



**Metro**<sup>TM</sup>

**City of Gardena  
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 Gardena, 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 Gardena, 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 Gardena, 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.

### ***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 26, 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.

Los Angeles, California  
December 26, 2017

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

		<b>June 30</b>	
		<b>2017</b>	<b>2016</b>
<b>ASSETS</b>			
Cash and investments	\$	<b>3,291,722</b>	\$ 2,625,348
Accounts receivable		-	301,552
<b>Total assets</b>	<b>\$</b>	<b><u>3,291,722</u></b>	<b><u>\$ 2,926,900</u></b>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Liabilities</b>			
Accounts payable	\$	-	\$ -
<b>Total liabilities</b>		<u>-</u>	<u>-</u>
<b>Fund balance</b>			
Restricted		<u>3,291,722</u>	<u>2,926,900</u>
<b>Total fund balance</b>		<u>3,291,722</u>	<u>2,926,900</u>
<b>Total liabilities and fund balance</b>	<b>\$</b>	<b><u>3,291,722</u></b>	<b><u>\$ 2,926,900</u></b>

*See notes to Funds financial statements.*

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

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	Years ended June 30	
	2017	2016
<b>Revenues</b>		
Proposition A	\$ 1,102,396	\$ 1,084,495
Proposition A Discretionary Incentive Program grant	146,085	164,422
Passenger fares	12,204	12,890
Elderly and handicapped services program income	218,737	351,322
Interest income	27,504	18,830
<b>Total revenues</b>	<b>1,506,926</b>	<b>1,631,959</b>
 <b>Expenditures</b>		
Various projects	1,142,104	1,472,757
<b>Total expenditures</b>	<b>1,142,104</b>	<b>1,472,757</b>
 Excess of revenues over expenditures	 364,822	 159,202
Fund balance at beginning of year	2,926,900	2,767,698
Fund balance at end of year	\$ 3,291,722	\$ 2,926,900

*See notes to Funds financial statements.*

**City of Gardena**  
**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)**

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Project Code	Project Name	2017			2016 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
110-01	Fixed Route Transit	\$ 851,015	\$ 866,804	\$ (15,789)	\$ 600,000
130-01	Special Service Paratransit	55,300	55,300	-	579,102
480-63	Paratransit Administrative Expenditures	220,000	220,000	-	293,655
<b>Total expenditures</b>		<b>\$ 1,126,315</b>	<b>\$ 1,142,104</b>	<b>\$ (15,789)</b>	<b>\$ 1,472,757</b>

*See report of independent auditors.*

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

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<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>
2002	Buick Century (Veh ID 839)	\$ 19,103	\$ -	\$ -	\$ 19,103
2003	Destination Signs & Annunciators	11,610	-	-	11,610
2008	2008 Ford Crown Victoria	23,094	-	-	23,094
<b>Total</b>		<b>\$ 53,807</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 53,807</b>

*See report of independent auditors.*

City of Gardena  
Proposition C Local Return Fund  
Balance Sheets

		June 30	
		2017	2016
<b>ASSETS</b>			
Cash and investments	\$	1,925,440	\$ 1,505,135
<b>Total assets</b>	<b>\$</b>	<b>1,925,440</b>	<b>\$ 1,505,135</b>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Liabilities</b>			
Payroll payable	\$	417	\$ -
<b>Total liabilities</b>		<b>417</b>	<b>-</b>
<b>Fund balance</b>			
Restricted		1,925,023	1,505,135
<b>Total fund balance</b>		<b>1,925,023</b>	<b>1,505,135</b>
<b>Total liabilities and fund balance</b>	<b>\$</b>	<b>1,925,440</b>	<b>\$ 1,505,135</b>

