



MetroTM

**City of Lynwood
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**

| | <u>PAGE</u> |
|---|-------------|
| FINANCIAL SECTION | |
| Report of Independent Auditors | 1 |
| Proposition A Local Return Fund: | |
| Basic Financial Statements: | |
| Balance Sheets | 4 |
| Statements of Revenues, Expenditures and Changes in Fund Balance | 5 |
| Supplementary Information: | |
| Schedule of Expenditures – Actual and LACMTA Approved Project Budget | 6 |
| Schedule of Capital Assets | 7 |
| Proposition C Local Return Fund: | |
| Basic Financial Statements: | |
| Balance Sheets | 8 |
| Statements of Revenues, Expenditures and Changes in Fund Balance | 9 |
| Supplementary Information: | |
| Schedule of Expenditures – Actual and LACMTA Approved Project Budget | 10 |
| Schedule of Capital Assets | 11 |
| Measure R Local Return Fund: | |
| Basic Financial Statements: | |
| Balance Sheets | 12 |
| Statements of Revenues, Expenditures and Changes in Fund Balance | 13 |
| Supplementary Information: | |
| Schedule of Expenditures – Actual and LACMTA Approved Project Budget | 14 |
| Schedule of Capital Assets | 15 |
| Transportation Development Act Article 3 Fund: | |
| Basic Financial Statements: | |
| Balance Sheets | 16 |
| Statements of Revenues, Expenditures and Changes in Fund Balance | 17 |
| Supplementary Information: | |
| Schedule of Transportation Development Act Allocation for Specific Projects | 18 |
| Notes to Funds Financial Statements | 19 |
| 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 <i>Government Auditing Standards</i> | 24 |
| COMPLIANCE SECTION | |
| Report of Independent Auditors on Compliance | 26 |
| Compliance Matrix | 28 |
| SCHEDULE OF FINDINGS AND QUESTIONED COSTS | 30 |
| EXIT CONFERENCE | 34 |

FINANCIAL SECTION

Report of Independent Auditors

**To the Honorable Members of the City Council of the
City of Lynwood, 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 Lynwood, 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 Lynwood, 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 December 11, 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 Lynwood
Proposition A Local Return Fund
Balance Sheets**

| | | June 30 | |
|---|-----------|-------------------------|----------------------------|
| | | 2016 | 2015 |
| ASSETS | | | |
| Cash and investments | \$ | 3,787,633 | \$ 3,812,887 |
| Due from LACMTA | | - | 135,457 |
| Interest receivable | | 2,702 | 1,521 |
| Total assets | \$ | <u>3,790,335</u> | <u>\$ 3,949,865</u> |
| LIABILITIES AND FUND BALANCE | | | |
| Liabilities | | | |
| Accounts payable | \$ | - | \$ - |
| Total liabilities | | <u>-</u> | <u>-</u> |
| Fund balance | | | |
| Restricted | | <u>3,790,335</u> | <u>3,949,865</u> |
| Total fund balance | | <u>3,790,335</u> | <u>3,949,865</u> |
| Total liabilities and fund balance | \$ | <u>3,790,335</u> | <u>\$ 3,949,865</u> |

See notes to Funds financial statements.

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

| | Years ended June 30 | |
|---|---------------------|---------------------|
| | 2016 | 2015 |
| Revenues | | |
| Proposition A | \$ 1,281,207 | \$ 1,249,377 |
| Proposition A Discretionary Incentive Grants | 64,002 | 132,395 |
| Interest income | 24,169 | 15,564 |
| Project generated revenue | - | 7,212 |
| Total revenues | 1,369,378 | 1,404,548 |
| Expenditures | | |
| Various projects | 1,528,908 | 1,032,443 |
| Total expenditures | 1,528,908 | 1,032,443 |
| Excess (deficiency) of revenues over expenditures | (159,530) | 372,105 |
| Fund balance at beginning of year | 3,949,865 | 3,577,760 |
| Fund balance at end of year | \$ 3,790,335 | \$ 3,949,865 |

See notes to Funds financial statements.

