

***CITY OF DOWNEY  
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 DOWNEY***  
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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 Downey, 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 Downey, 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 Downey, 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 Downey, California, as of June 30, 2018 and 2017, and MMLRF of the City of Downey, 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 Downey, 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 20, 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 20, 2018

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

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and investments	\$ 1,007,187	\$ 685,033
Accounts receivable	-	125,528
Prepaid expense	-	43,170
Due from other agency	-	1,075
Total assets	<u>\$ 1,007,187</u>	<u>\$ 854,806</u>
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ 297,252	\$ 379,780
Accrued payroll and employee benefits	53,383	58,708
Due to other funds	-	16,078
Total liabilities	<u>350,635</u>	<u>454,566</u>
 <b>Fund Balance</b>		
Restricted	<u>656,552</u>	<u>400,240</u>
Total fund balance	<u>656,552</u>	<u>400,240</u>
Total liabilities and fund balance	<u>\$ 1,007,187</u>	<u>\$ 854,806</u>

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

**CITY OF DOWNEY**  
**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	\$ 2,129,849	\$ 2,078,374
Proposition A Discretionary Incentive Grant (Note 8)	-	94,353
Interest income	11,368	6,158
Unrealized loss on investments	(5,860)	(5,067)
Project generated revenue (Note 9)	62,927	50,393
Sale of vehicles (Note 10)	41,599	-
Total revenues	<u>2,239,883</u>	<u>2,224,211</u>
<b>EXPENDITURES</b>		
Various projects	<u>2,983,571</u>	<u>3,063,790</u>
Total expenditures	<u>2,983,571</u>	<u>3,063,790</u>
<b>OTHER FINANCING SOURCES</b>		
Transfer-in from PCLRF (Note 11)	<u>1,000,000</u>	<u>900,000</u>
Total other financing sources	<u>1,000,000</u>	<u>900,000</u>
Excess of revenues over expenditures and other financing sources	256,312	60,421
Fund balance at beginning of year	<u>400,240</u>	<u>339,819</u>
Fund balance at end of year	<u>\$ 656,552</u>	<u>\$ 400,240</u>

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



**CITY OF DOWNEY**  
**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)	
110-13	Fixed Route Program	\$ 1,395,592	\$ 1,353,622	\$ 41,970	\$ 1,511,148
130-02	Revised Senior/Handicapped Transit Program	1,165,232	1,185,637	(20,405)	1,096,349
140-08	Recreational/Special Event Transit	136,848	150,088	(13,240)	150,059
150-02	Bus Stop Maintenance	211,133	240,159	(29,026)	170,594
160-01	Downey Depot Maintenance	61,140	54,065	7,075	51,489
180-01	DAR Replacement Vehicles and Communications Equipment	-	-	-	75,358
230-03	Transit Deport Security	-	-	-	8,793
	Total expenditures	\$ 2,969,945	\$ 2,983,571	\$ (13,626)	\$ 3,063,790

See accompanying independent auditor's report.

**CITY OF DOWNEY**  
**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
Oct-1989	Metrek Mobil Radio (12686)	\$ 1,640	\$ -	\$ 1,640	\$ -
Oct-1989	Metrek Mobil Radio (12687)	1,640	-	1,640	-
Oct-1989	Metrek Mobil Radio (12688)	1,640	-	1,640	-
Apr-1998	Motorola Mobil Radio (20306)	800	-	800	-
Apr-1998	Motorola Mobil Radio (20307)	800	-	800	-
Apr-1998	Motorola Mobil Radio (20308)	800	-	800	-
Jul-2002	HP Laserjet (22696)	1,150	-	1,150	-
Aug-2002	Motorola Radio (23169)	944	-	944	-
Aug-2002	Motorola Radio (23170)	944	-	944	-
Jun-2005	Ford Bus (6233)	63,475	-	-	63,475
Nov-2004	Cisco 1721 Router (23925)	995	-	995	-
Dec-2005	Dell Optplex (24061)	1,069	-	1,069	-
Jan-2007	Projector - Dell 1220	-	8,000 *	-	8,000
Jul-2007	9 Motorola Radio/Display (04713-04721)	19,725	-	19,725	-
Feb-2008	2007 Ford Bus	69,795	-	-	69,795
Mar-2008	Whirlpool Refrigerator	1,213	-	1,213	-
Feb-2008	2007 Ford Bus	72,263	-	-	72,263
Jun-2008	Storage Server	13,341	-	-	13,341
Jun-2008	2008 Starcraft Allstar Type III	69,795	-	-	69,795
Jun-2008	2008 Starcraft Allstar Type III	69,795	-	-	69,795
Jun-2008	2008 Starcraft Allstar Type III	69,796	-	-	69,796
Jun-2008	32" LCD TV	1,629	-	1,629	-
Jun-2008	2 Optiplex 755	3,048	-	3,048	-
Jun-2008	Dell Rack Server	6,398	-	6,398	-
Oct-2008	Surveillance	45,828	-	-	45,828
Oct-2008	2-way DAR Radio	1,946	-	1,946	-
Dec-2008	2008 Chevrolet Uplander -White	46,620	-	-	46,620
Dec-2008	10 Digital Recorders	19,269	-	19,269	-
Apr-2009	2009 Starcraft Allstar Bus	74,257	-	-	74,257
Apr-2009	2009 Starcraft Allstar Bus	74,257	-	-	74,257
Apr-2009	2009 Starcraft Allstar Bus	74,258	-	-	74,258
Jun-2010	PRO II	63,337	42,225 *	-	105,562
	Sub-total	<u>872,467</u>	<u>50,225</u>	<u>65,650</u>	<u>857,042</u>

\* The addition is a capital asset that was not reported in prior fiscal years.