*See notes to Funds financial statements.*

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

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	Years ended June 30	
	2017	2016
<b>Revenues</b>		
Proposition C	\$ 914,961	\$ 899,669
Interest Income	15,440	11,124
<b>Total revenues</b>	<b>930,401</b>	910,793
 <b>Expenditures</b>		
Various projects	510,513	826,596
<b>Total expenditures</b>	<b>510,513</b>	826,596
 Excess of revenues over expenditures	 419,888	84,197
 Fund balance at beginning of year	 1,505,135	1,420,938
 Fund balance at end of year	 \$ 1,925,023	\$ 1,505,135

*See notes to Funds financial statements.*

City of Gardena  
**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)**

<u>Code</u>	<u>Project Name</u>	<u>Budget</u>	<u>Actual</u>	<u>(Negative)</u>	<u>Actual</u>
440-54	Gardena Blvd Street Improvement - Normandie Ave to Vermont Ave (JN 884)	\$ 400,000	\$ -	\$ 400,000	\$ 345,547
440-55	158th Street Improvement - Western Ave to Normandie Ave (JN 886)	350,000	292	349,708	291,476
440-59	139th Street Improvement - Western Ave to Budlong Avenue Ave (JN 893)	500,000	344,990	155,010	146,646
440-64	Crenshaw Blvd Street Improvement - Redondo Beach Blvd to Rosecrans Ave (JN 925)	650,000	34,672	615,328	-
440-65	Crenshaw Blvd Street Improvement - JN 925	15,000	15,000	-	-
440-66	Pavement Management Program 2015 - 2016 (JN 883)	-	195	(195) *	-
480-57	Gardena Blvd Street Improvement - Normandie Ave to Vermont Ave (JN 884)	10,000	-	10,000	689
480-58	158th Street Improvement - Western Ave to Normandie Ave (JN 886)	10,000	-	10,000	323
480-60	139th Street Improvement - Western Ave to Budlong Ave (JN 893)	15,000	14,770	230	17,185
480-62	Traffic Signal Upgrade, Various Locations, JN 911	10,000	-	10,000	10,827
480-65	General Project Management	-	4,221	(4,221) *	-
500-61	Traffic Signal Upgrade, Various Locations, JN 911	100,000	96,373	3,627	13,903
	<b>Total expenditures</b>	<b>\$ 2,060,000</b>	<b>\$ 510,513</b>	<b>\$ 1,549,487</b>	<b>\$ 826,596</b>

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

*See report of independent auditors.*

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

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<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		\$ -	\$ -	\$ -	\$ -
	<b>Total</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

*See report of independent auditors.*

City of Gardena  
Measure R Local Return Fund  
Balance Sheets

		June 30	
		2017	2016
<b>ASSETS</b>			
Cash and investments	\$	170,145	\$ -
Accounts receivable		-	352,867
Due from other governments		-	220,390
<b>Total assets</b>	<b>\$</b>	<b>170,145</b>	<b>\$ 573,257</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>			
<b>Liabilities</b>			
Due to General Fund	\$	-	\$ 284,575
Payroll payable		417	-
<b>Total liabilities</b>		<b>417</b>	<b>284,575</b>
<b>Deferred inflows of resources</b>			
Unavailable revenues		-	352,867
<b>Total deferred inflows of resources</b>		<b>-</b>	<b>352,867</b>
<b>Fund balance (deficit)</b>			
Restricted		169,728	(64,185)
<b>Total fund balance (deficit)</b>		<b>169,728</b>	<b>(64,185)</b>
<b>Total liabilities, deferred inflows of resources and fund balance (deficit)</b>	<b>\$</b>	<b>170,145</b>	<b>\$ 573,257</b>

