



MetroTM

**City of South Gate
Annual Financial Report of its**

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

**As of and for the Years Ended June 30, 2020 and 2019
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 South Gate, 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, the Measure M Local Return Fund and the Transportation Development Act Article 3 Fund (collectively, the Funds) of the City of South Gate, California (the City) which comprise the Funds' balance sheets as of June 30, 2020 and 2019, 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 City'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 City'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, the Measure M Local Return Fund and the Transportation Development Act Article 3 Fund of the City of South Gate, California, as of June 30, 2020 and 2019, 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, the Measure M Local Return Fund and the Transportation Development Act Article 3 Fund of the City of South Gate, California, and do not purport to, and do not present fairly the financial position of the City as of June 30, 2020 and 2019, 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 30, 2020 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.

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

**Glendale, California
December 30, 2020**

**City of South Gate
Proposition A Local Return Fund
Balance Sheets**

		June 30	
		2020	2019
ASSETS			
Cash and investments	\$	3,261,271	\$ 2,973,049
Due from LACMTA		152,556	147,238
Interest receivable		12,994	16,597
Prepaid expense		32,716	32,716
Total assets	\$	3,459,537	\$ 3,169,600
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	146,932	\$ 260,374
Accrued payroll		2,508	3,017
Total liabilities		149,440	263,391
Fund balance			
Restricted		3,310,097	2,906,209
Total fund balance		3,310,097	2,906,209
Total liabilities and fund balance	\$	3,459,537	\$ 3,169,600

See notes to Funds financial statements.

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

	Years ended June 30	
	2020	2019
Revenues		
Proposition A	\$ 1,904,071	\$ 1,980,166
Proposition A Discretionary Incentive Program Grant	152,556	147,238
Investment income	78,663	85,199
Project generated revenues	147,024	197,319
Vehicle lease revenues	62,500	75,000
Total revenues	2,344,814	2,484,922
 Expenditures		
Various projects	1,940,926	2,274,268
Total expenditures	1,940,926	2,274,268
 Excess of revenues over expenditures	 403,888	 210,654
 Fund balance at beginning of year	 2,906,209	 2,695,555
 Fund balance at end of year	 \$ 3,310,097	 \$ 2,906,209

See notes to Funds financial statements.

City of South Gate
Proposition A Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2020
(With Comparative Actuals for 2019)

Project Code	Project Name	2020		Variance	2019 Actual
		LACMTA Budget	Actual	Positive (Negative)	
110-17	Fixed Route Bus Service to Local Destinations	\$ 947,000	\$ 686,594	\$ 260,406	\$ 791,492
110-18	Fixed Route Bus Purchase	500,000	-	500,000	-
120-02	Phone-A-Ride	790,000	750,038	39,962	878,339
140-04	Recreation Excursions	52,000	36,788	15,212	43,479
250-06	MTA Bus Pass Sales	110,000	47,127	62,873	73,512
270-16	Orange Line (JPA) Invoice	32,716	32,716	-	33,306
480-01	Administration	377,520	387,663	(10,143)	454,140
	Total expenditures	\$ 2,809,236	\$ 1,940,926	\$ 868,310	\$ 2,274,268

See report of independent auditors.

City of South Gate
Proposition A Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2020

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2020</u>
1989	1 Bus stop pad - California	\$ 8,656	\$ -	\$ -	8,656
1989	4 Bus stop pads - Santa Ana	34,627	-	-	34,627
1989	9 Bus stop pads - Otis	77,913	-	-	77,913
1989	4 Bus stop pads - Firestone	34,627	-	-	34,627
1989	1 Bus stop pad - Santa Fe	8,656	-	-	8,656
1989	8 Bus stop pads - Truba	69,255	-	-	69,255
1989	1 Bus stop pad - Tweedy	8,656	-	-	8,656
	Total	\$ 242,390	\$ -	\$ -	\$ 242,390

See report of independent auditors.

**City of South Gate
Proposition C Local Return Fund
Balance Sheets**

		June 30	
		2020	2019
ASSETS			
Cash and investments	\$	4,689,095	\$ 3,924,734
Interest receivable		18,055	24,073
Total assets	\$	<u>4,707,150</u>	<u>\$ 3,948,807</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	-	\$ 55,273
Total liabilities		<u>-</u>	<u>55,273</u>
Fund balance			
Restricted		<u>4,707,150</u>	<u>3,893,534</u>
Total fund balance		<u>4,707,150</u>	<u>3,893,534</u>
Total liabilities and fund balance	\$	<u>4,707,150</u>	<u>\$ 3,948,807</u>

See notes to Funds financial statements.