See accompanying independent auditor's report

**CITY OF DOWNEY**  
**PROPOSITION A LOCAL RETURN FUND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CAPITAL ASSETS**  
(Continued)  
June 30, 2018

Date Acquired	Description	Balance 7/1/2017	Additions	Deletions	Balance 6/30/2018
Aug-2010	Property at 9300 Stewart and Gray Road for the Consolidated City Corporate Yard Project (Partly Funded by Proposition A Local Return)	\$ 877,999	\$ -	\$ -	\$ 877,999
Sep-2010	Laptop-Dell Latitude E6500-Black	1,833	-	1,833	-
Sep-2010	Projector - Dell 1410X	662	-	662	-
Jun-2011	GPS - TREQ (MDC)	4,149	-	4,149	-
Jun-2011	GPS - TREQ (MDC)	4,149	-	4,149	-
Jun-2011	GPS - TREQ (MDC)	4,150	-	4,150	-
Sep-2011	Desktop -Dell Optiplex - GX 790	1,598	-	1,598	-
Sep-2011	Desktop -Dell Optiplex - GX 790	1,598	-	1,598	-
Sep-2011	Desktop -Dell Optiplex - GX 790	1,597	-	1,597	-
Jun-2014	Coin Counter/Sorter - Semacon	396	-	396	-
Total		<u>\$ 1,770,598</u>	<u>\$ 50,225</u>	<u>\$ 85,782</u>	<u>\$ 1,735,041</u>

See accompanying independent auditor's report.

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

	2018	2017
<b>ASSETS</b>		
Cash and investments	\$ 905,297	\$ 897,705
Retention receivable (Note 12)	-	21,000
Total assets	\$ 905,297	\$ 918,705
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ 13,253	\$ 43,443
Retention payable	4,904	10,893
Accrued payroll and employee benefits	3,527	4,478
Total liabilities	21,684	58,814
<b>Deferred inflow of resources (Note 12)</b>	-	21,000
Total deferred inflow of resources	-	21,000
 <b>Fund Balance</b>		
Restricted	883,613	838,891
Total fund balance	883,613	838,891
Total liabilities and fund balance	\$ 905,297	\$ 918,705

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

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

	2018	2017
<b>REVENUES</b>		
Proposition C	\$ 1,767,185	\$ 1,723,334
Interest income	9,291	5,938
Unrealized loss on investments	(5,309)	(7,536)
Retention release (Note 13)	118,054	-
Other revenues (Note 14)	-	399,000
Total revenues	1,889,221	2,120,736
<b>EXPENDITURES</b>		
Various projects	844,499	400,066
Total expenditures	844,499	400,066
<b>OTHER FINANCING SOURCE (USE)</b>		
Transfer-in from Gas Tax Fund (Note 11)	-	99,534
Transfer-out to PALRF (Note 11)	(1,000,000)	(900,000)
Total other financing source (use)	(1,000,000)	(800,466)
Excess of revenues over expenditures and other financing source (use)	44,722	920,204
Fund balance at beginning of year	838,891	(81,313)
Fund balance at end of year	\$ 883,613	\$ 838,891

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

**CITY OF DOWNEY**  
**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			2017 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
270-47	Membership Dues and Subscriptions	\$ 125,000	\$ 123,170	\$ 1,830	\$ -
400-06	Imperial Highway Fiberoptic Communication System	102,448	113,475	(11,027)	37,439
440-32	Bellflower Boulevard Pavement Rehabilitation (Foster Road - Stewart and Gray Road)	5,000	37	4,963	28,547
440-34	Bridge Improvements	-	-	-	92
440-37	Brookshire Avenue Pavement Rehabilitation (Imperial Highway to Gardendale Street)	-	-	-	11,748
440-39	Pavement Rehabilitations at Various Locations	5,000	982	4,018	36,756
440-40	Brookshire Avenue Pavement Rehabilitation (Firestone Boulevard to Florence Avenue)	350,000	350,000	-	23,027
440-41	Citywide Striping	-	-	-	41,062
450-42	Telegraph Traffic Throughout and Safety Enhancements - Phase II	300,000	172,047	127,953	26,315
450-44	Firestone Boulevard Median (Pattone Road to Marbel Avenue)	-	-	-	39,042
480-02	Ride Sharing Program Administration	53,000	51,420	1,580	54,915
480-28	Local Return Fund Administration (Public Works)	26,920	33,368	(6,448)	101,123
	Total expenditures	967,368	844,499	122,869	400,066
<b>Transfer-out to PALRF (Note 11)</b>					
110-13	Fixed Route Program	500,000	500,000	-	450,000
130-02	Revised Senior/Handicapped Transit	500,000	500,000	-	450,000
	Total transfer-out to PALRF	1,000,000	1,000,000	-	900,000
	Total expenditures and transfer-out to PALRF	\$ 1,967,368	\$ 1,844,499	\$ 122,869	\$ 1,300,066

See accompanying independent auditor's report.

**CITY OF DOWNEY**  
**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
Jun-2004	Old River School Road- Stewart and Gray to Dinwiddie *	-	\$ 194	\$ -	\$ 194
Aug-2009	Desktop - Dell GX760	1,218	-	1,218	-
Aug-2009	Server - Dell R410	4,199	-	4,199	-
Jun-2010	Imperial Highway	-	3,671 *	-	3,671
Jun-2010	Lakewood Boulevard Improvements	-	8,398 *	-	8,398
Jun-2010	Old River School Road - Stewart and Gray to Dinwiddie	-	3,410 *	-	3,410
May-2011	Desktop - Dell Optiplex 380	1,095	-	1,095	-
Jun-2011	Citywide Traffic Signal Communication System	-	1,074 *	-	1,074
Jun-2011	Imperial Highway Traffic Signal Communication System	-	160 *	-	160
Jun-2011	Signal System Integration	-	36,392 *	-	36,392
Jun-2012	Paramount Rehabilitation - Brookmill to Alameda	-	791,896 *	-	791,896
Jun-2013	Florence Avenue Traffic Signal Communication Systems	-	125,559 *	-	125,559
Jun-2013	Imperial Median, Safety Rehabilitation Improvements Phase	-	3,604,367 *	-	3,604,367
Jun-2014	Florence Avenue Traffic Signal Communication Systems	-	1,610,879 *	-	1,610,879
Jun-2014	Paramount Rehabilitation - Florence to Lubec	-	742,742 *	-	742,742
Jun-2015	Brookshire Avenue - Imperial Highway to Davis	-	1,304,009 *	-	1,304,009
Jun-2016	Bellflower Pavement Rehabilitation (Imperial Highway - Stewart & Gray)	-	86,693 *	-	86,693
Jun-2016	Firestone Street Improvements - Old River School Road to Brookshire)	-	1,884,856 *	-	1,884,856
Jun-2016	Lakewood Boulevard Improvements Phase 3 Florence to Telegraph Road	-	893,454 *	-	893,454
Jun-2017	Citywide Striping Major Roadways	-	41,062 *	-	41,062
	Sub-total	<u>6,512</u>	<u>11,138,816</u>	<u>6,512</u>	<u>11,138,816</u>

\* The addition is a capital asset that was not reported in prior fiscal years.

