



MetroTM

**City of Lancaster
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
Transportation Development Act Article 8 Fund**

**As of and for the Years Ended June 30, 2015 and 2014
with Report of Independent Auditors**

An Independently Owned Member
McGLADREY ALLIANCE



 **Vasquez**
& Company LLP
Certified Public Accountants and Business Consultants

FINANCIAL SECTION	<u>PAGE</u>
Report of Independent Auditors	1
Proposition A Local Return Fund:	
Basic Financial Statements:	
Balance Sheets	3
Statements of Revenues, Expenditures and Changes in Fund Balance	4
Supplementary Information:	
Schedule of Expenditures – Actual and LACMTA Approved Project Budget	5
Schedule of Capital Assets	6
Proposition C Local Return Fund:	
Basic Financial Statements:	
Balance Sheets	7
Statements of Revenues, Expenditures and Changes in Fund Balance	8
Supplementary Information:	
Schedule of Expenditures – Actual and LACMTA Approved Project Budget	9
Schedule of Capital Assets	10
Measure R Local Return Fund:	
Basic Financial Statements:	
Balance Sheets	11
Statements of Revenues, Expenditures and Changes in Fund Balance	12
Supplementary Information:	
Schedule of Expenditures – Actual and LACMTA Approved Project Budget	13
Schedule of Capital Assets	14
Transportation Development Act Article 3 Fund:	
Basic Financial Statements:	
Balance Sheets	15
Statements of Revenues, Expenditures and Changes in Fund Balance	16
Supplementary Information:	
Schedule of Transportation Development Act Allocation for Specific Projects	17
Transportation Development Act Article 8 Fund:	
Basic Financial Statements:	
Balance Sheets	18
Statements of Revenues, Expenditures and Changes in Fund Balance	19
Supplementary Information:	
Schedule of Transportation Development Act Allocation for Specific Projects	20
Notes to Funds Financial Statements	21
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>	25

	<u>PAGE</u>
COMPLIANCE SECTION	
Report of Independent Auditors on Compliance	27
Compliance Matrix	29
EXIT CONFERENCE	32

FINANCIAL SECTION

Report of Independent Auditors

**To the Honorable Members of the City Council of the
City of Lancaster, 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, Transportation Development Act Article 3 Fund and the Transportation Development Act Article 8 Fund (collectively, the Funds) of the City of Lancaster, California (the City) which comprise the Funds' balance sheets as of June 30, 2015 and 2014, and the related statements of revenues, expenditures and changes in fund balance for the years 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, Transportation Development Act Article 3 Fund and the Transportation Development Act Article 8 Fund of the City of Lancaster, California, as of June 30, 2015 and 2014, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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, Transportation Development Act Article 3 Fund and the Transportation Development Act Article 8 Fund of the City and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2015 and 2014, 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. 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 March 14, 2016 on our consideration of the City's internal control over 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 financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over 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 financial reporting and compliance.

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

Los Angeles, California
March 14, 2016

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

		June 30	
		2015	2014
ASSETS			
Cash and investments	\$	3,145,967	\$ 3,048,077
Interest receivable		4,271	5,616
Total assets	\$	3,150,238	\$ 3,053,693
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	1,602	\$ 3,115
Accrued payroll liabilities		315	3
Total liabilities		1,917	3,118
Fund balance			
Restricted		3,148,321	3,050,575
Total fund balance		3,148,321	3,050,575
Total liabilities and fund balance	\$	3,150,238	\$ 3,053,693

See notes to financial statements.

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

	Years ended June 30	
	2015	2014
Revenues		
Proposition A	\$ 2,805,417	\$ 2,692,235
Investment income	16,617	14,080
Total revenues	2,822,034	2,706,315
 Expenditures		
Various projects	2,724,288	1,781,049
Total expenditures	2,724,288	1,781,049
 Excess of revenues over expenditures	 97,746	 925,266
 Fund balance at beginning of year	 3,050,575	 2,125,309
 Fund balance at end of year	 \$ 3,148,321	 \$ 3,050,575

See notes to financial statements.

