



MetroTM

**City of Lynwood
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 Lynwood, 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 Lynwood, 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 Lynwood, 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 11, the fiscal year 2016 financial statements of the Proposition A Local Return Fund, the Proposition C Local Return Fund, the Measure R Local Return Fund and the TDA Article 3 Fund have been restated to reflect the investment income (loss) allocated to Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund and TDA Article 3 Fund for the year ended June 30, 2016. 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 March 8, 2018 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.

Vaqueria & Company LLP

Los Angeles, California

March 8, 2018

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

		June 30	
		2017	(as restated) 2016
ASSETS			
Cash and investments	\$	3,515,639	\$ 3,799,765
Interest receivable		4,152	2,702
	Total assets	\$ 3,519,791	\$ 3,802,467
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	-	\$ -
	Total liabilities	-	-
Fund balance			
Restricted		3,519,791	3,802,467
	Total fund balance	3,519,791	3,802,467
	Total liabilities and fund balance	\$ 3,519,791	\$ 3,802,467

See notes to Funds financial statements.

City of Lynwood
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	\$ 1,302,515	\$ 1,281,207
Proposition A Discretionary Incentive Program grant	-	64,002
Investment income	14,854	36,301
Total revenues	1,317,369	1,381,510
Expenditures		
Various projects	1,773,979	1,528,908
Total expenditures	1,773,979	1,528,908
Deficiency of revenues over expenditures	(456,610)	(147,398)
Other financing source		
Transfer in from General Fund	173,934	-
Total other financing source	173,934	-
Deficiency of revenues and other financing source over expenditures	(282,676)	(147,398)
Fund balance at beginning of year	3,802,467	3,949,865
Fund balance at end of year	\$ 3,519,791	\$ 3,802,467

See notes to Funds financial statements.

City of Lynwood
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			2016 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
110-05	Fixed Bus Route	\$ 515,000	\$ 469,198	\$ 45,802	\$ 457,628
110-06	Lynwood Trolley Blue Line Interface	235,000	194,295	40,705	187,228
120-07	Dial-A-Ride	200,000	114,283	85,717	118,662
140-02	Recreational Transit	30,000	13,931	16,069	16,609
150-04	Bus Stop Clean Up	282,223	174,368	107,855	6,930
250-01	MTA Bus Pass Voucher Subsidy	50,000	5,346	44,654	4,302
270-60	Bus Shelter Improvement (Planning)	20,000	-	20,000	-
280-58	Lynwood Trolley Route Brochure	7,500	-	7,500	-
300-58	Bus Shelter Improvement	700,000	655,392	44,608	-
300-59	Bus Shelter Improvement	500,000	-	500,000	546,835
480-03	Administration and Monitoring	155,663	147,166	8,497	190,714
Total expenditures		\$ 2,695,386	\$ 1,773,979	\$ 921,407	\$ 1,528,908

See report of independent auditors.

City of Lynwood
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>
3/31/2017	Bus Shelters	\$ -	\$ 89,940	\$ -	\$ 89,940
3/31/2017	Bus Bench	-	11,988	-	11,988
3/31/2017	Trash Can with Door	-	11,988	-	11,988
	Total	\$ -	\$ 113,916	\$ -	\$ 113,916

See report of independent auditors.

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

		June 30	
		2017	(as restated) 2016
ASSETS			
Cash and investments	\$	5,069,531	\$ 5,973,769
Interest receivable		5,870	3,969
		5,075,401	5,977,738
	Total assets	\$ 5,075,401	\$ 5,977,738
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	-	\$ -
	Total liabilities	-	-
Fund balance (deficit)			
Restricted - Long Beach Boulevard Improvement Project		441,773	1,553,093
Restricted		4,633,628	4,424,645
	Total fund balance	5,075,401	5,977,738
	Total liabilities and fund balance	\$ 5,075,401	\$ 5,977,738

See notes to Funds financial statements.

City of Lynwood
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	\$ 1,082,700	\$ 1,064,511
Investment income	21,283	53,417
Total revenues	1,103,983	1,117,928
Expenditures		
Various projects	2,006,320	1,040,736
Total expenditures	2,006,320	1,040,736
Excess (deficiency) of revenues over expenditures	(902,337)	77,192
Fund balance at beginning of year	5,977,738	5,900,546
Fund balance at end of year	\$ 5,075,401	\$ 5,977,738

See notes to Funds financial statements.

