



MetroTM

**City of Montebello
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 Montebello, 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 Montebello, 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.



Opinion

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 Montebello, 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 Matters

As discussed in Note 10, the fiscal year 2015 financial statements of Proposition C Local Return and Measure R Local Return Fund have been restated to correct a misstatement. Our opinion is not modified with respect to this 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, before the financial statements of Proposition C Local Return Fund and Measure R Local Return Fund were restated for the matter discussed in Note 10 were audited by other auditors, whose report, dated November 24, 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 Montebello
 Proposition A Local Return Fund
 Balance Sheets**

		June 30	
		2016	2015
ASSETS			
Cash and investments	\$	561,498	\$ 696,994
Total assets	\$	561,498	\$ 696,994
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	-	\$ -
Total liabilities		-	-
Fund balance			
Restricted		561,498	696,994
Total fund balance		561,498	696,994
Total liabilities and fund balance	\$	561,498	\$ 696,994

See notes to Funds financial statements.

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

	Years ended June 30	
	2016	2015
Revenues		
Proposition A	\$ 1,146,678	\$ 1,117,427
Investment income	2,141	2,829
Total revenues	1,148,819	1,120,256
Expenditures		
Various projects	1,284,315	1,920,319
Total expenditures	1,284,315	1,920,319
Deficiency of revenues over expenditures	(135,496)	(800,063)
Fund balance at beginning of year	696,994	1,497,057
Fund balance at end of year	\$ 561,498	\$ 696,994

See notes to Funds financial statements.

City of Montebello
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 Positive (Negative)	2015 Actual
		LACMTA Budget	Actual		
360-01	Metrolink Station Bus Terminal and Park and Ride Lot	\$ 536,334	\$ 284,315	\$ 252,019	\$ 373,909
405-02	Prop A Exchange - Pasadena	-	-	-	506,000
405-04	Prop A Exchange - Commerce	1,000,000	1,000,000	-	1,000,000
405-04	Prop A Exchange - Bellflower	-	-	-	40,410
480-02	Direct Administration	50,000	-	50,000	-
	Total expenditures	\$ 1,586,334	\$ 1,284,315	\$ 302,019	\$ 1,920,319

See report of independent auditors.

City of Montebello
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>
1990	Computer Equipment	\$ 4,000	\$ -	\$ -	\$ 4,000
1990	Facsimile Machine	5,350	-	-	5,350
1990	Comm Console	49,999	-	-	49,999
1990-91	Mobile Office	40,000	-	-	40,000
1990-94	Engines/Transmissions	148,081	-	-	148,081
1990-91	Mobile Radios	11,400	-	-	11,400
1990-91	3 ADB Coaches	302,679	-	-	302,679
1990-92	Inv Control System	72,180	-	-	72,180
1990-91	5 Fixed Route Buses	204,864	-	-	204,864
1990-92	Corp Yard Master Plan	24,513	-	-	24,513
1990-92	Corp Yard Master Asestos	156,586	-	-	156,586
1992	8 Bus Replacements	75,259	-	-	75,259
1992-93	Vehicle Equipment Driver Seats	20,000	-	-	20,000
1992-93	Corp Yard Fac Exp - Colegrove Property	15,000	-	-	15,000
1992-95	Corp Yard Fac Exp - Colegrove Property	254,882	-	-	254,882
1992-93	10/60 Study - Light Rail Corridor	9,292	-	-	9,292
1997-97	Taylor Ranch Restrooms	44,473	-	-	44,473
1997-97	Bus Pad Improvements	16,954	-	-	16,954
1997-97	Flotilla Street Extension	309,857	-	-	309,857
1997-98	Communication Master Plan	30,975	-	-	30,975
1998-99	Commuter Rail Station	14,926	-	-	14,926
1997-98	Bus Stop Sign and Design	48,306	-	-	48,306
1999-00	Dial-A-Ride Radio System	4,162	-	-	4,162
2002-03	Transportation Data System Software	84,186	-	-	84,186
2002-03	Transit Facility Improvements	45,747	-	-	45,747
2003-04	Transit Facility Improvements	56,151	-	-	56,151
2004-05	Transit Facility Improvements	3,134	-	-	3,134
2007-08	Transit Facility Improvements	20,993	-	-	20,993
2011-12	CNG Bus Purchase Project	131,353	-	-	131,353
2011-12	Bus Stop Sign Replacement Project	24,469	-	-	24,469
2012-13	Metrolink Revitalization Project	135,000	-	-	135,000
2012-13	Bus Stop Improvements	25,130	-	-	25,130
2013-14	ADA Improvements at Metrolink Rail Station	11,568	-	-	11,568
Total		\$ 2,401,469	\$ -	\$ -	\$ 2,401,469

See report of independent auditors.

