

***CITY OF CERRITOS  
ANNUAL FINANCIAL REPORT OF THE  
PROPOSITION A LOCAL RETURN FUND  
PROPOSITION C LOCAL RETURN FUND  
MEASURE R LOCAL RETURN FUND  
TRANSPORTATION DEVELOPMENT ACT  
ARTICLE 3 FUND  
FOR THE FISCAL YEARS ENDED  
JUNE 30, 2018 AND 2017  
  
AND MEASURE M LOCAL RETURN FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018***



**Metro<sup>®</sup>**



Simpson & Simpson, LLP  
Certified Public Accountants

***CITY OF CERRITOS***  
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*FINANCIAL SECTION*

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## Independent Auditor's Report

To the Honorable Members of the City Council of the  
City of Cerritos, 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 (PALRF), Proposition C Local Return Fund (PCLRF), Measure R Local Return Fund (MRLRF), and Transportation Development Act Article 3 Fund (TDAA3F) (collectively, the Funds), of the City of Cerritos, California (the City) as of and for the years ended June 30, 2018 and 2017, and Measure M Local Return Fund (MMLRF) (the Fund) of the City of Cerritos, California (the City) as of and for the year ended June 30, 2018, and the related notes to the financial statements, as listed in the table of contents.

### *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.

### *Auditor's Responsibility*

Our responsibility is to express an opinion 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about 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 PALRF, PCLRF, MRLRF and TDAA3F of the City of Cerritos, California, as of June 30, 2018 and 2017, and MMLRF of the City of Cerritos, California, as of June 30, 2018, and the respective changes in their 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 PALRF, PCLRF, MRLRF, MMLRF, and TDAA3F of the City and do not purport to, and do not, present fairly the financial position of the City of Cerritos, California, as of June 30, 2018 and 2017, and the changes in its financial position for the years then ended in conformity 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. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the Funds' financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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' financial statements or to the Funds' 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' financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have issued our report dated November 14, 2018, on our consideration of the City's internal control over the Funds' financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 cursive script that reads "Simpson &amp; Simpson".

Los Angeles, California  
November 14, 2018

**CITY OF CERRITOS**  
**PROPOSITION A LOCAL RETURN FUND**  
**BALANCE SHEETS**  
June 30

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and investments	\$ <u>1,511,337</u>	\$ <u>1,291,289</u>
Total assets	\$ <u><u>1,511,337</u></u>	\$ <u><u>1,291,289</u></u>
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ <u>-</u>	\$ <u>22,308</u>
Total liabilities	<u>-</u>	<u>22,308</u>
 <b>Fund Balance</b>		
Restricted	<u>1,511,337</u>	<u>1,268,981</u>
Total fund balance	<u>1,511,337</u>	<u>1,268,981</u>
Total liabilities and fund balance	\$ <u><u>1,511,337</u></u>	\$ <u><u>1,291,289</u></u>

The accompanying notes are an integral part of the financial statements.

**CITY OF CERRITOS**  
**PROPOSITION A LOCAL RETURN FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
For the Fiscal Years Ended June 30

	<u>2018</u>	<u>2017</u>
<b>REVENUES</b>		
Proposition A	\$ 921,695	\$ 911,784
Proposition A Discretionary Incentive Grant (Note 8)	71,139	67,697
Interest income	23,204	18,942
Project generated revenue (Note 9)	20,638	-
Total revenues	<u>1,036,676</u>	<u>998,423</u>
<b>EXPENDITURES</b>		
Various projects	<u>794,320</u>	<u>1,009,455</u>
Total expenditures	<u>794,320</u>	<u>1,009,455</u>
Excess (deficiency) of revenues over (under) expenditures	242,356	(11,032)
Fund balance at beginning of year	<u>1,268,981</u>	<u>1,280,013</u>
Fund balance at end of year	<u><u>\$ 1,511,337</u></u>	<u><u>\$ 1,268,981</u></u>

The accompanying notes are an integral part of the financial statements.