City of Lynwood
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)	2016 Actual
		LACMTA Budget	Actual		
270-52	State St and Long Beach Blvd Intersection Improvements	\$ -	\$ -	\$ -	23,500
270-53	Transportation Assessment (Gateway Cities)	8,663	8,663	-	8,247
270-56	I-710 Corridor Study	25,000	25,000	-	25,000
270-57	Josephine Street Improvements	30,000	-	30,000	-
270-58	Long Beach Improvement	300,000	6,000	294,000	-
270-59	Engineering and Traffic Survey/Traffic Counts	20,000	17,938	2,062	-
270-61	Engineering Costs	200,000	-	200,000	-
300-58	Bus Shelter Improvement	35,000	-	35,000	60,000
380-57	Long Beach Blvd Improvement Project	1,727,000	692,781	1,034,219	196,631
380-58	Long Beach Blvd Improvement Project - Phase II	4,255,275	418,539	3,836,736	-
440-37	Bullis Road Improvement Project	25,000	8,500	16,500	15,097
440-46	Traffic Signal Improvements	150,000	35,328	114,672	316,658
440-58	State St Improvement Project	-	176,988 *	(176,988)	-
440-60	State Street Geotechnical Engineering Study	15,000	-	15,000	24,980
440-61	Josephine Street Improvements	-	-	-	250,000
440-62	Long Beach Blvd	25,000	-	25,000	-
440-63	Long Beach Blvd and Euclid Ave Traffic Signal Improvements	22,880	-	22,880	-
440-64	Fernwood and Bullis Traffic Signals Upgrade	100,000	82,857	17,143	-
440-65	State Street Improvement Project	20,000	-	20,000	-
440-66	State Street Improvement Project	250,000	-	250,000	70,623
440-67	Carlin Ave and Thorson Ave Intersection Upgrade	20,000	-	20,000	-
440-68	Carlin Ave and Olanda St Intersection Upgrade	90,000	-	90,000	-
440-69	Long Beach Blvd Improvement Project - Phase I and II	519,108	519,108	-	-
470-01	Pavement Management System	44,058	14,618	29,440	-
480-03	Administration and Monitoring	100,000	-	100,000	50,000
Total expenditures		\$ 7,981,984	\$ 2,006,320	\$ 5,975,664	\$ 1,040,736

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

See report of independent auditors.

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

		June 30	
		2017	(as restated) 2016
ASSETS			
Cash and investments	\$	2,942,613	\$ 3,007,312
Interest receivable		3,218	1,789
Total assets	\$	<u>2,945,831</u>	<u>\$ 3,009,101</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	-	\$ -
Total liabilities		-	-
Fund balance			
Restricted		<u>2,945,831</u>	<u>3,009,101</u>
Total fund balance		<u>2,945,831</u>	<u>3,009,101</u>
Total liabilities and fund balance	\$	<u>2,945,831</u>	<u>\$ 3,009,101</u>

See notes to Funds financial statements.

City of Lynwood
Measure R Local Return Fund

Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2017	(as restated) 2016
Revenues		
Measure R	\$ 810,497	\$ 797,527
Interest income	12,711	24,113
Total revenues	823,208	821,640
 Expenditures		
Various projects	886,478	408,893
Total expenditures	886,478	408,893
 Excess (deficiency) of revenues over expenditures	(63,270)	412,747
 Fund balance at beginning of year	3,009,101	2,596,354
 Fund balance at end of year	\$ 2,945,831	\$ 3,009,101

See notes to Funds financial statements.

