



MetroTM

**City of Cudahy
Annual Financial Report of its**

**Proposition A Local Return Fund
Proposition C Local Return Fund
Measure R Local Return Fund
Transportation Development Act Article 3 Fund**

**As of and for the Years Ended June 30, 2017 and 2016
with Report of Independent Auditors**

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FINANCIAL SECTION

Report of Independent Auditors

To the Honorable Members of the City Council of the City of Cudahy, 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, the Proposition C Local Return Fund, the Measure R Local Return Fund and the Transportation Development Act Article 3 Fund (collectively, the Funds), of the City of Cudahy, California (the City) which comprise the Funds' balance sheets as of June 30, 2017 and 2016, and the related statements of revenues, expenditures and changes in fund balances for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Proposition A Local Return Fund, the Proposition C Local Return Fund, the Measure R Local Return Fund and the Transportation Development Act Article 3 Fund of the City of Cudahy, California, as of June 30, 2017 and 2016, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

As discussed in Note 10 to the financial statements, the fiscal year 2016 financial statements of the Proposition A Local Return Fund, the Proposition C Local Return Fund and the Transportation Development Act Article 3 Fund have been restated to report project expenditures subsequently approved by the Los Angeles County Metropolitan Transportation Authority. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the Proposition A Local Return Fund, the Proposition C Local Return Fund, the Measure R Local Return Fund and the Transportation Development Act Article 3 Fund of the City and do not purport to, and do not present fairly the financial position of the City as of June 30, 2017 and 2016, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on each of the Funds' financial statements as a whole. The supplementary information identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information identified in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the Funds' basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the Funds' basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the Funds' basic financial statements or to the Funds' basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to each of the Funds' basic financial statements as a whole.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2017 on our consideration of the City's internal control over the Funds' financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over the Funds' financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over the Funds' financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over the Funds' financial reporting and compliance.

Vaquero & Company LLP

**Los Angeles, California
December 14, 2017**

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

		June 30	
		2017	(as restated) 2016
ASSETS			
Cash and investments	\$	1,303,877	\$ 932,370
Interest receivable		2,238	911
Prepaid membership		-	8,674
Total assets	\$	1,306,115	\$ 941,955
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	23,595	\$ 20,649
Due to other funds		-	5,250
Total liabilities		23,595	25,899
Fund balance			
Restricted		1,282,520	916,056
Total fund balance		1,282,520	916,056
Total liabilities and fund balance	\$	1,306,115	\$ 941,955

See notes to Funds financial statements.

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

	Years ended June 30	
	2017	(as restated) 2016
Revenues		
Proposition A	\$ 442,863	\$ 435,769
Proposition A Discretionary Incentive Program grant	27,689	23,615
Investment income	6,554	2,618
Total revenues	477,106	462,002
Expenditures		
Various projects	110,642	75,413
Total expenditures	110,642	75,413
Excess of revenues over expenditures	366,464	386,589
Fund balance at beginning of year	916,056	529,467
Fund balance at end of year	\$ 1,282,520	\$ 916,056

See notes to Funds financial statements.

City of Cudahy
Proposition A Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2017
(With Comparative Actuals for 2016)

Project Code	Project Name	2017			Variance Positive (Negative)	(as restated)
		LACMTA Budget	Actual			2016 Actual
110-01	Cudahy ADA Improvements along Fixed Route (per Cudahy ADA Transition Plan)	\$ 150,000	\$ -	\$ 150,000	\$	16,295
120-03	Dial-A-Ride	40,000	47,749	(7,749)		37,318
140-05	Recreation Excursions	10,000	7,403	2,597		2,151
150-01	Cudahy Citywide Bus Stop Improvement Project	100,000	-	100,000		-
270-01	Orange Line Rail Transit Study	9,000	8,674	326		7,543
280-01	Cudahy Transit Marketing Program	30,000	26,834 *	3,166		-
480-01	Administration Prop A	40,000	19,982	20,018		12,106
	Total expenditures	\$ 379,000	\$ 110,642	\$ 268,358	\$	75,413

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

See report of independent auditors.

City of Cudahy
Proposition A Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2017

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</u>
06/14/2010	1 Aero Elite Motor Bus Vehicle	\$ 60,314	\$ -	\$ -	\$ 60,314
Total		\$ 60,314	\$ -	\$ -	\$ 60,314

See report of independent auditors.

