

***CITY OF ARTESIA
ANNUAL FINANCIAL REPORT OF THE
PROPOSITION A LOCAL RETURN FUND
PROPOSITION C LOCAL RETURN FUND
MEASURE R LOCAL RETURN FUND
TRANSPORTATION DEVELOPMENT ACT
ARTICLE 3 FUND***

***FOR THE FISCAL YEARS ENDED
JUNE 30, 2017 AND 2016***



Metro[®]



Simpson & Simpson, LLP
Certified Public Accountants

CITY OF ARTESIA
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FINANCIAL SECTION



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Independent Auditor's Report

To the Honorable Members of the City Council of the
City of Artesia, 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 (PALRF), Proposition C Local Return Fund (PCLRF), Measure R Local Return Fund (MRLRF), and Transportation Development Act Article 3 Fund (TDAA3F) of the City of Artesia, California (City) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, as listed in the table of contents.

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.

Auditor's 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.





Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the PALRF, PCLRF, MRLRF, and TDAA3F of the City of Artesia, California, as of June 30, 2017 and 2016, and the respective changes in their 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 PALRF, PCLRF, MRLRF, and TDAA3F and do not purport to, and do not, present fairly the financial position of the City of Artesia, California, as of June 30, 2017 and 2016, and the changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Artesia, California's PALRF, PCLRF, MRLRF, and TDAA3F Fund financial statements as a whole. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated January 4, 2018, on our consideration of the City of Artesia' 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, 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 cursive script that reads "Simpson & Simpson".

Los Angeles, California
January 4, 2018

CITY OF ARTESIA

PROPOSITION A LOCAL RETURN FUND

BALANCE SHEETS

JUNE 30

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and investments	\$ <u>743,586</u>	\$ <u>577,016</u>
Total assets	\$ <u><u>743,586</u></u>	\$ <u><u>577,016</u></u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 24,577	\$ 603
Wages payable	<u>1,269</u>	<u>5,806</u>
Total liabilities	<u>25,846</u>	<u>6,409</u>
 Fund Balance		
Restricted	<u>717,740</u>	<u>570,607</u>
Total fund balance	<u>717,740</u>	<u>570,607</u>
 Total liabilities and fund balance	 \$ <u><u>743,586</u></u>	 \$ <u><u>577,016</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF ARTESIA

PROPOSITION A LOCAL RETURN FUND

**STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE**

For the Fiscal Years Ended June 30

	<u>2017</u>	<u>2016</u>
REVENUES		
Proposition A	\$ 307,450	\$ 302,811
Interest income	<u>5,074</u>	<u>1,172</u>
Total revenues	<u>312,524</u>	<u>303,983</u>
EXPENDITURES		
Various projects	<u>165,391</u>	<u>170,242</u>
Total expenditures	<u>165,391</u>	<u>170,242</u>
Excess of revenues over expenditures	147,133	133,741
Fund balance at beginning of year	<u>570,607</u>	<u>436,866</u>
Fund balance at end of year	<u><u>\$ 717,740</u></u>	<u><u>\$ 570,607</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF ARTESIA

PROPOSITION A LOCAL RETURN FUND

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES

ACTUAL AND METRO APPROVED PROJECT BUDGET

For the Fiscal Year Ended June 30, 2017

(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2016)

Project Code	Project Name	2017			2016 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
120-06	Dial-A-Ride	\$ 155,000	\$ 66,542	\$ 88,458	\$ 73,419
	Youth and Senior Recreation				
140-01	Transportation Services	20,000	13,233	6,767	11,597
190-04	O&M of Prop A Vehicles	7,000	613	6,387	848
480-05	General Program Administration	50,850	50,578	272	56,081
480-07	Prop A Vehicle - Personnel Salary	40,000	34,425	5,575	28,297
	Total expenditures	<u>\$ 272,850</u>	<u>\$ 165,391</u>	<u>\$ 107,459</u>	<u>\$ 170,242</u>

See accompanying independent auditor's report.