City of Lancaster
Proposition A Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2015
Actual for 2014

Project Code	Project Name	2015		Variance Positive (Negative)	2014 Actual
		LACMTA Budget	Actual		
110-01	AVTA Transit Services	\$ 1,721,994	\$ 1,530,123	\$ 191,871	\$ 1,557,204
140-01	Recreational Transit Services	17,000	15,167	1,833	14,155
150-03	Phase 1 Bus Stop Improvements	885,279	269,862	615,417	41,934
150-04	Phase 2 Bus Stop Improvements	1	-	1	-
170-02	Bus Shelter/Bench Maintenance	32,500	20,468	12,032	14,171
170-03	Care and Maintenance of AVTA Transfer Center	40,055	37,377	2,678	41,841
230-01	Park and Ride Security Program	72,905	70,225	2,680	47,083
405-01	Exchange Prop A Funds with City of Duarte	700,000	700,000	-	-
480-03	Transportation Program Administration	128,015	50,581	77,434	34,176
480-04	General Fund Overhead Allocation	-	-	-	30,485
480-05	General Fund Overhead Allocation	30,485	30,485	-	-
Total expenditures		\$ 3,628,234	\$ 2,724,288	\$ 903,946	\$ 1,781,049

See report of independent auditors.

City of Lancaster
Proposition A Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2015

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2015</u>
6/4/2012	Pressure Washer Trailer	\$ 10,874	\$ -	\$ -	\$ 10,874
	Total	\$ 10,874	\$ -	\$ -	\$ 10,874

See report of independent auditors.

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

		June 30	
		2015	2014
ASSETS			
Cash and investments	\$	5,708,516	\$ 7,147,810
Interest receivable		7,750	12,792
Total assets	\$	<u>5,716,266</u>	<u>\$ 7,160,602</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	3,209	\$ 2,032
Total liabilities		<u>3,209</u>	<u>2,032</u>
Fund balance			
Restricted		<u>5,713,057</u>	7,158,570
Total fund balance		<u>5,713,057</u>	<u>7,158,570</u>
Total liabilities and fund balance	\$	<u>5,716,266</u>	<u>\$ 7,160,602</u>

See notes to financial statements.

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

	Years ended June 30	
	2015	2014
Revenues		
Proposition C	\$ 2,295,578	\$ 2,201,254
Investment income	36,953	40,632
Total revenues	2,332,531	2,241,886
Expenditures		
Various projects	3,778,044	935,462
Total expenditures	3,778,044	935,462
Excess (deficiency) of revenues over expenditures	(1,445,513)	1,306,424
Fund balance at beginning of year	7,158,570	5,852,146
Fund balance at end of year	\$ 5,713,057	\$ 7,158,570

See notes to financial statements.

City of Lancaster
Proposition C Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2015
Actual for 2014

Project Code	Project Name	2015			2014 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
210-01	Traffic Surveys	\$ 52,000	\$ -	\$ 52,000	\$ -
440-01	Ave H Restripe - 20th St W to Trevor	80,000	18,961	61,039	-
440-02	St Rehab/Repair-20th W/Lancaster Blvd to Ave J	1,140,000	104,772	1,035,228	-
450-05	10th Street West Gap Closure	1,883,324	41,977	1,841,347	35,589
450-09	Project Study Report	27,200	9,331	17,869	8,826
450-11	Miller Elementary School Street & Sidewalk Improvements	87,147	84,337	2,810	279,020
450-13	Downtown Gateway	1,600,497	1,313,353	287,144	412,306
450-15	Avenue J over Littlerock Creek Bridge Replacement	1	-	1	-
450-16	Avenue I Streetscape Enhancements, 15th St W to 10th St W	472,203	63,158	409,045	3,083
450-17	15th Street West Streetscape Improvements	4,567	4,567	-	117,815
450-18	Lancaster Auto Mall	61,064	61,063	1	3,959
450-19	Endeavor School Pedestrian Improvement	191,500	577	190,923	-
450-20	Sidewalk Improvements at Railroad Crossings	250,000	2,608	247,392	-
450-21	Intersection Improvement - 10th W and 30th W at Ave I	80,000	31,111	48,889	-
470-01	Street Resurfacing	1	-	1	-
470-03	Professional Services - PMS	103,666	42,031	61,635	40,299
470-04	2012 Pavement Management Program	461,000	2,149	458,851	-
470-05	Cole Middle School and Tierra Bonita	184,820	8,785	176,035	31,046
470-06	2014 Pavement Program	1,955,894	1,702,109	253,785	391
470-07	2015 Pavement Management Program	430,715	284,110	146,605	-
500-02	Computer Software	2,700	3,045	(345)	3,128
Total expenditures		\$ 9,068,299	\$ 3,778,044	\$ 5,290,255	\$ 935,462

See report of independent auditors.