City of Lynwood
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 | | Variance | 2015 Actual |
|---------------------------|-------------------------------------|---------------------|---------------------|---------------------|---------------------|
| | | LACMTA Budget | Actual | Positive (Negative) | |
| 110-05 | Fixed Bus Route | \$ 515,000 | \$ 457,628 | \$ 57,372 | \$ 501,817 |
| 110-06 | Lynwood Trolley Blue Line Interface | 235,000 | 187,228 | 47,772 | 230,107 |
| 120-07 | Dial-A-Ride | 200,000 | 118,662 | 81,338 | 131,194 |
| 140-02 | Recreational Transit | 30,000 | 16,609 | 13,391 | 16,006 |
| 150-04 | Bus Stop Clean Up | 20,000 | 6,930 | 13,070 | 20,034 |
| 250-01 | MTA Bus Pass Voucher Subsidy | 50,000 | 4,302 | 45,698 | 5,511 |
| 270-60 | Bus Shelter Improvement (Planning) | 10,000 | - | 10,000 | - |
| 280-58 | Lynwood Trolley Route Brochure | 7,500 | - | 7,500 | - |
| 300-59 | Bus Shelter Improvement | 1,000,000 | 546,835 | 453,165 | - |
| 480-03 | Administration and Monitoring | 269,280 | 190,714 | 78,566 | 127,774 |
| Total expenditures | | \$ 2,336,780 | \$ 1,528,908 | \$ 807,872 | \$ 1,032,443 |

See report of independent auditors.

City of Lynwood
Proposition A 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 Lynwood
Proposition C Local Return Fund
Balance Sheets**

| | | June 30 | |
|---|-----------|-------------------------|----------------------------|
| | | 2016 | 2015 |
| ASSETS | | | |
| Cash and investments | \$ | 5,955,945 | \$ 5,919,853 |
| Interest receivable | | 3,969 | 2,130 |
| Total assets | \$ | <u>5,959,914</u> | <u>\$ 5,921,983</u> |
| LIABILITIES AND FUND BALANCE | | | |
| Liabilities | | | |
| Due to other funds | \$ | - | \$ 21,437 |
| Total liabilities | | - | <u>21,437</u> |
| Fund balance | | | |
| Restricted - Long Beach Boulevard Improvement Project | | 1,553,093 | 1,740,504 |
| Restricted | | 4,406,821 | 4,160,042 |
| Total fund balance | | <u>5,959,914</u> | <u>5,900,546</u> |
| Total liabilities and fund balance | \$ | <u>5,959,914</u> | <u>\$ 5,921,983</u> |

See notes to Funds financial statements.

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

| | Years ended June 30 | |
|---|----------------------------|----------------------------|
| | 2016 | 2015 |
| Revenues | | |
| Proposition C | \$ 1,064,511 | \$ 1,038,425 |
| Proposition C Discretionary Incentive Grant | - | 403,836 |
| Interest Income | <u>35,593</u> | <u>20,641</u> |
| Total revenues | <u>1,100,104</u> | <u>1,462,902</u> |
| Expenditures | | |
| Various projects | <u>1,040,736</u> | <u>199,037</u> |
| Total expenditures | <u>1,040,736</u> | <u>199,037</u> |
| Excess of revenues over expenditures | 59,368 | 1,263,865 |
| Fund balance at beginning of year | <u>5,900,546</u> | <u>4,636,681</u> |
| Fund balance at end of year | <u>\$ 5,959,914</u> | <u>\$ 5,900,546</u> |

See notes to Funds financial statements.