CITY OF ARTESIA

PROPOSITION A LOCAL RETURN FUND

**SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS**

June 30, 2017

<u>Date Acquired</u>	<u>Description</u>	<u>Balance 7/1/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2017</u>
1990	7 Passenger Wagon	\$ 18,169	\$ -	\$ -	\$ 18,169
1993	12 Passenger Ford Cab	11,872	-	-	11,872
1995	Mobile Radio Units	3,878	-	-	3,878
2003	Pock Drill	5,170	-	-	5,170
2003	Barricade Type 1	3,428	-	-	3,428
2003	Computer System Upgrade	20,000	-	-	20,000
2012	2012 Grand Caravan SXT	27,868	-	-	27,868
2012	2012 Grand Caravan SXT	27,869	-	-	27,869
	Total	\$ 118,254	\$ -	\$ -	\$ 118,254

See accompanying independent auditor's report.

CITY OF ARTESIA

PROPOSITION C LOCAL RETURN FUND

BALANCE SHEETS

JUNE 30

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and investments	\$ <u>328,595</u>	\$ <u>245,471</u>
Total assets	\$ <u><u>328,595</u></u>	\$ <u><u>245,471</u></u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 4,990	\$ 33,576
Wages payable	<u>761</u>	<u>724</u>
Total liabilities	<u>5,751</u>	<u>34,300</u>
 Fund Balance		
Restricted	<u>322,844</u>	<u>211,171</u>
Total fund balance	<u>322,844</u>	<u>211,171</u>
 Total liabilities and fund balance	 \$ <u><u>328,595</u></u>	 \$ <u><u>245,471</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF ARTESIA

PROPOSITION C LOCAL RETURN FUND

**STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE**

For the Fiscal Years Ended June 30

	<u>2017</u>	<u>2016</u>
REVENUES		
Proposition C	\$ 255,422	\$ 234,433
Interest income	<u>2,223</u>	<u>463</u>
Total revenues	<u>257,645</u>	<u>234,896</u>
EXPENDITURES		
Various projects	<u>159,969</u>	<u>189,364</u>
Total expenditures	<u>159,969</u>	<u>189,364</u>
Excess of revenues over expenditures	<u>97,676</u>	<u>45,532</u>
Fund balance at beginning of year, as previously reported	211,171	165,639
Prior period adjustment (Note 7)	<u>13,997</u>	<u>-</u>
Fund balance at beginning of year, as restated	<u>225,168</u>	<u>-</u>
Fund balance at end of year	<u>\$ 322,844</u>	<u>\$ 211,171</u>

The accompanying notes are an integral part of the financial statements.

CITY OF ARTESIA

PROPOSITION C LOCAL RETURN FUND

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES

ACTUAL AND METRO APPROVED PROJECT BUDGET

For the Fiscal Year Ended June 30, 2017

(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2016)

Project Code	Project Name	2017			2016 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
400-02	Implement Synchronized Traffic Signals	\$ 30,000	\$ -	\$ 30,000	\$ -
440-08	Pioneer, Artesia, I Norwalk & South Street	350,000	-	350,000	122,220
440-15	Traffic Stripping Maintenance	40,000	10,118	29,882	17,685
440-7	Pioneer, Artesia, I Norwalk Landscaped Median	150,000	102,503	47,497	-
450-04	Cycle 4 HSIP Local Match	42,000	-	42,000	-
480-11	General Program Administration	45,621	47,348	(1,727)	49,458
	Total expenditures	<u>\$ 657,621</u>	<u>\$ 159,969</u>	<u>\$ 497,652</u>	<u>\$ 189,364</u>

See accompanying independent auditor's report.

CITY OF ARTESIA

PROPOSITION C LOCAL RETURN FUND

SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS

June 30, 2017

<u>Date</u> <u>Acquired</u>	<u>Description</u>	<u>Balance</u> <u>7/1/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/2017</u>
2007	Computer-Senior & Youth Transportation Svc	\$ 1,388	\$ -	\$ -	\$ 1,388
	Total	\$ <u>1,388</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,388</u>

See accompanying independent auditor's report.