City of Lancaster
Proposition C Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2015

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2015</u>
	None	\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See report of independent auditors.

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

		June 30	
		2015	2014
ASSETS			
Cash and investments	\$	4,262,383	\$ 3,681,046
Due from LACMTA		234,226	90,348
Interest receivable		5,786	6,320
Total assets	\$	4,502,395	\$ 3,777,714
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	-	\$ 56,758
Total liabilities		-	56,758
Fund balance			
Restricted		4,502,395	3,720,956
Total fund balance		4,502,395	3,720,956
Total liabilities and fund balance	\$	4,502,395	\$ 3,777,714

See notes to financial statements.

City of Lancaster
Measure R Local Return Fund

Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2015	2014
Revenues		
Measure R	\$ 1,745,661	\$ 1,666,575
Measure R Highway Grant	789,286	90,348
Investment income	16,986	20,158
Others	1,357	-
Total revenues	2,553,290	1,777,081
Expenditures		
Various projects	1,771,851	1,417,200
Total expenditures	1,771,851	1,417,200
Excess of revenues over expenditures	781,439	359,881
Fund balance at beginning of year	3,720,956	3,361,075
Fund balance at end of year	\$ 4,502,395	\$ 3,720,956

See notes to financial statements.

City of Lancaster
Measure R Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2015
Actual for 2014

Project Code	Project Name	2015		Variance Positive (Negative)	2014 Actual
		LACMTA Budget	Actual		
01-003	Curb and Gutter Replacement Program	\$ -	\$ -	\$ -	\$ 96,160
01-004	Pavement Marking Program	-	-	-	250,386
01-009	City-Wide Bridge Analysis and Inspection	74,001	29,471	44,530	638,148
01-010	Downtown Gateway	124,413	12,818	111,595	59,548
01-011	2012 Pavement Management Program	57,192	-	57,192	-
01-012	Avenue K-15 Business Park Improvement	-	-	-	17,500
01-014	Maintenance Yard Storage Building, Phase 2	145,393	9,055	136,338	4,607
01-015	2014 Pavement Maintenance Program	365,855	65,193	300,662	-
01-016	Avenue K and SR 14 Interchange	4,933,053	411,884	4,521,169	66,947
01-017	Avenue M and SR 14 Interchange	1,303,427	465,868	837,559	16,573
01-018	Avenue G and SR 14 Interchange	777,478	278,222	499,256	22,522
01-019	10th St W Gap Closures, Avenue L to Avenue M	398,404	-	398,404	-
01-020	2015 Pavement Management Program	1,386,150	118,835	1,267,315	-
01-021	Ave J/SR 14 Interchange	300,000	56,168	243,832	-
01-022	Ave I St Improvements Challenger to Price	137,000	2,461	134,539	-
01-023	Ave I St Improvements Price to 35th St E	164,900	5,867	159,033	-
01-024	2014 Pavement Management Program	82,807	-	82,807	-
03-001	ADA Accessibility Improvements	-	-	-	3,903
03-003	20th St W Road Diet, Ave J-9 to Ave L	5,526	-	5,526	-
03-004	Elementary School LED Stop Sign Program	100,105	52,622	47,483	18,648
03-005	Lancaster Auto Mall	100,000	-	100,000	-
03-006	Joshua Elementary School Pedestrian Improvements	-	-	-	165,500
05-001	Capital Equipment - Resurfacing Equipment for Pavement Management	-	-	-	56,758
05-001	Avalanche Sweeper	-	263,387 *	(263,387)	-
Total expenditures		\$ 10,455,704	\$ 1,771,851	\$ 8,683,853	\$ 1,417,200

* See Compliance Matrix.

See report of independent auditors.