**CITY OF CERRITOS**  
**PROPOSITION A LOCAL RETURN FUND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES**  
**ACTUAL AND METRO APPROVED PROJECT BUDGET**  
For the Fiscal Year Ended June 30, 2018  
(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2017)

Project Code	Project Name	2018			2017 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
110-02	Fixed Route Transit	\$ 1,100,000	\$ 506,204	\$ 593,796	\$ 715,222
120-02	Dial-A-Ride	280,000	260,829	19,171	268,404
170-04	Public Transit Waste Container Maintenance	10,000	-	10,000	-
250-01	Long Beach Transit Subsidy	30,000	27,287	2,713	25,829
	Total expenditures	\$ <u>1,420,000</u>	\$ <u>794,320</u>	\$ <u>625,680</u>	\$ <u>1,009,455</u>

See accompanying independent auditor's report.

**CITY OF CERRITOS**  
**PROPOSITION A LOCAL RETURN FUND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CAPITAL ASSETS**  
 June 30, 2018

Date Acquired	Description	Balance 7/1/2017	Additions	Deletions	Balance 6/30/2018
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See accompanying independent auditor's report.

**CITY OF CERRITOS**  
**PROPOSITION C LOCAL RETURN FUND**  
**BALANCE SHEETS**  
June 30

	2018	2017
<b>ASSETS</b>		
Cash and investments	\$ -	\$ 137,964
Accounts receivable	800	350
Total assets	\$ 800	\$ 138,314
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ -	\$ 138,314
Due to General Fund	800	-
Total liabilities	800	138,314
 <b>Fund Balance</b>		
Restricted	-	-
Total fund balance	-	-
Total liabilities and fund balance	\$ 800	\$ 138,314

The accompanying notes are an integral part of the financial statements.

**CITY OF CERRITOS**  
**PROPOSITION C LOCAL RETURN FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
For the Fiscal Years Ended June 30

	<u>2018</u>	<u>2017</u>
<b>REVENUES</b>		
Proposition C	\$ 759,376	\$ 761,406
Proposition C Transit Amenities Grant (Note 10)	-	22,602
Project generated revenue (Note 11)	<u>56,391</u>	<u>12,900</u>
Total revenues	<u>815,767</u>	<u>796,908</u>
 <b>EXPENDITURES</b>		
Various projects	<u>815,767</u>	<u>796,908</u>
Total expenditures	<u>815,767</u>	<u>796,908</u>
 Excess of revenues over expenditures	-	-
 Fund balance at beginning of year	<u>-</u>	<u>-</u>
 Fund balance at end of year	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF CERRITOS**  
**PROPOSITION C LOCAL RETURN FUND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES**  
**ACTUAL AND METRO APPROVED PROJECT BUDGET**  
For the Fiscal Year Ended June 30, 2018  
(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2017)

Project Code	Project Name	2018		Variance Favorable (Unfavorable)	2017 Actual
		Metro Budget	Actual		
110-02	Fixed Route Transit	\$ 855,000	\$ 784,087	\$ 70,913	\$ 553,967
150-01	Transit Amenities Project	-	-	-	212,081
270-04	Gateway Cities Council of Governments - Membership Dues	10,000	10,000	-	10,000
270-07	Gateway Cities Council of Governments - Corridor Study	20,000	20,000	-	20,000
430-03	Community Bike Ride Event	1,000 *	1,680	(680)	860
	Total expenditures	\$ 886,000	\$ 815,767	\$ 70,233	\$ 796,908

\* Metro subsequently approved the budget increase to \$1,680.

See accompanying independent auditor's report.

***CITY OF CERRITOS***  
**PROPOSITION C LOCAL RETURN FUND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CAPITAL ASSETS**  
 June 30, 2018

Date Acquired	Description	Balance 7/1/2017	Additions	Deletions	Balance 6/30/2018
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See accompanying independent auditor's report.