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

	Years ended June 30	
	2020	2019
Revenues		
Proposition C	\$ 1,579,431	\$ 1,642,492
Investment income	109,118	124,977
Total revenues	1,688,549	1,767,469
Expenditures		
Various projects	874,933	2,190,439
Total expenditures	874,933	2,190,439
Excess (deficiency) of revenues over expenditures	813,616	(422,970)
Fund balance at beginning of year	3,893,534	4,316,504
Fund balance at end of year	\$ 4,707,150	\$ 3,893,534

See notes to Funds financial statements.

City of South Gate
Proposition C Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2020
(With Comparative Actuals for 2019)

Project Code	Project Name	2020			2019 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
160-03	Trash Receptacles at Bus Stop	\$ 82,515	\$ 37,832	\$ 44,683	\$ 37,832
270-15	Gateway Cities Council of Government Invoice	10,000	10,000	-	10,000
310-01	I-710 Corridor Environmental Impact Report (EIR)	30,000	25,000	5,000	25,000
440-10	Bridge Repairs	-	-	-	18,798
440-82	Thermoplastic Striping of Streets Citywide (654-ST)	250,000	286	249,714	-
450-07	Firestone Boulevard over Los Angeles River Bridge Widening, Phase IV	205,000	7,405	197,595	10,210
450-13	Street Improvements on Garfield and Imperial Highway	1,753,206	69,884	1,683,322	20,189
450-18	Firestone Boulevard Capacity Improvements	3,500,000	562,944	2,937,056	1,791,276
450-19	HSIP Cycle 5, Firestone Boulevard and Otis Street improvements and Imperial Highway Center Median	1,020,000	25,382	994,618	4,266
450-20	Firestone Boulevard Bridge Modifications at Rio Hondo Channel	259,000	1,484	257,516	-
450-21	Tweedy Boulevard Traffic Signal Synchronization Project	500,000	6,139	493,861	16,733
470-81	Pavement Management System Report (651- RPT)	50,000	-	50,000	-
480-01	Administration	204,908	128,577	76,331	256,135
500-80	Citywide Speed Survey (652-RPT)	60,000	-	60,000	-
Total expenditures		\$ 7,924,629	\$ 874,933	7,049,696	\$ 2,190,439

See report of independent auditors.

City of South Gate
Proposition C Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2020

Date Acquired	Description	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020
N/A	None	\$ -	\$ -	\$ -	\$ -
Total		\$ -	\$ -	\$ -	\$ -

See report of independent auditors.

**City of South Gate
Measure R Local Return Fund
Balance Sheets**

		June 30	
		2020	2019
ASSETS			
Cash and investments	\$	6,571,400	\$ 5,686,391
Due from other agencies		3,789	3,789
Interest receivable		24,771	29,085
Total assets	\$	6,599,960	\$ 5,719,265
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	13,982	\$ -
Accrued payroll		4,894	41
Total liabilities		18,876	41
Fund balance			
Restricted		6,581,084	5,719,224
Total fund balance		6,581,084	5,719,224
Total liabilities and fund balance	\$	6,599,960	\$ 5,719,265

See notes to Funds financial statements.

City of South Gate
Measure R Local Return Fund
Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2020	2019
Revenues		
Measure R	\$ 1,182,879	\$ 1,232,223
Investment income	150,418	142,191
Total revenues	1,333,297	1,374,414
 Expenditures		
Expenditures	471,437	272,045
Total expenditures	471,437	272,045
 Excess of revenues over expenditures	 861,860	 1,102,369
 Fund balance at beginning of year	 5,719,224	 4,616,855
 Fund balance at end of year	 \$ <u>6,581,084</u> *	 \$ <u>5,719,224</u>

* \$467,918 of the fund balance at end of year has lapsed. On September 16, 2020, as a result of the COVID-19 pandemic, the LACMTA Board of Directors granted a one-time, one-year extension for the use of the lapsed funds.

See notes to Funds financial statements.

City of South Gate
Measure R Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2020
(With Comparative Actuals for 2019)

Project Code	Project Name	2020			2019 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
1-007	Gardendale Pavement Rehabilitation from Garfield Avenue to East City	\$ 128,681	\$ -	\$ 128,681	\$ -
1-013	Long Beach Boulevard Improvements	1,301,090	35,361	1,265,729	1,305
1-014	Hildreth Avenue Traffic Mitigations Project	173,929	-	173,929	173,929
3-003	SR2S Cycle 10 - New Pedestrian Signals and Crosswalks at Otis/Firestone	390,000	2,900	387,100	87,102
639-TR	Citywide Roadway Maintenance by City	3,480,977	423,383	3,057,594	-
655-TR	Replacement of Damaged Traffic Signal Poles at the Intersection	120,000	-	120,000	-
657-ST	Firestone Plaza Striping	30,000	-	30,000	-
658-RP	San Gabriel Ave Safety Study	30,000	-	30,000	-
7-014	Traffic Study at 4 Intersections Along Firestone Blvd	21,000	-	21,000	-
8-001	Administrative Expense	9,865	9,793	72	9,709
Total expenditures		\$ 5,685,542	\$ 471,437	\$ 5,214,105	\$ 272,045

See report of independent auditors.