City of Lancaster
Measure R Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2015

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2015</u>
1/15/2013	Hydrostatic Spreader	\$ 162,127	\$ -	\$ -	\$ 162,127
1/15/2013	Pavement Preservation Broom	63,636	-	-	63,636
3/25/2013	Pneumatic Tire Compator	87,745	-	-	87,745
3/25/2013	Pneumatic Tire Compator	87,745	-	-	87,745
6/19/2014	Broce Model KR350 Broom with Kubota Engine	56,758	-	-	56,758
7/14/2014	Avalanche Sweeper	-	263,387	-	263,387
	Total	<u>\$ 458,011</u>	<u>\$ 263,387</u>	<u>\$ -</u>	<u>\$ 721,398</u>

See report of independent auditors.

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

		June 30	
		2015	2014
ASSETS			
Cash and investments	\$	-	\$ 134,019
Interest receivable		-	240
Total assets	\$	-	\$ 134,259
LIABILITIES AND FUND BALANCE			
Liabilities			
Due to General Fund	\$	<u>44,362</u>	\$ -
Total liabilities		<u>44,362</u>	-
Fund balance			
Restricted		<u>(44,362)</u>	134,259
Total fund balance		<u>(44,362)</u>	134,259
Total liabilities and fund balance	\$	-	\$ 134,259

See notes to financial statements.

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

		Years ended June 30	
		2015	2014
Revenues			
Intergovernmental Allocations:			
Article 3	\$	5,806	\$ -
Investment income		526	1,595
Total revenues		6,332	1,595
Expenditures			
Construction/Maintenance		184,953	102,098
Total expenditures		184,953	102,098
Deficiency of revenues over expenditures		(178,621)	(100,503)
Fund balance at beginning of year		134,259	234,762
Fund balance at end of year	\$	(44,362)	\$ 134,259

See notes to financial statements.

City of Lancaster
Transportation Development Act Article 3 Fund
Supplementary Information
Schedule of Transportation Development Act Allocation for Specific Projects
Pursuant to Public Utilities Code Section 99234
Year ended June 30, 2015

Project Description	Program Year	Totals to Date		Unexpended Allocations	Project Status
		Allocations	Expenditures		
Local Allocations:					
Ave K-8 Bike Facility Improvement	2015	\$ -	\$ 29,195	\$ (29,195)	Ongoing
Valley View Pedestrian Improvement	2015	-	82,722	(82,722)	Ongoing
Endeavor School Pedestrian Improvement	2015	5,806	73,036	(67,230)	Ongoing
	Totals	<u>\$ 5,806</u>	<u>\$ 184,953</u>	<u>(179,147)</u>	
Investment income				526	
Fund balance at beginning of year				<u>134,259</u>	
Fund balance at end of year				<u>\$ (44,362)</u>	

See report of independent auditors.

City of Lancaster
Transportation Development Act Article 8 Fund
Balance Sheets
Pursuant to Public Utilities Code Section 99400(a)

		June 30	
		2015	2014
ASSETS			
Cash and investments	\$	4,080,604	\$ -
Due from LACMTA		-	681,739
Interest receivable		5,566	10,241
Total assets	\$	<u>4,086,170</u>	<u>\$ 691,980</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	-	\$ 19,498
Due to General Fund		-	503,328
Total liabilities		<u>-</u>	<u>522,826</u>
Fund balance			
Restricted		<u>4,086,170</u>	<u>169,154</u>
Total fund balance		<u>4,086,170</u>	<u>169,154</u>
Total liabilities and fund balance	\$	<u>4,086,170</u>	<u>\$ 691,980</u>

See notes to financial statements.

City of Lancaster
 Transportation Development Act Article 8 Fund
 Statements of Revenues, Expenditures and Changes in Fund Balance
 Pursuant to Public Utilities Code Section 99400(a)

	Years ended June 30	
	2015	2014
Revenues		
Intergovernmental allocations:		
Article 8	\$ 9,115,079	\$ 3,638,022
Project reimbursements	70,512	111,898
Investment income	7,200	14,030
Total revenues	9,192,791	3,763,950
Expenditures		
Various projects	5,275,775	8,109,916
Total expenditures	5,275,775	8,109,916
Excess (deficiency) of revenues over expenditures	3,917,016	(4,345,966)
Fund balance at beginning of year	169,154	4,515,120
Fund balance at end of year	\$ 4,086,170	\$ 169,154

See notes to financial statements.