*See notes to Funds financial statements.*

**City of Gardena**  
**Measure R Local Return Fund**

**Statements of Revenues, Expenditures and Changes in Fund Balance**

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	Years ended June 30	
	2017	2016
<b>Revenues</b>		
Measure R	\$ 685,972	\$ 675,078
Measure R Highway Grant	352,936	302,172
Interest income	2,682	1,131
<b>Total revenues</b>	<b>1,041,590</b>	978,381
<b>Expenditures</b>		
Expenditures funded by MRLRF	807,677	842,672
Expenditures funded by Measure R Highway Grant	-	698,384
<b>Total expenditures</b>	<b>807,677</b>	1,541,056
Excess (deficiency) of revenues over expenditures	233,913	(562,675)
Fund balance (deficit) at beginning of year	(64,185)	498,490
Fund balance (deficit) at end of year	\$ 169,728	\$ (64,185)

*See notes to Funds financial statements.*

City of Gardena  
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	Street Maintenance and Repair, Various Locations	\$ 924,237	\$ -	\$ 924,237	\$ 401,167
1.05	Street Maintenance and Repair, Various Locations	350,000	-	350,000	-
1.05	Street Maintenance and Repair, Various Locations	350,000	443,511	(93,511)	-
3.05	Pedestrian Safety Improvement JN 862	348,215	-	348,215	-
3.05	Pedestrian Safety Improvement JN 867	350,000	-	350,000	-
3.05	Pedestrian Safety Improvement JN 887	350,000	584	349,416	-
3.05	Pedestrian Safety Improvement JN 894	350,000	66,364	283,636	441,505
3.05	Pedestrian Safety Improvement JN 918	350,000	292,997	57,003	-
7.90	General Planning and Engineering	-	4,221	(4,221) *	-
<b>Total expenditures</b>		<b>\$ 3,372,452</b>	<b>\$ 807,677</b>	<b>\$ 2,564,775</b>	<b>\$ 842,672</b>

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

*See report of independent auditors.*

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

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<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		\$ -	\$ -	\$ -	\$ -
	<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

*See report of independent auditors.*

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

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		June 30	
		2017	2016
<b>ASSETS</b>			
Cash and investments		\$ -	\$ 2
	<b>Total assets</b>	\$ -	\$ 2
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Liabilities</b>			
Accounts payable		\$ -	\$ -
	<b>Total liabilities</b>	-	-
<b>Fund balance</b>			
Restricted		-	2
	<b>Total fund balance</b>	-	2
	<b>Total liabilities and fund balance</b>	\$ -	\$ 2

*See notes to Funds financial statements.*

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

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	Years ended June 30	
	2017	2016
<b>Revenues</b>		
Intergovernmental Allocations:		
Article 3	\$ 38,289	\$ 39,316
Interest income	40	40
<b>Total revenues</b>	<b>38,329</b>	39,356
 <b>Expenditures</b>		
Sidewalk Replacement	38,331	39,354
<b>Total expenditures</b>	<b>38,331</b>	39,354
Excess (deficiency) of revenues over expenditures	(2)	2
Fund balance at beginning of year	2	-
Fund balance at end of year	\$ -	\$ 2

*See notes to Funds financial statements.*

City of Gardena  
 Transportation Development Act Article 3 Fund  
 Pursuant to Public Utilities Code Section 99234  
 Supplementary Information  
 Schedule of Transportation Development Act Allocation for Specific Projects  
 Year ended June 30, 2017

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Project Description	Program Year	Totals to Date		Unexpended Allocations	Project Status
		Allocations	Expenditures		
<b>Local Allocations:</b>					
Sidewalk Replacement	2017	\$ 38,289	\$ 38,331	\$ (42)	Completed
	<b>Totals</b>	<u>\$ 38,289</u>	<u>\$ 38,331</u>	(42)	
Interest income				40	
Fund balance at beginning of year				<u>2</u>	
Fund balance at end of year				<u>\$ -</u>	

*See report of independent auditors.*

**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 Comprehensive Annual Financial Report 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 Comprehensive Annual Financial Report.

**Deferred Outflows and Inflows of Resources**

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the City recognizes deferred outflows and deferred inflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period.

Deferred inflows of resources reported by the City represent resources that are not available for spending as of June 30, 2017 and 2016.