City of Lynwood
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	Louis Avenue Improvements	\$ 524,747	\$ 5,666	\$ 519,081	\$ 203
1.05	Pavement Marking Improvements	75,000	-	75,000	6,955
1.05	Wright Road Improvements	17,796	1,594	16,202	9,850
1.05	Various Street Improvements	794,130	15,000	779,130	-
1.05	Cap Seal	150,000	-	150,000	-
1.05	Street Improvements	70,000	377,239	(307,239)	-
1.20	LED Street Light Projects	500,000	-	500,000	-
1.90	Traffic Signs Improvement Project	70,717	-	70,717	-
1.90	Measure R Bond Debt Service Payment	392,000	393,606	(1,606)	390,806
3.90	Pedestrian Improvements Around Various Schools (HSIP)	130,494	93,373	37,121	1,079
Total expenditures		\$ 2,724,884	\$ 886,478	\$ 1,838,406	\$ 408,893

See report of independent auditors.

City of Lynwood
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>
2012	Retro-Reflectometer	\$ 13,618	\$ -	\$ -	\$ 13,618
	Total	\$ 13,618	\$ -	\$ -	\$ 13,618

See report of independent auditors.

City of Lynwood
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	\$	1,125	\$ 3,209
Interest receivable		30	88
	Total assets \$	1,155	\$ 3,297
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	-	\$ -
	Total liabilities	-	-
Fund balance			
Restricted		1,155	3,297
	Total fund balance	1,155	3,297
	Total liabilities and fund balance \$	1,155	\$ 3,297

See notes to Funds financial statements.

City of Lynwood
 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	\$ 45,000	\$ 132,824
Investment income (loss)	(165)	802
Total revenues	44,835	133,626
Expenditures		
Sidewalk Improvements	46,977	149,388
Total expenditures	46,977	149,388
Deficiency of revenues over expenditures	(2,142)	(15,762)
Fund balance at beginning of year	3,297	19,059
Fund balance at end of year	\$ 1,155	\$ 3,297

See notes to Funds financial statements.

City of Lynwood
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

Project Description	Program Year	Totals to Date			Project Status
		Allocations	Expenditures	Unexpended Allocations	
Local Allocations:					
Sidewalk Improvements	2017	\$ 45,000	\$ 46,977	\$ (1,977)	Ongoing
	Totals	<u>\$ 45,000</u>	<u>\$ 46,977</u>	<u>(1,977)</u>	
Investment income (loss)				(165)	
Fund balance at beginning of year				<u>3,297</u>	
Fund balance at end of year				<u>\$ 1,155</u> *	

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

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.

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 GRANT

The Proposition A Discretionary Incentive Program grant amounting to \$64,002 for the year ended June 30, 2016, represent additional funds received from LACMTA for participating in the Voluntary NTD Program.

The allocation for fiscal year 2016/17 amounting to \$64,013 was billed to LACMTA during FY 2017/18 and therefore, was not reported in the June 30, 2017 Proposition A Local Return Fund financial statements.

NOTE 8 CAPITAL RESERVE

On June 9, 2013, LACMTA and the City entered into an agreement to establish a capital reserve account (Account) in the amount of \$1,747,000 for the Project Code 380-57, Long Beach Boulevard Improvement Project (the Project). In June 2016, LACMTA and the City amended the agreement to extend the term of the reserve agreement to June 30, 2019. In June 2017, the City requested LACMTA to further amend the agreement to increase the capital reserve amount to \$4,255,275 and extend the term to June 30, 2021.

The Account is to be funded with the Proposition C Local Return funds allocated to the City. All interest is to be accrued and placed in the Account for use exclusively for the Project.

For the years ended June 30, 2017 and 2016, details of the capital reserve amounts for PCLRF are as follows:

	2017	2016
Capital reserve, beginning balance	\$ 1,553,093	\$ 1,740,504
Interest income allocated during the year	-	9,220
Expenditures during the year	(1,111,320)	(196,631)
Capital reserve, ending balance	\$ 441,773	\$ 1,553,093

NOTE 9 TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND REVENUE ALLOCATION

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

		<u>2017</u>		<u>2016</u>
FY 2011/12 allocation	\$	-	\$	23,420
FY 2012/13 allocation		-		52,156
FY 2013/14 allocation		-		57,248
FY 2014/15 allocation		45,000		-
	\$	<u>45,000</u>	\$	<u>132,824</u>

NOTE 10 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:

		<u>2017</u>		<u>2016</u>
FY 2014/15 reserve	\$	1,625	\$	46,625
FY 2015/16 reserve		45,231		45,231
FY 2016/17 allocation		47,298		-
	\$	<u>94,154</u>	\$	<u>91,856</u>

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 11 RESTATEMENT OF 2016 PALRF, PCLRF, MRLRF AND TDAA3F FINANCIAL STATEMENTS

The 2016 financial statements of PALRF, PCLRF, MRLRF and TDAA3F were restated to reflect the allocation of investment income (loss) as June 30, 2016.

