

***CITY OF HAWAIIAN GARDENS
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 HAWAIIAN GARDENS
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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 Hawaiian Gardens, 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 Hawaiian Gardens, 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 Hawaiian Gardens, 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 Hawaiian Gardens, 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 Hawaiian Gardens, 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 24, 2017, on our consideration of the City of Hawaiian Gardens' 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".

Los Angeles, California
November 24, 2017

CITY OF HAWAIIAN GARDENS

PROPOSITION A LOCAL RETURN FUND

BALANCE SHEETS

JUNE 30

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and investments	\$ <u>637,286</u>	\$ <u>393,689</u>
Total assets	\$ <u><u>637,286</u></u>	\$ <u><u>393,689</u></u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 4,190	\$ 2,944
Accrued payroll and employee benefits	<u>6,814</u>	<u>5,052</u>
Total liabilities	<u>11,004</u>	<u>7,996</u>
 Fund Balance		
Restricted	<u>626,282</u>	<u>385,693</u>
Total fund balance	<u>626,282</u>	<u>385,693</u>
 Total liabilities and fund balance	 \$ <u><u>637,286</u></u>	 \$ <u><u>393,689</u></u>

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

CITY OF HAWAIIAN GARDENS

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	\$ 265,408	\$ 260,935
Proposition A fund exchange (Note 7)	580,000	430,000
Interest income	2,476	1,509
Project generated revenue (Note 8)	350	370
Total revenues	<u>848,234</u>	<u>692,814</u>
EXPENDITURES		
Various projects	<u>607,645</u>	<u>648,890</u>
Total expenditures	<u>607,645</u>	<u>648,890</u>
Excess of revenues over expenditures	240,589	43,924
Fund balance at beginning of year	<u>385,693</u>	<u>341,769</u>
Fund balance at end of year	<u>\$ 626,282</u>	<u>\$ 385,693</u>

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

CITY OF HAWAIIAN GARDENS

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)	
110-06	Long Beach Transit - Fixed Route	\$ 12,500	\$ 15,320	\$ (2,820)	\$ 13,969
130-05	Human Services Transportation Program	594,551	501,734	92,817	460,109
150-07	Bus Stop Maintenance Program	52,960	47,777	5,183	47,403
180-01	Transportation Capital - Bus Purchase	-	-	-	85,982
250-01	Bus Pass Subsidy	1,000	720	280	763
480-02	Transportation Administration	42,516	42,094	422	40,664
	Total expenditures	<u>\$ 703,527</u>	<u>\$ 607,645</u>	<u>\$ 95,882</u>	<u>\$ 648,890</u>

See accompanying independent auditor's report.

CITY OF HAWAIIAN GARDENS

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
1984	Toyota Flatbed Truck	\$ 4,000	\$ -	\$ -	\$ 4,000
1985	Bobcat Tractor	13,057	-	-	13,057
1989	Cushman Haulster Turf Vehicles	6,358	-	-	6,358
1991	Chevrolet C-2500 Truck	16,000	-	-	16,000
1994	Speed trailer	14,473	-	-	14,473
1994	Ford CT4192 Skip Loader	37,826	-	-	37,826
1996	Chevrolet Stakebed Truck	25,801	-	-	25,801
1997	Ford F-250XL Truck	25,174	-	-	25,174
1997	Ford F-250XL Truck	24,928	-	-	24,928
2000	Ford Truck Aerial Lift	65,063	-	-	65,063
2003	Ford Escape Sedan	21,606	-	-	21,606
2003	Ford F-150 Truck	20,030	-	-	20,030
2004	Ford F-150 Truck	24,184	-	-	24,184
2005	Vintage Cab	13,194	-	-	13,194
2005	Tennant 6650 Small Street Sweeper	29,851	-	-	29,851
2006	Lincoln Town Car	25,973	-	-	25,973
2006	Kohler 26hp EFI Riding Lawnmower	11,747	-	-	11,747
2006	Starcraft Allstar Econobus/Shuttle Bus	57,260	-	-	57,260
2007	Ford Escape - Hybrid FWD	25,073	-	-	25,073
2007	Ford Escape - Hybrid FWD	25,073	-	-	25,073
2007	Ford Truck - Regular Cab	16,484	-	-	16,484
2007	Ford Truck - Regular Cab	16,484	-	-	16,484
2007	Scissor Lift	16,031	-	-	16,031
2007	El Dorado Aerotech 240	35,101	-	-	35,101
2016	Starcraft 20 Passenger Bus	85,982	-	-	85,982
Total \$		<u>656,753</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 656,753</u>

