,146 to the MRLRF account. In addition, the City should establish procedures to ensure that administrative expenditures claimed under the local return funds be limited to 20 percent of the fund's total annual expenditures.
Management's Response	The City has reimbursed MRLRF \$12,146 for the excess amount of Direct Administration. A journal entry has been booked to transfers the funds from the City's General Fund, and a copy of the recorded journal entry has been provided to the auditors.
Finding Corrected During the Audit	The City has reimbursed the City's MRLRF account the amount of \$12,146 in FY 2016/17. No follow up is required.

EXIT CONFERENCE

An exit conference was held on December 20, 2016 with the City of Bell Gardens representatives. Those in attendance were:

Vasquez and Company LLP representatives:
Cristy Canieda – Partner
Marialyn Salvador – Audit Manager

City of Bell Gardens representatives:
Will Kaholokula – Director of Finance and Administration Services
Greg Bernal – Accountant

Matters discussed:

Results of the audit disclosed instances of noncompliance with the Local Return Guidelines.

A copy of this report was forwarded to the following City of Bell Gardens representatives for comments prior to the issuance of the final report:

Will Kaholokula – Director of Finance and Administration Services
Greg Bernal – Accountant



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