**City of Montebello
Proposition C Local Return Fund
Balance Sheets**

		June 30	
		2016	(as restated) 2015
ASSETS			
Cash and investments	\$	2,098,227	\$ 1,497,511
Total assets	\$	2,098,227	\$ 1,497,511
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	6,610	\$ -
Total liabilities		6,610	-
Fund balance			
Restricted - others		2,091,617	1,497,511
Total fund balance		2,091,617	1,497,511
Total liabilities and fund balance	\$	2,098,227	\$ 1,497,511

See notes to Funds financial statements.

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

	Years ended June 30	
	2016	(as restated) 2015
Revenues		
Proposition C	\$ 952,449	\$ 928,586
Investment income	8,024	3,948
Total revenues	960,473	932,534
 Expenditures		
Various projects	366,367	1,462,817
Total expenditures	366,367	1,462,817
 Excess (deficiency) of revenues over expenditures	594,106	(530,283)
 Fund balance at beginning of year, as restated	1,497,511	2,027,794
 Fund balance at end of year	\$ 2,091,617	\$ 1,497,511

See notes to Funds financial statements.

City of Montebello
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		
140-01	Recreational Field Trips	\$ 25,000	\$ 18,405	\$ 6,595	\$ 24,035
270-04	San Gabriel Valley COG Participation	26,000	25,329	671	19,058
270-05	Gateway Cities Council of Government	22,000	22,000	-	-
270-06	Gateway Cities Council of Government	-	-	-	16,689
440-44	Via Campo from Garfield to Wilcox	-	-	-	331,390
450-41	Washington Boulevard Phase II	896,923	4,050	892,873	7,950
450-42	Garfield Avenue Phase II	-	-	-	553,538
450-44	Flotilla Construction Phase	-	-	-	340,023
450-45	Beverly Blvd and Wilcox Ave - Concrete Intersection	270,000	24,707	245,293	-
450-46	Mines Ave Street Improvement	331,926	26,402	305,524	-
450-47	Montebello Blvd Skin Patching - Lincoln to Paramount	133,947	-	133,947	-
450-48	Arterial Street Stripping	100,000	-	100,000	-
460-01	Traffic Signal Improvements (Montebello Blvd and Washington Blvd)	179,500	195,474	(15,974)	13,134
480-01	Direct Administration	50,000	50,000 *	-	157,000
Total expenditures		\$ 2,035,296	\$ 366,367	\$ 1,668,929	\$ 1,462,817

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

See report of independent auditors.