See accompanying independent auditor's report.

CITY OF HAWAIIAN GARDENS

PROPOSITION C LOCAL RETURN FUND

BALANCE SHEETS

JUNE 30

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and investments	\$ 19,708	\$ 12,283
Total assets	<u>\$ 19,708</u>	<u>\$ 12,283</u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 3,234	\$ 2,904
Due to other funds	2,434	-
Accrued payroll and employee benefits	<u>1,919</u>	<u>1,541</u>
Total liabilities	<u>7,587</u>	<u>4,445</u>
 Fund Balance		
Restricted	<u>12,121</u>	<u>7,838</u>
Total fund balance	<u>12,121</u>	<u>7,838</u>
 Total liabilities and fund balance	 <u>\$ 19,708</u>	 <u>\$ 12,283</u>

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

CITY OF HAWAIIAN GARDENS

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	\$ 221,452	\$ 217,645
Interest income	<u>20</u>	<u>184</u>
Total revenues	<u>221,472</u>	<u>217,829</u>
EXPENDITURES		
Various projects	<u>224,218</u>	<u>298,540</u>
Total expenditures	<u>224,218</u>	<u>298,540</u>
Other Financing Source		
Transfer from General Fund (Note 9)	<u>7,029</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures and other financing source	4,283	(80,711)
Fund balance at beginning of year	<u>7,838</u>	<u>88,549</u>
Fund balance at end of year	\$ <u><u>12,121</u></u>	\$ <u><u>7,838</u></u>

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

CITY OF HAWAIIAN GARDENS

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)	
120-04	Paratransit Program	\$ 142,996	\$ 158,320	\$ (15,324)	\$ 147,227
180-01	Transportation Capital - Purchase of Bus	-	-	-	85,982
270-01	Corridor Study and COG Dues for Transportation Studies	26,500	26,500	-	-
480-03	Transportation Administration	<u>38,625</u>	<u>39,398</u>	<u>(773)</u>	<u>65,331</u>
	Total expenditures	<u>\$ 208,121</u>	<u>\$ 224,218</u>	<u>\$ (16,097)</u>	<u>\$ 298,540</u>

See accompanying independent auditor's report.

CITY OF HAWAIIAN GARDENS
PROPOSITION C 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
2008	El Dorado Aerotech 240	\$ 35,101	\$ -	\$ -	\$ 35,101
2010	Honda Odyssey	33,567	-	-	33,567
2016	Starcraft 20 Passenger Bus	85,982	-	-	85,982
Total		\$ 154,650	\$ -	\$ -	\$ 154,650

See accompanying independent auditor's report.

CITY OF HAWAIIAN GARDENS
MEASURE R LOCAL RETURN FUND

BALANCE SHEETS
JUNE 30

	2017	2016
ASSETS		
Cash and investments	\$ 367,234	\$ 380,067
Total assets	\$ 367,234	\$ 380,067
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ -	\$ -
Total liabilities	-	-
 Fund Balance		
Restricted	367,234	380,067
Total fund balance	367,234	380,067
Total liabilities and fund balance	\$ 367,234	\$ 380,067