See accompanying independent auditor's report.

**CITY OF DOWNEY**  
**PROPOSITION C LOCAL RETURN FUND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CAPITAL ASSETS**  
(Continued)  
June 30, 2018

Date Acquired	Description	Balance 7/1/2017	Additions	Deletions	Balance 6/30/2018
Jun-2017	Firestone Rehabilitation- Lakewood to East City Limits *	\$ -	\$ 498,156	\$ -	\$ 498,156
Jun-2017	Telegraph Road Traffic Improvements	-	827,158 *	-	827,158
Jun-2018	Bellflower/Imperial Intersection Improvements	-	862	-	862
Jun-2018	Firestone Median-Patton-Marbel Avenue (6703)	-	315,971	-	315,971
Jun-2018	Imperial Highway Traffic Signal Fiberoptics Communication Systems (6700)	-	166,489	-	166,489
Total		<u>\$ 6,512</u>	<u>\$ 12,947,452</u>	<u>\$ 6,512</u>	<u>\$ 12,947,452</u>

\* The addition is a capital asset that was not reported in prior fiscal years.

See accompanying independent auditor's report.



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

	2018	2017
<b>ASSETS</b>		
Cash and investments	\$ 1,339,401	\$ 1,020,923
Accounts receivable	-	41,748
Due from other funds	-	16,078
	\$ 1,339,401	\$ 1,078,749
<b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ 93,690	\$ 119,809
Retention payable	23,343	40,072
Accrued payroll and employee benefits	6,471	2,822
	123,504	162,703
<b>Fund Balance</b>		
Restricted	1,215,897	916,046
	1,215,897	916,046
	\$ 1,339,401	\$ 1,078,749

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

**CITY OF DOWNEY**  
**MEASURE R 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>		
Measure R	\$ 1,323,204	\$ 1,293,280
Interest income	14,208	11,173
Other revenues (Note 14)	144,623	96,013
Unrealized loss on investments	<u>(7,643)</u>	<u>(9,135)</u>
Total revenues	<u>1,474,392</u>	<u>1,391,331</u>
<b>EXPENDITURES</b>		
Various projects	<u>1,197,150</u>	<u>1,497,058</u>
Total expenditures	<u>1,197,150</u>	<u>1,497,058</u>
<b>OTHER FINANCING SOURCE</b>		
Transfer-in from General Fund (Note 15)	<u>22,609</u>	<u>-</u>
Total other financing source	<u>22,609</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures and other financing source	299,851	(105,727)
Fund balance at beginning of year	<u>916,046</u>	<u>1,021,773</u>
Fund balance at end of year	<u>\$ 1,215,897</u>	<u>\$ 916,046</u>

The accompanying notes are an integral part of the financial statements

**CITY OF DOWNEY**  
**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		Variance Favorable (Unfavorable)	2017 Actual
		Metro Budget	Actual		
1.05	Bellflower Boulevard at Imperial Highway Improvements	\$ 50,000	\$ 33,477	\$ 16,523	\$ -
1.05	Woodruff Avenue Pavement Rehabilitation (Imperial Highway - Stewart and Gray Road)	5,000	37	4,963	27,167
1.05	Old River School Road Pavement Rehab (Imperial Highway - Arnett Street)	385,000	31,382	353,618	24,927
1.05	Firestone Boulevard Street Improvements (Lakewood Boulevard - East City Limit)	-	-	-	10,787
1.05	Firestone Boulevard (ORSR - WCL) Pavement Rehabilitation	-	-	-	9,000
1.05	Brookshire Avenue Pavement Rehabilitation (Firestone Avenue - Florence Boulevard)	466,000	578,718	(112,718)	-
1.05	FY 17-18 Residential Street Resurfacing Project	400,000	15,433	384,567	-
1.05	Lakewood Boulevard Undergrounding of Overhead Utilities	125,015	125,015	-	-
1.20	Paramount Boulevard Median (Firestone Boulevard - Imperial Highway)	-	-	-	39,494
1.20	Paramount Boulevard Median (Firestone Boulevard - Florence Avenue)	-	-	-	42,526
1.20	Firestone Boulevard Median (Lakewood Boulevard - Brookshire Avenue)	50,000	2,639	47,361	561,862
1.90	Street Name Sign Replacement	-	-	-	156,269
2.09	Florence Avenue at Old River School Road Traffic Signal Upgrade	15,500	25,994	(10,494)	55,539
	Sub-total	<u>1,496,515</u>	<u>812,695</u>	<u>683,820</u>	<u>927,571</u>

See Accompanying independent auditor's report.

**CITY OF DOWNEY**  
**MEASURE R LOCAL RETURN FUND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES**  
**ACTUAL AND METRO APPROVED PROJECT BUDGET**  
(Continued)  
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)	
2.09	Bellflower Boulevard at Foster Road Traffic Signal Upgrade	\$ 9,000	\$ 13,154	\$ (4,154)	\$ 72,535
2.09	Woodruff Avenue at Foster Road Traffic Signal Upgrade	12,250	24,622	(12,372)	73,791
2.09	Firestone Boulevard at Woodruff Avenue Traffic Signal Upgrade	11,500	36,787	(25,287)	57,234
2.09	Lakewood Boulevard at Florence Avenue Traffic Signal Upgrade	22,000	48,947	(26,947)	27,830
2.09	Imperial Highway at Downey Avenue Traffic Signal Upgrade	12,250	13,378	(1,128)	43,644
2.09	Paramount Boulevard at 3rd, 5th and 7th Streets Traffic Signal Upgrade	75,750	159,540	(83,790)	183,908
2.09	Woodruff Avenue Fiber Optic Communication and Traffic Signal Upgrades	18,000	1,733	16,267	498
2.24	Citywide Transit Priority System	10,000	-	10,000	-
2.29	Florence Avenue Regional Corridor Study	25,000	-	25,000	-
3.05	Pedestrian Improvements/Sidewalks/Ramp	-	-	-	86,662
3.15	Lakewood Boulevard Street Lighting Improvement Project	385,000	59,603	325,397	-
3.90	Bike Share and Safety Education Program	24,000	-	24,000	92
5.90	Citywide Transit Priority System	-	-	-	684
8.10	Public Works Executive Management Salary (not to exceed 10%)	21,538	26,691	(5,153)	22,609
Total expenditures		\$ 2,122,803	\$ 1,197,150	\$ 925,653	\$ 1,497,058

