



MetroTM

**City of Rosemead
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
Notes to Funds Financial Statements	18
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>	23
COMPLIANCE SECTION	
Report of Independent Auditors on Compliance	25
Compliance Matrix	27
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	29
EXIT CONFERENCE	32

FINANCIAL SECTION

Report of Independent Auditors

To the Honorable Members of the City Council of the City of Rosemead, 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 Rosemead, 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 Rosemead, 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 14, 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 21, 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.

Vacquez & Company LLP

Los Angeles, California
December 21, 2016

**City of Rosemead
Proposition A Local Return Fund
Balance Sheets**

		June 30	
		2016	2015
ASSETS			
Cash and investments	\$	242,605	\$ 414,252
Total assets	\$	242,605	\$ 414,252
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	69,154	\$ 48,965
Accrued payroll and employee benefits		5,795	7,213
Due to other funds		-	6,100
Total liabilities		74,949	62,278
Fund balance			
Restricted		167,656	351,974
Total fund balance		167,656	351,974
Total Liabilities and fund balance	\$	242,605	\$ 414,252

See notes to Funds financial statements.

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

		Years ended June 30	
		2016	2015
Revenues			
Proposition A	\$	988,468	\$ 963,211
Proposition A Discretionary Incentive Grant		131,204	72,572
Project generated revenues		26,228	28,342
Investment income		2,986	1,975
Total revenues		1,148,886	1,066,100
Expenditures			
Various projects		1,333,204	954,487
Total expenditures		1,333,204	954,487
Excess (deficiency) of revenues over expenditures		(184,318)	111,613
Fund balance at beginning of year		351,974	240,361
Fund balance at end of year	\$	167,656	\$ 351,974

See notes to Funds financial statements.

City of Rosemead
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		
110-03	Explorer (Formerly Shopper Shuttle)	\$ 678,900	\$ 703,544	\$ (24,644)	\$ 670,302
110-08	Vehicle Maintenance	1,500	1,639	(139)	4,203
140-05	Recreational Transit	10,000	8,798	1,202	13,483
170-06	Bus Shelter Maintenance	50,000	39,782	10,218	52,850
200-01	Vehicle Purchase	361,100	361,011	89	-
270-12	Transportation Planning	93,754	82,040	11,714	71,855
270-13	SGVCOG Transportation Dues	15,500	15,000	500	15,485
280-01	Public Transportation Promotions	14,000	15,012	(1,012)	7,479
480-01	Administration	125,000	106,378	18,622	118,830
Total expenditures		\$ 1,349,754	\$ 1,333,204	\$ 16,550	\$ 954,487

See report of independent auditors.

City of Rosemead
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>
02/2001	2004 Ford Truck	\$ 18,708	\$ -	-	\$ 18,708
03/2004	2005 E-350 Duty Van	24,186	-	-	24,186
05/2004	2006 Ford Truck	20,205	-	-	20,205
09/2015	2016 Ford E450 Cutaway Bus	77,388	-	-	77,388
09/2015	2016 Ford E450 Cutaway Bus	77,388	-	-	77,388
09/2015	2016 Ford E450 Cutaway Bus	77,388	-	-	77,388
09/2015	2016 Ford E450 Cutaway Bus	64,423	-	-	64,423
09/2015	2016 Ford E450 Cutaway Bus	64,423	-	-	64,423
Total		\$ 424,109	\$ -	-	\$ 424,109

See report of independent auditors.

City of Rosemead
Proposition C Local Return Fund
Balance Sheets

		June 30	
		2016	2015
ASSETS			
Cash and investments	\$	396,126	\$ -
Total assets	\$	396,126	\$ -
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	6,096	\$ 57,819
Accrued payroll and employee benefits		2,746	2,710
Due to other fund		-	10,537
Total liabilities		8,842	71,066
Fund balance			
Restricted		387,284	(71,066)
Total fund balance (deficit)		387,284	(71,066)
Total liabilities and fund balance	\$	396,126	\$ -

See notes to Funds financial statements.