City of South Gate
Measure R Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2020

Date Acquired	Description	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020
N/A	None	\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See report of independent auditors.
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**City of South Gate
Measure M Local Return Fund
Balance Sheets**

		June 30	
		2020	2019
ASSETS			
Cash and investments	\$	1,568,142	\$ 684,116
Interest receivable		4,885	7,538
Total assets	\$	1,573,027	\$ 691,654
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	52,287	\$ -
Accrued payroll		761	-
Total liabilities		53,048	-
Fund balance			
Restricted		1,519,979	691,654
Total fund balance		1,519,979	691,654
Total liabilities and fund balance	\$	1,573,027	\$ 691,654

See notes to Funds financial statements.

City of South Gate
Measure M Local Return Fund
Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2020	2019
Revenues		
Measure M	\$ 1,330,351	\$ 1,388,967
Investment income	29,343	31,131
Total revenues	1,359,694	1,420,098
 Expenditures		
Various projects	531,369	1,452,881
Total expenditures	531,369	1,452,881
 Excess (deficiency) of revenues over expenditures	 828,325	 (32,783)
 Fund balance at beginning of year	 691,654	 724,437
 Fund balance at end of year	 \$ 1,519,979	 \$ 691,654

See notes to Funds financial statements.

City of South Gate
Measure M Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2020
(With Comparative Actuals for 2019)

Project Code	Project Name	2020		Variance Positive (Negative)	2019 Actual
		LACMTA Budget	Actual		
1.05	Citywide Roadway Maintenance by City Force	\$ 497,048	\$ 226,394	\$ 270,654	\$ -
1.10	Firestone Boulevard Regional Corridor Capacity Enhancement Project	2,000,000	162,909	1,837,091	1,409,151
1.20	Hildreth Avenue Traffic Mitigations Project	228,411	102,062	126,349	25,552
1.20	Paramount at Somerset Intersection Improvements Project	100,000	27,868	72,132	2,788
1.25	Curb Ramp Modifications for ADA Compliance	20,000	9,560	10,440	-
1.30	Garfield Avenue Complete Streets Project	1,037,060	2,576	1,034,484	15,390
1.90	Installation of Electric Vehicle Charging Stations	60,000	-	60,000	-
	Total expenditures	\$ 3,942,519	\$ 531,369	\$ 3,411,150	\$ 1,452,881

See report of independent auditors.

City of South Gate
Measure M Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2020

Date Acquired	Description	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020
N/A	None	\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See report of independent auditors.
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City of South Gate
Transportation Development Act Article 3 Fund
Pursuant to Public Utilities Code Section 99234
Balance Sheets

		June 30	
		2020	2019
ASSETS			
Due from LACMTA		\$ -	\$ 195,646
	Total assets	\$ -	\$ 195,646
LIABILITIES AND FUND BALANCE			
Liabilities			
Cash overdraft		\$ -	\$ 195,646
	Total liabilities	-	195,646
Fund balance			
Restricted		-	-
	Total fund balance	-	-
	Total liabilities and fund balance	\$ -	\$ 195,646

See notes to Funds financial statements.

City of South Gate
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	
		2020	2019
Revenues			
Intergovernmental Allocations:			
Article 3	\$	-	\$ 195,646
Total revenues		-	195,646
 Expenditures			
Bike Racks along Firestone Boulevard		-	195,673
Total expenditures		-	195,673
Deficiency of revenues over expenditures		-	(27)
Fund balance at beginning of year		-	27
Fund balance at end of year	\$	-	-

See notes to Funds financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The operations of the Proposition A Local Return Fund (PALRF), the Proposition C Local Return Fund (PCLRF), the Measure R Local Return Fund (MRLRF), the Measure M Local Return Fund (MMLRF) 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 the county-wide ½ cent Measure R 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.

MMLRF is derived from 17% of the county-wide ½ cent Measure M 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, MMLRF 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 based on budgets approved by LACMTA and 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 (CAFR) 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, MMLRF and TDAA3F report the following fund balance classification as of June 30, 2020 and 2019:

- 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 is restricted for projects approved by LACMTA.