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

		June 30	
		2017	(as restated) 2016
ASSETS			
Cash and investments	\$	257,882	\$ 334,057
Interest receivable		447	319
Total assets	\$	<u>258,329</u>	<u>\$ 334,376</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	22,594	\$ 97,393
Accrued payroll		1,182	2,715
Due to other funds		-	61,128
Total liabilities		<u>23,776</u>	<u>161,236</u>
Fund balance			
Restricted		<u>234,553</u>	<u>173,140</u>
Total fund balance		<u>234,553</u>	<u>173,140</u>
Total liabilities and fund balance	\$	<u>258,329</u>	<u>\$ 334,376</u>

See notes to Funds financial statements.

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

	Years ended June 30	
	2017	(as restated) 2016
Revenues		
Proposition C	\$ 368,917	\$ 362,850
Bus pass sales	27,112	29,086
Investment income	1,554	999
Total revenues	397,583	392,935
Expenditures		
Various projects	336,170	430,786
Total expenditures	336,170	430,786
Excess (deficiency) of revenues over expenditures	61,413	(37,851)
Fund balance at beginning of year	173,140	210,991
Fund balance at end of year	\$ 234,553	\$ 173,140

See notes to Funds financial statements.

City of Cudahy
Proposition C Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2017
(With Comparative Actuals for 2016)

Project Code	Project Name	2017			Variance Positive (Negative)	(as restated) 2016 Actual
		LACMTA Budget	Actual			
110-02	Fixed Route	\$ 178,000	\$ 176,099	\$ 1,901	\$ 176,204	
140-05	Recreation Excursions	5,000	2,280	2,720	1,205	
240-2	Bus Fare Subsidy	55,000	54,018	982	54,817	
270-03	I-710 Arterials Study	11,000	10,000	1,000	10,000	
270-05	Council of Governments Membership	14,000	14,000	-	14,000	
280-01	Cudahy Transit Marketing Program	30,000	26,834 *	3,166	-	
440-01	Atlantic Avenue Street Improvement Project - New Phase II	160,000	3,150	156,850	2,865	
440-02	Resurfacing of a Parking Lot at Lugo Park for Fixed Route Fixed Route Transit Stop	185,000	-	185,000	61,128	
450-01	Atlantic Avenue Street Improvement Project - Phase I	-	-	-	62,270	
470-02	Pavement Management System Upgrade - 2016	-	-	-	14,050	
480-04	Administration Prop C	50,000	49,789	211	34,247	
Total expenditures		\$ 688,000	\$ 336,170	\$ 351,830	\$ 430,786	

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

See report of independent auditors.

City of Cudahy
Proposition C Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2017

Date Acquired	Description	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See report of independent auditors.

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

		June 30	
		2017	2016
ASSETS			
Cash and investments	\$	837,746	\$ 864,690
Interest receivable		1,772	833
Total assets	\$	839,518	\$ 865,523
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	41,053	\$ -
Total liabilities		41,053	-
Fund balance			
Restricted		798,465	865,523
Total fund balance		798,465	865,523
Total liabilities and fund balance	\$	839,518	\$ 865,523

See notes to Funds financial statements.

City of Cudahy
Measure R Local Return Fund

Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2017	2016
Revenues		
Measure R	\$ 275,574	\$ 271,258
Investment income	5,681	2,515
Total revenues	281,255	273,773
 Expenditures		
Various projects	348,313	6,097
Total expenditures	348,313	6,097
 Excess (deficiency) of revenues over expenditures	 (67,058)	 267,676
 Fund balance at beginning of year	 <u>865,523</u>	 <u>597,847</u>
 Fund balance at end of year	 <u>\$ 798,465</u>	 <u>\$ 865,523</u>

See notes to Funds financial statements.