**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.

Please refer to the City's Comprehensive Annual Financial Report (CAFR) for a full description of risks relating to cash and investments.

**NOTE 7            PROPOSITION A DISCRETIONARY INCENTIVE PROGRAM GRANTS**

The City received Proposition A Discretionary Incentive Program grant amounting to \$146,085 and \$164,422 for the years ended June 30, 2017 and 2016 which represent additional funds received from LACMTA for participating in the sub-regional paratransit services program.

The Proposition A Discretionary Incentive Grant was recorded under the PALRF.

**NOTE 8            ELDERLY AND HANDICAPPED (E&H) SERVICES PROGRAM INCOME – PALRF**

The City's Bus Lines provide E&H services to residents of the City of Hawthorne and the unincorporated area known as Alondra Park, Del Aire, and Hawthorne Island. Total revenue recognized from these services amounted to \$218,737 and \$351,322 during the years ended June 30, 2017 and 2016, respectively. These amounts represent local assistance from the City of Hawthorne, the Los Angeles County and cash fares collected.

**NOTE 9            MEASURE R HIGHWAY PROGRAM GRANT**

In February 2011, LACMTA Board approved to fund "Project Development, Design and Construction of the N-42-Rosecrans Avenue Arterial Improvements from Vermont Avenue to Crenshaw Boulevard and N67-Vermont Avenue Arterial Improvements from Rosecrans Avenue to 182<sup>nd</sup> Street (collectively, the "Projects"). Under the agreement (MOUs #MR312.17 and #MR312.21), to the extent the Measure R funds are available, LACMTA shall make to the City a grant of the Measure R funds for the Projects. The funds will be released to the City on a reimbursement basis in accordance with invoices submitted in support of the monthly progress report and the quarterly expenditure report submitted to LACMTA a few days after the close of each quarter.

The City recognized \$352,936 and \$302,172 of revenue from these projects during the years ended June 30, 2017 and 2016, respectively.

**NOTE 10      TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND REVENUE ALLOCATION**

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

		<b>2017</b>		2016
FY 2014/15 reserve	\$	-	\$	39,316
FY 2015/16 reserve		<b>38,289</b>		-
	<b>\$</b>	<b>38,289</b>	<b>\$</b>	39,316

**NOTE 11      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:

		<b>2017</b>		2016
FY 2015/16 allocation	\$	-	\$	38,289
FY 2016/17 allocation		<b>40,034</b>		-
	<b>\$</b>	<b>40,034</b>	<b>\$</b>	38,289

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 12      SUBSEQUENT EVENTS**

The City has evaluated subsequent events through December 26, 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 Gardena, 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 Gardena, 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 26, 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 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.

**Los Angeles, California**  
**December 26, 2017**

**COMPLIANCE SECTION**

## **Report of Independent Auditors on Compliance**

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

### **Report on Compliance**

We have audited the compliance of the City of Gardena, 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 Gardena, 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 instances of noncompliance with the requirements, which are described in the accompanying Schedule of Findings and Questioned Costs as Findings #2017-001 and #2017-002. Our opinion 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 Questioned Costs. 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 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 &amp; Company LLP".

**Los Angeles, California  
December 26, 2017**

**City of Gardena  
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>A. Proposition A and Proposition C Local Return Funds</b>					
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			See Finding#2017-001
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				
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 Gardena  
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>B. Measure R Local Return Fund</b>					
1. Funds were expended for transportation purposes.	X				
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			See Finding#2017-002
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		
<b>C. Transportation Development Act Article 3 Fund</b>					
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 Gardena**  
**Schedule of Findings and Questioned Costs**  
**Year ended June 30, 2017**