**CITY OF CERRITOS**  
**MEASURE R LOCAL RETURN FUND**  
**BALANCE SHEETS**  
June 30

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and investments	\$ 256	\$ 220
Total assets	<u>\$ 256</u>	<u>\$ 220</u>
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>
 <b>Fund Balance</b>		
Restricted	<u>256</u>	<u>220</u>
Total fund balance	<u>256</u>	<u>220</u>
Total liabilities and fund balance	<u>\$ 256</u>	<u>\$ 220</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF CERRITOS**  
**MEASURE R LOCAL RETURN FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
For the Fiscal Years Ended June 30

	2018	2017
<b>REVENUES</b>		
Measure R	\$ 572,619	\$ 567,363
Interest income	520	472
Total revenues	573,139	567,835
 <b>EXPENDITURES</b>		
Various projects	573,103	568,120
Total expenditures	573,103	568,120
 Excess (deficiency) of revenues over (under) expenditures	36	(285)
 Fund balance at beginning of year	220	505
 Fund balance at end of year	\$ 256	\$ 220

The accompanying notes are an integral part of the financial statements



**CITY OF CERRITOS**  
**MEASURE R LOCAL RETURN FUND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES**  
**ACTUAL AND METRO APPROVED PROJECT BUDGET**  
For the Fiscal Year Ended June 30, 2018  
(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2017)

Project Code	Project Name	2018			2017 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
1.05	Street Repair and Maintenance	\$ 468,000	\$ 573,103	\$ (105,103)	\$ 568,120
8.10	Fund Administration	117,000	-	117,000	-
	Total expenditures	\$ 585,000	\$ 573,103	\$ 11,897	\$ 568,120

See accompanying independent auditor's report.

***CITY OF CERRITOS***  
**MEASURE R LOCAL RETURN FUND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CAPITAL ASSETS**  
 June 30, 2018

Date Acquired	Description	Balance 7/1/2017	Additions	Deletions	Balance 6/30/2018
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See accompanying independent auditor's report.

**CITY OF CERRITOS**  
**MEASURE M LOCAL RETURN FUND**  
**BALANCE SHEET**  
June 30

		2018
<b>ASSETS</b>		
Cash and investments	\$	-
Total assets	\$	-
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$	-
Total liabilities		-
 <b>Fund Balance</b>		
Restricted		-
Total fund balance		-
Total liabilities and fund balance	\$	-

The accompanying notes are an integral part of the financial statements.

**CITY OF CERRITOS**  
**MEASURE M LOCAL RETURN FUND**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGE IN FUND BALANCE**  
For the Fiscal Year Ended June 30

		<u>2018</u>
<b>REVENUES</b>		
Measure M	\$	518,924
Interest income		<u>3,106</u>
Total revenues		<u>522,030</u>
<b>EXPENDITURES</b>		
Various projects		<u>522,030</u>
Total expenditures		<u>522,030</u>
Excess of revenues over expenditures		-
Fund balance at beginning of year		<u>-</u>
Fund balance at end of year	\$	<u><u>-</u></u>

The accompanying notes are an integral part of the financial statements.

**CITY OF CERRITOS**  
**MEASURE M LOCAL RETURN FUND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES**  
**ACTUAL AND METRO APPROVED PROJECT BUDGET**  
**For the Fiscal Year Ended June 30, 2018**

Project Code	Project Name	2018		Variance Favorable (Unfavorable)
		Metro Budget	Actual	
1.05	Shoemaker Road Rehabilitation: Between 166th Street and Artesia Boulevard	\$ 223,400	\$ -	\$ 223,400
1.05	Del Amo Boulevard Rehabilitation: Between Bloomfield Avenue and Norwalk	<u>402,970</u>	<u>522,030</u>	<u>(119,060)</u>
	Total expenditures	<u>\$ 626,370</u>	<u>\$ 522,030</u>	<u>\$ 104,340</u>

See accompanying independent auditor's report.

***CITY OF CERRITOS***  
**MEASURE M LOCAL RETURN FUND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CAPITAL ASSETS**  
 June 30, 2018

Date Acquired	Description	Balance 7/1/2017	Additions	Deletions	Balance 6/30/2018
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See accompanying independent auditor's report.

**CITY OF CERRITOS**  
**TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND**  
**(PURSUANT TO PUBLIC UTILITIES CODE SECTION 99234)**  
**BALANCE SHEETS**  
June 30

	2018	2017
<b>ASSETS</b>		
Due from Metro	\$ -	\$ -
Total assets	\$ -	\$ -
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Due to other funds	\$ -	\$ -
Total liabilities	-	-
 <b>Fund Balance</b>		
Restricted	-	-
Total fund balance	-	-
Total liabilities and fund balance	\$ -	\$ -

The accompanying notes are an integral part of the financial statements.