City of Cudahy
Measure R Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2017
(With Comparative Actuals for 2016)

Project Code	Project Name	2017			2016 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
1.05	Atlantic Ave Street Improvement Project - Phase III	\$ 200,000	\$ -	\$ 200,000	\$ -
1.05	Hartle Avenue Street Improvement Project	300,000	302,942	(2,942)	-
1.10	Cecelia Street Improvement Project	180,000	-	180,000	-
2.16	Matching Funds for Cudahy 2013 HSIP Approved Grant Traffic Project	69,000	875	68,125	4,878
6.90	Other Transportation Marketing	30,000	26,834 *	3,166	-
8.10	Fund Administration	40,000	17,662	22,338	1,219
Total expenditures		\$ 819,000	\$ 348,313	\$ 470,687	\$ 6,097

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

See report of independent auditors.

City of Cudahy
Measure R Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2017

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</u>
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See report of independent auditors.

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

		June 30	
		2017	(as restated) 2016
ASSETS			
Cash and investments		\$ -	\$ -
	Total assets	\$ -	\$ -
LIABILITIES AND FUND BALANCE (DEFICIT)			
Liabilities			
Due to other funds		\$ -	\$ 69,252
	Total liabilities	-	69,252
Fund balance (deficit)			
Restricted		-	(69,252)
	Total fund balance	-	(69,252)
	Total liabilities and fund balance	\$ -	\$ -

See notes to Funds financial statements.

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

		Years ended June 30	
		2017	(as restated) 2016
Revenues			
Intergovernmental Allocations:			
Article 3	\$	69,252	\$ 12,557
Total revenues		69,252	12,557
Expenditures			
Construction/Maintenance			
		-	81,809
Total expenditures		-	81,809
Excess of revenues over expenditures		69,252	(69,252)
Fund balance (deficit) at beginning of year		(69,252)	-
Fund balance (deficit) at end of year		\$ -	\$ (69,252)

See notes to Funds financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The operations of the Proposition A Local Return Fund (PALRF), the Proposition C Local Return Fund (PCLRF), the Measure R Local Return Fund (MRLRF) and the Transportation Development Act Article 3 Fund (TDAA3F) (collectively, the Funds) are accounted for in separate sets of self-balancing accounts that comprise their assets, liabilities, fund balance, revenues and expenditures.

PALRF and PCLRF represent 25% and 20%, respectively, of the ½ cent Proposition A and ½ cent Proposition C sales taxes which are distributed to the jurisdictions within Los Angeles County based on population and must be used exclusively for transportation related programs and projects.

MRLRF is derived from 15% of a county-wide ½ cent sales tax which is distributed to the jurisdictions within Los Angeles County based on a per capita basis and must be used exclusively for transportation purposes.

TDAA3F is a Special Revenue Fund that accounts for the City's share of the Transportation Development Act Article 3 allocations which are legally restricted for specific purposes.

Basis of Accounting and Measurement Focus

The PALRF, PCLRF, MRLRF, and TDAA3F are reported as Special Revenue Funds of the City and are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become "susceptible to accrual", that is, measurable and available to finance expenditures of the current period. Expenditures are recorded when the liability is incurred.

Special Revenue Funds are reported on a spending or "financial flow" measurement focus. This means that generally only current assets, current liabilities and deferred inflows and outflows of resources are included on their balance sheets. Statements of revenues, expenditures and changes in fund balances for Special Revenue Funds generally present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Budgets and Budgetary Accounting

The budgeted amounts presented in this report for comparison to the actual amounts are presented in accordance with accounting principles generally accepted in the United States of America.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurement

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, the City categorizes its fair value measurement within the fair value hierarchy that is based on the valuation inputs used to measure the fair value of the investment. Level 1 inputs are quoted prices in active markets for identical investments; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Accordingly, the City reports its investments at fair value and recognizes unrealized gain (loss) on investments.

Refer to the City's Basic Financial Statements for detailed disclosures regarding the City's investments policy and fair value measurement disclosures.

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 and 2016:

- Restricted - Amounts that are constrained for specific purposes, which are externally imposed by providers, such as creditors, or amounts constrained due to constitutional provisions or enabling legislation. The use of the Funds' remaining fund balances are restricted for projects approved by LACMTA.

Information regarding the fund balance reporting policy adopted by the City is described in the City's Basic Financial Statements.

NOTE 2 ANNUAL FINANCIAL STATEMENTS

The financial statements reflect only the financial position and results of operations of the PALRF, PCLRF, MRLRF and TDAA3F, and do not purport to, and do not present fairly the City's financial position as of June 30, 2017 and 2016, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

NOTE 3 PROPOSITION A AND PROPOSITION C LOCAL RETURN COMPLIANCE REQUIREMENTS

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

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

Proposition A and Proposition C LR funds must be expended within three years of the last day of the fiscal year in which funds were originally allocated.