City of Lynwood
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 | | Variance Positive (Negative) | 2015 Actual |
|---------------------------|---|---------------------|---------------------|------------------------------|-------------------|
| | | LACMTA Budget | Actual | | |
| 270-01 | Long Beach Blvd Improvement Project - Imperial Hwy. to North City Limit-Design Only | \$ 1 | \$ - | \$ 1 | 76,500 |
| 270-52 | State St. and Long Beach Blvd Intersection Improvements | 100,000 | 23,500 | 76,500 | - |
| 270-53 | Transportation Assessment (Gateway Cities) | 8,250 | 8,247 | 3 | 8,247 |
| 270-56 | I-710 Corridor Study | 25,000 | 25,000 | - | 25,000 |
| 270-57 | Josephine Street Improvements | 30,000 | - | 30,000 | - |
| 270-58 | Long Beach Improvement | 15,000 | - | 15,000 | - |
| 270-59 | Engineering and Traffic Survey/Traffic Counts | 20,000 | - | 20,000 | - |
| 300-58 | Bus Shelter Improvement | 60,000 | 60,000 | - | - |
| 380-57 | Long Beach Blvd Improvement Project | 1,747,000 | 196,631 | 1,550,369 | - |
| 440-30 | Imperial Highway and Martin Luther King Blvd Intersection Improvements | 60,000 | - | 60,000 | - |
| 440-37 | Bullis Road Improvement Project | 800,000 | 15,097 | 784,903 | 25,050 |
| 440-46 | Traffic Signal Improvements | 490,000 | 316,658 | 173,342 | 64,240 |
| 440-58 | State St Improvement Project | 800,000 | - | 800,000 | - |
| 440-60 | State Street Geotechnical Engineering Study | 30,000 | 24,980 | 5,020 | - |
| 440-61 | Josephine Street Improvement Project | 250,000 | 250,000 | - | - |
| 440-62 | Long Beach Blvd | 250,000 | - | 250,000 | - |
| 440-63 | Long Beach Blvd and Euclid Ave Traffic Signal Improvements | 22,880 | - | 22,880 | - |
| 440-64 | Fernwood and Bullis Traffic Signals Upgrade | 247,400 | - | 247,400 | - |
| 440-65 | State Street Improvement Project | 20,000 | - | 20,000 | - |
| 440-66 | State Street Improvement Project | 400,000 | 70,623 | 329,377 | - |
| 440-67 | Carlin Ave and Thorson Ave Intersection Upgrade | 20,000 | - | 20,000 | - |
| 480-03 | Administration and Monitoring | 50,000 | 50,000 | - | - |
| Total expenditures | | \$ 5,445,531 | \$ 1,040,736 | \$ 4,404,795 | \$ 199,037 |

See report of independent auditors.

City of Lynwood
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 Lynwood
Measure R Local Return Fund
Balance Sheets**

| | | June 30 | |
|---|-----------|-------------------------|----------------------------|
| | | 2016 | 2015 |
| ASSETS | | | |
| Cash and investments | \$ | 2,999,274 | \$ 2,595,327 |
| Interest receivable | | 1,789 | 1,027 |
| Total assets | \$ | <u>3,001,063</u> | <u>\$ 2,596,354</u> |
| LIABILITIES AND FUND BALANCE | | | |
| Liabilities | | | |
| Accounts payable | \$ | - | \$ - |
| Total liabilities | | <u>-</u> | <u>-</u> |
| Fund balance | | | |
| Restricted | | <u>3,001,063</u> | 2,596,354 |
| Total fund balance | | <u>3,001,063</u> | <u>2,596,354</u> |
| Total liabilities and fund balance | \$ | <u>3,001,063</u> | <u>\$ 2,596,354</u> |

See notes to Funds financial statements.

City of Lynwood
Measure R Local Return Fund

Statements of Revenues, Expenditures and Changes in Fund Balance

| | Years ended June 30 | |
|--|-------------------------|------------------|
| | 2016 | 2015 |
| Revenues | | |
| Measure R | \$ 797,527 | \$ 777,420 |
| Interest income | 16,075 | 10,173 |
| Total revenues | 813,602 | 787,593 |
| Expenditures | | |
| Various projects | 408,893 | 446,608 |
| Total expenditures | 408,893 | 446,608 |
| Excess of revenues over expenditures | 404,709 | 340,985 |
| Fund balance at beginning of year | 2,596,354 | 2,255,369 |
| Fund balance at end of year | \$ 3,001,063 | \$ 2,596,354 |

See notes to Funds financial statements.