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

CITY OF HAWAIIAN GARDENS

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	\$ 165,152	\$ 162,427
Interest income	<u>1,313</u>	<u>992</u>
Total revenues	<u>166,465</u>	<u>163,419</u>
EXPENDITURES		
Various projects	<u>179,298</u>	<u>67,658</u>
Total expenditures	<u>179,298</u>	<u>67,658</u>
(Deficiency) excess of revenues over expenditures	(12,833)	95,761
Fund balance at beginning of year	<u>380,067</u>	<u>284,306</u>
Fund balance at end of year	<u>\$ 367,234</u>	<u>\$ 380,067</u>

The accompanying notes are an integral part of the financial statements

CITY OF HAWAIIAN GARDENS

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)	
1.05	Street Overlays for Pavement Management Plan	\$ 272,276	\$ 150,000	\$ 122,276	\$ 30,709
1.90	Bridge Maintenance	-	-	-	13,000
3.05	Remove and Replace Sidewalks	-	-	-	10,000
5.05	Replace Bus Pads	32,342	29,298	3,044	13,949
	Total expenditures	<u>\$ 304,618</u>	<u>\$ 179,298</u>	<u>\$ 125,320</u>	<u>\$ 67,658</u>

See accompanying independent auditor's report.

CITY OF HAWAIIAN GARDENS
MEASURE R 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
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See accompanying independent auditor's report.

CITY OF HAWAIIAN GARDENS

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

BALANCE SHEETS

JUNE 30

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and investments	\$ -	\$ -
Total assets	\$ -	\$ -
LIABILITIES AND FUND BALANCE		
Liabilities		
Due to other funds	\$ 29,501	\$ 10,000
Total liabilities	29,501	10,000
Fund Balance		
Restricted	(29,501)	(10,000)
Total fund balance	(29,501)	(10,000)
Total liabilities and fund balance	\$ -	\$ -

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

CITY OF HAWAIIAN GARDENS

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	\$ 21,000	\$ -
Total revenues	<u>21,000</u>	<u>-</u>
EXPENDITURES		
Various projects	<u>41,000</u>	<u>10,000</u>
Total expenditures	<u>41,000</u>	<u>-</u>
Other Financing Source		
Transfer from General Fund	<u>499</u>	<u>-</u>
Deficiency of revenues over expenditures and other financing source	(19,501)	-
Fund balance at beginning of year	<u>(10,000)</u>	<u>-</u>
Fund balance at end of year	<u>\$ (29,501)</u>	<u>\$ (10,000)</u>

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

CITY OF HAWAIIAN GARDENS

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					
Removal/Replacement/Grinding Existing Sidewalk	2016-17	\$ 21,000	\$ 41,000	\$ (20,000)	Complete
Total		<u>\$ 21,000</u>	<u>\$ 41,000</u>	<u>(20,000)</u>	
Transfer from General Fund				499	
Fund balance at beginning of the year				<u>(10,000)</u>	
Fund balance at end of year				<u>\$ (29,501)</u>	

See accompanying independent auditor's report.

CITY OF HAWAIIAN GARDENS

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 HAWAIIAN GARDENS

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 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, 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 HAWAIIAN GARDENS

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 – PROPOSITION A FUND EXCHANGE - PALRF

On June 15, 2016, the City entered into an agreement with the City of West Covina to exchange \$.75 (or 75 cents) of General Fund for every \$1 of Proposition A Local Return Funds. Accordingly, the City received \$500,000 of the City of West Covina's Proposition A Local Return Funds on July 21, 2016 and assigned \$375,000 of its General Funds to the City of West Covina on July 19, 2016.

On June 9, 2016, the City entered into an agreement with the City of La Habra Heights to exchange \$.75 (or 75 cents) of General Fund for every \$1 of Proposition A Local Return Funds. Accordingly, the City received \$80,000 of the City of La Habra's Proposition A Local Return Funds on July 19, 2016 and assigned \$60,000 of its General Funds to the City of La Habra on July 19, 2016.

In fiscal year 2016, the City entered into an agreement with the City of West Covina to exchange \$.75 (or 75 cents) of General Fund for every \$1 of Proposition A Local Return Funds. Accordingly, the City received \$350,000 of the City of West Covina's Proposition A Local Return Funds and assigned \$262,500 of its General Funds to the City of West Covina.

