



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

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

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

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



### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the 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 South Gate, California, as of June 30, 2017 and 2016, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

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

### ***Supplementary Information***

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

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

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2017 on our consideration of the City's internal control over the Funds' financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over the Funds' financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over the Funds' financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over the Funds' financial reporting and compliance.

Los Angeles, California  
December 21, 2017

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

		<b>June 30</b>	
		<b>2017</b>	<b>2016</b>
<b>ASSETS</b>			
Cash and investments	\$	<b>2,828,282</b>	\$ 1,964,706
Due from LACMTA		-	854,739
Accounts receivable		<b>5,000</b>	4,617
Interest receivable		-	1,619
<b>Total assets</b>	<b>\$</b>	<b><u>2,833,282</u></b>	<b><u>\$ 2,825,681</u></b>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Liabilities</b>			
Accounts payable	\$	<b>269,588</b>	\$ 201,180
Accrued payroll		<b>3,503</b>	2,236
<b>Total liabilities</b>		<b><u>273,091</u></b>	<b><u>203,416</u></b>
<b>Fund balance</b>			
Restricted		<b><u>2,560,191</u></b>	<u>2,622,265</u>
<b>Total fund balance</b>		<b><u>2,560,191</u></b>	<u>2,622,265</u>
<b>Total liabilities and fund balance</b>	<b>\$</b>	<b><u>2,833,282</u></b>	<b><u>\$ 2,825,681</u></b>

*See notes to Funds financial statements.*

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

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	Years ended June 30	
	2017	2016
<b>Revenues</b>		
Proposition A	\$ 1,761,728	\$ 1,733,853
Proposition A Discretionary Incentive Program grant	145,918	100,563
Interest income	20,973	9,006
Job Access and Reverse Commute (JARC) Program grant	-	313,240
Project generated revenues	218,064	212,942
Vehicle lease revenues	75,000	71,250
<b>Total revenues</b>	<b>2,221,683</b>	<b>2,440,854</b>
<b>Expenditures</b>		
Expenditures funded by PALRF	2,283,757	1,704,308
Expenditures funded by JARC Program Grant	-	335,309
<b>Total expenditures</b>	<b>2,283,757</b>	<b>2,039,617</b>
Excess (deficiency) of revenues over expenditures	(62,074)	401,237
Fund balance at beginning of year	2,622,265	2,221,028
Fund balance at end of year	\$ 2,560,191	\$ 2,622,265

*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, 2017**  
**(With Comparative Actuals for 2016)**

Project Code	Project Name	2017			2016 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
110-17	Fixed Route Bus Service to Local Destinations	\$ 806,000	\$ 860,747	\$ (54,747)	\$ 614,867
120-02	Phone-A-Ride	626,000	775,847	(149,847)	691,232
140-04	Recreation Excursions	41,600	38,001	3,599	37,293
160-04	Replacement of Bus Benches at Bus Stop	70,000	-	70,000	-
160-05	Installation of Curb Cut for a New GATE Fixed Route Stop	52,000	52,000	-	-
250-06	MTA Bus Pass Sales	100,000	99,340	660	90,114
270-16	Orange Line (JPA) invoice	24,000	24,000	-	29,101
300-01	Fixed Route Bus Services	-	-	-	17,978
300-02	Transit Facility - Repair of Roof	10,000	10,000	-	-
480-01	Administration	440,000	423,822	16,178	223,723
<b>Total expenditures</b>		<b>\$ 2,169,600</b>	<b>\$ 2,283,757</b>	<b>\$ (114,157)</b>	<b>\$ 1,704,308</b>

*See report of independent auditors.*



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

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<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</u>
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
<b>Total</b>		<b>\$ 242,390</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 242,390</b>