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

	Years ended June 30	
	2016	2015
Revenues		
Proposition C	\$ 821,376	\$ 800,703
Project generated revenues	40,690	44,799
Investment income	4,459	1,087
Total revenues	866,525	846,589
 Expenditures		
Various projects	408,175	984,395
Total expenditures	408,175	984,395
 Excess (deficiency) of revenues over expenditures	 458,350	 (137,806)
Fund balance (deficit) at beginning of year	(71,066)	66,740
Fund balance (deficit) at end of year	\$ 387,284	\$ (71,066)

See notes to Funds financial statements.

City of Rosemead
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		
130-04	Dial-A-Ride	\$ 235,000	\$ 235,000	\$ -	\$ 375,000
170-06	Bus Shelter Maintenance	60,000	50,360	9,640	63,052
220-01	Bus/Shelter Public Safety	25,000	23,074	1,926	22,674
250-10	FTZ Bus Pass Subsidy	80,000	78,218	1,782	86,169
440-05	Montebello Blvd/Towne Center Dr	-	7,517 *	(7,517)	437,500
440-06	Temple City Resurfacing	475,000	14,006	460,994	-
Total expenditures		\$ 875,000	\$ 408,175	\$ 466,825	\$ 984,395

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

See report of independent auditors.

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

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

See report of independent auditors.

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

		June 30	
		2016	2015
ASSETS			
Cash and investments	\$	693,664	\$ 228,473
Total assets	\$	693,664	\$ 228,473
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	-	\$ 19,313
Accrued payroll and employee benefits		1,924	1,424
Total liabilities		1,924	20,737
Fund balance			
Restricted		691,740	207,736
Total fund balance		691,740	207,736
Total liabilities and fund balance	\$	693,664	\$ 228,473

See notes to Funds financial statements.

City of Rosemead
Measure R Local Return Fund

Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2016	2015
Revenues		
Measure R	\$ 615,303	\$ 599,355
Investment Income	8,781	1,952
Total revenues	624,084	601,307
 Expenditures		
Various projects	140,080	598,575
Total expenditures	140,080	598,575
 Excess of revenues over expenditures	 484,004	 2,732
 Fund balance at beginning of year	 207,736	 205,004
 Fund balance at end of year	 \$ 691,740	 \$ 207,736

See notes to Funds financial statements.

City of Rosemead
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	Montebello Blvd/Towne Center Dr Resurface	\$ -	\$ 5,443 *	\$(5,443)	\$ 361,650
1.20	Rosemead Blvd HSIP Project	15,000	1,260	13,740	-
7.10	SR60 Coalition - Advocacy	30,000	24,000	6,000	24,000
7.90	Transportation Planning and Design	151,200	64,697	86,503	181,304
8.10	Transportation Program Administration	50,800	44,680 *	6,120	31,621
Total expenditures		\$ 247,000	\$ 140,080	\$ 106,920	\$ 598,575

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

See report of independent auditors.

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

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

See report of independent auditors.

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

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

See notes to Funds financial statements.

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

		Years ended June 30	
		2016	2015
Revenues			
Intergovernmental Allocations:			
Article 3	\$	-	\$ 100,000
Total revenues		-	100,000
 Expenditures			
Construction/Maintenance		-	100,000
Total expenditures		-	100,000
Excess of revenues over expenditures		-	-
Fund balance at beginning of year		-	-
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's Comprehensive Annual Financial Report.

NOTE 2 ANNUAL FINANCIAL STATEMENTS

The financial statements reflect only the financial position and results of operations of the PALRF, PCLRF, MRLRF and TDAA3F, and do not purport to, and do not present fairly the City's financial position as of June 30, 2016, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

NOTE 3 PROPOSITION A AND PROPOSITION C LOCAL RETURN COMPLIANCE REQUIREMENTS

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

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

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

NOTE 4 MEASURE R LOCAL RETURN COMPLIANCE REQUIREMENTS

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

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

NOTE 5 TRANSPORTATION DEVELOPMENT ACT COMPLIANCE REQUIREMENTS

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

NOTE 6 CASH AND INVESTMENTS

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

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

NOTE 7 PROPOSITION A DISCRETIONARY INCENTIVE GRANT

Proposition A Discretionary Incentive Grant represents additional funds received from LACMTA for participating in the National Transit Database Reporting Program. The City received \$131,204 and \$72,572 for the years ended June 30, 2016 and 2015, respectively, for participating in the program.