**PCLRF: Finding #2017-001**

<b>Compliance Reference</b>	Section 1(C) states that, "Jurisdiction shall submit for approval a Project Description Form prior to the expenditure of funds for: 1) a new project; 2) a new route; 3) a 25 percent change (increase or decrease) in route or revenue vehicle miles for an established LR Funded transit service; 4) a 0.75 miles or greater service change that duplicates/overlays an existing transit service; or 5) a 25 percent greater change in an approved LR project budget on all operating or capital LR projects."
<b>Condition</b>	<p>The City claimed expenditures under the following PCLRF projects with no prior approval from LACMTA.</p> <ul style="list-style-type: none"> <li>a. Project code 440-66, Pavement Management Program 2015 - 2016 (JN 883), totaling \$195; and</li> <li>b. Project code 480-65, General Project Management, totaling \$4,221;</li> </ul> <p>Although we found the expenditures for these projects to be eligible for Proposition C Local Return funding, these projects had no prior approval from LACMTA.</p> <p>The City submitted a Form A to the LACMTA Program Manager and obtained a retroactive approval of the said projects on October 6, 2017.</p>
<b>Cause</b>	The City concurs with the finding that Project Form A should have been submitted for prior approval on our transit and capital project expenditures. The finding was caused by an oversight by City staff.
<b>Effect</b>	Proposition C Local Return funds were expended towards project expenditures without prior approval by the LACMTA.
<b>Recommendation</b>	We recommend for the City to establish procedures and controls to ensure that approval is obtained from LACMTA prior to spending on any Local Return-funded projects.
<b>Management's Response</b>	The City will ensure in the future that Project Form A's will be submitted for prior approval.
<b>Finding Corrected During the Audit</b>	LACMTA Program Manager granted a retroactive approval of projects' budget on October 6, 2017. No follow up is required.

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

**MRLRF: Finding #2017-002**

<b>Compliance Reference</b>	<p>Section B (II) of Measure R Local Return Program Guideline states that, "To maintain legal eligibility and meet Measure R LR program compliance requirements, Jurisdiction shall submit to LACMTA an Expenditure Plan (Form One), annually, by August 1st of each year.</p> <p>Expenditure Plan (Form One) provides a listing of projects funded with Measure R LR funds along with estimated expenditures for the year. For both operating and capital projects, Part I is to be filled out. For capital projects (projects over \$250,000), Part II is required. Pursuant to AB2321, LACMTA will provide LR funds to a capital project or program sponsor who submits the required expenditure plan.</p>
<b>Condition</b>	<p>The City claimed expenditures under the MRLRF Project code 7.90, General Planning and Engineering, totaling \$4,221, with no prior approval from LACMTA.</p> <p>Although we found the expenditures for these projects to be eligible for Measure R Local Return funding, these projects had no prior approval from LACMTA.</p> <p>The City submitted a revised Expenditure Plan (Form One) to the LACMTA Program Manager and obtained a retroactive approval of the said project on December 18, 2017.</p>
<b>Cause</b>	<p>The finding was caused by an oversight by City staff.</p>
<b>Effect</b>	<p>Measure R Local Return funds were expended towards project expenditures without prior approval by the LACMTA.</p>
<b>Recommendation</b>	<p>We recommend for the City to establish procedures and controls to ensure that approval is obtained from LACMTA prior to spending on any Local Return-funded projects.</p>
<b>Management's Response</b>	<p>The City will ensure in the future that a revised Form One will be submitted for prior approval.</p>
<b>Finding Corrected During the Audit</b>	<p>LACMTA Program Manager granted a retroactive approval of the project budget on December 18, 2017. No follow up is required.</p>

**EXIT CONFERENCE**

An exit conference was held on December 26, 2017 with the City of Gardena representative. Those in attendance were:

Vasquez and Company LLP representative:  
Marialyn Salvador – Audit Senior Manager

City of Gardena representative:  
Raymond Beeman – Accounting/Finance Manager

Matters discussed:

Results of the audit disclosed instances of noncompliance with the Guidelines.

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

Raymond Beeman – Accounting/Finance Manager



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