CITY OF ARTESIA

MEASURE R LOCAL RETURN FUND

BALANCE SHEETS

JUNE 30

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and investments	\$ <u>205,661</u>	\$ <u>70,489</u>
Total assets	\$ <u><u>205,661</u></u>	\$ <u><u>70,489</u></u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ <u>-</u>	\$ <u>7,063</u>
Total liabilities	<u>-</u>	<u>7,063</u>
 Fund Balance		
Restricted	<u>205,661</u>	<u>63,426</u>
Total fund balance	<u>205,661</u>	<u>63,426</u>
 Total liabilities and fund balance	 \$ <u><u>205,661</u></u>	 \$ <u><u>70,489</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF ARTESIA

MEASURE R LOCAL RETURN FUND

**STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE**

For the Fiscal Years Ended June 30

	<u>2017</u>	<u>2016</u>
REVENUES		
Measure R	\$ 191,312	\$ 188,494
Interest income	<u>1,573</u>	<u>695</u>
Total revenues	<u>192,885</u>	<u>189,189</u>
EXPENDITURES		
Various projects	<u>50,650</u>	<u>549,921</u>
Total expenditures	<u>50,650</u>	<u>549,921</u>
Excess (deficiency) of revenues over expenditures	142,235	(360,732)
Fund balance at beginning of year	<u>63,426</u>	<u>424,158</u>
Fund balance at end of year	<u>\$ 205,661</u>	<u>\$ 63,426</u>

The accompanying notes are an integral part of the financial statements

CITY OF ARTESIA

MEASURE R LOCAL RETURN FUND

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES

ACTUAL AND METRO APPROVED PROJECT BUDGET

For the Fiscal Year Ended June 30, 2017

(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2016)

Project Code	Project Name	2017			2016 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
1.90	Modify existing traffic stiping on 183rd St for 2-way left-turn lane	\$ 541,858	\$ -	\$ 541,858	\$ 541,858
1.90	Pioneer Blvd. Downtown Improvement Project	25,000	-	25,000	-
7.10	Eco Rapid Transit Dues	6,142	8,730	(2,588)	8,063
7.90	Radar Speed Survey & Engineering	20,000	21,920	(1,920)	-
7.90	Develop optimized signal timing plans for Downtown	20,000	20,000	-	-
	Total expenditure	<u>\$ 613,000</u>	<u>\$ 50,650</u>	<u>\$ 562,350</u>	<u>\$ 549,921</u>

See accompanying independent auditor's report.

CITY OF ARTESIA

MEASURE R LOCAL RETURN FUND

SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS

June 30, 2017

<u>Date Acquired</u>	<u>Description</u>	<u>Balance 7/1/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2017</u>
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See accompanying independent auditor's report.

CITY OF ARTESIA

**TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND
(PURSUANT TO PUBLIC UTILITIES CODE SECTION 99234)**

**BALANCE SHEETS
JUNE 30**

	<u>2017</u>	<u>2016</u>
ASSETS		
TDA 3	\$ -	\$ -
Total assets	\$ <u>-</u>	\$ <u>-</u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>
 Fund Balance		
Reserved	<u>-</u>	<u>-</u>
Total fund balance	<u>-</u>	<u>-</u>
 Total liabilities and fund balance	\$ <u>-</u>	\$ <u>-</u>

The accompanying notes are an integral part of the financial statements.

CITY OF ARTESIA

TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND

**STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE**

For the Fiscal Years Ended June 30

	<u>2017</u>	<u>2016</u>
REVENUES		
TDA 3 (Note 8)	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>
EXPENDITURES		
Construction/Maintenance	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</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>

The accompanying notes are an integral part of the financial statements.