**City of Montebello
Proposition C Local Return Fund
Supplementary Information
Schedule of Capital Assets**

<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>
1995-96	Commuter Rail Station	\$ 787,874	\$ -	\$ -	\$ 787,874
1995-96	Telegraph Road Resurfacing	127,334	-	-	127,334
1996-97	Montebello Road Resurfacing	6,620	-	-	6,620
1996-97	Olympic Blvd Road Resurfacing	37,992	-	-	37,992
1995-96	Flotilla Street Extension	35,000	-	-	35,000
1996-97	Beverly/Montebello Phase Signal	40,345	-	-	40,345
1996-97	Street Structural Analysis	3,560	-	-	3,560
1996-00	Whittier Blvd Widening	924,924	-	-	924,924
1996-97	Town Center Drive	224,251	-	-	224,251
1997-00	Miscellaneous Street Improvements	301,016	-	-	301,016
1997-98	Pavement Management System	3,633	-	-	3,633
1998-99	Paramount/Montebello Intersection	3,000	-	-	3,000
2003-04	Street Survey Monuments	19,551	-	-	19,551
2003-04	Washington Blvd Widening	23,775	-	-	23,775
2006-07	GEMS Financial Software	351,212	-	-	351,212
2006-07	Garfield Ave Traffic Signals	99,600	-	-	99,600
2007-08	Beverly Bridge	75,319	-	-	75,319
2007-08	Montebello Way Reconstruction	860,291	-	-	860,291
2007-08	Telegraph and Slauson Improvements	102,592	-	-	102,592
2007-08	Whittier Blvd Improvements	150,081	-	-	150,081
2008-09	Garfield/San Clemente Traffic Signal	172,188	-	-	172,188
2008-09	Garfield Ave Reconstruction	978,500	-	-	978,500
2008-09	MTB Way Traffic Signal	83,682	195,474	-	279,156
2009-10	Beverly Blvd Street Improvement	205,040	-	-	205,040
2009-10	Washington Blvd Street Improvement	871,632	-	-	871,632
2010-11	Beverly Blvd Widening Phase III	150,000	-	-	150,000
2011-12	Street Improvement Project	492,941	-	-	492,941
2012-13	Garfield Avenue Phase II	1,001,503	-	-	1,001,503
2012-13	Washington Blvd Phase II	143,950	4,050	-	148,000
2012-13	Transit Impact Mitigation	392,235	-	-	392,235
2013-14	Via Campo from Garfield to Wilcox	378,890	-	-	378,890
2013-14	Flotilla Street Improvement	475,240	-	-	475,240
2015-16	Beverly Boulevard and Wilcox Avenue	-	24,707	-	24,707
2015-16	Mines Ave Street Improvement - Montebello to Greenwood	-	26,402	-	26,402
Total		\$ 9,523,771	\$ 250,633	\$ -	\$ 9,774,404

See report of independent auditors.

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

		June 30	
		2016	(as restated) 2015
ASSETS			
Cash and investments		\$ <u>924,177</u>	\$ <u>656,562</u>
Total assets		\$ <u>924,177</u>	\$ <u>656,562</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable		\$ <u>595</u>	\$ <u>8,021</u>
Total liabilities		<u>595</u>	<u>8,021</u>
Fund balance			
Restricted		<u>923,582</u>	<u>648,541</u>
Total fund balance		<u>923,582</u>	<u>648,541</u>
Total liabilities and fund balance		\$ <u>924,177</u>	\$ <u>656,562</u>

See notes to Funds financial statements.

City of Montebello
Measure R Local Return Fund

Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2016	(as restated) 2015
Revenues		
Measure R	\$ 713,786	\$ 695,315
Investment income	3,209	1,684
Total revenues	716,995	696,999
 Expenditures		
Various projects	441,954	608,511
Total expenditures	441,954	608,511
 Excess of revenues over expenditures	275,041	88,488
 Fund balance at beginning of year, as restated	648,541	560,053
 Fund balance at end of year	\$ 923,582	\$ 648,541

See notes to Funds financial statements.

City of Montebello
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		Variance Positive (Negative)	2015 Actual
		LACMTA Budget	Actual		
1.05	Rehabilitation of Bluff Rd from UPRR to Whittier	\$ -	\$ -	\$ -	\$ 216,081
1.05	Bluff Road Street Improvements - Sycamore to Date	489,331	-	489,331	-
1.05	Via Luneto Street and Sewer Improvement Via Corona to Madison	200,231	-	200,231	-
1.05	Westmoreland Dr Pavement and Concrete Rehabilitation	435,690	259,535	176,155	75,682
1.05	Alley Improvement Project	76,283	76,283	-	-
3.16	Citywide Sidewalk Pothole Repairs	136,457	22,133	114,324	116,208
3.20	Concrete Program ADA Access Ramps	-	-	-	117,844
7.10	Traffic Safety Engineering Studies	40,000	34,723	5,277	3,733
7.10	Feasibility Study of Ace Project	-	-	-	29,683
8.10	Administrative Costs	50,000	49,280 *	720	49,280
Total expenditures		\$ 1,427,992	\$ 441,954	\$ 986,038	\$ 608,511

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

See report of independent auditors.