City of Lynwood
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 | Louis Avenue Improvements | \$ 8,428 | \$ 203 | \$ 8,225 | \$ 8,428 |
| 1.05 | Pavement Marking Improvements | 8,060 | 6,955 | 1,105 | 8,060 |
| 1.05 | Trench Cut Repairs | 18,995 | - | 18,995 | 18,995 |
| 1.05 | Duncan Avenue Improvements | 6,190 | - | 6,190 | 6,190 |
| 1.05 | Olanda Avenue Improvements | 3,787 | - | 3,787 | 3,788 |
| 1.05 | Wright Road Improvements | 8,340 | 9,850 | (1,510) | 8,341 |
| 1.90 | Measure R Bond Debt Service Payment | 392,806 | 390,806 | 2,000 | 392,806 |
| 3.90 | Pedestrian Improvements Around Various Schools | - | 1,079 | (1,079) * | - |
| Total expenditures | | \$ 446,606 | \$ 408,893 | \$ 37,713 | \$ 446,608 |

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

See report of independent auditors.

City of Lynwood
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> |
|--------------------------|---------------------|-------------------------------------|------------------|------------------|--------------------------------------|
| 2012 | Retro-Reflectometer | \$ 13,618 | \$ - | \$ - | \$ 13,618 |
| Total | | <u>\$ 13,618</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 13,618</u> |

See report of independent auditors.

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

| | | June 30 | |
|-------------------------------------|---|-----------------|------------------|
| | | 2016 | 2015 |
| ASSETS | | | |
| Cash and investments | \$ | 2,813 | \$ 19,052 |
| Interest receivable | | 88 | 7 |
| | Total assets | \$ 2,901 | \$ 19,059 |
| LIABILITIES AND FUND BALANCE | | | |
| Liabilities | | | |
| Due to other funds | \$ | - | \$ - |
| | Total liabilities | - | - |
| Fund balance | | | |
| Restricted | | 2,901 | 19,059 |
| | Total fund balance | 2,901 | 19,059 |
| | Total liabilities and fund balance | \$ 2,901 | \$ 19,059 |

See notes to Funds financial statements.

City of Lynwood
 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 | \$ 132,824 | \$ - |
| Interest income | 406 | 75 |
| Total revenues | 133,230 | 75 |
| Expenditures | | |
| Sidewalk Improvements | 149,388 | - |
| Total expenditures | 149,388 | - |
| Excess (deficiency) of revenues over expenditures | (16,158) | 75 |
| Fund balance at beginning of year | 19,059 | 18,984 |
| Fund balance at end of year | \$ 2,901 | \$ 19,059 |

See notes to Funds financial statements.

City of Lynwood
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: | | | | | |
| Sidewalk Improvements | 2016 | \$ 132,824 | \$ 149,388 | \$ (16,564) | Ongoing |
| | Totals | <u>\$ 132,824</u> | <u>\$ 149,388</u> | <u>(16,564)</u> | |
| Interest income | | | | 406 | |
| Fund balance at beginning of year | | | | <u>19,059</u> | |
| Fund balance at end of year | | | | <u>\$ 2,901</u> * | |

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

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 GRANTS

The Proposition A Discretionary Incentive Grant amounting to \$64,002 and \$132,395 for the years ended June 30, 2016 and 2015, respectively, represent additional funds received from LACMTA for participating in the Voluntary NTD Program.

The Proposition A Discretionary Grants were recorded under PALRF.

NOTE 8 PROPOSITION C DISCRETIONARY INCENTIVE GRANT

The Proposition C Discretionary Incentive Grant amounting to \$403,836 for the year ended June 30, 2015 represents additional funds received from LACMTA for participating in the Proposition C Interest Funds and Transit Service Expansion Program. The City did not receive Proposition C Discretionary Incentive Grants during the year ended June 30, 2016.

The Proposition C Discretionary Incentive Grant was recorded under PCLRF.

NOTE 9 CAPITAL RESERVE

On June 9, 2013, LACMTA and the City entered into an agreement to establish a capital reserve account (Account) in the amount of \$1,747,000 for the Project Code 380-57, Long Beach Boulevard Improvement Project (the Project). In June 2016, LACMTA and the City amended the agreement to extend the term of the reserve agreement to June 30, 2019.

The Account is to be funded with the Proposition C Local Return funds allocated to the City. All interest is to be accrued and placed in the Account for use exclusively for the Project.