City of Lancaster
Transportation Development Act Article 8 Fund
Supplementary Information
Schedule of Transportation Development Act Allocation for Specific Projects
Pursuant to Public Utilities Code Section 99400(a)
Year ended June 30, 2015

Project Description	Program Year	Totals to Date			Project Status
		Allocations	Expenditures	Unexpended Allocations	
Ave J Median Improvement 20th St E Challenger Corridors Project	2011	\$ 82,782	\$ -	\$ 82,782	Completed
	2012	430,000	75,223	354,777	Ongoing
2012 Pavement Management Program	2013	11,342	7,339	4,003	Ongoing
2014 Pavement Management Program	2014	2,470,000	2,017,577	452,423	Ongoing
Intersection Improvements, 30th W/Ave M	2014	30,741	3,511	27,230	Ongoing
Rural Intersection Enhancement	2014	173,044	67,377	105,667	Ongoing
Traffic Signal, Ave I and 25th St E	2014	672,395	54,426	617,969	Ongoing
St Rehab/Repair LAN/30	2014	224,000	26,624	197,376	Ongoing
Ave J -11 Improvement at Division	2014	686,979	621,041	65,938	Ongoing
Neighborhood Speed Humps	2014	155,038	72,702	82,336	Ongoing
Lancaster High School Pedestrian Improvement	2014	159,240	147,961	11,279	Ongoing
Mariposa Elementary School	2014	57,770	17,906	39,864	Ongoing
Sierra Elementary School Pedestrian Improvement	2014	25,629	18,825	6,804	Ongoing
Valley View Pedestrian Improvement	2014	438,370	209,449	228,921	Ongoing
2015 Pavement Maintenance Program	2015	366,000	-	366,000	Ongoing
Pavement Marking Program, Phase III	2015	5,000	9,596	(4,596)	Ongoing
37th St E Improvement Ave J-4 to J-8	2015	325,000	931	324,069	Ongoing
20th St E Line B	2015	70,000	53,200	16,800	Ongoing
Ave K-12 Drainage Improvement 5th-7th St E	2015	100,000	-	100,000	Ongoing
Traffic Operations and Maintenance	2015	474,650	485,574	(10,924)	Ongoing
Street Maintenance	2015	1,552,558	1,125,063	427,495	Ongoing
Street Light Maintenance	2015	607,290	261,450	345,840	Ongoing
Specialized Equipment	2015	182,676	-	182,676	Ongoing
Total		9,300,504	5,275,775	4,024,729	
Estimated interest income not allocated to a project		(16,271)	-	(16,271)	
		<u>\$ 9,284,233</u>	<u>\$ 5,275,775</u>	4,008,458	
Project reimbursements				70,512	
Unexpended investment income accumulated to date, net				<u>7,200</u>	
Fund balance at end of the year				<u>\$ 4,086,170</u> *	

* The City encumbered the remaining fund balance as of June 30, 2015.

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), Transportation Development Act Article 3 Fund (TDAA3F) and Transportation Development Act Article 8 Fund (TDAA8F) (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 and TDAA8F are Special Revenue Funds that accounts for the City's share of the Transportation Development Act Articles 3 and 8 allocations which are legally restricted for specific purposes.

Basis of Accounting

PALRF, PCLRF, MRLRF, TDAA3F, and TDAA8F are accounted for using the modified accrual basis of accounting whereby revenues are recognized when they become both measurable and available to finance expenditures of the current period and expenditures are generally recognized when the related fund liabilities are incurred.

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.

Unrealized Gain (Loss) on Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, local governments are required to use fair value (instead of amortized costs) for financial reporting purposes. As a result of such implementation, the City recognizes the unrealized gain (loss) on investments.

NOTE 2 ANNUAL FINANCIAL STATEMENTS

The financial statements reflect only the financial position and results of operations of the PALRF, PCLRF, MRLRF, TDAA3F, and TDAA8F, and do not purport to, and do not, present fairly the City's financial position as of June 30, 2015 and 2014, 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 and 99400(a)*, funds received pursuant to this Code's section may only be used for activities relating to pedestrians and bicycle facilities, transit and paratransit program to fulfill unmet transit needs in areas outside the service area of LACMTA operations. See accompanying Compliance Matrix.