CITY OF HAWAIIAN GARDENS

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

NOTE 7 – PROPOSITION A FUND EXCHANGE - PALRF (Continued)

In fiscal year 2016, the City entered into an agreement with the City of La Habra to exchange \$.75 (or 75 cents) of General Fund for every \$1 of Proposition A Local Return Funds. Accordingly, the City received \$80,000 of the City of La Habra’s Proposition A Local Return Funds and assigned \$60,000 of its General Funds to the City of La Habra.

NOTE 8 – PROJECT GENERATED REVENUE - PALRF

Project generated revenues for the year ended June 30, 2017 and June 30, 2016 for PALRF amounted to \$350 and \$370, respectively. These revenues were from the sale of bus passes to the public.

NOTE 9 – TRANSFER FROM GENERAL FUND – PCLRF

The amount of \$7,029 represents a reimbursement from the General Fund to PCLRF related to the fiscal year ended June 30, 2016 Finding #2016-002. The City’s administrative expenditures exceeded more than twenty percent of its total Proposition C Local Return annual expenditures.

NOTE 10 – TRANSPORTATION DEVELOPMENT ACT FUNDS REVENUE ALLOCATION

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

	2017	2016
FY 2012-13 allocation	\$ 11,314	\$ -
FY 2013-14 allocation	9,686	
Total	\$ 21,000	\$ -

NOTE 11 – 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 2012-13 allocation	\$ -	\$ 11,314
FY 2013-14 allocation	1,973	11,659
FY 2014-15 allocation	9,501	9,501
FY 2015-16 allocation	9,226	9,226
FY 2016-17 allocation	9,651	-
Available reserve balance	\$ 30,351	\$ 41,700

CITY OF HAWAIIAN GARDENS

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

NOTE 12 – SUBSEQUENT EVENTS

The City has evaluated events or transactions that occurred subsequent to June 30, 2017 through November 24, 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

FOUNDING PARTNERS
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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 Hawaiian Gardens, 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 Hawaiian Gardens, 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 24, 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Recommendations as Finding #2017-002 that we consider to be a significant deficiency.





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*.

City's Response to the Finding

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

Purpose of this Report

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

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

Los Angeles, California
November 24, 2017

COMPLIANCE SECTION



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report on Compliance

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

Report on Compliance

We have audited the compliance of the City of Hawaiian Gardens, 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 Hawaiian Gardens 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 and #2017-002. 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 Hawaiian Gardens 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.

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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with the Requirements that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weakness. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Recommendations as Finding #2017-002.

The City's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Recommendations. We did not audit the City's response 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
November 24, 2017

CITY OF HAWAIIAN GARDENS
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	See Finding #2017-001 on the Schedule of Findings and Recommendations.
3.	Funds were used on approved projects only and expenditures were supported and allowable per Guidelines.	X		None	
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	See Finding #2017-002 on the Schedule of Findings and Recommendations.
11.	Revenues received including allocations, project generated revenues, and interest income were properly credited to the PALRF and PCLRF accounts.	X		None	

CITY OF HAWAIIAN GARDENS

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		None	
4. Fund 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	See Finding #2017-002 on the Schedule of Findings and Recommendations.
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 HAWAIIAN GARDENS
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 HAWAIIAN GARDENS

