



MetroTM

**City of South Gate
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 South Gate, 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 South Gate, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 South Gate, 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

As discussed in Note 11 to the financial statements, the fiscal year 2015 financial statements of 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 Measure R Local Return Fund were restated for the matter discussed in Note 11, 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.

Vacquez & Company LLP

Los Angeles, California
December 22, 2016

**City of South Gate
Proposition A Local Return Fund
Balance Sheets**

		June 30	
		2016	2015
ASSETS			
Cash and investments	\$	1,964,706	\$ 1,873,198
Due from LACMTA		854,739	559,477
Accounts receivable		4,617	5,810
Interest receivable		1,619	1,619
Total assets	\$	2,825,681	\$ 2,440,104
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	201,180	\$ 209,108
Accrued payroll		2,236	9,968
Total liabilities		203,416	219,076
Fund balance			
Restricted		2,622,265	2,221,028
Total fund balance		2,622,265	2,221,028
Total liabilities and fund balance	\$	2,825,681	\$ 2,440,104

See notes to Funds financial statements.

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

	Years ended June 30	
	2016	2015
Revenues		
Proposition A	\$ 1,733,853	\$ 1,682,136
Proposition A Discretionary Incentive Grant	100,563	106,841
Interest income	9,006	4,437
Job Access and Reverse Commute (JARC) Program Grant	313,240	-
Project generated revenues	212,942	221,214
Vehicle lease revenues	71,250	30,000
Total revenues	2,440,854	2,044,628
Expenditures		
Expenditures funded by PALRF	1,704,308	1,675,375
Expenditures funded by JARC Program Grant	335,309	-
Total expenditures	2,039,617	1,675,375
Excess of revenues over expenditures	401,237	369,253
Fund balance at beginning of year	2,221,028	1,851,775
Fund balance at end of year	\$ 2,622,265	\$ 2,221,028

See notes to Funds financial statements.

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

Project Code	Project Name	2016			2015 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
110-17	Fixed Route Bus Service to Local Destinations	\$ 489,554	\$ 614,867	\$ (125,313) *	\$ 355,010
120-02	Phone-A-Ride	734,400	691,232	43,168	697,335
140-04	Recreation Excursions	41,600	37,293	4,307	40,563
200-01	Vehicle Purchase	-	-	-	139,449
250-06	MTA Bus Pass Sales	138,400	90,114	48,286	123,960
270-16	Orange Line (JPA) invoice	24,000	29,101	(5,101)	24,101
300-01	Fixed Route Bus Services	30,000	17,978	12,022	-
480-01	Administration	331,730	223,723	108,007	294,957
	Total expenditures	\$ 1,789,684	\$ 1,704,308	\$ 85,376	\$ 1,675,375

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

See report of independent auditors.

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

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>
1989	1 Bus stop pad - California	\$ 8,656	\$ -	\$ -	8,656
1989	4 Bus stop pads - Santa Ana	34,627	-	-	34,627
1989	9 Bus stop pads - Otis	77,913	-	-	77,913
1989	4 Bus stop pads - Firestone	34,627	-	-	34,627
1989	1 Bus stop pad - Santa Fe	8,656	-	-	8,656
1989	8 Bus stop pads - Truba	69,255	-	-	69,255
1989	1 Bus stop pad - Tweedy	8,656	-	-	8,656
Total		\$ 242,390	\$ -	\$ -	\$ 242,390

See report of independent auditors.

**City of South Gate
Proposition C Local Return Fund
Balance Sheets**

		June 30	
		2016	2015
ASSETS			
Cash and investments	\$	2,938,705	\$ 2,380,093
Due from LACMTA		9,040	-
Interest receivable		2,476	2,299
Total assets	\$	2,950,221	\$ 2,382,392
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	18,523	\$ 26,344
Total liabilities		18,523	26,344
Fund balance			
Restricted		2,931,698	2,356,048
Total fund balance		2,931,698	2,356,048
Total liabilities and fund balance	\$	2,950,221	\$ 2,382,392

See notes to Funds financial statements.

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

	Years ended June 30	
	2016	2015
Revenues		
Proposition C	\$ 1,442,723	\$ 1,400,614
Other LACMTA grants	9,040	-
Interest income	14,304	6,298
Total revenues	1,466,067	1,406,912
 Expenditures		
Expenditures funded by PCLRF	881,377	1,282,256
Expenditures funded by other LACMTA grants	9,040	-
Total expenditures	890,417	1,282,256
 Excess of revenues over expenditures	575,650	124,656
 Fund balance at beginning of year	2,356,048	2,231,392
 Fund balance at end of year	\$ 2,931,698	\$ 2,356,048

See notes to Funds financial statements.