**CITY OF CERRITOS**  
**TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
For the Fiscal Years Ended June 30

	2018	2017
<b>REVENUES</b>		
TDA 3	\$ -	\$ 111,850
Total revenues	-	111,850
<b>EXPENDITURES</b>		
Construction/Maintenance	-	111,850
Total expenditures	-	111,850
Excess of revenues over expenditures	-	-
Fund balance at beginning of year	-	-
Fund balance at end of year	\$ -	\$ -

The accompanying notes are an integral part of the financial statements.



**CITY OF CERRITOS**  
TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF TRANSPORTATION DEVELOPMENT ACT  
ALLOCATION FOR SPECIFIC PROJECTS  
For the Fiscal Year Ended June 30, 2018

<u>Project Description</u>	<u>Program Year</u>	<u>Allocations</u>	<u>Expenditures</u>	<u>Unexpended Allocations</u>	<u>Project Status</u>
<b>Local allocations</b>					
None		\$ -	\$ -	\$ -	
Total		<u>\$ -</u>	<u>\$ -</u>	-	
Fund balance at beginning of year				<u>-</u>	
Fund balance at end of year				<u>\$ -</u>	

See accompanying independent auditor's report.

**CITY OF CERRITOS**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Years Ended June 30, 2018 and 2017

**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), Measure M Local Return Fund (MMLRF), 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.

MMLRF is derived from 17% 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.

Transportation Development Act Article 3 Fund (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*

PALRF, PCLRF, MRLRF, MMLRF, and TDAA3F are accounted for using the modified accrual basis of accounting whereby revenues are recognized when they become both measurable and available to finance expenditures of the current period and expenditures are generally recognized when the related fund liabilities are incurred.

Special Revenue Funds are reported on 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. Statement of revenue, expenditures and changes in fund balance for Special Revenue Funds generally present increases (revenue 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.

**CITY OF CERRITOS**  
NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Years Ended June 30, 2018 and 2017  
(Continued)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Fair Value Measurement*

In accordance with Government Accounting Standard Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, which became effective for the fiscal year ended June 30, 2016, 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 investment at fair value and recognizes unrealized gain (loss) on investments.

Refer to City's 2018 Comprehensive Annual Financial Report for detailed disclosures regarding the City's investments policy and fair value measurement.

*Fund Balance Reporting*

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 resources reported in governmental funds.

The PALRF, PCLRF, MRLRF, MMLRF, and TDAA3F report the following fund balance classification as of June 30, 2018:

- Restricted – Amounts that are constrained for specific purpose, which are externally imposed by providers, such as creditors, or amounts constrained due to constitutional provisions or enabling legislation. The uses of the funds' remaining fund balances are restricted for projects approved by Los Angeles County Metropolitan Transportation Authority (Metro).

Information regarding the fund balance reporting policy adopted by the City is described in Note 1 to 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, MMLRF, and TDAA3F and their compliance with the Proposition A and Proposition C Local Return Program Guidelines, Measure R Local Return Program Guidelines, Measure M Local Return Program Guidelines, Transportation Development Act Article 3 and the Los Angeles County Metropolitan Transportation Authority Funding and Allocation Guidelines for Transportation Development Act Article 3 Bicycle and Pedestrian Funds.

**CITY OF CERRITOS**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Years Ended June 30, 2018 and 2017  
(Continued)

**NOTE 3 – PROPOSITION A AND PROPOSITION C LOCAL RETURN COMPLIANCE REQUIREMENTS**

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**

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**

On June 23, 2016, the Metro Board of Directors approved the Los Angeles County Traffic Improvement Plan Ordinance, known as Measure M. 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. The first revenue allocation was received in the current period. 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's cash and investment balances were pooled with various other City funds for deposit and investment purposes. The share of each fund in the pooled cash and investments account was separately maintained and interest income was apportioned to the participating funds based on the relationship of their average balances to the total of the pooled cash and investments.