See accompanying independent auditor's report.

**CITY OF DOWNEY**  
**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
Jun-2015	Columbia Way - I105 to Imperial Highway *	\$ -	\$ 543,549	\$ -	\$ 543,549
Jun-2015	FY 13-14 Residential Street Resurfacing	-	19,036 *	-	19,036
Jun-2015	Brookshire Avenue - Imperial Highway to Davis	-	222,941 *	-	222,941
Jun-2016	Firestone Street Improvements Old River School Road to Brookshire	-	200,000 *	-	200,000
Jun-2016	Imperial East City Limits Frontage Road to Brookshire Avenue	-	18,300 *	-	18,300
Jun-2016	Public Works Contract (Residential Street Resurfacing)	-	1,276,747 *	-	1,276,747
Jun-2016	Residential Streets Resurfacing	-	160,013 *	-	160,013
Jun-2016	Stewart and Gray Pavement Rehabilitation (Old River School Road - Bellflower and Woodruff-Firestone)	-	2,500 *	-	2,500
Aug-2016	Variable Message Feedback Signs	-	11,555 *	-	11,555
Aug-2016	Variable Message Feedback Signs	-	11,555 *	-	11,555
Jun-2017	Citywide Striping Major Roadways	-	12,697 *	-	12,697
Jun-2017	Downtown Street Lighting Conversion	-	153,828 *	-	153,828
Jun-2017	Firestone Rehabilitation - Lakewood to East City Limits	-	45,823 *	-	45,823
Jun-2017	Gardendale Pavement Rehabilitation Lakewood	-	235,676 *	-	235,676
Jun-2017	Pedestrian Improvements/New Sidewalk/Ramp	-	86,662 *	-	86,662
Jun-2017	Telegraph Road Traffic Improvements	-	468,000 *	-	468,000
Jun-2018	Bellflower/Imperial Intersection Improvements	-	33,976	-	33,976
Jun-2018	Firestone Median-Patton-Marbel Avenue	-	518,265	-	518,265
Jun-2018	Florence Boulevard Old River School Road Traffic Signal Upgrade	-	81,534	-	81,534
	Sub-total	-	4,102,657	-	4,102,657

\* The addition is a capital asset that was not reported in prior fiscal years.

See accompanying independent auditor's report.

**CITY OF DOWNEY**  
**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
Jun-2018	Bellflower Boulevard/Foster Road Traffic Signal Upgrade	\$ -	\$ 85,689	\$ -	\$ 85,689
Jun-2018	Woodruff Avenue/Foster Road Traffic Signal Upgrade	-	98,414	-	98,414
Jun-2018	Firestone/Woodruff Traffic Signal Upgrade	-	94,021	-	94,021
Jun-2018	Lakewood/Florence Traffic Signal Upgrade	-	76,777	-	76,777
Jun-2018	Imperial Highway/Downey Avenue Traffic Signal Upgrade	-	57,021	-	57,021
Jun-2018	Paramount Boulevard at 3rd, 5th, 7th Street Signal	-	343,448	-	343,448
Jun-2018	Lakewood Boulevard LED Light and Pole Painting	-	59,603	-	59,603
Total		\$ -	\$ 4,917,630	\$ -	\$ 4,917,630

See accompanying independent auditor's report.

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

	<u>2018</u>
<b>ASSETS</b>	
Cash and investments	\$ <u>867,544</u>
Total assets	\$ <u><u>867,544</u></u>
 <b>LIABILITIES AND FUND BALANCE</b>	
<b>Liabilities</b>	
Accounts payable	\$ 8,143
Accrued payroll and employee benefits	<u>62</u>
Total liabilities	<u><u>8,205</u></u>
 <b>Fund Balance</b>	
Restricted	<u>859,339</u>
Total fund balance	<u>859,339</u>
 Total liabilities and fund balance	 \$ <u><u>867,544</u></u>

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

**CITY OF DOWNEY**  
**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	\$	1,199,126
Interest income		6,642
Unrealized loss on investments		<u>(4,984)</u>
Total revenues		<u>1,200,784</u>
<b>EXPENDITURES</b>		
Various projects		<u>341,445</u>
Total expenditures		<u>341,445</u>
Excess of revenues over expenditures		859,339
Fund balance at beginning of year		<u>-</u>
Fund balance at end of year	\$	<u><u>859,339</u></u>

The accompanying notes are an integral part of the financial statements



**CITY OF DOWNEY**  
**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	Old River School Road Pavement Rehabilitation	\$ 310,000	\$ 451	\$ 309,549
1.05	Florence Avenue Bridge Rehabilitation at Rio Hondo River	79,000	22,161	56,839
1.05	Florence Avenue Bridge Replacement at San Gabriel River	20,000	-	20,000
1.05	Brookshire Avenue Pavement Rehabilitation	300,000	285,710	14,290
1.05	Utility Relocation	278,000	-	278,000
1.10	Bridge Improvements	150,000	7,296	142,704
1.25	ADA Transition Plan Implementation - Phase 1	200,000	25,827	174,173
Total expenditures		\$ <u>1,337,000</u>	\$ <u>341,445</u>	\$ <u>995,555</u>

See accompanying independent auditor's report.