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

June 30, 2017

PCLRF: Finding #2017-001

Compliance Reference	<p>According to Proposition A and Proposition C Local Return Guidelines, Section I (B.3), “If Local Return Funds have been expended prior to Metro approval and/or used for ineligible purposes, Jurisdictions will be required to reimburse their Proposition C Local Return account...”</p> <p>To maintain eligibility and meet LR Program compliance requirements, the Guidelines also state under Section I (C), Project Description Form (Form A), Item 1: “Jurisdictions shall submit for approval a Project Description Form prior to the expenditure of funds for a new project.</p>
Condition	<p>The City incurred PCLRF expenditures prior to receiving approval from LACMTA for Project Code 270-01, Corridor Study and COG Dues for Transportation Studies, in the amount of \$26,500. However, Form A was subsequently approved on October 13, 2017.</p>
Cause	<p>The City mistakenly included the budget for the PCLRF’s Project Code 270-01, Corridor Study and COG Dues for Transportation Studies, with the Project Code 480-03, Transportation Administration, instead of reporting it as a separate planning project. Due to the lack of staff and training on the reporting requirements of the local return funds, the City did not properly review that the projects requested are complete prior to submission to LACMTA.</p>
Effect	<p>The City did not comply with the Guidelines when expenditures for PCLRF project are incurred prior to LACMTA’s approval.</p>
Recommendation	<p>We recommend that the City establish procedures to ensure that it obtains approval from LACMTA prior to implementing any new Proposition C Local Return projects. Form A should be properly prepared and timely submitted anytime during the year so that the City’s PCLRF expenditures are in accordance with LACMTA’s approval and Guidelines.</p>
Management’s Response	<p>The City hired a staff who will be responsible for the preparation of the LACMTA projects and their appropriate budgets. The report will be reviewed by the Finance Director to ensure costs are not incurred prior to LACMTA’s approval. Furthermore, staff training will be conducted, as deemed necessary, to ensure compliance on the local return guidelines.</p>
Finding Corrected During Audit	<p>The City filed Form A and was subsequently approved on October 13, 2017 by LACMTA Program Manager.</p>

CITY OF HAWAIIAN GARDENS

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

June 30, 2017

All Local Return Funds: Finding #2017-002

Compliance Reference	Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions and handling any related assets. No one individual should control all key aspects of a transaction or event.
Condition	<p>There is a lack of separation of duties in a) Payroll – The same employee enters and updates employee information in the payroll system; processes payroll; and records payroll transactions; b) Cash Disbursements – The same employee processes invoices for payments; records disbursements; prepares checks; and places the checks in the envelope and handles mailing.</p> <p>This is a repeat finding from the prior year.</p>
Cause	As part of the budget process, the City’s Finance Department obtained approval to add positions and hire additional staff to resolve the internal control finding on segregation of duties in prior fiscal year. Due to the changes in Human Resources and the City Manager position, the hiring process of the staff for the Finance Department was delayed and the new positions were not filled not until after June 2017.
Effect	There is a potential for higher risk of erroneous, fraudulent or unauthorized transactions and/or payments.
Recommendation	<p>We recommend that the City a) separate the duties of initial entering and updating of employee information from the payroll processing; b) separate the duties for processing voucher packages, record disbursements in the general ledger, preparing and mailing checks.</p> <p>To the extent possible, duties should be segregated to serve as checks and balances on the employees’ integrity and maintain the best internal control system possible. Adequate segregation of duties helps prevent one person from falsifying accounting documentation and preparing a payment for the misuse of funds.</p>
Management’s Response	As stated in the prior year’s Management Response, the City implemented other internal control measures that the City believed mitigated the lack of ability to segregate duties. With the hiring of the new staff, the City will be able to have Accounts Payable checks reviewed and distributed by someone other than the person who prepares the checks. In regards to payroll finding, the employee responsible for making payroll changes and data entry is now separate from the employee performing the review to confirm entries are accurate and appropriate approvals are obtained to ensure that controls are in place.

EXIT CONFERENCE

CITY OF HAWAIIAN GARDENS

**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 12, 2017 via telephone conference. Those in attendance were:

Simpson & Simpson Representative:

Elizabeth Mendoza, Senior Auditor

City's Representative:

Linda Hollinsworth, Finance Director

Matters Discussed:

Results of the audit disclosed one (1) significant control deficiency and two (2) 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:

Linda Hollinsworth, Finance Director

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

RE: CITY OF HAWAIIAN GARDENS 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 Hawaiian Gardens and agree with the contents of the report except as indicated below:

(Attach additional pages if necessary)

Very truly yours,

Name

Title

Date