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

NOTE 4 MEASURE R LOCAL RETURN COMPLIANCE REQUIREMENTS

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

Measure R LR funds must be expended within five years of the first day of the fiscal year in which funds were originally allocated or received.

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

NOTE 5 TRANSPORTATION DEVELOPMENT ACT COMPLIANCE REQUIREMENTS

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

NOTE 6 CASH AND INVESTMENTS

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

NOTE 6 CASH AND INVESTMENTS (CONTINUED)

Please refer to the City's Basic Financial Statements for a full description of risks relating to cash and investments.

NOTE 7 PROPOSITION A DISCRETIONARY INCENTIVE PROGRAM GRANT

The Proposition A Discretionary Incentive Program grant for the years ended June 30, 2017 and 2016, of \$27,689 and \$23,615, respectively represents additional funds received from LACMTA for participating in the Voluntary NTD Program.

The Proposition A Discretionary Incentive Grants were recorded under PALRF.

NOTE 8 TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND REVENUE ALLOCATION

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

		2017		2016
FY 2011/12 reserve	\$	-	\$	12,557
FY 2012/13 reserve		18,531		-
FY 2013/14 reserve		19,467		-
FY 2014/15 reserve		15,859		-
FY 2015/16 allocation		15,395		-
	\$	69,252	\$	12,557

NOTE 9 TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUNDS RESERVED

In accordance with TDA Article 3 (SB821) Guidelines, funds which will not be spent during the fiscal year have been placed on reserve in the Local Transportation Fund (LTF) account with the County Auditor-Controller to be drawn down whenever the funds become eligible for a specific project and an approved drawdown request is received by LACMTA. As of June 30, 2017 and 2016, the City has funds on reserve as follows:

		2017		2016
FY 2012/13 reserve	\$	-	\$	18,531
FY 2013/14 reserve		-		19,467
FY 2014/15 reserve		-		15,859
FY 2015/16 reserve		-		15,395
FY 2016/17 allocation		16,092		-
	\$	16,092	\$	69,252

For FY 2016/17, any TDA Article 3 funds left on reserve for FY 2012/13 or prior, are subject to lapse if not claimed by the City by June 30, 2017. There were no funds that lapsed in FY 2016/17.

NOTE 10 RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS

The 2016 financial statements of PALRF, PCLRF and TDAA3F were restated to report certain expenditures for the following projects that were not previously recorded. The expenditures were subsequently approved by LACMTA.

PALRF

Project code 110-01, Cudahy ADA Improvements along Fixed Route (per Cudahy ADA Transition Plan):

	<u>Balance, as previously reported</u>	<u>Adjustment</u>	<u>Balance, as restated</u>
Due to other funds	\$ -	\$ 5,250	\$ 5,250
Accounts payable	11,499	9,150	20,649
Fund balance	930,456	(14,400)	916,056
Expenditures	61,013	14,400	75,413

PCLRF

Project code 440-02, Resurfacing of a Parking Lot at Lugo Park for Fixed Route Transit Stop:

	<u>Balance, as previously reported</u>	<u>Adjustment</u>	<u>Balance, as restated</u>
Due to other funds	\$ -	\$ 61,128	\$ 61,128
Fund Balance	234,268	(61,128)	173,140
Expenditures	369,658	61,128	430,786

TDAA3F

Lugo Park Soccer Field Renovation Project (Install Water Fountain, New LED Lighting Safety for Pedestrians, Construct 4" PCC Walkways and 6" Wide by 4" Thick Decomposed Granite Walking Pathway):

	<u>Balance, as previously reported</u>	<u>Adjustment</u>	<u>Balance, as restated</u>
Due to other funds	\$ -	\$ 69,252	\$ 69,252
Fund balance (deficit)	-	(69,252)	(69,252)
Expenditures	12,557	69,252	81,809

NOTE 11 SUBSEQUENT EVENTS

The City has evaluated subsequent events through December 14, 2017, the date the financial statements were available to be issued, and concluded no events have occurred that require disclosure or adjustments to the financial statements.