PALRF

	Balance, as previously reported	Adjustment	Balance, as restated
Cash and investments	\$ 3,787,633	\$ 12,132	\$ 3,799,765
Investment income	24,169	12,132	36,301
Fund balance	3,790,335	12,132	3,802,467

PCLRF

	Balance, as previously reported	Adjustment	Balance, as restated
Cash and investments	\$ 5,955,945	\$ 17,824	\$ 5,973,769
Investment income	35,593	17,824	53,417
Fund balance	5,959,914	17,824	5,977,738

MRLRF

	Balance, as previously reported	Adjustment	Balance, as restated
Cash and investments	\$ 2,999,274	\$ 8,038	\$ 3,007,312
Investment income	16,075	8,038	24,113
Fund balance	3,001,063	8,038	3,009,101

TDAA3F

	Balance, as previously reported	Adjustment	Balance, as restated
Cash and investments	\$ 2,813	\$ 396	\$ 3,209
Investment income	406	396	802
Fund balance	2,901	396	3,297

NOTE 12 SUBSEQUENT EVENTS

The City has evaluated subsequent events through March 8, 2018, 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 Lynwood, 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 Lynwood, California (the 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 March 8, 2018.

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. We identified deficiencies in internal control described in the Schedule of Findings on Internal Control over Financial Reporting as Finding No. 2017-001 and No. 2017-002, that we consider to be material weaknesses.



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*.

The City's Responses to the Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings on Internal Control over Financial Reporting. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the responses.

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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Los Angeles, California
March 8, 2018

Finding No. FS 2017-001: Cash Management and Bank Reconciliation

Criteria

Proposition A and Proposition C Local Return Guidelines 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".

Condition

We noted during our audit that the City had not prepared its monthly bank reconciliation statements since the beginning of the fiscal year. The reconciliation of bank account balances with accounting records is a necessary element of an effective internal control system for cash. This process should be a routine procedure in the City's accounting process.

Internal control is key to ensuring that account balances are accurate so that financial positions of the municipality is accurate and the City's governing body can make informed decisions. The timely preparation of the monthly bank reconciliation statements enables management to detect and resolve any discrepancies and problems in the account balances within a reasonable period of time.

Cause and Effect

We learned that the City lost several key employees in the finance and accounting department during the fiscal year 2017. As such, preparation of the monthly bank reconciliation statements was delayed as account balances are not properly adjusted. Delay in the preparation and review of the bank reconciliation statements can lead to the risk that discrepancies will not be detected or resolved in a timely manner, and also can lead to a higher risk of misappropriation.

Recommendation

Bank and cash reconciliations should be performed monthly to ensure accuracy and accountability for all cash transactions. The City should review its internal control procedures to determine what changes need to be made to ascertain bank accounts are always reconciled on a timely basis. Some changes to consider could be cross-training as well as developing relationships with consultants that could assist the accounting department when employee turnover occurs.

Views of Responsible Officials

As stated before, the City lost several key management employees in the finance and accounting department during fiscal year 2017. These losses are a direct result of the bank reconciliations not being completed timely. Management will create/open a bank account for the sole use of these funds. This will also help with the reconciliation process, which will be completed on a monthly basis. Management has begun to implement cross-training within the department to assist with the completion of necessary financial needs and to also promote internal controls awareness.

Finding No. FS 2017-002: Year-end Closing Process

Criteria

Proposition A and Proposition C Local Return Guidelines 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".

Condition and Context

This year's closing process was delayed because some important procedures were not performed on time. These include:

- Reconciliation of major balance sheet accounts including bank accounts.
- Cut off procedures. Cut off procedures relating to year-end accruals were inadequate to ensure the recording of transactions in the proper period.
- Beginning Fund balances were not reconciled with the prior year audited reports

Cause and Effect

We learned that the City lost several key employees in the finance and accounting department during the fiscal year 2017. As such, there was delay in the closing of the City's books for the fiscal year 2017. Currently, the accounting personnel and support do not have the institutional knowledge to ensure the books are updated and transactions are recorded correctly. These conditions resulted in delays in producing closing entries, trial balances, schedules, reconciliations, account analysis, and other financial reports needed by management and the auditors.