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

NOTE 2 ANNUAL FINANCIAL STATEMENTS

The financial statements reflect only the financial position and results of operations of the PALRF, PCLRF, MRLRF, MMLRF and TDAA3F, and do not purport to, and do not present fairly the City's financial position as of June 30, 2020 and 2019, 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 MEASURE M LOCAL RETURN COMPLIANCE REQUIREMENTS

Measure M was approved by the voters of Los Angeles County on November 8, 2016 to improve transportation and ease traffic congestion consistent with the Los Angeles County Traffic Improvement Plan Ordinance approved by the Metro Board of Directors on June 23, 2016. The Measure M Ordinance specifies that LR funds be used exclusively for transportation purposes.

NOTE 5 MEASURE M LOCAL RETURN COMPLIANCE REQUIREMENTS (CONTINUED)

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

NOTE 6 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 7 CASH AND INVESTMENTS

The PALRF, PCLRF, MRLRF, MMLRF 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 CAFR for a full description of risks relating to cash and investments.

NOTE 8 PROPOSITION A DISCRETIONARY INCENTIVE PROGRAM GRANT

Proposition A Discretionary Incentive Grant represents additional funds received from LACMTA for providing transportation services and participating in the Voluntary NTD Program.

Grants received for the years ended June 30, 2020 and 2019 were recorded under PALRF where the corresponding project expenditures were recorded.

	2019	2019
Voluntary NTD Program for FY 2016 reporting year	\$ -	\$ 147,238
Voluntary NTD Program for FY 2017 reporting year	152,556	-
	\$ 152,556	\$ 147,238

NOTE 9 PROJECT GENERATED REVENUES

Project generated revenues under PALRF for the years ended June 30, 2020 and 2019 consisted of the following:

	2020	2019
Fare box revenue	\$ 101,022	\$ 129,760
Bus pass sales	36,221	56,449
LACMTA ID and cover sales	-	11,110
Others	9,781	-
	\$ 147,024	\$ 197,319

NOTE 10 VEHICLE LEASE REVENUES – PALRF

The City entered into an agreement with Oldtimers Foundation (Oldtimers) to lease two equipped transit buses for the fixed route transit services (MOU.JARCSGATE12). The buses will be operated, maintained and stored by Oldtimers and the City is compensated for the use of the buses. For the years ended June 30, 2020 and 2019, the City received \$62,500 and \$75,000, respectively, in vehicle lease revenues.

NOTE 11 CAPITAL RESERVE AGREEMENT – PCLRF

In June 2019, the LACMTA and the City entered into a capital reserve agreement (Agreement) to establish a capital reserve account (Account) of \$3,500,000 for the Firestone Boulevard Capacity Project. The project is a complete rehabilitation and improvement of the roadway on Firestone Boulevard from Alameda Street to Annetta Avenue.

The Account is funded with the Proposition C Local Return funds allocated to the City. All interest is accrued in the Account to be used exclusively for the said project. If the project is not completed by June 30, 2024, any unexpended funds shall lapse and be returned to LACMTA.

LACMTA and the City are in the process of executing the Agreement. The City will set-up the Capital Reserve Account beginning fiscal year 2020/2021.

NOTE 12 TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND REVENUE ALLOCATION

The revenue allocations for the years ended June 30, 2020 and 2019 consisted of the following:

	\$ 2020	\$ 2019
FY 2016/17 allocation	-	63,941
FY 2017/18 allocation	-	64,846
FY 2018/19 allocation	-	66,859
	\$ -	\$ 195,646

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, 2020 and 2019, the City has funds on reserve as follows:

	2020	2019
FY 2019/20 reserve	\$ 70,864	\$ -
Total reserve	\$ 70,864	\$ -

For FY 2019/20, any TDA Article 3 funds left on reserve for FY 2015/16 or prior, are subject to lapse if not claimed by the City by June 30, 2019. There were no funds that lapsed in FY 2019/20.

NOTE 13 SUBSEQUENT EVENTS

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries. To date, it is unknown how long these conditions will last and what the complete financial effect will be to businesses and other affected organizations, including local governmental entities.

The City has evaluated events subsequent to June 30, 2020 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through December 30, 2020, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no other subsequent events occurred that require recognition or additional disclosure in 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 South Gate, 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, the Measure M Local Return Fund and the Transportation Development Act Article 3 Fund (collectively, the Funds) of the City of South Gate, California (the City) as of and for the year ended June 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated December 30, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the Funds' financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing 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 City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control described in the Schedule of Findings on Internal Control over Financial Reporting as Finding No. FS 2020-001 that we consider to be a material weakness.