**CITY OF DOWNEY**  
**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
Jun-2018	Brookshire Pavement Rehabilitation - Firestone/Florence	\$ -	\$ 285,710	\$ -	\$ 285,710
	Total	\$ -	\$ 285,710	\$ -	\$ 285,710

See accompanying independent auditor's report.

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

	2018	2017
<b>ASSETS</b>		
Cash and investments	\$ 821	\$ -
Due from Metro	-	31,250
Total assets	\$ 821	\$ 31,250
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Due to General Fund	\$ -	\$ 28,472
Accrued payroll and employee benefits	29	-
Total liabilities	29	28,472
 <b>Fund Balance</b>		
Restricted	792 *	2,778
Total fund balance	792	2,778
Total liabilities and fund balance	\$ 821	\$ 31,250

\* Since the City has a contract agreement to spend the remaining funds for the Annual Miscellaneous Concrete Construction and Repairs and ADA Improvement Project in fiscal year 2018-19, the City is not required to return the ending fund balance of \$792 to Metro to be placed on reserve.

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

**CITY OF DOWNEY**  
**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	\$ -	\$ 31,250
Total revenues	-	31,250
<b>EXPENDITURES</b>		
Construction/Maintenance	1,986	28,472
Total expenditures	1,986	28,472
(Deficiency) excess of revenues (under) over expenditures	(1,986)	2,778
Fund balance at beginning of year	2,778	-
Fund balance at end of year *	\$ 792	\$ 2,778

\* Since the City has a contract agreement to spend the remaining funds for the Annual Miscellaneous Concrete Construction and Repairs and ADA Improvement Project in fiscal year 2018-19, the City is not required to return the ending fund balance of \$792 to Metro to be placed on reserve.

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

**CITY OF DOWNEY**  
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>					
Pedestrian Improvement, New Sidewalk/Ramp Construction	2017-18	\$ -	\$ 1,986	\$ (1,986)	Ongoing
Total		<u>\$ -</u>	<u>\$ 1,986</u>	(1,986)	
Fund balance at beginning of year				<u>2,778</u>	
Fund balance at end of year				<u>\$ 792</u> *	

\* Since the City has a contract agreement to spend the funds for the Annual Miscellaneous Concrete Construction and Repairs and ADA Improvement Project in fiscal year 2018-19, the City is not required to return the ending fund balance of \$792 to Metro to be placed on reserve.

See accompanying independent auditor's report.

**CITY OF DOWNEY**  
**TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CAPITAL ASSETS**  
June 30, 2018

Date Acquired	Description	Balance 7/1/2017	Additions	Deletions	Balance 6/30/2018
6/30/2008	Pedestrian Improvement *	\$ -	\$ 28,064	\$ -	\$ 28,064
6/30/2008	Pedestrian Improvement 01/02	-	106	*	106
6/30/2008	Pedestrian Improvement 02/03	-	11,606	*	11,606
6/30/2008	Pedestrian Improvement 03/04	-	13,106	*	13,106
6/30/2009	Safe Route to School - ORSR	-	50,892	*	50,892
6/30/2009	Safe Route to School	-	33,597	*	33,597
6/30/2010	Pedestrian Improvements	-	208,747	*	208,747
6/30/2012	Pedestrian Improvements	-	51,510	*	51,510
6/30/2013	Pedestrian Improvements	-	165,350	*	165,350
6/30/2014	Pedestrian Improvements	-	103,569	*	103,569
6/30/2016	Pedestrian Improvements	-	13,050	*	13,050
6/30/2016	Bike Master Plan	-	20,737	*	20,737
Total \$		-	\$ 700,334	\$ -	\$ 700,334

\* The addition is a capital asset that was not reported in prior fiscal years.

See accompanying independent auditor's report.

**CITY OF DOWNEY**  
**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 DOWNEY**  
**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 DOWNEY**  
**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 DOWNEY**  
**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 a Memorandum of Understanding (MOU) agreement with Metro to receive Proposition A Discretionary Incentive Grant for participating in the Consolidated National Transit Database (NTD) Voluntary Reporting. The amount received for the year ended June 30, 2017 consisted of the following:

Agreement		NTD		MOU		Amount
<u>Date</u>	<u>Period</u>	<u>Voluntary</u>		<u>Amount</u>		<u>Received</u>
		<u>Reporting</u>				
May 21, 2016	7/1/15 – 6/30/17	FY 2013-14	\$	94,353	\$	94,353
				Total	\$	94,353

The Proposition A Discretionary Incentive Grant for fiscal year ended June 30, 2017 was recorded under PALRF.

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

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

	2018	2017
Senior citizen passenger passes	\$ 10,293	\$ 13,138
Metro bus pass sales	2,008	1,149
Rental income	50,626	36,106
Total	\$ 62,927	\$ 50,393

**NOTE 10 – SALE OF VEHICLES - PALRF**

On August 22, 2017, the City sold two vehicles in the total amount of \$41,599. The proceeds were recorded under PALRF for the fiscal year ended June 30, 2018.

**NOTE 11 – TRANSFER IN (OUT) - PALRF AND PCLRF**

In fiscal years ended June 30, 2018 and 2017, transfers were made from PCLRF to PALRF in the amounts of \$1,000,000 and \$900,000, respectively, to provide and subsidize funding for PALRF’s Fixed Route Program Project Code 110-13 and Revised Senior/Handicapped Transit Program Project Code 130-02.

In fiscal year ended June 30, 2017, transfers were made from Gas Tax Fund to PCLRF in the amount of \$99,534 to provide and subsidize funding for the expenditures incurred in fiscal year ended June 30, 2016 for PCLRF’s Firestone Boulevard Street Improvements (Lakewood Boulevard to East City Limit) Project Code 440-36.

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

**NOTE 12 – DEFERRED INFLOW OF RESOURCES - PCLRF**

The City recognizes revenue when the payments for services rendered become measurable and available. In fiscal year ended June 30, 2017, the City records deferred inflow of resources when the availability of the funds is not determined at fiscal year end.