NOTE 6 CASH AND INVESTMENTS

The PALRF, PCLRF, MRLRF, TDAA3F, and TDAA8F cash and investment 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 monthly 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 LOCAL RETURN FUND EXCHANGE

As permitted by the Guidelines and as approved by LACMTA, the City entered into an agreement with the City of Duarte to exchange the City's uncommitted PALRF monies amounting to \$700,000 for \$490,000 General Fund or \$0.70 General Fund per \$1 PALRF.

NOTE 8 TRANSPORTATION DEVELOPMENT ACT FUND ARTICLE 3 REVENUE ALLOCATION

The revenue allocation for the years ended June 30, 2015 and 2014 consisted of the following:

		<u>2015</u>		<u>2014</u>
FY 2012/13 reserve	\$	5,806	\$	-
	\$	<u>5,806</u>	\$	<u>-</u>

There was not TDA Article 3 drawdown in FY 2013/14.

NOTE 9 TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUNDS RESERVED

In accordance with TDA Article 3 (SB821) Guidelines, funds which will not be spent during the fiscal year have been placed on reserve in the Local Transportation Fund (LTF) account with the County Auditor-Controller to be drawn down whenever the funds become eligible for a specific project and an approved drawdown request is received by LACMTA. As of June 30, 2015 and 2014, the City has funds on reserve as follows:

		<u>2015</u>		<u>2014</u>
FY 2012/13 reserve	\$	30,379	\$	36,185
FY 2013/14 reserve		128,533		128,533
FY 2014/15 allocation		104,674		-
Available reserve balance	\$	<u>263,586</u>	\$	<u>164,718</u>

**NOTE 9 TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUNDS RESERVED
(CONTINUED)**

For FY 2014/15, any TDA Article 3 funds left on reserve for FY 2010/11 or prior, are subject to lapse if not claimed by the City by June 30, 2015. There were no funds that lapsed in FY 2014/15.

NOTE 10 SUBSEQUENT EVENTS

The City has evaluated subsequent events through March 14, 2016, the date the financial statements were available to be issued, and concluded that no events have occurred that require disclosure in 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 Lancaster, 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, Transportation Development Act Article 3 Fund and the Transportation Development Act Article 8 Fund (collectively, the Funds) of the City of Lancaster, California (the City) as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated March 14, 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, Transportation Development Act Article 3 Fund and Transportation Development Act Article 8 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 "Vazquez & Company LLP". The signature is written in a cursive, flowing style.

Los Angeles, California
March 14, 2016

COMPLIANCE SECTION

Report of Independent Auditors on Compliance

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

Report on Compliance

We have audited the compliance of the City of Lancaster, California (the City) with the Proposition A and Proposition C Local Return Guidelines, Measure R Local Return Guidelines, Transportation Development Act (TDA) Articles 3 and 8, and the Los Angeles County Metropolitan Transportation Authority's Funding and Allocation Guidelines for Transportation Development Act Article 3 Bicycle and Pedestrian Funds and the LACMTA Guidelines for the Administration of TDA Article 8 (collectively, the Guidelines) for the year ended June 30, 2015.

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 Articles 3 and 8 Programs 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 Lancaster, California complied, in all material respects, with the compliance requirements of the Guidelines for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with the requirements, which is described in the accompanying Compliance Matrix. 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 Compliance Matrix. 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 combination of deficiencies, in internal control over compliance, 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 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 identified a deficiency in internal control over compliance, as described in the accompanying Compliance Matrix as Finding #2015-001, that we consider to be a material weakness.

The City's response to the internal control over compliance finding identified in our audit is described in the accompanying Compliance Matrix. 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.