*See report of independent auditors.*

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

		<b>June 30</b>	
		<b>2017</b>	<b>2016</b>
<b>ASSETS</b>			
Cash and investments	\$	3,750,113	\$ 2,938,705
Due from LACMTA		9,040	9,040
Interest receivable		6,851	2,476
<b>Total assets</b>	<b>\$</b>	<b>3,766,004</b>	<b>\$ 2,950,221</b>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Liabilities</b>			
Accounts payable	\$	71,494	\$ 18,523
<b>Total liabilities</b>		<b>71,494</b>	<b>18,523</b>
<b>Fund balance</b>			
Restricted		3,694,510	2,931,698
<b>Total fund balance</b>		<b>3,694,510</b>	<b>2,931,698</b>
<b>Total liabilities and fund balance</b>	<b>\$</b>	<b>3,766,004</b>	<b>\$ 2,950,221</b>

*See notes to Funds financial statements.*

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

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	Years ended June 30	
	2017	2016
<b>Revenues</b>		
Proposition C	\$ 1,466,593	\$ 1,442,723
Other LACMTA grants	-	9,040
Interest income	<u>27,142</u>	<u>14,304</u>
<b>Total revenues</b>	<b><u>1,493,735</u></b>	<b><u>1,466,067</u></b>
 <b>Expenditures</b>		
Expenditures funded by PCLRF	<u>730,923</u>	881,377
Expenditures funded by other LACMTA grants	-	<u>9,040</u>
<b>Total expenditures</b>	<b><u>730,923</u></b>	<b><u>890,417</u></b>
 Excess of revenues over expenditures	 <b>762,812</b>	 575,650
 Fund balance at beginning of year	 <u>2,931,698</u>	 <u>2,356,048</u>
 Fund balance at end of year	 <b><u>\$ 3,694,510</u></b>	 <b><u>\$ 2,931,698</u></b>

*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, 2017**  
**(With Comparative Actuals for 2016)**

Project Code	Project Name	2017			2016 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
160-03	Trash Receptacles at Bus Stop	\$ 30,000	\$ 30,000	\$ -	\$ 66,144
270-15	Gateway Cities Council of Government Invoice	10,000	10,000	-	10,000
270-17	Study Phase - Firestone Boulevard and Atlantic intersection widening	-	-	-	78,838
310-1	I-710 Corridor Environmental Impact Report (EIR)	30,000	25,000	5,000	25,000
440-10	Bridge Repairs	135,000	-	135,000	70,208
450-07	Firestone Boulevard over Los Angeles River Bridge Widening, Phase IV	205,000	205,000	-	52,822
450-12	Firestone/Rayo Intersection	-	-	-	145,570
450-13	Street Improvements on Garfield and Imperial Highway	353,206	90,298	262,908	125,770
450-18	Firestone Boulevard Capacity Improvements	500,000	225,453	274,547	-
450-19	HSIP Cycle 5, Firestone Boulevard and Otis Street improvements and Imperial Highway Center Median	202,163	94,003	108,160	90,600
450-20	Firestone Boulevard Bridge Modifications at Rio Hondo Channel	250,000	7,087	242,913	40,150
480-01	Administration	198,108	44,082	154,026	176,275
<b>Total expenditures</b>		<b>\$ 1,913,477</b>	<b>\$ 730,923</b>	<b>\$ 1,182,554</b>	<b>\$ 881,377</b>

*See report of independent auditors.*

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

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

*See report of independent auditors.*

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

		June 30	
		2017	2016
<b>ASSETS</b>			
Cash and investments	\$	3,620,690	\$ 2,874,926
Due from other agencies		2,330	-
Interest receivable		6,564	2,430
<b>Total assets</b>	<b>\$</b>	<b><u>3,629,584</u></b>	<b><u>\$ 2,877,356</u></b>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Liabilities</b>			
Accounts payable	\$	5,180	\$ 75
<b>Total liabilities</b>		<b><u>5,180</u></b>	<b><u>75</u></b>
<b>Fund balance</b>			
Restricted		<u>3,624,404</u>	<u>2,877,281</u>
<b>Total fund balance</b>		<b><u>3,624,404</u></b>	<b><u>2,877,281</u></b>
<b>Total liabilities and fund balance</b>	<b>\$</b>	<b><u>3,629,584</u></b>	<b><u>\$ 2,877,356</u></b>