The issuance of Governmental Accounting Standards Board No. 65, *Items Previously Reported as Assets and Liabilities*, established accounting and financial reporting standards that reclassify certain liabilities as deferred inflows of resources. A deferred inflow of resources is defined as those resources that are not available for spending in the current period. Since the retention from the Interstate 5 Capacity Enhancement from I-605 to Orange County Line Project due from Metro was not available for spending for PCLRF in the fiscal year ended June 30, 2017, the amount of \$21,000 is reported as deferred inflow of resources.

**NOTE 13 – RETENTION RELEASE - PCLRF**

In fiscal year ended June 30, 2018, the City received from Metro the total amount of \$118,054 for the release of retention from the invoices billed that were dated from August 31, 2011 through August 28, 2013 for the Florence Avenue Traffic Signal Communication System Project.

**NOTE 14 – OTHER REVENUES - PCLRF AND MRLRF**

In fiscal year ended June 30, 2018, the other revenues for MRLRF were funds received from the City of South Gate in the total amount of \$144,623 for its share of costs that were incurred in fiscal year ended June 30, 2016 on MRLRF’s Gardendale Street Pavement Rehabilitation (Lakewood Boulevard to Garfield Avenue) Project Code 1.05.

In fiscal year ended June 30, 2017, the other revenues for PCLRF and MRLRF were funds received from Metro in the amounts of \$399,000 and \$96,013, respectively. The City entered into an agreement with Metro on May 25, 2011 to participate in technical forums involving regional transportation projects including the Interstate 5 Capacity Enhancement from I-605 to Orange County Line.

**NOTE 15 – TRANSFER-IN FROM GENERAL FUND - MRLRF**

The amount of \$22,609 represents a reimbursement from the General Fund to MRLRF related to the fiscal year ended June 30, 2017 Finding No. 2017-003 for the administrative salaries and benefits which were based on distribution percentages and were determined before the services were performed.

**NOTE 16 – 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 2015-16 allocation	\$	-	\$	31,250
Total payment requested	\$	-	\$	31,250

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

**NOTE 17 – 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:

	<u>2018</u>	<u>2017</u>
FY 2015-16 allocation	\$ 36,239	\$ 36,239
FY 2016-17 allocation	75,462	75,462
FY 2017-18 allocation	<u>74,354</u>	<u>-</u>
Available reserve balance	<u>\$ 186,055</u>	<u>\$ 111,701</u>

**NOTE 18 – SUBSEQUENT EVENTS**

The City has evaluated events or transactions that occurred subsequent to June 30, 2018 through November 20, 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.



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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 Downey, 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 Downey, 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 20, 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 20, 2018

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*COMPLIANCE SECTION*

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SIMPSON & SIMPSON

CERTIFIED PUBLIC ACCOUNTANTS  
FOUNDING PARTNERS  
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## Independent Auditor's Report on Compliance

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

### Report on Compliance

We have audited the compliance of the City of Downey, 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, except as noted in the Compliance Matrix and the Schedule of Findings and Recommendations, the City complied, in all material respects, with the compliance requirements of the Guidelines for the year ended June 30, 2018.





### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Guidelines and which are described in the accompanying Schedule of Findings and Recommendations as Finding Nos. 2018-001, 2018-002, 2018-003, 2018-004 and 2018-005. Our opinion on each local return program and Transportation Development Act Article 3 is not modified with respect to these matters.

The City's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Recommendations. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

### **Report on Internal Control Over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the 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 might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Recommendations as Finding Nos. 2018-001, 2018-002, and 2018-004 that we consider to be material weaknesses.

The responses by the City to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Recommendations. The responses by the City were not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.



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

*Simpson & Simpson*

Los Angeles, California  
November 20, 2018

**CITY OF DOWNEY**  
**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	
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		PALRF: \$427,247 PCLRF: \$40,349	See Finding Nos. 2018-001 and 2018-002 on the Schedule of Findings and Recommendations.
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	See Finding No. 2018-003 on the Schedule of Findings and Recommendations.

**CITY OF DOWNEY**  
**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		\$21,431	See Finding No. 2018-004 on the Schedule of Findings and Recommendations.
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 DOWNEY**  
**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	See Finding No. 2018-005 on the Schedule of Findings and Recommendations.
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 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 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 DOWNEY**  
**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 DOWNEY**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
 June 30, 2018

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

<b>Compliance Reference</b>	<p>According to Proposition A and Proposition C Local Return Guidelines, Section II, “A proposed expenditure of funds shall be deemed to be for public transit purposes to the extent that it can reasonably be expected to sustain or improve the quality and safety of and/or access to public transit services by the general public or those requiring special public transit assistance” and Section V, “It is jurisdictions’ responsibility to maintain proper accounting records and documentation...”In addition, LACMTA Local Return Program Manager issued a memo dated on April 29, 2014 to jurisdictions to provide recommendations to ensure that jurisdictions have adequate evidence to support its compliance with the Local Return Guidelines, those recommendations are “that an electronic system is acceptable as long as how much time is identified on the project (i.e. not just a clock-in-clock-out system) and this non-timesheet system, excel file or other, is authenticated by the employee and approved by one’s supervisor.” Also, “(4) Where employees work on multiple activities or cost objectives, a distribution or their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:</p> <p style="padding-left: 40px;">(b) A Federal award and non-Federal award.</p> <p>(5) Personnel activity reports or equivalent documentation must meet the following standards:</p> <p style="padding-left: 40px;">(a) They must reflect an after the fact distribution of the actual activity of each employee,</p> <p style="padding-left: 40px;">(e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that: (i) the governmental unit’s system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) at least quarterly, comparisons of actual costs to budgeted distributions based on monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) the budget estimates or other distribution percentages are revised as least quarterly, if necessary, to reflect changed circumstances.”</p>
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**CITY OF DOWNEY**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
June 30, 2018  
(Continued)