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

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

**Los Angeles, California
March 14, 2016**

**City of Lancaster
Compliance Matrix
Year ended June 30, 2015**

Compliance Requirements	In Compliance		Questioned Costs	If no, provide details and management response.
	Yes	No		
A. Proposition A and Proposition C Local Return Funds				
1. Timely use of funds.	X		None	
2. Expenditures approved before being incurred.	X		None	
3. Expenditures did not exceed 25% of LACMTA's approved budget.	X		None	
4. Administrative expenses are within the 20% cap.	X		None	
5. All on-going and carryover projects were reported on Form B.	X		None	
6. Annual Project Summary Report (Form B) was submitted on time.	X		None	
7. Annual Expenditure Report (Form C) was submitted on time.	X		None	
8. Cash or cash equivalents are maintained.	X		None	
9. Accounting procedures, record keeping and documentation are adequate.	X		None	
B. Measure R Local Return Fund				
1. Funds were expended for transportation purposes.	X		None	
2. Funds were used to augment, not supplant, existing local revenues being used for transportation purposes unless there is a funding shortfall.	X		None	
3. Signed Assurances and Understandings on file.	X		None	
4. Separate Measure R Local Return Account was established.	X		None	
5. Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure R Local Return Account.	X		None	

**City of Lancaster
Compliance Matrix
Year ended June 30, 2015**

Compliance Requirements	In Compliance		Questioned Costs	If no, provide details and management response.
	Yes	No		
B. Measure R Local Return Fund (Continued)				
6. Funds were expended with LACMTA's approval.		X	\$263,387	<p><i>Finding #2015-001</i></p> <p>The City claimed expenditures for the purchase of the Avalanche Sweeper totaling \$263,387 with no prior approval from LACMTA.</p> <p>Although, this project was previously approved in FY 2014, the City was still required to submit Form One for FY 2015, carry over the budget, and have it approved prior to spending the money.</p> <p>LACMTA Program Manager granted retroactive approval of the said project on December 14, 2015.</p> <p>We recommend for the City to establish procedures and controls to ensure that approval is obtained from LACMTA prior to implementing any Measure R-funded projects.</p> <p><i>Management Response</i></p> <p>We recognize that it should have also been on our FY 2014/15 budget approval (not just FY 2013/14) and accept the audit finding. We are in the process of revising our procedures and making some personnel changes in order to avoid this happening in the future.</p>

**City of Lancaster
Compliance Matrix
Year ended June 30, 2015**

Compliance Requirements	In Compliance		Questioned Costs	If no, provide details and management response.
	Yes	No		
B. Measure R Local Return Fund (Continued)				
7. Expenditure Plan (Form One) was submitted on time.	X		None	
8. Expenditure Report (Form Two) was submitted on time.	X		None	
9. Timely use of funds.	X		None	
10. Administrative expenses are within the 20% cap.	X		None	
11. Fund exchanges were approved by LACMTA.				Not applicable.
12. A separate account was established for Capital reserve funds and Capital reserve was approved by LACMTA.				Not applicable.
13. Recreational transit form was submitted on time.				Not applicable.
C. Transportation Development Act Article 3 Fund				
1. Timely use of funds.	X		None	
2. Expenditures were incurred for activities relating to pedestrian and bicycle facilities and amenities.	X		None	
D. Transportation Development Act Article 8 Fund				
1. Timely use of funds.	X		None	
2. Expenditures were incurred for transit, paratransit, and local streets and roads.	X		None	

EXIT CONFERENCE

An exit conference was held on March 14, 2016 with City of Lancaster representatives. Those in attendance were:

Vasquez and Company LLP representative:
Marialyn Salvador – Audit Manager

City of Lancaster representatives:
Pam Statsmann – Assistant Finance Director
Tammie Holladay – Treasury Manager
Christine Landis – Accounting Supervisor

Matters discussed:

Results of the audit disclosed an issue of noncompliance with the Guidelines.

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

Pam Statsmann – Assistant Finance Director
Tammie Holladay – Treasury Manager
Christine Landis – Accounting Supervisor



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 publically traded companies. Vasquez is a member of the McGladrey Alliance. McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. McGladrey Alliance provides its members with access to resources of RSM US LLP (formerly known as McGladrey LLP). McGladrey 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. Visit <http://www.rsmus.com/aboutus> for more information regarding RSM US LLP and RSM International. McGladrey®, the McGladrey Alliance logo and the McGladrey Alliance signatures are proprietary to RSM US LLP, while RSM™ is used under license by RSM US LLP.

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