The Proposition A Discretionary Incentive Grant was recorded under PALRF.

NOTE 8 PROJECT GENERATED REVENUES

PALRF

Project generated revenues represent Fare Box revenues for PALRF. The City recognized \$26,228 and \$28,342 of project generated revenues for the years ended June 30, 2016 and 2015, respectively.

PCLRF

Project generated revenues under PCLRF for the years ended June 30, 2016 and 2015 is as follows:

		2016		2015
MTA bus pass sales	\$	34,482	\$	38,011
Fare box revenues		6,208		6,788
Total project generated revenues	\$	40,690	\$	44,799

NOTE 9 TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND REVENUE ALLOCATION

The revenue allocations for the years ended June 30, 2016 and 2015 is as follows:

		2016		2015
FY 2011/12 reserve	\$	-	\$	27,832
FY 2012/13 reserve		-		41,102
FY 2013/14 reserve		-		31,066
Total allocation	\$	-	\$	100,000

NOTE 10 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:

		<u>2016</u>		<u>2015</u>
FY 2013/14 reserve	\$	13,073	\$	13,073
FY 2014/15 reserve		35,950		35,950
FY 2015/16 allocation		34,900		-
Total reserve	\$	<u>83,923</u>	\$	<u>49,023</u>

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 11 SUBSEQUENT EVENTS

The City has evaluated subsequent events through December 21, 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 Rosemead, 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 Rosemead, 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 21, 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 21, 2016

COMPLIANCE SECTION

Report of Independent Auditors on Compliance

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

Report on Compliance

We have audited the compliance of the City of Rosemead, 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 Rosemead, 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We consider the deficiency as described in the accompanying Schedule of Findings and Questioned Costs as Finding #2016-003 to be a material weakness.

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 response.

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

A handwritten signature in black ink that reads "Vaqueria & Company LLP".

Los Angeles, California
December 21, 2016

**City of Rosemead
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			See Finding #2016-001
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				

**City of Rosemead
Compliance Matrix
Year ended June 30, 2016**

Compliance Requirements	In Compliance			Questioned Costs	If no, provide details and management response.
	Yes	No	N/A		
B. Measure R Local Return Fund					
1. Funds were expended for transportation purposes.	X				
2. Funds were used to augment, not supplant, existing local revenues being used for transportation purposes unless there is a funding shortfall.	X				
3. Signed Assurances and Understandings on file.	X				
4. Separate Measure R Local Return Account was established.	X				
5. Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure R Local Return Account.	X				
6. Funds were expended with LACMTA's approval.		X			See Finding #2016-002
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		\$20,830	See Finding #2016-003
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		There were no expenditures in FY 2015/16.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

PCLRF: Finding #2016-001

Compliance Reference	<p>Section III (A) states that, "Jurisdiction shall submit on or before August 1 of each fiscal year an Annual Project Update (Form B) to provide Metro with an update of all approved, on-going and carryover LR projects. Jurisdiction will be informed in writing of approval for project continuance. Metro will review the report and accept or return the report for changes. Staff review will consist of verification that the status of the projects listed corresponds to the originally approved projects. All projects should have their own identifying code.</p> <p>Projects for service operations, whose anticipated start-up date is in the middle of the fiscal year, should be budgeted for services through the end of the fiscal year only. After the first year of service operation, project updates should be submitted annually, by August 1 of the new fiscal year."</p>
Condition	<p>The City claimed expenditures for PCLRF project code 440-05, Montebello Blvd/Towne Center Dr, for \$7,517 with no prior approval from LACMTA.</p> <p>Although this project was previously approved in FY 2014/15, the City is still required to carry over the budget in Form B and have it approved for FY 2015/16.</p>
Cause	<p>This finding was due to the City's understanding that this Montebello project was complete; however, there was a final invoice to be paid.</p>
Effect	<p>Proposition C funds of \$7,517 were expended towards project expenditures without prior approval by the LACMTA.</p>
Recommendation	<p>We recommend for the City to establish procedures and controls to ensure that approval is obtained from LACMTA prior to spending on any local return-funded projects.</p>
Management's Response	<p>The City subsequently obtained LACMTA Program Manager's approval in December 2016. The City has established procedures and controls to ensure that approval is obtained prior to spending funds. These procedures include Finance staff will set up and maintain a calendar for LACMTA deadlines, and also, Measure R warrant requests and invoices will be reviewed to make sure these approvals are in place before issuing a payment.</p>
Finding Corrected During the Audit	<p>LACMTA Program Manager granted a retroactive approval of this project on December 15, 2016. No follow up is required.</p>