**PALRF and PCLRF: Finding No. 2018-001 (Continued)**

<b>Condition</b>	<p>To support the propriety of expenditures being charged to Proposition A and Proposition C Local Return Fund, payroll expenditures should be supported by properly executed payrolls, time records, activity reports, vouchers, or other official documentation evidencing in proper detail the nature of the charges. However, the salaries and benefits charged were based on an estimate of a percentage of time spent on PALRF and PCLRF activities rather than the employee’s actual working hours spent on the projects. Although the City provided a time study listing the employees charged to PALRF and PCLRF, the payroll costs and benefits were based on estimated percentages of the time spent on the projects. Moreover, the hours were not adjusted to reflect the “true” hours worked on the projects at the end of the fiscal year 2017-18.</p> <p>(a) PALRF’s Fixed Route Program Project Code 110-13 in the amount of \$47,832.</p> <p>(b) PALRF’s Senior/Handicapped Transit Program Project Code 130-02 in the amount of \$218,169.</p> <p>(c) PALRF’s Bus Stop Maintenance Project Code 150-02 in the amount of \$34,556.</p> <p>(d) PCLRF’s Ride Sharing Program Administration Project Code 480-02 in the amount of \$13,560.</p> <p>(e) PCLRF’s Local Return Fund Administration (Public Works) Project Code 480-28 in the amount of \$26,789.</p> <p>This is a repeat finding from the prior two fiscal years.</p>
<b>Cause</b>	<p>The City allocates administrative charges based on time study from 2011-12. The same percentage allocation has been used in prior fiscal years in which the City believed is still relevant today as when the study was completed.</p>
<b>Effect</b>	<p>The payroll costs claimed under the PALRF and PCLRF projects may include expenditures which may not be allowable Proposition A and Proposition C project expenditures. This resulted in questioned costs of \$300,557 and \$40,349 for PALRF and PCLRF, respectively.</p>
<b>Recommendation</b>	<p>In accordance with the Guidelines, we recommend that the City reimburse its Proposition A and Proposition C Local Return Fund accounts for \$300,557 and \$40,349, respectively. In addition, we recommend that the City revise its current labor costs reporting procedures to ensure that labor costs charged to Local Return Funds are adequately supported by time sheets or similar documentation which includes employees’ actual working hours.</p>



**CITY OF DOWNEY**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
June 30, 2018  
(Continued)

**PALRF and PCLRF: Finding No. 2018-001 (Continued)**

<b>Management's Response</b>	The City management agrees that the amounts were based on a time study from 2011-12. However, the City believes the amounts charged to all City funds (Enterprise, Special Revenue, Successor Agency) for administration and equipment maintenance to be relevant today as when the study was completed. The City has limited resources in which to conduct a time study on an annual basis. An updated schedule was prepared by the City using fiscal year 2018 figures and the result was still within the allocation costs stated in the previous study. The City recently completed a cost allocation study which has been shared with the LACMTA and is still under review by the City management.
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**CITY OF DOWNEY**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
 June 30, 2018  
 (Continued)

**PALRF: Finding No. 2018-002**

<b>Compliance Reference</b>	According to Proposition A and Proposition C Local Return Guidelines, Section II, “A proposed expenditure of funds shall be deemed to be for public transit purposes to the extent that it can reasonably be expected to sustain or improve the quality and safety of and/or access to public transit services by the general public or those requiring special public transit assistance” and Section V, “It is jurisdictions’ responsibility to maintain proper accounting records and documentation...”
<b>Condition</b>	To support the propriety of expenditures being charged to the Proposition A and Proposition C Local Return Funds, non-payroll expenditures should be supported by properly executed contracts, invoices, and vouchers or other official documentation evidencing in proper detail the nature of the charges. However, payments for equipment rental in the amount of \$126,690 were charged to PALRF’s Senior/Handicapped Transit Program, Project Code 130-02, without appropriate supporting documentation, i.e., invoices, purchase orders, contracts, etc., to validate the disbursements.  This is a repeat finding from the prior fiscal year.
<b>Cause</b>	The City allocates administrative charges based on time study from 2011-12. The same percentage allocation has been used in prior fiscal years in which the City believed is still relevant today as when the study was completed.
<b>Effect</b>	The unsupported expenditures on the equipment rental resulted in questioned costs of \$126,690.
<b>Recommendation</b>	In accordance with the Guidelines, we recommend that the City reimburse its Proposition A Local Return Account for \$126,690. In addition, we recommend that the City establish controls to ensure that the costs charged to the Local Return funds are adequately supported by contracts, invoices, canceled checks or similar documentation so that Local Return expenditures are in compliance with the Guidelines.
<b>Management’s Response</b>	The City management agrees that the amounts were based on a time study from 2011-12. However, the City believes the amounts charged to all City funds (Enterprise, Special Revenue, Successor Agency) for administration and equipment maintenance to be relevant today as when the study was completed. The City has limited resources in which to conduct a time study on an annual basis. An updated schedule was prepared by the City using fiscal year 2018 figures and the result was still within the allocation costs stated in the previous study. The City recently completed a cost allocation study which has been shared with the LACMTA and is still under review by the City management.

**CITY OF DOWNEY**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
 June 30, 2018  
 (Continued)

**PALRF: Finding No. 2018-003**

<b>Compliance Reference</b>	According to Proposition A and Proposition C Guidelines, Section II.A.1.3, Recreational Transit Service, “Jurisdictions shall submit a Listing of Recreational Transit Services no later than October 15 after the fiscal year.”
<b>Condition</b>	The City did not meet the October 15, 2018 deadline for submission of the Listing of Recreational Transit Services. However, the City submitted the listing on October 30, 2018.
<b>Cause</b>	City staff changes resulted in misunderstanding regarding the submission of the Listing of Recreational Transit Services form.
<b>Effect</b>	The City’s Listing of Recreational Transit Services was not submitted timely.
<b>Recommendation</b>	We recommend that the City establish procedures to ensure that the Recreational Transit Services Listing is properly prepared and submitted before the due date of October 15 <sup>th</sup> so that the City’s expenditures of the Proposition A Local Return Fund will be in accordance with LACMTA’s approval and the Guidelines. Furthermore, we recommend that the City retain a confirmation of receipt by LACMTA to indicate the form was submitted on a timely manner.
<b>Management’s Response</b>	Management agrees with the finding. Management has created a schedule with reporting deadlines to be used by the City staff to monitor LACMTA’s reporting requirements. Management will review the schedule on a regular basis to confirm staff is submitting reports in a timely basis.
<b>Finding Corrected During the Audit</b>	The City submitted the form to LACMTA on October 30, 2018. No follow-up is required.