**Report of Independent Auditors on Internal Control over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Proposition A Local Return Fund, the Proposition C Local Return Fund, the Measure R Local Return Fund and the Transportation Development Act Article 3 Fund (collectively, the Funds) of the City of Cudahy, California (the City) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, and have issued our report thereon dated December 14, 2017.

Internal Control over Financial Reporting

In planning and performing our audits of the Funds' financial statements, we considered the City's internal control over the Funds' financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the Funds' financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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



Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Los Angeles, California
December 14, 2017

COMPLIANCE SECTION

Report of Independent Auditors on Compliance

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

Report on Compliance

We have audited the compliance of the City of Cudahy, California (the City) with the Proposition A and Proposition C Local Return Guidelines, Measure R Local Return Guidelines, Transportation Development Act Article 3, and the Los Angeles County Metropolitan Transportation Authority's Funding and Allocation Guidelines for Transportation Development Act Article 3 Bicycle and Pedestrian Funds (collectively, the Guidelines) for the year ended June 30, 2017.

Management's Responsibility

Management is responsible for the City's compliance with the Guidelines.

Auditors' Responsibility

Our responsibility is to express an opinion on the City's compliance with the Guidelines based on our audit. We conducted our audit of compliance in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the Guidelines. Those standards and the Guidelines require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the Proposition A Local Return Program, Proposition C Local Return Program, Measure R Local Return Program, and Transportation Development Act Article 3 Program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with the Guidelines. However, our audit does not provide a legal determination of the City's compliance with the Guidelines.

Opinion

In our opinion, the City of Cudahy, California complied, in all material respects, with the compliance requirements of the Guidelines for the year ended June 30, 2017.



Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with the requirements, which is described in the accompanying Schedule of Findings and Questioned Costs as Finding #2017-001. Our opinion is not modified with respect to this matter.

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

Report on Internal Control over Compliance

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

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

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

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

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

**Los Angeles, California
December 14, 2017**

**City of Cudahy
Compliance Matrix
Year ended June 30, 2017**

Compliance Requirements	In Compliance			Questioned Costs	If no, provide details and management response.
	Yes	No	N/A		
A. Proposition A and Proposition C Local Return Funds					
1. Uses the State Controller's Uniform System of Accounts and Records.	X				
2. Timely use of funds.	X				
3. Funds expended were approved and have not been substituted for property tax.	X				
4. Expenditures that exceeded 25% of approved project budget have approved amended Project Description Form (Form A)	X				
5. Administrative expenses are within the 20% cap of the total annual Local Return Expenditures.	X				
6. All on-going and carryover projects were reported in Form B.	X				
7. Annual Project Summary Report (Form B) was submitted on time.	X				
8. Annual Expenditure Report (Form C) was submitted on time.	X				
9. Cash or cash equivalents are maintained.	X				
10. Accounting procedures, record keeping and documentation are adequate.		X		PALRF - \$8,945 PCLRF - \$8,945	See Finding#2017-001
11. Pavement Management System (PMS) in place and being used for Street Maintenance or Improvement Projects Expenditures.	X				
12. Local Return Account is credited for reimbursable expenditures.			X		
13. Self-Certification was completed and submitted for Intelligent Transportation Systems projects or elements.			X		
14. Assurances and Understandings form was on file.	X				
15. Recreational Transit Form was submitted on time.	X				

See report of independent auditors on compliance.

**City of Cudahy
Compliance Matrix
Year ended June 30, 2017**

Compliance Requirements	In Compliance			Questioned Costs	If no, provide details and management response.
	Yes	No	N/A		
B. Measure R Local Return Fund					
1. Funds were expended for transportation purposes.		X		\$8,945	See Finding#2017-001
2. Funds were used to augment, not supplant, existing local revenues being used for transportation purposes unless there is a funding shortfall.	X				
3. Signed Assurances and Understandings on file.	X				
4. Separate Measure R Local Return Account was established.	X				
5. Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure R Local Return Account.	X				
6. Funds were expended with LACMTA's approval.	X				
7. Expenditure Plan (Form One) was submitted on time.	X				
8. Expenditure Report (Form Two) was submitted on time.	X				
9. Timely use of funds.	X				
10. Administrative expenses are within the 20% cap.	X				
11. Fund exchanges were approved by LACMTA.			X		
12. A separate account was established for Capital reserve funds and Capital reserve was approved by LACMTA.			X		
13. Recreational transit form was submitted on time.			X		
C. Transportation Development Act Article 3 Fund					
1. Timely use of funds.	X				
2. Expenditures were incurred for activities relating to pedestrian and bicycle facilities and amenities.	X				