The City's Response to the Finding

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

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, Measure M 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

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

**Glendale, California
December 30, 2020**

Finding No. FS 2020-001: Year-end Closing Process

Criteria

Section V of the Proposition A and Proposition C Local Return Guidelines, Section VII of the Measure R Local Return Guidelines and Section XXV of the Measure M Local Return Guidelines 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. This includes reconciliation of major balance sheet accounts including bank accounts.

Cause and Effect

We learned that the City lost several key employees in the finance and accounting department during the fiscal year 2020. As such, there was a delay in the closing of the City's books for the fiscal year 2020. 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 South Gate 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 is in the process of catching up on all accounting processes that have not been completed due to staff turnover and various other reasons such as the pandemic. The City is also in the process of recruiting for the two vacant positions, the Senior Accountant and the Senior Financial Analyst, both of whom have critical responsibilities in the year-end closing process. Once these two positions are filled, they will be included in the yearend checklist that indicates who will perform each procedure, when it is due, and when it is accomplished in accordance with the timing of the audit.

COMPLIANCE SECTION

Report of Independent Auditors on Compliance

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

Report on Compliance

We have audited the compliance of the City of South Gate, California (the City) with the Proposition A and Proposition C Local Return Guidelines, Measure R Local Return Guidelines, Measure M 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, 2020.

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, Measure M 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 South Gate, California complied, in all material respects, with the compliance requirements of the Guidelines for the year ended June 30, 2020.



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 may exist that have not been identified.

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

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

**Glendale, California
December 30, 2020**

**City of South Gate
Compliance Matrix
Year ended June 30, 2020**

Compliance Requirements	In Compliance			Questioned Costs	If no, provide details and management response.
	Yes	No	N/A		
A. Proposition A and Proposition C Local Return Funds					
1. Uses the State Controller's Uniform System of Accounts and Records.	X				
2. Timely use of funds.	X				
3. Funds expended were approved and have not been substituted for property tax.	X				
4. Expenditures that exceeded 25% of approved project budget have approved amended Project Description Form (Form A)	X				
5. Administrative expenses are within the 20% cap of the total annual Local Return Expenditures.	X				
6. All on-going and carryover projects were reported in Form B.	X				
7. Annual Project Summary Report (Form B) was submitted timely.	X				
8. Annual Expenditure Report (Form C) was submitted timely.	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 timely.	X				

See report of independent auditors on compliance.

**City of South Gate
Compliance Matrix
Year ended June 30, 2020**

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 timely.	X				
8. Expenditure Report (Form Two) was submitted timely.	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 timely.			X		

See report of independent auditors on compliance.

**City of South Gate
Compliance Matrix
Year ended June 30, 2020**

Compliance Requirements	In Compliance			Questioned Costs	If no, provide details and management response.
	Yes	No	N/A		
C. Measure M 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 fund shortfall.	X				
3. Signed Assurances and Understandings on file.	X				
4. Separate Measure M Local Return Account was established.	X				
5. Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure M Local Return Account.	X				
6. Funds were expended with LACMTA's approval.	X				
7. Expenditure Plan (Form M-One) was submitted timely.	X				
8. Expenditure Report (Form M-Two) was submitted timely.	X				
9. Timely use of funds.	X				
10. Administrative expenses are within the 20% cap.			X		There were no administrative expenses charged to MMLRF.
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 timely.			X		

See report of independent auditors on compliance.

**City of South Gate
Compliance Matrix
Year ended June 30, 2020**

Compliance Requirements	In Compliance			Questioned Costs	If no, provide details and management response.
	Yes	No	N/A		
D. Transportation Development Act Article 3 Fund					
1. Timely use of funds.	X				
2. Expenditures were incurred for activities relating to pedestrian and bicycle facilities and amenities.	X				

See report of independent auditors on compliance.

SCHEDULE OF FINDINGS AND QUESTIONED COST

**City of South Gate
Schedule of Findings and Questioned Costs
Year ended June 30, 2020**

There were no findings noted.

EXIT CONFERENCE

An exit conference was held on December 30, 2020 with the City of South Gate representatives. Those in attendance were:

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

City of South Gate representatives:
Kim Sao – Deputy Director of Admin Services/Finance
Vinnie Timoteo – Senior Accountant

Matters discussed:

Results of the audit disclosed a deficiency in internal control over financial reporting.

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

Jacquelyn Acosta – Director of Administrative Services
Kim Sao – Deputy Director of Admin Services/Finance
Vinnie Timoteo – Senior Accountant



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