City of Montebello
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>
2010-11	Pavement and Concrete Improvement from Beverly Blvd	\$ 34,410	\$ -	\$ -	\$ 34,410
2011-12	Street Rehabilitation	76,065	-	-	76,065
2011-12	Maple Ave Rehabilitation	312,996	-	-	312,996
2011-12	Whittier/Montebello Blvd	104,829	-	-	104,829
2011-12	Eastmont School	33,346	-	-	33,346
2011-12	Wilcox La Merced	232,064	-	-	232,064
2012-13	Local Street Rehabilitation	196,755	-	-	196,755
2013-14	Rehabilitation of Bluff Road from UPRR to Whittier	249,329	-	-	249,329
2013-14	Beverly Blvd Striping Project	46,829	-	-	46,829
2013-14	SRTS Eastmont Route to Schools Project	3,771	-	-	3,771
2013-14	ADA Accessibility from Greenwood Ave to Bluff Road	61,593	-	-	61,593
2014-15	Westmoreland Dr. Pavement and Concrete Rehabilitation	75,682	259,535	-	335,217
2014-15	Concrete Program ADA Access Ramps	117,844	-	-	117,844
2015-16	Alley Improvement Project	-	76,283	-	76,283
Total		\$ 1,545,513	\$ 335,818	\$ -	\$ 1,881,331

See report of independent auditors.

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

		June 30	
		2016	2015
ASSETS			
Cash	\$	-	\$ 56
Due from LACMTA		82,186	-
Total assets	\$	82,186	\$ 56
LIABILITIES AND FUND BALANCE			
Liabilities			
Due to General Fund	\$	82,186	\$ -
Total liabilities		82,186	-
Fund balance			
Restricted		-	56
Total fund balance		-	56
Total liabilities and fund balance	\$	82,186	\$ 56

See notes to Funds financial statements.

City of Montebello
 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	\$	82,186	\$ -
Total revenues		82,186	-
 Expenditures			
Construction/Maintenance			
		82,242	-
Total expenditures		82,242	-
Deficiency of revenues over expenditures		(56)	-
Fund balance at beginning of year		56	56
Fund balance at end of year		\$ -	\$ 56

See notes to Funds financial statements.

City of Montebello
Transportation Development Act Article 3 Fund
Pursuant to Public Utilities Code Section 99234
Supplementary Information
Schedule of Transportation Development Act Allocation for Specific Projects

Project Description	Program Year	Totals to Date			Project Status
		Allocations	Expenditures	Unexpended Allocations	
Local Allocations:					
Vail Avenue Street Improvements					
Between Whittier to Olympic	2016	\$ 41,703	\$ 41,703	\$ -	Completed
Concrete Program ADA Access Ramps	2016	40,483	40,539	(56)	Completed
Totals		\$ 82,186	\$ 82,242	(56)	
Fund balance at beginning of year				56	
Fund balance at end of year				\$ -	

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 of Montebello'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 FUND EXCHANGE

In July 2015, as permitted under the Guidelines and as approved by the LACMTA, the City entered into an agreement with the City of Commerce to exchange \$1,000,000 of the City's uncommitted PALRF monies for \$750,000 General Fund monies or \$0.75 General Fund per \$1 of PALRF.

NOTE 8 TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND REVENUE ALLOCATION

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

		2016		2015
FY 2014/15 allocation	\$	41,703	\$	-
FY 2015/16 allocation		40,483		-
	\$	82,186	\$	-

NOTE 9 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, the City has funds on reserve as follows:

		2016		2015
FY 2014/15 reserve	\$	-	\$	41,703
	\$	-	\$	41,703

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 10 RESTATEMENT OF PROPOSITION C AND MEASURE R FINANCIAL STATEMENTS

The 2015 financial statements of the Proposition C and Measure R were restated to reflect the revenue that was previously not recorded in the Funds' financial statements. The accounts affected by the restatement are as follows:

PCLRF:

		Cash		Fund balance, beginning
Balance, as previously reported	\$	1,437,763	\$	1,968,046
Adjustment		59,748		59,748
Balance, as restated	\$	1,497,511	\$	2,027,794

NOTE 10 RESTATEMENT OF PROPOSITION C AND MEASURE R FINANCIAL STATEMENTS (CONTINUED)

MRLRF:

		Cash	Fund balance, beginning
Balance, as previously reported	\$	588,890	\$ 492,381
Adjustment		67,672	67,672
Balance, as restated	\$	656,562	\$ 560,053

NOTE 11 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 Montebello, 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 Montebello, 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 Fund's 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 audit, we did not identify any deficiencies in internal control that we considered to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not 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 Montebello, California and the
Los Angeles County Metropolitan Transportation Authority**

Report on Compliance

We have audited the compliance of the City of Montebello, 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 Montebello, California complied, in all material respects, with the compliance requirements of the Guidelines for the year ended June 30, 2016.