*See notes to Funds financial statements.*

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

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

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	Years ended June 30	
	2017	2016
<b>Revenues</b>		
Measure R	\$ 1,096,245	\$ 1,079,292
LACMTA Call for Projects grant	2,330	-
Interest income	25,632	13,849
<b>Total revenues</b>	<b>1,124,207</b>	<b>1,093,141</b>
 <b>Expenditures</b>		
Expenditures funded by MRLRF	374,754	548,008
Expenditures funded by LACMTA Call for Projects grant	2,330	75
<b>Total expenditures</b>	<b>377,084</b>	<b>548,083</b>
 Excess of revenues over expenditures	747,123	545,058
 Fund balance at beginning of year	2,877,281	2,332,223
 Fund balance at end of year	\$ 3,624,404	\$ 2,877,281

*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, 2017**  
**(With Comparative Actuals for 2016)**

Project Code	Project Name	2017			2016 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
1-007	Gardendale Pavement Rehabilitation from Garfield Avenue to East City	\$ 35,062	\$ 15,887	\$ 19,175	\$ 433
1-011	Firestone Boulevard and Rayo Avenue Intersection Improvement Project	-	-	-	20,000
1-012	Highway Safety Improvement, 4 Left Turns on Firestone (Santa Fe, Long Beach, California, Otis)	152,380	54,745	97,635	-
2-001	Left Turn Phasing Installation on Firestone Boulevard at Four Intersections	238,480	202,542	35,938	268,313
2-003	Left Turn Phasing Installation on Alameda St and Firestone Blvd	-	-	-	35,938
3-003	SR2S Cycle 10 - New Pedestrian Signals and Crosswalks at Otis/Firestone	139,260	24,615	114,645	49,665
3-004	State Street Park	50,000	50,000	-	-
3-005	SR2S Cycle 8 - Bike Lanes Along Southern Avenue	-	16,341	(16,341) *	173,659
8-001	Administrative Expense	8,665	10,624	(1,959)	-
<b>Total expenditures</b>		<b>\$ 623,847</b>	<b>\$ 374,754</b>	<b>\$ 249,093</b>	<b>\$ 548,008</b>

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

*See report of independent auditors.*



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

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

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

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		June 30	
		2017	2016
<b>ASSETS</b>			
Due from LACMTA		\$ <u>81,074</u>	\$ <u>2,002</u>
	<b>Total assets</b>	<b>\$ <u>81,074</u></b>	<b>\$ <u>2,002</u></b>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Liabilities</b>			
Cash overdraft		\$ <u>81,074</u>	\$ <u>2,002</u>
	<b>Total liabilities</b>	<b><u>81,074</u></b>	<b><u>2,002</u></b>
<b>Fund balance (deficit)</b>			
Restricted		<u>-</u>	<u>-</u>
	<b>Total fund balance (deficit)</b>	<b><u>-</u></b>	<b><u>-</u></b>
	<b>Total liabilities and fund balance (deficit)</b>	<b>\$ <u>81,074</u></b>	<b>\$ <u>2,002</u></b>

*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, 2017 and 2016**

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	<b>Years ended June 30</b>	
	<b>2017</b>	<b>2016</b>
<b>Revenues</b>		
Intergovernmental Allocations:		
Article 3	\$ <b>79,072</b>	\$ 2,002
<b>Total revenues</b>	<b>79,072</b>	2,002
<b>Expenditures</b>		
Citywide Sidewalk Improvements, Phase III	<b>79,072</b>	2,002
<b>Total expenditures</b>	<b>79,072</b>	2,002
Excess of revenues over expenditures	-	-
Fund balance at beginning of year	-	-
Fund balance (deficit) at end of year	\$ -	\$ -