**CITY OF CERRITOS**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Years Ended June 30, 2018 and 2017  
(Continued)

**NOTE 8 – PROPOSITION A DISCRETIONARY INCENTIVE GRANT - PALRF**

The City entered into various Memorandum of Understanding (MOU) agreements with Metro to receive Proposition A discretionary incentive grants for participating in the Consolidated National Transit Database (NTD) Voluntary Reporting. The amounts received for the years ended June 30, 2018 and 2017 consisted of the following:

Agreement Date	Period	NTD Voluntary Reporting	MOU Amount	Amount Received	
				2018	2017
July 31, 2017	7/1/17 - 6/30/19	FY 2014-15	\$ 71,139	\$ 71,139	\$ -
May 21, 2016	7/1/15 - 6/30/17	FY 2013-14	\$ 67,697	-	67,697
			Total	\$ 71,139	\$ 67,697

The Proposition A Discretionary Incentive Grants were recorded under PALRF.

**NOTE 9 – PROJECT GENERATED REVENUE - PALRF**

Project generated revenue under PALRF for the years ended June 30, 2018 and 2017 consisted of the following:

	2018	2017
Passenger fares and bus pass sales	\$ 20,638	\$ -
Total	\$ 20,638	\$ -

In fiscal year 2016-17, the expenditures for Fixed Route Transit Project Code 110-02 and Dial-A-Ride Project Code 120-02 were reported net of project generated revenues. In fiscal year 2017-18, both the project generated revenues and expenditures were reported in gross amounts.

**NOTE 10 – CERRITOS ON WHEELS BUS STOP TRANSIT AMENITIES GRANT - PCLRF**

On May 31, 2012, Metro and the City of Cerritos entered into an agreement whereas Metro is to serve as the pass-through agency on the City’s behalf, as required by the California Department of Transportation and Federal Department of Transportation, to receive federal funds from Federal Transit Administration (FTA). Metro is to reimburse the City for the purchase and installation of street furniture and transit amenities at bus stops within the City (the “Project”). Metro assumes no responsibility for the funding of any portion of the Project. In fiscal year 2017, the City incurred expenditures on the Transit Amenities Project Code No. 150-01 for the purchase of new bus benches, trash receptacles, and the installation of concrete pads at forty (40) bus stops. The City received \$22,602 of grant monies and used Proposition C Local Return funds to provide the required federal match.

**CITY OF CERRITOS**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Years Ended June 30, 2018 and 2017  
(Continued)

**NOTE 11 – PROJECT GENERATED REVENUE - PCLRF**

Project generated revenue under PCLRF for the years ended June 30, 2018 and 2017 consisted of the following:

	2018	2017
Passenger fares and bus pass sales	\$ <u>56,391</u>	\$ <u>12,900</u>
Total	\$ <u><u>56,391</u></u>	\$ <u><u>12,900</u></u>

**NOTE 12 – TRANSPORTATION DEVELOPMENT ACT FUND REVENUE ALLOCATION**

The revenue allocation for the years ended June 30, 2018 and 2017 consisted of the following:

	2018	2017
FY 2012-13 allocation	\$ -	\$ 39,103
FY 2013-14 allocation	-	40,092
FY 2014-15 allocation	-	32,655
Total payment requested	\$ <u><u>-</u></u>	\$ <u><u>111,850</u></u>

**NOTE 13 – TRANSPORTATION DEVELOPMENT ACT FUNDS RESERVED**

In accordance with TDA Article 3 (SB821) Guidelines, funds not 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 Metro. As of June 30, 2018 and 2017, the City has funds on reserve as follows:

	2018	2017
FY 2015-16 allocation	\$ <u>31,702</u>	\$ <u>31,702</u>
FY 2016-17 allocation	33,114	33,114
FY 2017-18 allocation	32,186	-
Available reserve balance	\$ <u><u>97,002</u></u>	\$ <u><u>64,816</u></u>

**NOTE 14 – SUBSEQUENT EVENTS**

The City has evaluated events or transactions that occurred subsequent to June 30, 2018 through November 14, 2018, the date the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined no subsequent matters require disclosure or adjustment to the accompanying financial statements.



SIMPSON & SIMPSON  
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**Independent Auditor’s Report 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 Cerritos, California and the  
Los Angeles County Metropolitan Transit Authority

We have audited, 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, the financial statements of the 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 (collectively, the Funds) of the City of Cerritos, California (the City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated November 14, 2018.

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

A handwritten signature in black ink that reads "Simpson &amp; Simpson".