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 preceding paragraph 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 described in the accompanying Schedule of Findings and Questioned Costs as Findings #2016-001 to #2016-002, collectively, to be material weaknesses.

Other 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.

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 Montebello
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		\$50,000	See Finding #2016-001
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				

**City of Montebello
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		\$49,280	See Finding #2016-002
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				
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				
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

PCLRF: Finding #2016-001

Compliance Reference	<p>According to Proposition A and Proposition C Local Return Program Guidelines, Section II, "A proposed expenditure of funds shall be deemed to be for public transit purposes to the extent that it can reasonably expected to sustain or improve the quality and safety of and/or access to public transit services by the general public or those requiring special public transit assistance" and Section V, "It is jurisdictions' responsibility to maintain proper accounting records and documentation..."</p> <p>In addition, "Transportation Administration expenditures require that administrative costs associated with and incurred have to be for the eligible projects/programs. Direct administration includes those fully burdened costs that are directly associated with administering local return 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, coordinating, reporting and budgeting specific local return projects. Expenditure must be reasonable and appropriate to the activities undertaken by the locality"</p> <p>Further, 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.
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City of Montebello
Schedule of Findings and Questioned Costs
Year ended June 30, 2016

PCLRF: Finding #2016-001 (Continued)

Compliance Reference (Continued)	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).
Condition	The City claimed expenditures under project code 480-01, Direct Administration, amounting to \$50,000. We were informed that the amount was based on budget derived from a time study conducted 5 years ago. Per discussion with management, with the increasing labor and administrative cost, this amount is significantly lower than the actual administration cost that should have been charged to the program.
Cause	The City has not yet updated its overhead allocation rates based on current year information.
Effect	The administrative costs charged to these funds are not supported with an updated cost allocation plan.
Recommendation	We recommend that the City reimburse its PCLRF account the amount of \$50,000. In addition, we recommend that the City perform a more recent time study analysis to assess a more realistic estimate of the overhead costs for this program. The City may also perform a true-up analysis at year-end to ensure the overhead costs charged to the local return fund approximate the actual cost incurred.
Management Response	City will repay and charge appropriate administrative overhead after the cost allocation model is updated.
Finding Corrected During the Audit	The City has reimbursed the City's PCLRF account the amount of \$50,000 in FY 2016/17. No follow up is required.

MRLRF: Finding #2016-002

Compliance Reference	<p>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.</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 Montebello
Schedule of Findings and Questioned Costs
Year ended June 30, 2016

MRLRF: Finding #2016-002 (Continued)

Condition	The City claimed labor overhead costs of \$49,280 under the MRLRF project code 8.10, Administrative Costs, which was based on budget estimate derived from a time study conducted 5 years ago. Per discussion with management, with the increasing labor and administrative cost, this amount is significantly lower than the actual administration cost that should have been charged to the program.
Cause	The City has not yet updated its overhead allocation rates based on current year information.
Effect	The administrative costs charged to these funds are not supported with an updated cost allocation plan.
Recommendation	We recommend that the City reimburse its MRLRF account the amount of \$49,280. In addition, we recommend the City perform a more recent time study analysis to assess a more realistic estimate of the overhead costs for this program and perform an analysis to true-up the amount claimed at year-end to ensure that the claimed expenditures approximates the actual cost incurred.
Management Response	City will repay and charge appropriate administrative overhead after the cost allocation model is updated.
Finding Corrected During the Audit	The City has reimbursed the City's MRLRF account the amount of \$49,280 in FY 2016/17. No follow up is required.

EXIT CONFERENCE

An exit conference was held on December 21, 2016 with the City of Montebello representatives. Those in attendance were:

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

City of Montebello representatives:
Steve Kwon – Finance Director
Candice Huot – Accounting Supervisor

Matters discussed:

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

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

Candice Huot – Accounting Supervisor



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