*See notes to Funds financial statements.*

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

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Project Description	Program Year	Totals to Date		Unexpended Allocations	Project Status
		Allocations	Expenditures		
<b>Local Allocations:</b>					
Citywide Sidewalk Improvements, Phase III	2017	\$ 79,072	\$ 79,072	\$ -	Completed
<b>Totals</b>		<u>\$ 79,072</u>	<u>\$ 79,072</u>	-	
Fund balance at beginning of year				-	
Fund balance at end of year				<u>\$ -</u>	

*See report of independent auditors.*

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Fund Accounting**

The operations of the Proposition A Local Return Fund (PALRF), Proposition C Local Return Fund (PCLRF), Measure R Local Return Fund (MRLRF) and 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.

**NOTE 6 CASH AND INVESTMENTS (CONTINUED)**

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

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

Proposition A Discretionary Incentive Grants 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, 2017 and 2016 were recorded under PALRF where the corresponding project expenditures were recorded.

	<b>2017</b>	<b>2016</b>
Voluntary NTD Program for FY 2013 reporting year	\$ -	\$ 100,563
Voluntary NTD Program for FY 2014 reporting year	<b>145,918</b>	-
	<b>\$ 145,918</b>	<b>\$ 100,563</b>

**NOTE 8 JOB ACCESS AND REVERSE COMMUTE (JARC) PROGRAM GRANT**

For the year ended June 30, 2016, the City recorded the amount of \$313,240 under PALRF which represents funding received from the Federal Transit Administration (FTA) through LACMTA under the funding agreement, FTA Grant CA-37-X171, for Section 5316 JARC Program Grants.

**NOTE 9 PROJECT GENERATED REVENUES**

Project generated revenues under PALRF for the years ended June 30, 2017 and 2016 consisted of the following:

	<b>2017</b>	<b>2016</b>
Fare box revenue	\$ <b>133,463</b>	\$ 127,765
Bus pass sales	<b>68,542</b>	75,378
LACMTA ID and cover sales	<b>16,059</b>	9,799
	<b>\$ 218,064</b>	<b>\$ 212,942</b>

**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, 2017 and 2016, the City received \$75,000 and \$71,250, respectively, in vehicle lease revenues.



**NOTE 11 LACMTA CALL FOR PROJECTS GRANT – MRLRF**

In July 2015, the LACMTA and the City entered into a funding agreement for the review of the Interstate 710 South Early Action Project (I-710 Draft EIR/EIS) (LACMTA Project ID #MR306.14). Under the agreement, LACMTA agrees to reimburse the City up to \$100,000 in Measure R funds. The City prepares and submits to LACMTA a request for reimbursement for actual allowable project costs incurred and paid for by the City consistent with the scope of work. The City recognized \$2,330 and \$0 of revenues from this program during the years ended June 30, 2017 and 2016, respectively.

**NOTE 12 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 2013/14 reserve	\$	-	\$	27
FY 2014/15 reserve		17,868		1,975
FY 2015/16 reserve		61,204		-
	\$	<u>79,072</u>	\$	<u>2,002</u>

\* The revenue was accrued at June 30, 2016. However, the drawdown was not processed by LACMTA until FY 2016/17 for FY 2015/16. The FY 2016 amount is presented as part of the balance of funds reserved on Note 13.

**NOTE 13 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 2013/14 reserve	\$	-	\$	27
FY 2014/15 reserve		-		19,843
FY 2015/16 reserve		-		61,204
FY 2016/17 allocation		63,968		-
	\$	<u>63,968</u>	\$	<u>81,074</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 14      SUBSEQUENT EVENTS**

The City has evaluated subsequent events through December 31, 2017, the date the financial statements were available to be issued, and concluded no events have occurred that require disclosure or adjustments to the financial statements.