CITY OF ARTESIA

**TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND
SUPPLEMENTARY INFORMATION**

**SCHEDULE OF TRANSPORTATION DEVELOPMENT ACT
ALLOCATION FOR SPECIFIC PROJECTS**

For the Fiscal Year Ended June 30, 2017

<u>Project Description</u>	<u>Program Year</u>	<u>Allocations</u>	<u>Expenditures</u>	<u>Unexpended Allocations</u>	<u>Project Status</u>
Local allocations					
None	2016-17	\$ -	\$ -	\$ -	
	Total	<u>\$ -</u>	<u>\$ -</u>	-	
Unexpended interest accumulated to date				-	
Fund balance at beginning of year				<u>-</u>	
Fund balance at end of year				<u>\$ -</u>	

See accompanying independent auditor's report.

CITY OF ARTESIA

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The operations of the Proposition A Local Return Fund (PALRF) and Proposition C Local Return Funds (PCLRF), Measure R Local Return Fund (MRLRF), and Transportation Development Act Article 3 Fund (TDAA3F) 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 represents 15% of the 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.

Transportation Development Act Article 3 Fund (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

PALRF, PCLRF, MRLRF, and TDAA3F 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.

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.

CITY OF ARTESIA

NOTES TO FINANCIAL STATEMENTS For the Fiscal Years Ended June 30, 2017 and 2016 (Continued)

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 2017 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, 2017:

- 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 their compliance with the Proposition A and Proposition C Local Return Program Guidelines, Measure R Local Return Program Guidelines, and Transportation Development Act Article 3 and the Los Angeles County Metropolitan Transportation Authority Funding and Allocation Guidelines for Transportation Development Act Article 3 Bicycle and Pedestrian Funds.

CITY OF ARTESIA

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2017 and 2016
(Continued)

NOTE 3 – PROPOSITION A AND PROPOSITION C LOCAL RETURN COMPLIANCE REQUIREMENTS

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.

NOTE 4 – MEASURE R LOCAL RETURN COMPLIANCE REQUIREMENTS

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.

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.

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.

NOTE 7 – PRIOR PERIOD ADJUSTMENT – PCLRF

Fund balance as of July 1, 2016 has been restated for the correction of an understatement of revenue and expenditure of \$16,997 and \$3,000, respectively. During the prior year, the City recorded the amount as accounts payable when the balance should have been recorded as revenue from LACMTA in the amount of \$16,997. In addition, the City incurred additional expenditures in the amount of \$3,000 which had not been previously accrued. The result is a restatement of the beginning fund balance by \$13,997 for the year ended June 30, 2016.

CITY OF ARTESIA

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2017 and 2016
(Continued)

NOTE 8 – TRANSPORTATION DEVELOPMENT ACT FUND REVENUE ALLOCATION

The revenue allocation for the years ended June 30, 2017 and 2016 consisted of the following:

	2017	2016
FY 2015-16 allocation	\$ <u> -</u>	\$ <u> -</u>
FY 2016-17 allocation	-	-
Total payment requested	\$ <u> -</u>	\$ <u> -</u>

NOTE 9 – TRANSPORTATION DEVELOPMENT ACT FUNDS RESERVED

In accordance with TDA Article 3 (SB821) Guidelines, funds not 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, 2017, and 2016, the City has funds on reserve as follows:

	2017	2016
FY 2013-14 allocation	\$ <u> 12,753</u>	\$ <u> 12,753</u>
FY 2014-15 allocation	11,022	11,022
FY 2015-16 allocation	10,703	10,703
FY 2016-17 allocation	11,177	-
Available reserve balance	\$ <u> 45,655</u>	\$ <u> 34,478</u>

NOTE 10 – SUBSEQUENT EVENTS

The City has evaluated events or transactions that occurred subsequent to June 30, 2017 through January 4, 2018, the date the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined no subsequent matters require disclosure or adjustment to the accompanying financial statements.



SIMPSON & SIMPSON
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**Independent Auditor’s Report 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 Artesia, California and the
Los Angeles County Metropolitan Transit Authority

We have audited, 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, the financial statements 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 (TDAA3F) Fund of the City of Artesia, California (City), as of and for the years ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated January 4, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 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 City’s local return funds and TDAA3F 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 any deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we 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 financial statements 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) 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 audit, 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 result 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 cursive script that reads "Simpson & Simpson".