Los Angeles, California  
November 14, 2018



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*COMPLIANCE SECTION*

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SIMPSON & SIMPSON

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## Independent Auditor's Report on Compliance

To the Honorable Members of the City Council of the  
City of Cerritos, California and the  
Los Angeles County Metropolitan Transit Authority

### Report on Compliance

We have audited the compliance of the City of Cerritos, 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 the Transportation Development Act Article 3 Bicycle and Pedestrian Funds (collectively, the Guidelines) for the year ended June 30, 2018.

### *Management's Responsibility*

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

### *Auditor's 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 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 referred to in the preceding paragraph. Those standards and the Guidelines require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on 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 on Each Local Return Program and Transportation Development Act Article 3*

In our opinion, the City complied, in all material respects, with the compliance requirements of the Guidelines for the year ended June 30, 2018.



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### *Other Matters*

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Guidelines and which is described in the accompanying Schedule of Findings and Recommendations as Finding No. 2018-001. Our opinion on each local return program and Transportation Development Act Articles 3 program 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 Recommendations. 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 Guidelines 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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance under the Guidelines 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 Guidelines 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 we consider to 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 cursive script, reading "Simpson &amp; Simpson".

Los Angeles, California  
November 14, 2018

**CITY OF CERRITOS**  
**COMPLIANCE MATRIX**  
Year Ended June 30, 2018

Compliance Requirement		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			None	
2.	Timely use of funds.	X			None	
3.	Funds expended were approved and have not been substituted for property tax.	X			None	
4.	Expenditures that exceeded 25% of approved project budget have approved amended project Description Form (Form A).		X		None	See Finding No. 2018-001 in the Schedule of Findings and Recommendations
5.	Administrative expenses are within the 20% cap of the total annual Local Return Expenditures.			X	None	
6.	All on-going and carryover projects were reported in Form B.	X			None	
7.	Annual Project Summary Report (Form B) was submitted on time.	X			None	
8.	Annual Expenditure Report (Form C) was submitted on time.	X			None	
9.	Cash or cash equivalents are maintained.	X			None	
10.	Accounting procedures, record keeping and documentation are adequate.	X			None	
11.	Pavement Management System (PMS) in place and being used for Street Maintenance or Improvement Projects Expenditures.	X			None	
12.	Local Return Account is credited for reimbursable expenditures.	X			None	
13.	Self-Certification was completed and submitted for Intelligent Transportation Systems projects or elements.			X	None	
14.	Assurances and Understandings form was on file.	X			None	
15.	Recreational transit form was submitted on time.	X			None	

**CITY OF CERRITOS**  
**COMPLIANCE MATRIX**  
Year Ended June 30, 2018  
(Continued)

Compliance Requirement		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			None	
2.	Funds were used to augment, not supplant, existing local revenues being used for transportation purposes unless there is a funding shortfall.	X			None	
3.	Signed Assurances and Understandings on file.	X			None	
4.	Separate Measure R Local Return Account was established.	X			None	
5.	Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure R Local Return Account.	X			None	
6.	Funds were expended with Metro's approval.	X			None	
7.	Expenditure Plan (Form One) was submitted on time.	X			None	
8.	Expenditure Report (Form Two) was submitted on time.	X			None	
9.	Timely use of funds.	X			None	
10.	Administrative expenditures are within the 20% cap.			X	None	
11.	Fund exchanges were approved by Metro.			X	None	
12.	A separate account was established for Capital reserve funds and Capital reserve was approved by Metro.	X			None	
13.	Recreational transit form was submitted on time.			X	None	

**CITY OF CERRITOS**  
**COMPLIANCE MATRIX**  
Year Ended June 30, 2018  
(Continued)

Compliance Requirement		In Compliance			Questioned Costs	If no, provide details and management response.
		Yes	No	N/A		
<b>C. Measure M Local Return Fund</b>						
1.	Funds were expended for transportation purposes.	X			None	
2.	Funds were used to augment, not supplant existing local revenues being used for transportation purposes unless there is a fund shortfall.	X			None	
3.	Signed Assurances and Understandings on file.	X			None	
4.	Separate Measure M Local Return Account was established.	X			None	
5.	Revenue received including allocations, project generated revenues and interest income was properly credited to the Measure M Local Return Account.	X			None	
6.	Funds were expended with Metro's approval.	X			None	
7.	Expenditure Plan (Form M-One) was submitted on time.	X			None	
8.	Expenditure Report (Form M-Two) was submitted on time.	X			None	
9.	Timely use of funds.	X			None	
10.	Administrative expenses are within the 20% cap.			X	None	
11.	Fund exchanges were approved by Metro.			X	None	
12.	A separate account was established for Capital reserve funds and Capital reserve was approved by Metro.			X	None	
13.	Recreational transit form was submitted timely.			X	None	