For the years ended June 30, 2016 and 2015, details of the capital reserve amounts for PCLRF are as follows:

| | 2016 | 2015 |
|---|---------------------|--------------|
| Capital reserve, beginning balance | \$ 1,740,504 | \$ 1,740,504 |
| Interest income allocated during the year | 9,220 | - |
| Expenditures during the year | (196,631) | - |
| Capital reserve, ending balance | \$ 1,553,093 | \$ 1,740,504 |

NOTE 10 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 2011/12 allocation | \$ | 23,420 | \$ | - |
| FY 2012/13 allocation | | 52,156 | | - |
| FY 2013/14 allocation | | 57,248 | | - |
| | \$ | 132,824 | \$ | - |

NOTE 11 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 2011/12 reserve | \$ | - | \$ | 23,420 |
| FY 2012/13 reserve | | - | | 52,156 |
| FY 2013/14 reserve | | - | | 57,248 |
| FY 2014/15 reserve | | 46,625 | | 46,625 |
| FY 2015/16 allocation | | 45,231 | | - |
| | \$ | 91,856 | \$ | 179,449 |

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 12 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 Lynwood, 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 Lynwood, 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.

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 Lynwood, California and the
Los Angeles County Metropolitan Transportation Authority**

Report on Compliance

We have audited the compliance of the City of Lynwood, 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 Lynwood, 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 and #2016-004. 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

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

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

**City of Lynwood
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 | | | | |
| 4. Expenditures that exceeded 25% of approved project budget have approved amended Project Description Form (Form A) | X | | | | |
| 5. Administrative expenses are within the 20% cap of the total annual Local Return Expenditures. | X | | | | |
| 6. All on-going and carryover projects were reported in 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 | | | | |
| 11. Pavement Management System (PMS) 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 #2016-001 |

**City of Lynwood
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 | | \$1,079 | See Finding #2016-002 |
| 7. Expenditure Plan (Form One) was submitted on time. | X | | | | |
| 8. Expenditure Report (Form Two) was submitted on time. | | X | | | See Finding #2016-003 |
| 9. Timely use of funds. | X | | | | |
| 10. Administrative expenses are within the 20% cap. | X | | | | |
| 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 | | | See Finding #2016-004 |
| 2. Expenditures were incurred for activities relating to pedestrian and bicycle facilities and amenities. | X | | | | |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

PALRF: Finding #2016-001

| | |
|------------------------------|---|
| Compliance Reference | Under Section III (A) of the Proposition A and Proposition C Local Return Guidelines, 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 26, 2016, which is beyond the due date of October 15, 2016. |
| Cause | Division staffing limits caused delay in collection of the trip background information needed to complete forms in time to meet deadline. |
| 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 | Future forms will be submitted by the due date. As the form is due at the same time every year (October), the Facility and Program Supervisor responsible for submittal will be reminded of the need to submit the certificate by the 15th of September, one month before the actual October deadline. The Department Deputy Director will be responsible for this notice in order to comply with the requirement in a timely manner. Reminders will be issued in person, via email and Outlook system reminders. |

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

MRLRF: Finding #2016-002

| | |
|------------------------------|---|
| Compliance Reference | <p>Section B(II)(1) of the Measure R Local Return Program Guidelines states that "...LACMTA will provide LR funds to a capital project or program sponsor who submits the required expenditure plan containing the following: 1. The estimated total cost for each project and/or program activity"</p> <p>To maintain legal eligibility and meet Measure R LR program compliance requirements, Jurisdictions shall submit to LACMTA an Expenditure Plan (Form One), annually, by August 1 of each year.</p> |
| Condition | <p>The City claimed expenditures for Project code 3.90, Pedestrian Improvements Around Various Schools totaling \$1,079 with no prior approval from LACMTA.</p> <p>Based on our discussion with the Interim Finance Director, the expenditure was erroneously recorded under the MRLRF and the City intends to make the necessary adjustment in FY 2016/17.</p> |
| Cause | <p>The City staff committed an error in recording this expenditure under MRLRF account.</p> |
| Effect | <p>The City claimed expenditures totaling \$1,079 without prior approval from LACMTA. The City is required to return the amount to the MRLRF.</p> |
| Recommendation | <p>We recommend for the City to reimburse its MRLRF account the amount of \$1,079. In addition, we recommend for the City to establish procedures and controls to ensure that only related transactions are recorded under the MRLRF account.</p> |
| Management's Response | <p>For the Pedestrian Safety Improvement project, the funding source to be used was supposed to be an HSIP Grant rather than Measure R. Staff will work with Finance Department to make the reversal.</p> <p>The City will make the adjustment in FY 2016/17.</p> |