Los Angeles, California
January 4, 2018

COMPLIANCE SECTION



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
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Independent Auditor's Report On Compliance

To the Honorable Members of the City Council of the
City of Artesia, California and the
Los Angeles County Metropolitan Transit Authority

Report on Compliance

We have audited the compliance of the City of Artesia, California (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 the Transportation Development Act Article 3 Bicycle and Pedestrian Funds (Guidelines) for the year ended June 30, 2017.

Management's Responsibility

Management is responsible for the City's compliance with those guidelines.

Auditor's 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 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 referred to in the preceding paragraph. Those standards and the Guidelines require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a local return 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. Our audit does not provide a legal determination of the City's compliance with those requirements.

Opinion on Each Local Return Program and Transportation Development Act Article 3

In our opinion, except as noted on the Compliance Matrix and the Schedule of Findings and Recommendations, the City of Artesia complied, in all material respects, with the compliance requirements referred to above that apply to Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund, and Transportation Development Act Article 3 (TDAA3F) Fund for the year ended June 30, 2017.





Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which are required to be reported in accordance with the Guidelines and which are described in the accompanying Schedule of Findings and Recommendations as Finding No. F2017-001 through Finding No. F2017-006. Our opinion on each local return program is not modified with respect to this matter.

The City's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Recommendations. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the City of Artesia is responsible for establishing and maintaining effective internal control over compliance with the Requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the Requirements that could have a direct and material effect on the Local Return programs and the TDAA3F to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Requirements, 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.

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 we consider to be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 under the Requirements 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 under the Requirements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Recommendations as Finding #2017-003 and #2017-004 to be material weaknesses.

The responses by the City to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Recommendations. The responses by the City were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.



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

Simpson & Simpson

Los Angeles, California
January 4, 2018

CITY OF ARTESIA
COMPLIANCE MATRIX
Year Ended June 30, 2017

Compliance Requirement	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 were approved before being incurred.	X		None	
3. Funds were used on approved projects only and expenditures were supported and allowable per Guidelines.		X	PALRF: \$85,003 PCLRF: \$47,348	See Finding 2017-004 on the Summary of Findings and Recommendations
4. Expenditures did not exceed 25% of Metro's approved budget.	X		None	
5. Administrative expenses were within the 20% cap.		X	PALRF: \$64,906 PCLRF: \$19,193	See Finding 2017-003 on the Summary of Findings and Recommendations. Note: Questioned costs for exceeding the 20% Admin cap. is the part of the questioned costs noted on Finding 2017-004.
6. All on-going and carryover projects were reported in Form B.	X		None	
7. Annual Project Summary Report (Form B) was submitted on time.	X		None	
8. Annual Expenditure Report (Form C) was submitted on time.		X	None	See Finding 2017-001 on the Summary of Findings and Recommendations
9. Recreational Transit Form was submitted on time.		X	None	See Finding 2017-002 on the Summary of Findings and Recommendations
10. Cash or cash equivalents were maintained.	X		None	
11. Accounting procedures, record keeping and documentation were adequate.		X	None	See Finding 2017-005 on the Summary of Findings and Recommendations
12. Revenues received including allocations, project generated revenues, and interest income were properly credited to the PALRF and PCLRF accounts.	X		None	

CITY OF ARTESIA
COMPLIANCE MATRIX
Year Ended June 30, 2017
(Continued)

Compliance Requirement	In Compliance		Questioned Costs	If no, provide details and management response.	
	Yes	No			
B. Measure R Local Return Fund					
1.	Timely use of funds.	X		None	
2.	Expenditures were approved before being incurred.	X		None	
3.	Funds were used on approved projects only and expenditures were supported and allowable per Guidelines.	X			
4.	Fund were not substituted for property tax.	X		None	
5.	Administrative expenses were within the 20% cap.	N/A		None	
6.	Expenditure Plan (Form One) was submitted on time.	X		None	
7.	Expenditure Report (Form Two) was submitted on time.		X	None	See Finding 2017-006 on the Summary of Findings and Recommendations
8.	Cash or cash equivalents were maintained.	X		None	
9.	Accounting procedures, record keeping and documentation were adequate.	X		None	
10.	Revenues received including allocations, project generated revenues, and interest income were properly credited to the Measure R account.	X		None	
11.	Funds were not used to supplant existing local revenues being used for transportation purpose.	X		None	