See report of independent auditors on compliance.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Cudahy
Schedule of Findings and Questioned Costs
Year ended June 30, 2017

PALRF, PCLRF and MRLRF: Finding #2017-001

<p>Compliance Reference</p>	<p>Proposition A and Proposition C Local Return Guidelines Section II states that, "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". Also, Section V states that, "It is the jurisdictions' responsibility to maintain proper accounting records and documentation to facilitate the performance of the audit as prescribed in these Guidelines".</p> <p>In addition, Measure R Local Return Program Guidelines, Section B (VII. Audit Section) states that, "Jurisdictions are required to expend their Measure R Local Return funds for transportation purposes, as defined by the Guidelines" and "It is the Jurisdictions' responsibility to maintain proper accounting records and documentation."</p>
<p>Condition</p>	<p>The City charged transit marketing project expenditures totaling to \$80,502 to the Local Return Funds as follows:</p> <ul style="list-style-type: none"> a. PALRF: Project code 280-01, Cudahy Transit Marketing Program - \$26,834; b. PCLRF: Project code 280-01, Cudahy Transit Marketing Program - \$26,834; and c. MRLRF: Project code, Other Transportation Marketing - \$26,834 <p>These expenditures relate to the production of the City's quarterly magazine. Although a budget for this project was approved by LACMTA, there was a question with respect to reasonableness of cost allocated to the funds.</p> <p>As per City report, funding source allocation from LACMTA is 60% of total costs incurred for the quarterly magazine production. However, based on the initial review of documents provided which includes copies of magazines, it was determined that the allocation of 60% made to the Local Return Funds is higher than what is initially determined to be reasonable.</p> <p>Based on the supporting documents provided by the City, Vasquez agreed that 40% was the more reasonable allocation rate and was determined by the City based on the number of featured and news articles related to transportation.</p>

City of Cudahy
Schedule of Findings and Questioned Costs
Year ended June 30, 2017

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

Cause	The budget submitted to LACMTA was based on expectation that the magazine would be a viable source of educating the residence of City on how the Local Return Funds of Cudahy can be and are being used to benefit the lives of the residence of Cudahy. The City had anticipated 60% of the magazine to educate the public on the availability of transit services in the City and what is being done to improve transportation within the City.
Effect	Proposition A funds of \$26,834, Proposition C funds of \$26,834 and Measure R funds of \$26,834 were expended towards project expenditures. Based on revised allocation rate to which Vasquez agreed, only \$17,889 should be charged each to Proposition A, proposition C and Measure R funds, resulting in overcharging of expenditures of \$8,945 each to Proposition A, proposition C and Measure R funds, respectively for a total of \$26,834.
Recommendation	We recommend for the City to establish a methodology for allocating this type of costs. The City should also consider returning the total amount of \$26,834 to the Local Return Funds.
Management's Response	The City anticipated that 60% of the magazine would educate the public on the availability of transit services in the City and what is being done to improve transportation within the City. Based upon a review of the actual publication the City found that 40% of the magazine related to transportation. The City utilized a method of allocating costs based upon the number of feature articles, news articles, and the number of advertisement (whether full page, half page, quarter page) of transportation supported events or services. Direction had not been given as to the acceptable methodology that could be utilized by the City when determining allocation of costs to Local Return Funds. During the next fiscal year, the City will discuss and reach agree with LACMTA an acceptable methodology that the City may use to allocate expenses to Local Return Funds.

EXIT CONFERENCE

An exit conference was held on December 14, 2017 with the City of Cudahy representatives. Those in attendance were:

Vasquez and Company LLP representatives:
Cristy Canieda – Partner
Marialyn Salvador – Audit Senior Manager
Emer Fabro – Audit Supervisor

City of Cudahy representative:
Steven Dobrenen – Finance Director

Matters discussed:

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

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

Steven Dobrenen – Finance Director
Shirley Chiu – Senior Accountant



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

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