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

**To the Honorable Members of the City Council of the  
City of 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 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 years ended June 30, 2017 and 2016, and the related notes to the financial statements, and have issued our report thereon dated December 21, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audits of the Funds' financial statements, we considered the City's internal control over 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 entity'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. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

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

**Los Angeles, California**  
**December 21, 2017**

**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, 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 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 South Gate, California complied, in all material respects, with the compliance requirements of the Guidelines for the year ended June 30, 2017.



### **Other Matters**

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

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

### **Report on Internal Control over Compliance**

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

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

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

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

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

**Los Angeles, California  
December 21, 2017**

**City of South Gate  
Compliance Matrix  
Year ended June 30, 2017**

Compliance Requirements	In Compliance			Questioned Costs	If no, provide details and management response.
	Yes	No	N/A		
<b>A. Proposition A and Proposition C Local Return Funds</b>					
1. Uses the State Controller's Uniform System of Accounts and Records.	X				
2. Timely use of funds.	X				
3. Funds expended were approved and have not been substituted for property tax.	X				
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 South Gate  
Compliance Matrix  
Year ended June 30, 2017**

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

*See report of independent auditors on compliance.*

**SCHEDULE OF FINDINGS AND QUESTIONED COST**

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

**MRLRF: Finding #2017-001**

<p><b>Compliance Reference</b></p>	<p>Section B (II) of Measure R Local Return Program Guideline states that, "To maintain legal eligibility and meet Measure R LR program compliance requirements, Jurisdiction shall submit to LACMTA an Expenditure Plan (Form One), annually, by August 1st of each year.</p> <p>Expenditure Plan (Form One) provides a listing of projects funded with Measure R LR funds along with estimated expenditures for the year. For both operating and capital projects, Part I is to be filled out. For capital projects (projects over \$250,000), Part II is required. Pursuant to AB2321, LACMTA will provide LR funds to a capital project or program sponsor who submits the required expenditure plan.</p>
<p><b>Condition</b></p>	<p>The City claimed expenditures for MRLRF project code 3-005, SR2S Cycle 8 – Bike Lanes along Southern Avenue, for \$16,341 with no prior approval from LACMTA.</p> <p>Although this project was previously approved in FY 2015/16, the City is still required to carry over the budget in the Expenditure Plan (Form One) and have it approved for FY 2016/17.</p> <p>The City submitted a revised Expenditure Plan (Form One) to the LACMTA Program Manager and obtained a retroactive approval of the said project on December 19, 2017.</p>
<p><b>Cause</b></p>	<p>The project budget was approved in FY 2015/16. However, staff inadvertently forgot to carry over the remaining budget amount to be included in FY 2016/17 for LACMTA's approval.</p>
<p><b>Effect</b></p>	<p>The City claimed expenditures totaling \$16,341 without prior approval from LACMTA. Lack of prior approval results in noncompliance which could impact future funding or result in questioned costs that require funding to be returned to LACMTA.</p>
<p><b>Recommendation</b></p>	<p>We recommend for the City to establish procedures and controls to ensure that approval is obtained from LACMTA prior to spending on Measure R-funded projects.</p>

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

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**MRLRF: Finding #2017-001 (Continued)**

<b>Management's Response</b>	The City agrees with the finding. Both the Public Works and the Finance Departments will continue to streamline the review process to ensure all projects for the current fiscal year, including continuing projects approved in prior years, have been submitted and received approval from LACMTA.
<b>Finding Corrected During Audit</b>	LACMTA Program Manager granted retroactive approval of the said project on December 19, 2017. No additional follow up is required.

**EXIT CONFERENCE**

An exit conference was held on December 21, 2017 with the City of South Gate representative. Those in attendance were:

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

City of South Gate representative:  
Jacquelyn Acosta – Director of Administrative Services

Matters discussed:

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

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

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



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