City of South Gate
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		
160-03	Trash Receptacles at Bus Stop	\$ 27,000	\$ 66,144	* \$ (39,144)	\$ 21,053
270-13	Gateway Cities/Invoice	1,300	-	1,300	1,067
270-15	Gateway Cities Council of Government Invoice	10,000	10,000	-	9,928
270-17	Study Phase - Firestone Boulevard and Atlantic intersection widening	78,838	78,838	-	-
310-01	I-710 Corridor Environmental Impact Report (EIR)	25,000	25,000	-	25,000
440-10	Bridge Repairs	135,000	70,208	64,792	49,487
450-07	Firestone Boulevard over Los Angeles River Bridge Widening, Phase IV	205,000	52,822	152,178	-
450-12	Firestone/Rayo Intersection	785,000	145,570	639,430	795,078
450-13	Street Improvements on Garfield and Imperial Highway	487,525	125,770	361,755	152,307
450-14	Raised Median Improvements on Tweedy Boulevard	1,531	-	1,531	1,531
450-18	Firestone Boulevard Capacity Improvements	500,000	-	500,000	-
450-19	HSIP Cycle 5, Firestone Boulevard and Otis Street improvements and Imperial Highway Center Median	210,000	90,600	119,400	7,838
450-20	Firestone Boulevard Bridge Modifications at Rio Hondo Channel	250,000	40,150	209,850	-
470-01	New Pavement Management System (PMS)	33,800	-	33,800	27,096
480-01	Administration	220,000	176,275	43,725	191,871
Total expenditures		\$ 2,969,994	\$ 881,377	\$ 2,088,617	\$ 1,282,256

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

See report of independent auditors.

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

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

See report of independent auditors.

**City of South Gate
Measure R Local Return Fund
Balance Sheets**

		June 30	
		2016	(as restated) 2015
ASSETS			
Cash and investments	\$	2,874,926	\$ 2,330,517
Interest receivable		2,430	1,706
Total assets	\$	<u>2,877,356</u>	<u>\$ 2,332,223</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	<u>75</u>	\$ -
Total liabilities		<u>75</u>	-
Fund balance			
Restricted		<u>2,877,281</u>	<u>2,332,223</u>
Total fund balance		<u>2,877,281</u>	<u>2,332,223</u>
Total liabilities and fund balance	\$	<u>2,877,356</u>	<u>\$ 2,332,223</u>

See notes to Funds financial statements.

City of South Gate
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	\$ 1,079,292	\$ 1,046,703
Interest income	13,849	4,675
Total revenues	1,093,141	1,051,378
 Expenditures		
Expenditures funded by MRLRF	548,008	326,131
Expenditures funded by other grants	75	-
Total expenditures	548,083	326,131
 Excess of revenues over expenditures	 545,058	 725,247
 Fund balance at beginning of year	 2,332,223	 1,606,976
 Fund balance at end of year	 \$ 2,877,281	 \$ 2,332,223

See notes to Funds financial statements.

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

Project Code	Project Name	2016			2015 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
1-002	Citywide Street Lighting System Upgrade Phase I and II	\$ 739,346	\$ -	\$ 739,346	\$ 210,215
1-007	Gardendale Pavement Rehabilitation from Garfield Avenue to East City	190,170	433	189,737	4,999
1-011	Firestone Boulevard and Rayo Avenue Intersection Improvement Project	20,000	20,000	-	-
2-001	Left Turn Phasing Installation on Firestone Boulevard at Four Intersections	263,347	268,313	(4,966)	6,442
2-003	Left Turn Phasing Installation on Alameda St and Firestone Blvd	69,592	35,938	33,654	-
3-002	SR2S Cycle 9 - Bike Lane on Alexander and Southern Avenue Medians	49,000	-	49,000	40,352
3-003	SR2S Cycle 10 - New Pedestrian Signals and Crosswalks at Otis/Firestone	150,000	49,665	100,335	64,123
3-005	SR2S Cycle 8 - Bike Lanes Along Southern Avenue	190,000	173,659	16,341	-
Total expenditures		\$ 1,671,455	\$ 548,008	\$ 1,123,447	\$ 326,131

See report of independent auditors.