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

MRLRF: Finding #2016-003

| | |
|---|---|
| Compliance Reference | Section B(11)(2) of the Measure R Local Return Program Guidelines states that "...Jurisdictions shall submit to LACMTA an Expenditure Report (Form Two), annually, by October 15 th (following the conclusion of the fiscal year)...." |
| Condition | The City submitted its Expenditure Report (Form Two) on November 13, 2015, which is beyond the due date set under the Guidelines. |
| Cause | The City lacks adequate procedures and controls to ensure that the Expenditure Report (Form Two) is submitted on time. |
| Effect | Expenditure Report (Form Two) was not submitted timely as required by the Guidelines. |
| Recommendation | We recommend for the City to establish procedures and controls to ensure that Expenditure Report (Form Two) is submitted by October 15 as required by the Guidelines. |
| Management's Response | There has been a significant turn-over in staffing. The City will designate a new staff member to monitor the timely submittal of Form Two of Measure R Local Return. |
| Finding Corrected During the Audit | The City subsequently submitted the form. No follow up is required. |

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

TDAA3F: Finding #2016-004

| | |
|------------------------------|--|
| Compliance Reference | TDA Article 3 Guidelines states that, "Agencies may only draw down the funds that they can spend during the fiscal year in which they were allocated. Agencies are not allowed to have a fund balance at the end of the fiscal year. Any funds drawn down and that remain unspent after the end of the fiscal year must be returned to LACMTA to be placed on reserve for the City under the fiscal year in which they were originally allocated. Agencies must also fully spend any interest accumulated by these funds by the end of the fiscal year in which the funds were allocated". |
| Condition | The City has unexpended fund balance of \$2,901 as of June 30, 2016. |
| Cause | There appears to be a lack of timely review of the available funding to be spent and/or returned for TDA3 Fund. |
| Effect | The City was not in compliance with the TDA Article 3 Guidelines and will be required to return the unexpended fund balance as of June 30, 2016. |
| Recommendation | We recommend that the City return the unexpended funds to LACMTA consistent with the TDA Article 3 Guidelines. |
| Management's Response | The City has reached out to LACMTA to return the unexpended funds in the amount of \$2,901. |

EXIT CONFERENCE

An exit conference was held on December 22, 2016 with the City of Lynwood representatives. Those in attendance were:

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

City of Lynwood representatives:
Dennis McLean – Interim Finance Director
Raul Godinez – Public Works Director
Lorry Hempe – Public Works Special Projects Manager
Mark Flores – Recreation and Community Services Director
Christy Valencia – Finance Manager

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 Lynwood representatives for comments prior to the issuance of the final report:

Dennis McLean – Interim Finance Director
Raul Godinez – Public Works Director
Lorry Hempe – Public Works Special Projects Manager
Mark Flores – Recreation and Community Services Director
Christy Valencia – Finance Manager



www.vasquezcpa.com

Vasquez & Company LLP has over 45 years of experience in performing audit, accounting & consulting services for all types of nonprofit organizations, for-profit companies, governmental entities and publicly traded companies. Vasquez is a member of the RSM US Alliance. RSM US Alliance provides its members with access to resources of RSM US LLP. RSM US Alliance member firms are separate and independent businesses and legal entities that are responsible for their own acts and omissions, and each are separate and independent from RSM US LLP. RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Members of RSM US Alliance have access to RSM International resources through RSM US LLP but are not member firms of RSM International. Visit [rsmus.com/about us](http://rsmus.com/about-us) for more information regarding RSM US LLP and RSM International. The RSM™ logo is used under license by RSM US LLP. RSM US Alliance products and services are proprietary to RSM US LLP.

801 South Grand Avenue, Suite 400 • Los Angeles, California 90017-4646 • Ph. (213) 873-1700 • Fax (213) 873-1777