**CITY OF CERRITOS**  
**COMPLIANCE MATRIX**  
Year Ended June 30, 2018  
(Continued)

Compliance Requirement		In Compliance			Questioned Costs	If no, provide details and management response.
		Yes	No	N/A		
<b>D. Transportation Development Act Article 3 Fund</b>						
1.	Timely use of funds.	X			None	
2.	Expenditures were incurred for activities relating to pedestrian and bicycle facilities and amenities.	X			None	

**CITY OF CERRITOS**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
June 30, 2018

**PCLRF: Finding No. 2018-001**

<b>Compliance Reference</b>	According to Proposition A and Proposition C Local Return Guidelines, Section I (C), “Jurisdictions shall submit for approval a Project Description Form prior to the expenditure of funds for: 5) a 25 percent or greater change in an approved Local Return project budget or scope on all operating or capital Local Return projects.”
<b>Condition</b>	The City exceeded more than 25 percent of LACMTA's approved budget on PCLRF Project Code 430-03, Community Bike Ride Event in the amount of \$430. However, the City submitted a Project Description Form (Form A) to obtain the budget increase from LACMTA and received subsequent approval on November 27, 2018.
<b>Cause</b>	Due to staff oversight, the City failed to request for an approval to increase the budget for the project.
<b>Effect</b>	The City did not comply with the Guidelines when the City’s PCLRF project expenditure exceeded 25 percent of LACMTA’s prior approval.
<b>Recommendation</b>	We recommend that the City establish procedures to ensure that project expenditures are within the 25 percent cap of the LACMTA’s approved budget and an amended Form A (Project Description Form) is properly prepared and submitted prior to the expenditure of funds for approved projects.
<b>Management’s Response</b>	The City Finance staff will complete a bi-monthly review of transit and transportation-related expenses with Community Development staff in order to confirm compliance with budgeted amounts and to identify and resolve any potential budget matters in a timely manner.
<b>Finding Corrected During the Audit</b>	LACMTA Program Manager granted retroactive approval of the revised budget in the amount of \$1,680 of the said expenditures on November 27, 2018. No follow-up is required.



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***EXIT CONFERENCE***

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**CITY OF CERRITOS**  
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  
EXIT CONFERENCE  
June 30, 2018

An exit conference was held on December 18, 2018 with the City of Cerritos. Those in attendance were:

***Simpson & Simpson Representative:***

John Longoria, Senior Auditor

***City's Representative:***

Siu-Lee Chang, Accountant

***Matters Discussed:***

Results of the audit disclosed no significant control deficiencies and one (1) non-compliance issue with Metro Guidelines.

A copy of this report was forwarded to the following City representative(s) for their comments prior to the issuance of the final report:

Ryan Carey, Finance Manager  
Mike Matsumoto, Financial Consultant  
Siu-Lee Chang, Accountant

Simpson & Simpson, LLP  
633 West 5<sup>th</sup> Street, Suite 3320  
Los Angeles, CA 90071

RE: CITY OF CERRITOS ANNUAL FINANCIAL REPORT OF THE PROPOSITION A LOCAL RETURN FUND, PROPOSITION C LOCAL RETURN FUND, MEASURE R LOCAL RETURN FUND, AND TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017, AND MEASURE M LOCAL RETURN FUND FOR THE FISCAL YEAR ENDED JUNE 30, 2018

I have received the annual financial report of the Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund, and Transportation Development Act Article 3 Fund for the years ended June 30, 2018 and 2017, and Measure M Local Return Fund for the year ended June 30, 2018 for the City of Cerritos and agree with the contents of the report except as indicated below:

(Attach additional pages if necessary)

Very truly yours,

\_\_\_\_\_  
Name

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date