City of South Gate
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	\$ -	\$ -	\$ -	\$ -

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

		June 30	
		2016	2015
ASSETS			
Due from LACMTA		\$ <u>2,002</u>	\$ -
	Total assets	\$ <u>2,002</u>	\$ -
LIABILITIES AND FUND BALANCE			
Liabilities			
Cash overdraft		\$ <u>2,002</u>	\$ -
	Total liabilities	<u>2,002</u>	-
Fund balance			
Restricted		<u>-</u>	<u>-</u>
	Total fund balance	<u>-</u>	<u>-</u>
	Total liabilities and fund balance	\$ <u>2,002</u>	\$ -

See notes to Funds financial statements.

City of South Gate
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 and 2015

	Years ended June 30	
	2016	2015
Revenues		
Intergovernmental Allocations:		
Article 3	\$ <u>2,002</u>	\$ <u>120,000</u>
Total revenues	<u>2,002</u>	<u>120,000</u>
 Expenditures		
Construction/Maintenance	<u>2,002</u>	<u>120,000</u>
Total expenditures	<u>2,002</u>	<u>120,000</u>
 Excess of revenues over expenditures	-	-
 Fund balance at beginning of year	<u>-</u>	<u>-</u>
 Fund balance at end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See notes to Funds financial statements.

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

Project Description	Program Year	Totals to Date		Unexpended	Project Status
		Allocations	Expenditures	Allocations	
Local Allocations:					
Citywide Sidewalk Improvements, Phase III	2016	\$ 2,002	\$ 2,002	\$ -	Ongoing
Totals		\$ 2,002	\$ 2,002	-	
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 years then ended in accordance with accounting principles generally accepted in the United States of America.

NOTE 3 PROPOSITION A AND PROPOSITION C LOCAL RETURN COMPLIANCE REQUIREMENTS

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

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

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

NOTE 4 MEASURE R LOCAL RETURN COMPLIANCE REQUIREMENTS

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

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

NOTE 5 TRANSPORTATION DEVELOPMENT ACT COMPLIANCE REQUIREMENTS

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

NOTE 6 CASH AND INVESTMENTS

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

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

NOTE 7 PROPOSITION A DISCRETIONARY INCENTIVE GRANTS

Proposition A Discretionary Incentive Grants represent additional funds received from LACMTA for providing transportation services and participating in the Voluntary NTD Program.

Grants received for the years ended June 30, 2016 and 2015 were recorded under PALRF where the corresponding project expenditures were recorded.

	2016	2015
Voluntary NTD Program for FY 2012 reporting year	\$ -	\$ 106,841
Voluntary NTD Program for FY 2013 reporting year	100,563	-
	\$ 100,563	\$ 106,841

NOTE 8 JOB ACCESS AND REVERSE COMMUTE (JARC) PROGRAM GRANT

For the year ended June 30, 2016, the City recorded the amount of \$313,240 under PALRF which represents funding received from the Federal Transit Administration (FTA) through LACMTA under the funding agreement, FTA Grant CA-37-X171, for Section 5316 JARC Program Grants.

NOTE 9 PROJECT GENERATED REVENUES

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

	2016	2015
Fare box revenue	\$ 127,765	\$ 118,089
Bus pass sales	75,378	91,852
MTA ID and cover sales	9,799	9,673
Advertising revenue	-	1,600
	\$ 212,942	\$ 221,214

NOTE 10 VEHICLE LEASE REVENUES – PALRF

The City entered into an agreement with Oldtimers Foundation (Oldtimers) to lease two equipped transit buses for the fixed route transit services. The buses will be operated, maintained and stored by Oldtimers and the City is compensated for the use of the buses. For each of the years ended June 30, 2016 and 2015, the City received \$71,250 and \$30,000, respectively, in vehicle lease revenues.

NOTE 11 RESTATEMENT OF MRLRF'S FY 2014/15 FINANCIAL STATEMENTS

The FY 2014/15 financial statements of MRLRF were restated to report the investment income in 2014 that was not previously recorded.

	Cash	Fund Balance, July 1, 2014	Fund Balance, July 1, 2015
Balance, as previously reported	\$ 2,328,927	\$ 1,605,386	\$ 2,330,633
Adjustment	1,590	1,590	1,590
Balance, as restated	\$ 2,330,517	\$ 1,606,976	\$ 2,332,223

NOTE 12 TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND REVENUE ALLOCATION

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

	2016	2015
FY 2013/14 reserve	\$ 27	\$ 77,074
FY 2014/15 reserve	1,975	42,926
	\$ 2,002	\$ 120,000

* The revenue was accrued at June 30, 2016. However, the drawdown was not processed by LACMTA until FY 2016/17 for FY 2015/16. This amount is presented as part of the balance of funds reserved on Note 13.