CITY OF ARTESIA
COMPLIANCE MATRIX
 Year Ended June 30, 2017
 (Continued)

Compliance Requirement	In Compliance		Questioned Costs	If no, provide details and management response.
	Yes	No		
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

CITY OF ARTESIA

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

June 30, 2017

PALRF and PCLRF: Finding No. 2017-001

Compliance Requirement	According to Proposition A and Proposition C Local Return Guidelines, Section I (C), "On or before October 15th of each fiscal year, the Jurisdictions shall submit an Annual Expenditure Report to provide an update on previous year LR fund receipts and expenditures."
Condition	The City did not meet the October 15, 2017 deadline for submission of Form C. The City submitted the final Form C to the LACMTA on November 15, 2017.
Cause	There was a transition period between the Interim Director of Administrative Services and the Acting Finance Manager, which caused deadlines to be overlooked.
Effect	The City's Form C was not submitted timely, in accordance with the Guidelines.
Recommendation	We recommend that the City establish procedures to ensure that the Form C (Annual Expenditure Report) is properly prepared and submitted prior to the October 15th deadline and that the City retain a confirmation of receipt by LACMTA to comply with the Guidelines.
Management's Response	The City had previously relied on consultants to submit required forms. As a result of the LACMTA audit findings, the City will now assign LACMTA forms to designated, in-house personnel to ensure submittal deadlines are met. Submittal deadlines will be tracked using a citywide shared calendar with alerts and reminders of upcoming submittals.

CITY OF ARTESIA

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2017

PALRF: Finding No. 2017-002

Compliance Requirement	According to Proposition A and Proposition C Local Return Guidelines, Section II, 1.3, Recreational Transit Service: “Jurisdictions shall submit a Listing of Recreational Transit Services no later than October 15th after the fiscal year.”
Condition	The City did not meet the October 15, 2017 deadline for submission of the Listing of Recreational Transit Services. However, the City subsequently submitted the listing on November 16, 2017.
Cause	There was a transition period between the Interim Director of Administrative Services and the Acting Finance Manager, which caused the deadline to be overlooked.
Effect	The City’s Listing of Recreational Transit Services was not submitted timely.
Recommendation	We recommend that the City establish procedures to ensure that the Recreational Transit Services listing is properly prepared and submitted before the due date of October 15th so that the City’s expenditures of the Proposition A and Proposition C Local Return Funds will be in accordance with LACMTA’s approval and the guidelines. Furthermore, we recommend that the City retain a confirmation of receipt by LACMTA to indicate the form was submitted in a timely manner.
Management’s Response	The City had previously relied on consultants to submit required forms. As a result of the LACMTA audit findings, the City will now assign LACMTA forms to designated, in-house personnel to ensure submittal deadlines are met. Submittal deadlines will be tracked using a citywide shared calendar with alerts and reminders of upcoming submittals.

CITY OF ARTESIA

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

June 30, 2017

PALRF and PCLRF: Finding No. 2017-003

Compliance Requirement	According to Proposition A and Proposition C Local Return Guidelines, Section II A-15, "The administrative expenditures for any year shall not exceed 20 percent of total Local Return annual expenditures. The annual expenditure figure will be reduced by fund trades to other cities and/or funds set aside for reserves; conversely, the annual expenditure figure will be increased by expenditure of reserves of Local Return funds received in fund exchanges."
Condition	Proposition A General Program Administration and Prop A Vehicle - Personnel Salary exceeded the 20% administration cap by \$64,906 and Proposition C General Program Administration exceeded the 20% administration cap by \$19,193.
Cause	The Administrative Expense was calculated as a percentage of total planned LACMTA projects for the fiscal year. Since a portion of planned expenditures did not occur during the fiscal period, administrative expenses exceeded 20% of actual expenditures.
Effect	The City's Proposition A and Proposition C Local Return Fund administrative expenditures exceeded 20% of the Proposition A and Propositions C Local Return annual expenditures. Therefore, the City did not comply with the Guidelines, resulting in questioned costs of \$64,906 and \$19,193, respectively.
Recommendation	We recommend that the City reimburse its Proposition A Local Return Fund and Proposition C Local Return Fund accounts by \$64,906 and \$19,193, respectively. Furthermore, we recommend the City establish procedures to ensure that the administrative expenditures are within the twenty percent cap of the Proposition A and Proposition C Local Return Fund's total annual expenditures.
Management's Response	The new method of tracking direct payroll expenses allows the City to monitor LACMTA payroll expenses, and stay within the 20% Administration Cap as directed in the LACMTA guidelines.