**CITY OF DOWNEY**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
 June 30, 2018  
 (Continued)

**MRLRF: Finding No. 2018-004**

<b>Compliance Reference</b>	<p>According to Measure R Local Return Guidelines, Section A.I, “The Measure R Ordinance specifies that Local Return funds are to be used for transportation purposes. No net revenue distributed to Jurisdictions may be used for purposes other than transportation purposes.” and Section B.VII, “It is the Jurisdictions’ responsibility to maintain proper accounting records and documentation to facilitate the performance of audit prescribed in these guidelines.” In addition, LACMTA Local Return Program Manager issued a memo dated on April 29, 2014 to jurisdictions to provide recommendations to ensure that jurisdictions have adequate evidence to support its compliance with the Local Return Guidelines, those recommendations are “that an electronic system is acceptable as long as how much time is identified on the project (i.e. not just a clock-in-clock-out system) and this non-timesheet system, excel file or other, is authenticated by the employee and approved by one’s supervisor.” Also, “(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:</p> <p style="padding-left: 40px;">(b) A Federal award and non-Federal award.</p> <p>(5) Personnel activity reports or equivalent documentation must meet the following standards:</p> <p style="padding-left: 40px;">(a) They must reflect an after the fact distribution of the actual activity of each employee,</p> <p style="padding-left: 40px;">(e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that: (i) the governmental unit’s system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) at least quarterly, comparisons of actual costs to budgeted distributions based on monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) the budget estimates or other distribution percentages are revised as least quarterly, if necessary, to reflect changed circumstances.”</p>
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**CITY OF DOWNEY**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
 June 30, 2018  
 (Continued)

**MRLRF: Finding No. 2018-004 (Continued)**

<b>Condition</b>	<p>To support the propriety of expenditures being charged to Measure R Local Return Fund, payroll expenditures should be supported by properly executed payrolls, time records, activity reports, vouchers, or other official documentation evidencing in proper detail the nature of the charges. However, the salaries and benefits charged to Public Works Executive Management Salary Project Code 8.10 in the amount of \$21,431 was based on an estimate of a percentage of time spent on MRLRF activity rather than the employee’s actual working hours spent on the project. Although the City provided a time study listing the employees charged to MRLRF, the payroll costs and benefits were based on estimated percentages of the time spent on the projects. Moreover, the hours were not adjusted to reflect the “true” hours worked on the projects at the end of the fiscal year 2017-18.</p> <p>This is a repeat finding from the prior two fiscal years.</p>
<b>Cause</b>	<p>The City allocates administrative charges based on time study from 2011-12. The same percentage allocation has been used in prior fiscal years in which the City believed is still relevant today as when the study was completed.</p>
<b>Effect</b>	<p>The payroll costs claimed under the Measure R Local Return Fund project may include expenditures which may not be an allowable Measure R project expenditures. This resulted in questioned costs of \$21,431.</p>
<b>Recommendation</b>	<p>In accordance with the Guidelines, we recommend that the City reimburse its Measure R Local Return Fund account for \$21,431. In addition, we recommend that the City revise its current labor costs reporting procedures to ensure that labor costs charged to Local Return Funds are adequately supported by time sheets or similar documentation which includes employees’ actual working hours.</p>
<b>Management’s Response</b>	<p>The salary allocations to all City funds were estimates based on activity by position. Although the analysis has been carried forward, the City believed that allocations are still relevant today as when the study was completed. The City recently completed a cost allocation study which has been shared with the LACMTA and is still under review by the City management.</p>

**CITY OF DOWNEY**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
 June 30, 2018  
 (Continued)

**MMLRF: Finding No. 2018-005**

<b>Compliance Reference</b>	According to Measure M Local Return Guidelines, Section XXV, <i>Administrative: Audit Requirements</i> , “It is each Jurisdiction’s responsibility to maintain proper accounting records and documentation...”
<b>Condition</b>	To support the propriety of expenditures being charged to the Measure M Local Return Fund, non-payroll expenditures should be supported by properly executed contracts, invoices, and vouchers. Although a payment to the vendor, Smith Emery Laboratories, was allowable and was properly supported by an invoice and cancelled check, the expenditure was not supported by an existing contract or purchase order form that were charged to MMLRF’s Brookshire Avenue Pavement Rehabilitation Project Code 1.05 in the amount of \$3,347. The total payments made to the vendor during fiscal year 2017-18 was \$5,437.
<b>Cause</b>	The vendor, Smith Emery Laboratories, billed the City in one consolidated invoice relating to multiple services performed which caused the amount to exceed the threshold of \$3,000 that requires the issuance of a purchase order.
<b>Effect</b>	No contract or purchase order form to support the payment made to the vendor, Smith Emery Laboratories, indicates a weakness in the City’s internal control.
<b>Recommendation</b>	We recommend that the City establish controls to ensure that the costs charged to the Local Return Funds, although allowable, are adequately supported by contracts, purchase orders, invoices, canceled checks or similar documentation so that Local Return expenditures are in compliance with the Guidelines.
<b>Management’s Response</b>	The vendor, Smith Emery Laboratories performed materials testing and Quality Assurance (QA) testing for various projects throughout the City. Most invoices were under the amount required for a purchase order. However, in this case, Smith Emery Laboratories sent one consolidated invoice for materials and QA testing. The City is in the process of requesting bids in order to have PSA’s with a minimum of three (3) companies for QA and materials testing.

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***EXIT CONFERENCE***

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***CITY OF DOWNEY***  
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 19, 2018 with the City of Downey. Those in attendance were:

***Simpson & Simpson Representative:***

Yung Dang, Senior Auditor

***City's Representative:***

Shannon Allen, Accountant

***Matters Discussed:***

Results of the audit disclosed three (3) material weaknesses and five (5) non-compliance issues 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:

Shannon Allen, Accountant



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

RE: CITY OF DOWNEY 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 Downey and agree with the contents of the report except as indicated below:

(Attach additional pages if necessary)

Very truly yours,

\_\_\_\_\_  
Name

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date