NOTE 13 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 2013/14 reserve	\$ 27	\$ -
FY 2014/15 reserve	19,843	19,843
FY 2015/16 reserve	61,204	-
	\$ 81,074	\$ 19,843

The City did not draw down any funds from the reserve in FY 2015/2016.

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 14 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 South Gate, 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 South Gate, 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 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund, and Transportation Development Act Article 3 Fund financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Vasquez & Company LLP". The signature is written in a cursive, flowing style.

**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 South Gate, California and the
Los Angeles County Metropolitan Transportation Authority**

Report on Compliance

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



Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with the requirements, which is described in the accompanying Schedule of Findings and Questioned Costs as Finding #2016-001. Our opinion is not modified with respect to this matter.

The City's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with the requirements, such that there is a reasonable possibility that material noncompliance will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with the requirements that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

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

A handwritten signature in black ink that reads "Vasquez & Company LLP". The signature is written in a cursive, flowing style.

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

**City of South Gate
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			See Finding #2016-001
5. Administrative expenses are within the 20% cap of the total annual Local Return Expenditures.	X				
6. All on-going and carryover projects were reported in Form B.	X				
7. Annual Project Summary Report (Form B) was submitted on time.	X				
8. Annual Expenditure Report (Form C) was submitted on time.	X				
9. Cash or cash equivalents are maintained.	X				
10. Accounting procedures, record keeping and documentation are adequate.	X				
11. Pavement Management System (PMS) in place and being used for Street Maintenance or Improvement Projects Expenditures.	X				
12. Local Return Account is credited for reimbursable expenditures.			X		
13. Self-Certification was completed and submitted for Intelligent Transportation Systems projects or elements.			X		
14. Assurances and Understandings form was on file.	X				
15. Recreational Transit Form was submitted on time.			X		

**City of South Gate
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				
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

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

PALRF and PCLRF: Finding #2016-001

Compliance Reference	Section I(C) of the Proposition A and C Local Return Guidelines states that, "Jurisdictions shall submit for approval a Project Description Form (Form A) prior to the expenditure of funds for: 1) a new project; 2) a new route; 3) a 25 percent change (increase or decrease) in route or revenue vehicle miles for an established LR funded transit service; 4) a 0.75 miles or greater service change that duplicates/overlays an existing transit service; or 5) a 25 percent or greater change in an approved LR project budget or scope on all operating or capital LR projects."
Condition	<p>The City exceeded LACMTA's approved budget by more than 25% without obtaining approval through a revised Form A for the following projects:</p> <ul style="list-style-type: none"> a. PALRF Project Code 110-17, Fixed Route Bus Service to Local Destinations, \$2,925. b. PCLRF Project Code 160-03, Trash Receptacles at Bus Stop, totaling \$32,394. <p>Projects with greater than 25% change from the approved project budget should be amended by submitting a Project Description Form (Form A).</p>
Cause	The City noted increases in two of its local return projects expenditure, but did not submit an amended Form A to LACMTA on time.
Effect	The City's PALRF and PCLRF project expenditures exceeded 25 percent of LACMTA's approved budget without LACMTA's approval and the City did not comply with the Guidelines.
Recommendation	We recommend for the City submit a Form A to obtain LACMTA's approval for the change in project budget and for the City to implement control to ensure compliance to this requirement at all times.
Management's Response	To correct the oversight, the City submitted Form A's for both Prop A and Prop C projects to LACMTA and was granted a retroactive approval on the amended budget for Prop A on December 15, 2016, and on the amended budget for Prop C on December 20, 2016. Going forward, to prevent project expenditure from exceeding 25% of LACMTA's approved budget, the City will ensure that PALR and PCLR projects are timely reviewed, and when applicable, file an amended Form A with LACMTA.

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

PALRF and PCLRF: Finding #2016-001 (Continued)

Finding Corrected During the Audit	LACMTA Program Manager granted a retroactive approval on the amended budget for the said projects on December 15, 2016 and December 20, 2016, respectively.
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EXIT CONFERENCE

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

Vasquez and Company LLP representative:
Cristy Canieda – Partner

City of South Gate representatives:
Kim Sao – Deputy Director of Admin Services/Finance
Vinnie Timoteo – Senior Accountant

Matters discussed:

Results of the audit disclosed an instance of noncompliance with the Local Return Guidelines.

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

Kim Sao – Deputy Director of Admin Services/Finance
Vinnie Timoteo – Senior Accountant



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

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