CITY OF ARTESIA

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

June 30, 2017

PALRF and PCLRF: Finding No. 2017-004

Compliance Requirement	<p>According to Proposition A and Proposition C Local Return Guidelines, Section II, “A proposed expenditure of funds shall be deemed to be for public transit purposes to the extent that it can reasonably be expected to sustain or improve the quality and safety of and/or access to public transit services by the general public or those requiring special public transit assistance” and Section V, “It is jurisdictions’ responsibility to maintain proper accounting records and documentation...”</p> <p>In addition, LACMTA Local Return Program Manager issued a memo dated on April 29, 2014 to jurisdictions to provide recommendations to ensure that jurisdictions have adequate evidence to support its compliance with the Local Return Guidelines, those recommendations are “that an electronic system is acceptable as long as how much time is identified on the project (i.e. not just a clock-in-clock-out system) and this non-timesheet system, excel file or other, is authenticated by the employee and approved by one’s supervisor.” Also, “(4) Where employees work on multiple activities or cost objectives, a distribution or their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:</p> <ul style="list-style-type: none">(b) A Federal award and non-Federal award. <p>(5) Personnel activity reports or equivalent documentation must meet the following standards:</p> <ul style="list-style-type: none">(b) They must reflect an after the fact distribution of the actual activity of each employee,(f) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:<ul style="list-style-type: none">(i) the governmental unit’s system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) at least quarterly, comparisons of actual costs to budgeted distributions based on monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) the budget estimates or other distribution percentages are revised as least quarterly, if necessary, to reflect changed circumstances.”
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CITY OF ARTESIA

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

June 30, 2017

PALRF and PCLRF: Finding No. 2017-004

Condition	To support the propriety of expenditures being charged to Proposition A and C Local Return Funds, all expenditures should be supported by properly executed payrolls, time records, activity reports, vouchers, purchase orders, or other official documentation evidencing in proper detail the nature of the charges. However, the total payroll expenditures of \$50,578 for Proposition A General Program Administration, \$34,425 for the Prop A Vehicle Project and \$47,348 for Proposition C General Program Administration were based on an estimate of a percentage of time spent on Proposition A & C activity rather than employee's actual working hours spent for the Proposition A and Proposition C projects. The City provided us with the payroll registers and the timesheets along with support for wages paid to employees; however, these documents did not adequately support the actual hours or payroll expenditures charged to the projects.
Cause	Payroll expenses were allocated as a set percentage based on a study of hours dedicated to LACMTA projects in previous years.
Effect	The payroll costs claimed under the Proposition A & C Local Return Funds projects may include expenditures which may not be an allowable Proposition A project expenditures or Proposition C project expenditures, resulting in questioned costs of \$85,003 and \$47,348, respectively.
Recommendation	In accordance with the Guidelines, we recommend that the City reimburse its Proposition A Local Return Fund and Proposition C Local Return Fund accounts for \$85,003 and \$47,348, respectively. In addition, we recommend that the City revise its current labor costs reporting procedures to ensure that labor costs charged to Local Return Funds are adequately supported by time sheets or similar documentation which includes employees' actual working hours.
Management's Response	In order to comply with the direct allocation requirement, set forth by LACMTA Guidelines, the new Finance Manager has stopped past practice of payroll allocation and has developed a new method to track payroll expenses related to LACMTA projects. The City will now keep additional time logs for employees that work towards the goals of efficient and effective transportation of LACMTA projects. The additional time card will include the project title, name of the employee, hours worked on project per pay period, and current bill rate. This will allow for a clearer presentation of employees' time spent on LACMTA projects.