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

MRLRF: Finding #2016-002

Compliance Reference	<p>Section B (II) of Measure R Local Return Program Guideline states that, "To maintain legal eligibility and meet Measure R LR program compliance requirements, Jurisdiction shall submit to LACMTA an Expenditure Plan (Form One), annually, by August 1st of each year.</p> <p>Form One provides a listing of projects funded with Measure R LR funds along with estimated expenditures for the year. For both operating and capital projects, Part I is to be filled out. For capital projects (projects over \$250,000), Part II is required. Pursuant to AB2321, LACMTA will provide LR funds to a capital project or program sponsor who submits the required expenditure plan.</p>
Condition	<p>The City claimed expenditures for MRLRF project code 1.05, Montebello Blvd/Towne Center Drive Resurface, for \$5,443 with no prior approval from LACMTA.</p> <p>Although this project was previously approved in FY 2014/15, the City is still required to carry over the budget in Form One and have it approved for FY 2015/16.</p>
Cause	<p>This finding was due to the City's understanding that this Montebello project was complete; however, there was a final invoice to be paid.</p>
Effect	<p>Measure R funds of \$5,443 were expended towards project expenditures without prior approval by the LACMTA.</p>
Recommendation	<p>We recommend for the City to establish procedures and controls to ensure that approval is obtained from LACMTA prior to spending on any local return-funded projects</p>
Management's Response	<p>The City subsequently obtained LACMTA approval in December 2016. The City has established procedures and controls to ensure that approval is obtained prior to spending funds. These procedures include Finance staff will set up and maintain a calendar for Metro deadlines, and also, Measure R warrant requests and invoices will be reviewed to make sure these approvals are in place before issuing a payment.</p>
Finding Corrected During the Audit	<p>LACMTA Program Manager granted a retroactive approval of this project on December 20, 2016. No follow up is required.</p>

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

MRLRF: Finding #2016-003

Compliance Reference	Section II (A) (15) of Measure R Local Return Program Guideline states that, "The administrative expenditures for any year shall not exceed 20 percent of the total LR annual expenditures, based on year-end expenditures, and will be subject to an audit finding if the figure exceeds 20 percent
Condition	The City's Measure R actual administration expenditures exceeded more than 20 percent of its MRLRF total annual expenditures by \$20,830.
Cause	There appears to be lack of interim review of the City's compliance with the Local Return Guidelines' 20 percent cap on the administrative expenditures that can be claimed under the local return fund.
Effect	The City's administrative expenses exceeded over 20 percent of the total annual local return expenditures and therefore, do not comply with the Guidelines. The City is required to reimburse the questioned cost of \$20,830 to the MRLRF account.
Recommendation	We recommend for the City to reimburse the questioned cost of \$20,830 to the MRLRF account. In addition, the City should establish procedures to ensure that administrative expenditures claimed under the local return funds be limited to 20 percent of the fund's total annual expenditures.
Management's Response	<p>The City needs to monitor the Measure R administrative expenditures on a monthly basis and at year end to determine if we have exceeded the 20% limit.</p> <p>The City did a Fiscal Year 2016/17 journal entry to transfer the excess administrative expenses of \$20,830 from the General Fund to the Measure R Fund. The Finance Director will work with Finance staff to establish procedures to ensure that the administrative expenditures claimed are limited to 20 percent of the fund's total annual expenditures in the future.</p>
Finding Corrected During the Audit	The City has reimbursed the City's MRLRF account the amount of \$20,830 in FY 2016/17. No follow up is required.

EXIT CONFERENCE

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

Vasquez and Company LLP representatives:

Marialyn Salvador – Audit Manager
Cynthia Villamin – Audit Supervisor

City of Rosemead representatives:

Carolyn Chu – Finance Director
Colleen Ishibashi – Senior Accounting Specialist

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

Carolyn Chu – Finance Director
Colleen Ishibashi – Senior Accounting Specialist



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 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