Recommendation

We recommend that the City of Lynwood establish and document proper closing and reconciliation procedures and assign responsibility for completing the procedures to specific City personnel. The closing procedures should be documented in a checklist that indicates who will perform each procedure and when completion of each procedure is due and is accomplished. The timing of specific procedures could be coordinated with the timing of management's or the auditor's need for the information. These reconciliations will provide assurance that financial statements are meaningful and accurate.

Views of Responsible Officials

The City will establish and document proper closing and reconciliation procedure and assign responsibility completing the procedure to specific staff. The closing procedure should be documented in a checklist that indicates which staff member will perform each procedure and when completion of each procedure is due and is accomplished.

COMPLIANCE SECTION

Report of Independent Auditors on Compliance

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

Report on Compliance

We have audited the compliance of the City of Lynwood, 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 Lynwood, 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as Findings #2017-001 and #2017-002, that we consider to be significant deficiencies.

The City's responses to the 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.

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 "Vasquez & Company LLP".

Los Angeles, California
March 8, 2018

**City of Lynwood
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			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 Lynwood
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				
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		\$1,155	See Finding #2017-002
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 Lynwood
Schedule of Findings and Questioned Costs
Year ended June 30, 2017

PCLRF: Finding #2017-001

Compliance Reference	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."
Condition	<p>The City claimed expenditures amounting to \$176,988 under PCLRF Project code 440-58, State Street Improvement Project, with no prior approval from LACMTA.</p> <p>Although we found the expenditures to be eligible for Local Return funding, these projects had no prior approval from LACMTA.</p>
Cause	The City concurs with the finding that Project Form A should have been submitted for prior approval on the transit and capital project expenditures. The finding was caused by an oversight by City staff.
Effect	Proposition C LR funds were expended towards project expenditures without prior approval by the LACMTA.
Recommendation	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.
Management's Response	Staff did obtain prior approval on State Street Improvement Project Code 440-58 as part of FY17 project. When we were amending the projects, Project 440-58 budget was inadvertently zeroed out by mistake.
Finding Corrected During the Audit	LACMTA Program Manager granted a retroactive approval of the said projects on December 15, 2017.

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

TDAA3F: Finding #2017-002

Compliance Reference	TDA Article 3 Guidelines states that, "Agencies may only draw down the funds that they can spend during the fiscal year in which they were allocated. Agencies are not allowed to have a fund balance at the end of the fiscal year. Any funds drawn down and that remain unspent after the end of the fiscal year must be returned to LACMTA to be placed on reserve for the City under the fiscal year in which they were originally allocated. Agencies must also fully spend any interest accumulated by these funds by the end of the fiscal year in which the funds were allocated".
Condition	The City has unexpended fund balance of \$1,155 as of June 30, 2017. This is a repeat finding.
Cause	There appears to be a lack of timely review of the available funding to be spent and/or returned for TDA Article 3 Fund.
Effect	The City was not in compliance with the TDA Article 3 Guidelines and will be required to return the unexpended fund balance as of June 30, 2017.
Recommendation	We recommend that the City return the unexpended funds to LACMTA consistent with the TDA Article 3 Guidelines.
Management's Response	Staff received an option from LACMTA to return the monies or claim the unused \$1,155 if it can be expended in FY 2018. The \$1,155 was spent on a pedestrian project in FY 2018. Staff plans to submit a claim request next month for the pedestrian project based on actual expenditures.

EXIT CONFERENCE

An exit conference was held on March 8, 2018 with the City of Lynwood representatives. Those in attendance were:

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

City of Lynwood representatives:
William Jefferson – Deputy Finance Director
Lorry Hempe – Public Works Special Projects Manager

Matters discussed:

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

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

Jose Ometeotl – Director of Finance
William Jefferson – Deputy Finance Director
Lorry Hempe – Public Works Special Projects Manager



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