CITY OF ARTESIA

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

June 30, 2017

PALRF and PCLRF: Finding No. 2017-005

Compliance Requirement	According to Proposition A and Proposition C Local Return Guidelines, Section II, “A proposed expenditure of funds shall be deemed to be for public transit purposes to the extent that it can reasonably be expected to sustain or improve the quality and safety of and/or access to public transit services by the general public or those requiring special public transit assistance” and Section V, “It is jurisdictions’ responsibility to maintain proper accounting records and documentation...”
Condition	<p>To support the propriety of expenditures being charged to Proposition A and C Local Return Funds, non-payroll expenditures should be supported by properly executed contracts, purchase orders, invoices, and cancelled checks. Although payments to vendors were allowable and were properly supported by invoices and cancelled checks, the following expenditures were not supported by an existing contract or purchase order:</p> <p>For Prop A, a total of \$42,652 was selected for non-payroll testing. Out of the 12 non-payroll samples selected for testing, the City did not provide a contract or a purchase order for 3 samples for the same vendor (Johnny’s Express) in the total amounts of \$3,385.</p> <p>For Prop C, \$63,309 was selected for non-payroll testing. Out of the 46 non-payroll samples selected for testing, the City did not provide contracts or purchase orders for 30 samples (6 various vendors) in the total amounts of \$45,395.</p>
Cause	Transitional staff in Accounts Payable and City Clerk offices caused the details of vendor contracts, such as Scope of Work, to be overlooked.
Effect	No contract or purchase order form to support the payments made to vendors indicate a weakness in the City’s internal control.
Recommendation	We recommend that the City establish controls to ensure that the costs charged to the Local Return Funds, although allowable, are adequately supported by contracts, invoices, cancelled checks or similar documentation so that Local Return expenditures are in compliance with the Guidelines.
Management’s Response	The City agrees with the audit results. Internal controls have been reviewed, and changes have been made to include a more disciplined review process which ensures compliance even through periods of staff transitions.

CITY OF ARTESIA

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2017

MRLRF: Finding No. 2017-006

Compliance Requirement	According to Measure R Local Return Guidelines, Section B (II.2) (Expenditure Report (Form Two)), Jurisdictions shall submit a Form Two, to LACMTA annually, by October 15 th (following the conclusion of the fiscal year).
Condition	The City did not meet the October 15 th deadline for submission of Form Two. However, the City submitted the Form Two to LACMTA on November 15, 2017.
Cause	There was a transition period between the Interim Director of Administrative Services and the Acting Finance Manager, which caused deadlines to be overlooked.
Effect	The City's Form Two was not submitted timely.
Recommendation	We recommend that the City establish procedures to ensure that the Form Two (Expenditure Report) is properly prepared and submitted before the due date of October 15 th so that the City's Measure R expenditures will be in accordance with LACMTA's approval and Measure R guidelines.
Managements Response	The City had previously relied on consultants to submit required forms. As a result of the LACMTA audit findings, the City will now assign LACMTA forms to designated, in-house personnel to ensure submittal deadlines are met. Submittal deadlines will be tracked using a citywide shared calendar with alerts and reminders of upcoming submittals.

EXIT CONFERENCE

CITY OF ARTESIA

PROPOSITION A, PROPOSITION C, MEASURE R LOCAL RETURN FUNDS, AND
TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND
EXIT CONFERENCE
June 30, 2017

An exit conference was held on February 2, 2018 with the City of Artesia. Those in attendance were:

Simpson & Simpson Representative:

Wanda Molina, Audit Supervisor

City's Representative:

Siamlu Cox, Acting Finance Manager

Matters Discussed:

Results of the audit, six findings were noted.

A copy of this report was forwarded to the following City representative(s) for their comments prior to the issuance of the final report: