

***CITY OF DOWNEY
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***



Simpson & Simpson, LLP
Certified Public Accountants

CITY OF DOWNEY
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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 Downey, 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 Downey, 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 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 PALRF, PCLRF, MRLRF, and TDAA3F of the City of Downey, 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 Downey, 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 Downey, 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 November 26, 2017, on our consideration of the City of Downey'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, 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* and in considering the City's internal control over financial reporting and compliance.

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

Los Angeles, California
November 26, 2017

CITY OF DOWNEY

PROPOSITION A LOCAL RETURN FUND

BALANCE SHEETS

JUNE 30

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and investments	\$ 685,033	\$ 582,571
Accounts receivable	125,528	62,556
Due from PCLRF	-	61,180
Prepaid expense	43,170	-
Due from other agency	1,075	-
Total assets	<u>\$ 854,806</u>	<u>\$ 706,307</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 379,780	\$ 300,669
Accrued payroll and employee benefits	58,708	49,741
Due to other funds	16,078	16,078
Total liabilities	<u>454,566</u>	<u>366,488</u>
Fund Balance		
Restricted	<u>400,240</u>	<u>339,819</u>
Total fund balance	<u>400,240</u>	<u>339,819</u>
Total liabilities and fund balance	<u>\$ 854,806</u>	<u>\$ 706,307</u>

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

CITY OF DOWNEY

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	\$ 2,078,374	\$ 2,046,230
Interest income	6,158	2,702
Unrealized gain (loss) on investments	(5,067)	647
Project generated revenue (Note 7)	50,393	43,676
Proposition A Discretionary Incentive Grant (Note 8)	94,353	93,310
Total revenues	<u>2,224,211</u>	<u>2,186,565</u>
EXPENDITURES		
Various projects	<u>3,063,790</u>	<u>3,020,397</u>
Total expenditures	<u>3,063,790</u>	<u>3,020,397</u>
Deficiency of revenues over expenditures	(839,579)	(833,832)
OTHER FINANCING SOURCES		
Transfer in - MRLRF (Note 9)	-	774,510
Transfer in - PCLRF (Note 9)	900,000	335,000
Total other financing sources	<u>900,000</u>	<u>1,109,510</u>
Excess of revenues over expenditures and other financing sources	60,421	275,678
Fund balance at beginning of year	<u>339,819</u>	<u>64,141</u>
Fund balance at end of year	<u>\$ 400,240</u>	<u>\$ 339,819</u>

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

CITY OF DOWNEY

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)	
110-13	Fixed Route Program	\$ 1,444,522	\$ 1,511,148	\$ (66,626)	\$ 1,489,389
130-02	Revised Senior/Handicapped Transit Program	1,233,060	1,096,349	136,711	962,327
140-08	Recreational/Special Event Transit	134,770	150,059	(15,289)	141,369
150-02	Bus Stop Maintenance	305,540	170,594	134,946	219,042
160-01	Downey Depot Maintenance	62,700	51,489	11,211	54,422
180-01	DAR Replacement Vehicles and Communications Equipment	74,560	75,358	(798)	-
230-03	Transit Depot Security	8,000	8,793	(793)	9,312
270-01	Fixed Route Transit Planning	10,000	-	10,000	7,536
270-03	DAR Transit Planning	20,000	-	20,000	-
480-03	Senior/Handicapped Transit Program Administration	-	-	-	137,000
	Total expenditures	<u>\$ 3,293,152</u>	<u>\$ 3,063,790</u>	<u>\$ 229,362</u>	<u>\$ 3,020,397</u>

See accompanying independent auditor's report.

CITY OF DOWNEY

PROPOSITION A LOCAL RETURN FUND

SUPPLEMENTARY INFORMATION

SCHEDULE OF CAPITAL ASSETS

June 30, 2017

Date Acquired	Description	Balance 7/1/2016	Additions	Deletions	Balance 6/30/2017
10/1989	Metrek Mobil Radio (12686)	\$ 1,640	\$ -	\$ -	\$ 1,640
10/1989	Metrek Mobil Radio (12687)	1,640	-	-	1,640
10/1989	Metrek Mobil Radio (12688)	1,640	-	-	1,640
4/1998	Motorola Mobil Radio (20306)	800	-	-	800
4/1998	Motorola Mobil Radio (20307)	800	-	-	800
4/1998	Motorola Mobil Radio (20308)	800	-	-	800
7/2002	HP Laserjet (22696)	1,150	-	-	1,150
8/2002	Motorola Radio (23169)	944	-	-	944
8/2002	Motorola Radio (23170)	944	-	-	944
6/2005	Ford Bus (6233)	63,475	-	-	63,475
11/2004	Cisco 1721 Router (23925)	995	-	-	995
12/2005	Dell Optiplex (24061)	1,069	-	-	1,069
7/2007	9 Motorola Radio/Display (04713-04721)	19,725	-	-	19,725
2/2008	2007 Ford Bus	69,795	-	-	69,795
3/2008	Whirlpool Refrigerator	1,213	-	-	1,213
2/2008	2007 Ford Bus	72,263	-	-	72,263
6/2008	Storage Server	13,341	-	-	13,341
6/2008	2008 Starcraft Allstar Type III	69,795	-	-	69,795
6/2008	2008 Starcraft Allstar Type III	69,795	-	-	69,795
6/2008	2008 Starcraft Allstar Type III	69,796	-	-	69,796
6/2008	32" LCD TV	1,629	-	-	1,629
6/2008	2 Optiplex 755	3,048	-	-	3,048
6/2008	Dell Rack Server	6,398	-	-	6,398
10/2008	Surveillance	45,828	-	-	45,828
10/2008	2-Way DAR Radio	1,946	-	-	1,946
12/2008	2008 Chevrolet Uplander - White	46,620	-	-	46,620
12/2008	10 Digital Recorders	19,269	-	-	19,269
4/2009	2009 Starcraft Allstar Bus	74,257	-	-	74,257
4/2009	2009 Starcraft Allstar Bus	74,257	-	-	74,257
4/2009	2009 Starcraft Allstar Bus	74,258	-	-	74,258
6/2010	6 Navigational Router - Novus DCC- PRO II	63,337	-	-	63,337

See accompanying independent auditor's report

CITY OF DOWNEY

PROPOSITION A LOCAL RETURN FUND

SUPPLEMENTARY INFORMATION

SCHEDULE OF CAPITAL ASSETS

(Continued)

June 30, 2017

Date Acquired	Description	Balance 7/1/2016	Additions	Deletions	Balance 6/30/2017
8/2010	Property at 9300 Stewart and Gray Road for the Consolidated City Corporate Yard Project (Partly Funded by Proposition A Local Return)	\$ 877,999	\$ -	\$ -	\$ 877,999
9/2010	Laptop-Dell Latitude E6500-Black	1,833	-	-	1,833
9/2010	Projector - Dell 1410X	662	-	-	662
6/2011	GPS - TREQ (MDC)	4,149	-	-	4,149
6/2011	GPS - TREQ (MDC)	4,149	-	-	4,149
6/2011	GPS - TREQ (MDC)	4,150	-	-	4,150
9/2011	Desktop - Dell Optiplex - GX 790	1,598	-	-	1,598
9/2011	Desktop - Dell Optiplex - GX 790	1,598	-	-	1,598
9/2011	Desktop - Dell Optiplex - GX 790	1,597	-	-	1,597
6/2014	Coin Counter/Sorter - Semacon	396	-	-	396
Total		\$ 1,770,598	\$ -	\$ -	\$ 1,770,598

See accompanying independent auditor's report.

CITY OF DOWNEY

PROPOSITION C LOCAL RETURN FUND

BALANCE SHEETS

JUNE 30

	<u>2017</u>	<u>2016</u> as restated
ASSETS		
Cash and investments	\$ 897,705	\$ 185,372
Retention receivable	21,000	-
Accounts receivable	-	22,503
Total assets	<u>\$ 918,705</u>	<u>\$ 207,875</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 43,443	\$ 223,278
Retention payable	10,893	-
Accrued payroll and employee benefits	4,478	4,730
Due to PALRF	-	61,180
Total liabilities	<u>58,814</u>	<u>289,188</u>
Deferred inflow of resources (Note 10)	<u>21,000</u>	<u>-</u>
Total deferred inflow of resources	<u>21,000</u>	<u>-</u>
Fund Balance		
Restricted	<u>838,891</u>	<u>(81,313)</u>
Total fund balance	<u>838,891</u>	<u>(81,313)</u>
Total liabilities and fund balance	<u>\$ 918,705</u>	<u>\$ 207,875</u>

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

CITY OF DOWNEY

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> as restated
REVENUES		
Proposition C	\$ 1,723,334	\$ 1,695,742
Interest income	5,938	3,245
Unrealized gain on investments	(7,536)	831
Other revenues (Note 11)	<u>399,000</u>	<u>36,317</u>
Total revenues	<u>2,120,736</u>	<u>1,736,135</u>
EXPENDITURES		
Various projects	<u>400,066</u>	<u>1,415,955</u>
Total expenditures	<u>400,066</u>	<u>1,415,955</u>
Excess of revenues over expenditures	<u>1,720,670</u>	<u>320,180</u>
OTHER FINANCING SOURCE (USE)		
Transfer in - Gas Tax Fund (Note 9)	99,534	-
Transfer out - PCLRF (Note 9)	<u>(900,000)</u>	<u>(335,000)</u>
Total other financing source (use)	<u>(800,466)</u>	<u>(335,000)</u>
Excess (deficiency) of revenues over expenditures and other financing source (use)	920,204	(14,820)
Fund balance at beginning of year	<u>(81,313)</u>	<u>(66,493)</u>
Fund balance at end of year	<u>\$ 838,891</u>	<u>\$ (81,313)</u>

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

CITY OF DOWNEY

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			as restated 2016 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
270-45	Lakewood Boulevard/Rosemead Boulevard Corridor Study	\$ 65,000	\$ -	\$ 65,000	\$ 62,224
270-46	I-5 and I-710 Corridor Consortium and 91/605/405 Corridor Study Committee Membership Dues	-	-	-	75,000
400-06	Imperial Highway Fiberoptic Communication System	105,000	37,439	67,561	2,691
400-50	Paramount Boulevard Fiberoptic Communication System	-	-	-	4,820
420-01	Downeylink Fixed Route Transit Services	-	-	-	12,613
420-47	Citywide Traffic Circulation Study	50,000	-	50,000	-
440-02	Firestone Boulevard at Lakewood Boulevard Intersection Improvement Project	-	-	-	317
440-03	Woodruff Avenue Pavement Rehabilitation (Imperial - Stewart and Gray)	-	-	-	70,000
440-32	Bellflower Boulevard Pavement Rehabilitation (Foster Road - Stewart and Gray Road)	30,000	28,547	1,453	-
440-34	Bridge Improvements	200,000	92	199,908	86,693
440-35	Old River School Road Pavement Rehabilitation (Imperial Highway to Arnett Street)	135,000	-	135,000	12,524
440-36	Firestone Boulevard Street Improvements (Lakewood Boulevard to East City Limit)	-	-	-	494,816
440-37	Brookshire Avenue Pavement Rehabilitation (Imperial Highway to Gardendale Street)	600,000	11,748	588,252	43,043
440-39	Pavement Rehabilitations at Various Locations	50,000	36,756	13,244	-
440-40	Brookshire Avenue Pavement Rehabilitation (Firestone Boulevard to Florence Avenue)	1,000,000	23,027	976,973	60,380

See accompanying independent auditor's report.

CITY OF DOWNEY

PROPOSITION C LOCAL RETURN FUND

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES

ACTUAL AND METRO APPROVED PROJECT BUDGET

(Continued)

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			as restated 2016 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
440-41	Citywide Striping	\$ 135,000	\$ 41,062	\$ 93,938	\$ -
450-26	Lakewood Boulevard Improvement Phase 3b (Florence Avenue - Gallatin Road)	-	-	-	68,243
450-33	Firestone Boulevard Street Improvements	-	-	-	128,856
450-42	Telegraph Traffic Throughout and Safety Enhancements - Phase II	160,000	26,315	133,685	1,544
450-44	Firestone Boulevard Median (Pattone Road to Marbel Avenue)	200,000	39,042	160,958	164,020
470-41	Pavement Management System	-	-	-	50,000
480-02	Ride Sharing Program Administration	53,000	54,915	(1,915)	52,805
480-28	Local Return Fund Administration (Public Works)	100,328	101,123	(795)	25,366
	Total expenditures	2,883,328	400,066	2,483,262	1,415,955
Transfer out - PALRF (Note 9)					
110-13	Fixed Route Program	450,000	450,000	-	193,658
130-02	Revised Senior/Handicapped Transit	450,000	450,000	-	141,342
	Total transfer out to PALRF	900,000	900,000	-	335,000
	Total expenditures and transfer out	<u>\$ 3,783,328</u>	<u>\$ 1,300,066</u>	<u>\$ 2,483,262</u>	<u>\$ 1,750,955</u>

See accompanying independent auditor's report.

CITY OF DOWNEY

PROPOSITION C 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>
08/2009	Desktop - Dell GX760	\$ 1,218	\$ -	\$ -	\$ 1,218
08/2009	Server - Dell R410	4,199	-	-	4,199
05/2011	Desktop - Dell Optiplex 380	1,095	-	-	1,095
	Total	<u>\$ 6,512</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,512</u>

See accompanying independent auditor's report.

CITY OF DOWNEY

MEASURE R LOCAL RETURN FUND

BALANCE SHEETS

JUNE 30

	<u>2017</u>	<u>2016</u> as restated
ASSETS		
Cash and investments	\$ 1,020,923	\$ 1,149,230
Accounts receivable	41,748	15,167
Due from other funds	<u>16,078</u>	<u>16,078</u>
Total assets	<u>\$ 1,078,749</u>	<u>\$ 1,180,475</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 119,809	\$ 144,640
Retention payable	40,072	7,500
Accrued payroll and employee benefits	<u>2,822</u>	<u>6,562</u>
Total liabilities	<u>162,703</u>	<u>158,702</u>
Fund Balance		
Restricted	<u>916,046</u>	<u>1,021,773</u>
Total fund balance	<u>916,046</u>	<u>1,021,773</u>
Total liabilities and fund balance	<u>\$ 1,078,749</u>	<u>\$ 1,180,475</u>

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

CITY OF DOWNEY

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> as restated
REVENUES		
Measure R	\$ 1,293,280	\$ 1,273,741
Interest income	11,173	14,134
Other revenues (Note 11)	96,013	15,167
Unrealized gain on investments	(9,135)	4,193
Total revenues	<u>1,391,331</u>	<u>1,307,235</u>
EXPENDITURES		
Various projects	<u>1,497,058</u>	<u>1,778,531</u>
Total expenditures	<u>1,497,058</u>	<u>1,778,531</u>
Deficiency of revenues over expenditures	(105,727)	(471,296)
OTHER FINANCING USE		
Transfer out - PCLRF (Note 9)	<u>-</u>	<u>(774,510)</u>
Total other financing use	<u>-</u>	<u>(774,510)</u>
Deficiency of revenues over expenditures and other financing use	(105,727)	(1,245,806)
Fund balance at beginning of year	<u>1,021,773</u>	<u>2,267,579</u>
Fund balance at end of year	<u>\$ 916,046</u>	<u>\$ 1,021,773</u>

The accompanying notes are an integral part of the financial statements

CITY OF DOWNEY

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			as restated 2016 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
1.05	FY 14-15 Residential Street Pavement Rehabilitation Project	\$ -	\$ -	\$ -	\$ 929,507
1.05	Gardendale Street Pavement Rehabilitation (Lakewood Boulevard - Garfield Avenue)	-	-	-	150,000
1.05	Woodruff Avenue Pavement Rehabilitation (Imperial Highway - Stewart and Gray Road)	30,000	27,167	2,833	19,262
1.05	Firestone Boulevard Street Improvements (Lakewood Boulevard - East City Limit)	300,000	10,787	289,213	32,192
1.05	Old River School Road Pavement Rehabilitation (Imperial Highway - Arnett Street)	220,000	24,927	195,073	37,968
1.05	Pavement Rehabilitation at Various Locations	-	-	-	46,411
1.05	Spring of all Major Roadway - Citywide	-	-	-	12,697
1.05	Imperial East City Limits - Frontage Road/Bridge Improvement	-	-	-	18,300
1.05	Florence Avenue Pavement Rehabilitation (Paramount Boulevard - Lakewood Boulevard)	31,000	-	31,000	-
1.05	Firestone Boulevard (ORSR - WCL) Pavement Rehabilitation	9,000	9,000	-	-
1.20	Safety Improvements at Various Locations	-	-	-	99,301
1.20	Firestone Boulevard Median (Lakewood Boulevard - Brookshire Avenue)	700,000	561,862	138,138	-

See Accompanying independent auditor's report.

CITY OF DOWNEY

MEASURE R LOCAL RETURN FUND

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES

ACTUAL AND METRO APPROVED PROJECT BUDGET

(Continued)

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			as restated 2016 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
1.20	Paramount Boulevard Median (Firestone Boulevard - Imperial Highway)	\$ 121,500	\$ 39,494	\$ 82,006	\$ 55,761
1.20	Paramount Boulevard Median (Firestone Boulevard - Florence Avenue)	107,500	42,526	64,974	53,294
1.20	Street Lighting Improvements	-	-	-	153,828
1.90	Street Name Sign Replacement	150,000	156,269	(6,269)	146,912
2.09	Florence Avenue at Old River School Road Traffic Signal Upgrade	62,000	55,539	6,461	-
2.09	Bellflower Boulevard at Foster Road Traffic Signal Upgrade	36,000	72,535	(36,535)	-
2.09	Woodruff Avenue at Foster Road Traffic Signal Upgrade	49,000	73,791	(24,791)	-
2.09	Firestone Boulevard at Woodruff Avenue Traffic Signal Upgrade	46,000	57,234	(11,234)	-
2.09	Lakewood Boulevard at Florence Avenue Traffic Signal Upgrade	88,000	27,830	60,170	-
2.09	Imperial Highway at Downey Avenue Traffic Signal Upgrade	49,000	43,644	5,356	-
2.09	Paramount Boulevard at 3th, 5th and 7th Streets Traffic Signal Upgrades	303,000	183,908	119,092	-
2.09	Woodruff Avenue Fiber Optic Comm and Traffic Signal Upgrades	14,000	498	13,502	-
2.29	Florence Avenue Regional Corridor Study	25,000	-	25,000	-
3.05	Pedestrian Improvements/Sidewalks/Ramp Construction	90,000	86,662	3,338	-
3.15	Lakewood Boulevard Street Lighting Improvement Project	130,000	-	130,000	-

See accompanying independent auditor's report.

CITY OF DOWNEY

MEASURE R LOCAL RETURN FUND

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES

ACTUAL AND METRO APPROVED PROJECT BUDGET

(Continued)

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			as restated 2016 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
3.90	Bike Share and Safety Education	\$ 26,000	\$ 92	\$ 25,908	\$ -
4.20	Transportation Planning	35,500	-	35,500	-
4.50	Recreational Transit	-	-	-	2,805
5.90	Citywide Transit Priority System	36,000	684	35,316	-
8.10	Public Works Executive Management Salary	20,262	22,609	(2,347)	20,293
	Total expenditures	<u>2,678,762</u>	<u>1,497,058</u>	<u>1,181,704</u>	<u>1,778,531</u>
Transfer out - PALRF (Note 9)					
4.05	Fixed Route	-	-	-	326,778
4.90	Public Transit Services	-	-	-	447,732
	Total transfer out to PALRF	-	-	-	774,510
	Total expenditures and transfer out	<u>\$ 2,678,762</u>	<u>\$ 1,497,058</u>	<u>\$ 1,181,704</u>	<u>\$ 2,553,041</u>

See accompanying independent auditor's report.

CITY OF DOWNEY

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	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying independent auditor's report.

CITY OF DOWNEY

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

**BALANCE SHEETS
JUNE 30**

	<u>2017</u>	<u>2016</u>
ASSETS		
Due from LACMTA	\$ <u>31,250</u>	\$ <u>82,778</u>
Total assets	\$ <u><u>31,250</u></u>	\$ <u><u>82,778</u></u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Due to General Fund	\$ <u>28,472</u>	\$ <u>82,778</u>
Total liabilities	<u>28,472</u>	<u>82,778</u>
Fund Balance		
Restricted	<u>2,778</u>	<u>-</u>
Total fund balance*	<u>2,778</u>	<u>-</u>
 Total liabilities and fund balance	 \$ <u><u>31,250</u></u>	 \$ <u><u>82,778</u></u>

* The City did not receive the TDA 3 allocation from LACMTA in the amount of \$31,250 as of June 30, 2017. Therefore, the City is not required to return the ending fund balance to LACMTA to be placed on reserve for the City.

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

CITY OF DOWNEY

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	\$ 31,250	\$ 82,778
Total revenues	<u>31,250</u>	<u>82,778</u>
EXPENDITURES		
Construction/Maintenance	<u>28,472</u>	<u>70,000</u>
Total expenditures	<u>28,472</u>	<u>70,000</u>
Excess of revenues over expenditures	2,778	12,778
Fund balance at beginning of year	<u>-</u>	<u>(12,778)</u>
Fund balance at end of year *	<u>\$ 2,778</u>	<u>\$ -</u>

* The City did not receive the TDA 3 allocation from LACMTA in the amount of \$31,250 as of June 30, 2017. Therefore, the City is not required to return the ending fund balance to LACMTA to be placed on reserve for the City.

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

CITY OF DOWNEY

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					
Pedestrian Improvement, New Sidewalk/Ramp Construction	2016-17	\$ 31,250	\$ 28,472	\$ 2,778	Ongoing
Total		<u>\$ 31,250</u>	<u>\$ 28,472</u>	<u>2,778</u>	
Fund balance at beginning of year				<u>-</u>	
Fund balance at end of year *				<u>\$ 2,778</u>	

* The City did not receive the TDA 3 allocation from LACMTA in the amount of \$31,250 as of June 30, 2017. Therefore, the City is not required to return the ending fund balance to LACMTA to be placed on reserve for the City.

See accompanying independent auditor's report.

CITY OF DOWNEY

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 DOWNEY

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 categorized 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 recognized 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 of 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, 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 DOWNEY

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 balances to the total of the pooled cash and investments.

NOTE 7 – PROJECT GENERATED REVENUE - PALRF

Project generated revenues for the year ended June 30, 2017 and 2016 consisted of the following:

	2017		2016
Senior citizen passenger passes	\$ 13,138	\$	8,930
LACMTA bus pass sales	1,149		2,478
Rental income	36,106		32,268
Total	<u>\$ 50,393</u>	<u>\$</u>	<u>43,676</u>

CITY OF DOWNEY

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

NOTE 8 – PROPOSITION A DISCRETIONARY INCENTIVE GRANTS - PALRF

The City entered into various Memorandum of Understanding (MOU) agreements with the Los Angeles County Metropolitan Transportation Authority (Metro) to receive Proposition A discretionary incentive grants for participating in the Consolidated National Transit Database (NTD) Voluntary Reporting. The amounts received for the years ended June 30, 2017 and 2016 consisted of the following:

Agreement Date	Period	NTD Voluntary Reporting	MOU Amount	Amount Received	
				2017	2016
May 21, 2016	7/1/15 – 6/30/17	FY 2013-14	\$ 94,353	\$ 94,353	\$ -
September 14, 2015	7/1/14 – 6/30/16	FY 2012-13	\$ 93,310	-	93,310
Total			\$	94,353	\$ 93,310

The Proposition A discretionary incentive grants for fiscal years ended June 30, 2017 and 2016 were recorded under PALRF.

NOTE 9 – TRANSFERS IN – PALRF, PCLRF AND MRLRF

In fiscal year 2016-17, transfers were made from PCLRF to PALRF in the amount of \$900,000 to provide and subsidize funding for PALRF’s Project Code 110-13, Fixed Route Program, and Project Code 130-02, Revised Senior/Handicapped Transit Program.

In fiscal year 2016-17, transfers were made from Gas Tax Fund to PCLRF in the amount of \$99,534 to provide and subsidize funding for the expenditures incurred in fiscal year 2015-16 for PCLRF’s Project Code 440-36, Firestone Boulevard Street Improvements (Lakewood Boulevard to East City Limit).

In fiscal year 2015-16, transfers were made from PCLRF and MRLRF to PALRF in the amounts of \$335,000 and \$774,510, respectively, to provide and subsidize funding for PALRF’s Project Code 110-13, Fixed Route Program, and Project Code 130-02, Revised Senior/Handicapped Transit Program.

NOTE 10 – DEFERRED INFLOW OF RESOURCES - PCLRF

The City recognizes revenue when the payments for services rendered become measurable and available. In fiscal year ended June 30, 2017, the City records deferred inflow of resources when the availability of the funds is not determined at fiscal year end.

The issuance of Governmental Accounting Standards Board No. 65, *Items Previously Reported as Assets and Liabilities*, established accounting and financial reporting standards that reclassify certain liabilities as deferred inflows of resources. A deferred inflow of resources is defined as those resources that are not available for spending in the current period. Since the retention from the Interstate 5 Capacity Enhancement from I-605 to Orange County Line Project due from LACMTA was not available for spending for PCLRF in the fiscal year ended June 30, 2017, the amount of \$21,000 is reported as deferred inflows of resources.

CITY OF DOWNEY

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

NOTE 11 – OTHER REVENUES – PCLRF AND MRLRF

Other revenues for PCLRF and MRLRF were funds received from LACMTA. The City entered into an agreement with LACMTA on May 25, 2011 to participate in technical forums involving regional transportation projects including the Interstate 5 Capacity Enhancement from I-605 to Orange County Line.

Other revenues for the year ended June 30, 2017 and 2016 consisted of the following:

	2017		2016
Other revenues - PCLRF	\$ 399,000	\$	36,317
Other revenues - MRLRF	96,013		15,167
Total	\$ 495,013	\$	51,484

NOTE 12 – RESTATEMENT OF PCLRF’S 2016 FINANCIAL STATEMENTS

The 2016 financial statements of PCLRF were restated to report for Caltrans grant received in the amount of \$65,153 reducing the expenditures for the Project Code 450-44, Firestone Boulevard Median (Patton Road to Marbel Avenue), that were not reported in fiscal year ended June 30, 2016.

	Cash and Investments		Expenditures	Fund Balance
Balance, as previously reported	\$ 120,219	\$	1,481,108	\$ (146,466)
Adjustment	65,153		(65,153)	65,153
Balance, as restated	\$ 185,372	\$	1,415,955	\$ (81,313)

NOTE 13 – RESTATEMENT OF MRLRF’S 2016 FINANCIAL STATEMENTS

The 2016 financial statements of MRLRF were restated to report for certain expenditures for the Project Code 1.05, Firestone Boulevard Street Improvements (Lakewood Boulevard – East City Limit), and the Project Code 1.05, Old River School Road Pavement Rehabilitation (Imperial Highway – Arnett Street), in the amounts of \$17,025 and \$37,968, respectively, for a total amount of \$54,993 that were not reported in fiscal year ended June 30, 2016.

	Accounts Payable		Expenditures	Fund Balance
Balance, as previously reported	\$ 89,647	\$	1,723,538	\$ 1,076,766
Adjustment	54,993		54,993	(54,993)
Balance, as restated	\$ 144,640	\$	1,778,531	\$ 1,021,773

CITY OF DOWNEY

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

NOTE 14 – 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 2013-14 allocation	\$ -	\$ 3,628
FY 2014-15 allocation	-	74,411
FY 2015-16 allocation	31,250	4,739
Total	<u>\$ 31,250</u>	<u>\$ 82,778</u>

NOTE 15 – 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 Metro. As of June 30, 2017 and 2016, the City has funds on reserve as follows:

	2017	2016
FY 2015-16 allocation	\$ 36,239	\$ 67,489
FY 2016-17 allocation	75,462	-
Available reserve balance	<u>\$ 111,701</u>	<u>\$ 67,489</u>

NOTE 16 – SUBSEQUENT EVENTS

The City has evaluated events or transactions that occurred subsequent to June 30, 2017 through November 26, 2017, 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
CERTIFIED PUBLIC ACCOUNTANTS

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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 Downey, 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 Fund (TDAA3F) of the City of Downey, California (City), as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated November 26, 2017.

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 all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we 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 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 is 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 black ink that reads "Simpson & Simpson". The signature is written in a cursive, flowing style.

Los Angeles, California
November 26, 2017

COMPLIANCE SECTION



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Independent Auditor's Report on Compliance

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

Report on Compliance

We have audited the compliance of the City of Downey, 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 (collectively, the 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 and the Transportation Development Act Article 3 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 in the Compliance Matrix and the Schedule of Findings and Recommendations, the City of Downey 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 Fund (TDAA3F) for the year ended June 30, 2017.





Other Matters

The results of our auditing procedures disclosed instances 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 #2017-001, #2017-002, and #2017-003. Our opinion on each local return program is not modified with respect to these matters.

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 Downey 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, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness and significant deficiencies.

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 #2017-001 related to Proposition A Local Return Fund and #2017-002 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with the Requirements that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Recommendations as Finding #2017-001 related to Proposition C Local Return Fund and #2017-003 related to Measure R to be significant deficiencies.



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 responses.

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

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

Los Angeles, California
November 26, 2017

CITY OF DOWNEY
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: \$315,466 PCLRF: \$39,683	See Finding #2017-001 and #2017-002 on the Schedule of Findings and Questioned Costs.
4. Expenditures did not exceed 25% of Metro's approved budget.	X		None	
5. Administrative expenses were within the 20% cap.	X		None	
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) and listing of Recreational Transit Services, if applicable, were submitted on time.	X		None	
9. Cash or cash equivalents were maintained.	X		None	
10. Accounting procedures, record keeping and documentation were adequate.	X		None	
11. Revenues received including allocations, project generated revenues, and interest income were properly credited to the PALRF and PCLRF accounts.	X		None	

CITY OF DOWNEY
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	\$22,609	See Finding #2017-003 on the Schedule of Findings and Questioned Costs.
4.	Funds were not substituted for property tax.	X		None	
5.	Administrative expenses were within the 20% cap.	X		None	
6.	Expenditure Plan (Form One) was submitted on time.	X		None	
7.	Expenditure Report (Form Two) was submitted on time.	X		None	
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 DOWNEY
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 DOWNEY

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
Year ended June 30, 2017

PALRF and PCLRF: Finding #2017-001

<p>Compliance Reference</p>	<p>According to Proposition A and 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...”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> <p style="padding-left: 40px;">(b) A Federal award and non-Federal award.</p> <p>(5) Personnel activity reports or equivalent documentation must meet the following standards:</p> <p style="padding-left: 40px;">(b) They must reflect an after the fact distribution of the actual activity of each employee,</p> <p style="padding-left: 40px;">(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: (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.”</p>
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CITY OF DOWNEY

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

Year ended June 30, 2017

(Continued)

PALRF and PCLRF: Finding #2017-001 (Continued)

Condition	<p>To support the propriety of expenditures being charged to Proposition A and C Local Return Fund, payroll expenditures should be supported by properly executed payrolls, time records, activity reports, vouchers, or other official documentation evidencing in proper detail the nature of the charges. However, the salaries and benefits charged were based on an estimate of a percentage of time spent on PALRF and PCLRF activities rather than the employee’s actual working hours spent on the projects. Although the City provided a time study listing the employees charged to PALRF and PCLRF, the payroll costs and benefits were based on estimated percentages of the time spent on the projects. Moreover, the hours were not adjusted to reflect the “true” hours worked on the projects at the end of the fiscal year 2016-17.</p> <ul style="list-style-type: none"> (a) PALRF’s Senior/Handicapped Transit Program Project Code 130-02, in the amount of \$137,000. (b) PALRF’s Fixed Route Program Project Code 110-13, in the amount of \$23,466. (c) PCLRF’s Ride Sharing Program Administration Project Code 480-02, in the amount of \$13,560. (d) PCLRF’s Local Return Fund Administration (Public Works) Project Code 480-28, in the amount of \$26,123. <p>This is a repeat finding from the prior fiscal year.</p>
Cause	<p>The allocated administrative charges were based on a time study performed by the City in fiscal year ended 2011-12. The same percentage allocations have been used in prior fiscal years and in fiscal year 2016-17.</p>
Effect	<p>The payroll costs claimed under the Proposition A and C Local Return Fund project may include expenditures which may not be allowable Proposition A and C project expenditures. This resulted in questioned costs of \$160,466 and \$39,683 for PALRF and PCLRF, respectively.</p>
Recommendation	<p>In accordance with the Guidelines, we recommend that the City reimburse its Proposition A and C Local Return Fund account for \$160,466 and \$39,683, 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.</p>

CITY OF DOWNEY

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

Year ended June 30, 2017

(Continued)

PALRF and PCLRF: Finding #2017-001 (Continued)

Management's Response	The City management agrees that the amounts were based on a time study performed in fiscal year 2011-12. However, the City believes that the amounts charged to all City funds (Enterprise, Special Revenue, Successor Agency) for the administration of the PALRF and PCLRF projects to be relevant today as when the study was completed. The City has limited resources in which to conduct a time study on an annual basis. An updated schedule was prepared using fiscal year 2016-17 figures and the result is still within the allocation cost stated in the previous study. The City has recently completed a cost allocation study in which has been shared with LACMTA and is still under review by management.
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CITY OF DOWNEY

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

Year ended June 30, 2017

(Continued)

PALRF: Finding #2017-002

Compliance Reference	According to Proposition A and 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	To support the propriety of expenditures being charged to the Proposition A and C Local Return Funds, non-payroll expenditures should be supported by properly executed contracts, invoices, and vouchers. or other official documentation evidencing in proper detail the nature of the charges. However, payments for equipment rental in the amount of \$155,000 were charged to PALRF's Senior/Handicapped Transit Program, Project Code 130-02, without appropriate supporting documentation, i.e., invoices, purchase orders, contracts, etc., to validate the disbursements.
Cause	The allocated equipment rental charges of \$155,000 were based on a time study performed by the City in fiscal year ended 2011-12. The same percentage allocations have been used in prior fiscal years and in fiscal year 2016-17.
Effect	The unsupported expenditures on the equipment rental resulted in questioned costs of \$155,000.
Recommendation	In accordance with the Guidelines, we recommend that the City reimburse its Proposition A Local Return Account for \$155,000. In addition, we recommend that the City establish controls to ensure that the costs charged to the Local Return funds are adequately supported by contracts, invoices, canceled checks or similar documentation so that Local Return expenditures are in compliance with the Guidelines.
Management’s Response	The City management agrees that the amounts were based on a time study performed in fiscal year 2011-12. However, the City believes that the amounts charged to all City funds (Enterprise, Special Revenue, Successor Agency) for the equipment maintenance of the PALRF and PCLRF projects to be relevant today as when the study was completed. The City has limited resources in which to conduct a time study on an annual basis. An updated schedule was prepared using fiscal year 2016-17 figures and the result is still within the allocation cost stated in the previous study. The City has recently completed a cost allocation study in which has been shared with LACMTA and is still under review by management.

CITY OF DOWNEY

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

Year ended June 30, 2016

(Continued)

MRLRF: Finding #2017-003

Compliance Reference	<p>According to Measure R Local Return Guidelines, Section A.I, “The Measure R Ordinance specifies that Local Return funds are to be used for transportation purposes. No net revenue distributed to Jurisdictions may be used for purposes other than transportation purposes.” and Section B.VII, “It is the Jurisdictions’ responsibility to maintain proper accounting records and documentation to facilitate the performance of audit prescribed in these guidelines.” 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> <p>(b) A Federal award and non-Federal award.</p> <p>(5) Personnel activity reports or equivalent documentation must meet the following standards:</p> <p>(b) They must reflect an after the fact distribution of the actual activity of each employee,</p> <p>(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: (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.”</p>
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CITY OF DOWNEY

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

Year ended June 30, 2016

(Continued)

MRLRF: Finding No. 2017-003 (Continued)

Condition	<p>To support the propriety of expenditures being charged to Measure R Local Return Fund, payroll expenditures should be supported by properly executed payrolls, time records, activity reports, vouchers, or other official documentation evidencing in proper detail the nature of the charges. However, the salaries and benefits charged to Public Works Executive Management Salary Project Code 8.10 in the amount of \$22,609 was based on an estimate of a percentage of time spent on MRLRF activity rather than the employee’s actual working hours spent on the project. Although the City provided a time study listing the employees charged to MRLRF, the payroll costs and benefits were based on estimated percentages of the time spent on the projects. Moreover, the hours were not adjusted to reflect the “true” hours worked on the projects at the end of the fiscal year 2016-17.</p> <p>This is a repeat finding from the prior fiscal year.</p>
Cause	<p>The allocated administrative charges were based on a time study performed by the City in fiscal year ended 2011-12. The same percentage allocations have been used in prior fiscal years and in fiscal year 2016-17.</p>
Effect	<p>The payroll costs claimed under the Measure R Local Return Fund project may include expenditures which may not be an allowable Measure R project expenditures. This resulted in questioned costs of \$22,609.</p>
Recommendation	<p>In accordance with the Guidelines, we recommend that the City reimburse its Measure R Local Return Fund account for \$22,609. 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.</p>
Management’s Response	<p>The salary allocations to all City funds were estimates based on activity by position. Although the analysis has been carried forward, the City believed that the allocations were relevant today as when the study was completed. The City has recently completed a cost allocation study in which has been shared with LACMTA and is still under review by management.</p>

EXIT CONFERENCE

CITY OF DOWNEY

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 December 15, 2017 via telephone conference. Those in attendance were:

Simpson & Simpson Representative:

Yung Dang, Semi-Senior Auditor

City's Representative:

Elisa Gratil, Principal Accountant

Matters Discussed:

Results of the audit disclosed two (2) material weaknesses, two (2) significant control deficiencies and three (3) non-compliance issues with LACMTA's Guidelines.

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

Elisa Gratil, Principal Accountant

Simpson & Simpson, LLP
633 West 5th Street, Suite 3320
Los Angeles, CA 90071

RE: CITY OF DOWNEY ANNUAL FINANCIAL REPORT OF THE PROPOSITION A LOCAL RETURN FUND, PROPOSITION C LOCAL RETURN FUND, MEASURE R LOCAL RETURN FUND, AND TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016.

I have received the annual financial report of the Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund, and Transportation Development Act Article 3 Fund for the years ended June 30, 2017 and 2016 for the City of Downey and agree with the contents of the report except as indicated below:

(Attach additional pages if necessary)

Very truly yours,

Name

Title

Date