

***CITY OF LANCASTER  
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  
TRANSPORTATION DEVELOPMENT ACT  
ARTICLE 8 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 LANCASTER***  
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***CITY OF LANCASTER***  
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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 Lancaster, 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), Transportation Development Act Article 3 Fund (TDAA3F), and Transportation Development Act Article 8 Fund (TDAA8F) (collectively, the Funds), of the City of Lancaster, 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 Lancaster, 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, TDAA3F and TDAA8F of the City of Lancaster, California, as of June 30, 2018 and 2017, and MMLRF of the City of Lancaster, 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, TDAA3F and TDAA8F of the City and do not purport to, and do not, present fairly the financial position of the City of Lancaster, 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 December 18, 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  
December 18, 2018

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

	2018	2017
<b>ASSETS</b>		
Cash and investments	\$ 3,269,969	\$ 3,529,443
Interest receivable	9,249	8,768
Total assets	\$ 3,279,218	\$ 3,538,211
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ 8,041	\$ 19,721
Wages payable	748	310
Total liabilities	8,789	20,031
 <b>Fund Balance</b>		
Restricted	3,270,429	3,518,180
Total fund balance	3,270,429	3,518,180
Total liabilities and fund balance	\$ 3,279,218	\$ 3,538,211

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

**CITY OF LANCASTER**  
**PROPOSITION A 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 A	\$ 2,930,316	\$ 2,933,883
Interest income	15,992	11,927
Unrealized loss on investments	(8,067)	(4,913)
Total revenues	2,938,241	2,940,897
 <b>EXPENDITURES</b>		
Various projects	3,185,992	2,963,766
Total expenditures	3,185,992	2,963,766
 Deficiency of revenues under expenditures	(247,751)	(22,869)
 Fund balance at beginning of year	3,518,180	3,541,049
 Fund balance at end of year	\$ 3,270,429	\$ 3,518,180

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



**CITY OF LANCASTER**  
**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)	
110-01	AVTA Transit Services	\$ 1,550,525	\$ 1,519,665	\$ 30,860	\$ 1,203,084
140-01	Recreational Transit Services	20,000	17,419	2,581	20,000
150-05	2017 Bus Stop Improvements	746,574	8,215	738,359	32,426
150-06	17/18 Bus Stop Improvements	800,000	1,891	798,109	-
160-01	Bus Stop Improvements (as part of Project 12ST037)	285,280	8,013	277,267	-
170-02	Bus Shelter/ Bench Maintenance	65,000	77,266	(12,266)	79,264
170-03	Care and Maintenance of AVTA Transfer Center	40,055	40,416	(361)	40,990
230-01	Park & Ride Security Program	103,000	44,276	58,724	117,095
405-02	Exchange Prop A Funds with City of Commerce	1,425,000	1,425,000	-	1,425,000
480-03	Transportation Program Administration	35,565	5,916	29,649	8,732
480-05	General Fund Overhead Allocation	37,915	37,915	-	37,175
	Total expenditures	\$ 5,379,914	\$ 3,185,992	\$ 2,193,922	\$ 2,963,766

See accompanying independent auditor's report.

**CITY OF LANCASTER**  
**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
6/4/2012	Pressure Washer Trailer	\$ 10,874	\$ -	\$ -	\$ 10,874
	Total	\$ 10,874	\$ -	\$ -	\$ 10,874

See accompanying independent auditor's report.

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

	2018	2017
<b>ASSETS</b>		
Cash and investments	\$ 3,243,833	\$ 6,135,867
Interest receivable	11,639	14,250
Other receivable	412	-
Total assets	\$ 3,255,884	\$ 6,150,117
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ -	\$ 600
Total liabilities	-	600
 <b>Fund Balance</b>		
Restricted	3,255,884	6,149,517
Total fund balance	3,255,884	6,149,517
Total liabilities and fund balance	\$ 3,255,884	\$ 6,150,117

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

**CITY OF LANCASTER**  
**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	\$ 2,464,047	\$ 2,400,022
Interest income	27,538	28,688
Unrealized loss on investments	(2,022)	(7,410)
Total revenues	2,489,563	2,421,300
 <b>EXPENDITURES</b>		
Various projects	5,383,196	2,903,868
Total expenditures	5,383,196	2,903,868
 Deficiency of revenues under expenditures	(2,893,633)	(482,568)
 Fund balance at beginning of year	6,149,517	6,632,085
 Fund balance at end of year	\$ 3,255,884	\$ 6,149,517

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

**CITY OF LANCASTER**  
**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)	
110-01	AVTA Transit Services	\$ -	\$ -	\$ -	\$ 391,904
180-01	Purchase of Sealant Melter & Applications	1	-	1	98,901
290-01	Park and Ride Public Parking Lot	174,079	176,514	(2,435)	-
440-01	Ave H Restripe - 20th St W to Trevor	-	-	-	10,210
440-02	St Rehab/ Repair-20th W/ Lanc Blvd to Ave J	1,677,683	1,679,656	(1,973)	146,227
450-05	10th Street West Gap Closure	1,416,042	1,411,982	4,060	258,893
450-16	Avenue I Streetscape Enhancements, 15th St W to 10th St W	525,298	270,318	254,980	72,584
450-18	Lancaster Auto Mall	19,925	850	19,075	75
450-20	Sidewalk Improvements at Railroad Crossings	136,349	87,351	48,998	3,265
450-21	Intersection Improvements - 10th W & 30th at Ave I	793,874	174,657	619,217	166,233
450-22	Avenue H Rehab	-	-	-	71,983
450-24	10th Street West and Avenue K Improvements	400,000	-	400,000	-
450-25	Street Rehab and Repair Lanc Blvd, 30th - 40th East	300,810	301,039	(229)	-
450-26	Avenue H and 7th Street West Improvements	935,000	-	935,000	-
450-27	Avenue K-8 and 10th Street West Improvements	50,000	50,000	-	-
450-28	15th Street West and Lancaster Blvd Roundabouts	29,175	28,453	722	-
450-29	15th Street East and Lancaster Blvd Roundabouts	28,533	28,462	71	-
450-30	Lancaster Blvd Road Diets, 10th St W to Valley Central Way	500,000	500,000	-	-
470-03	Professional Services - PMS	59,313	56,208	3,105	600
470-05	Cole Middle School and Tierra Bonita	62,012	60,386	1,626	89,301
470-07	2015 Pavement Management Program	1,177	1,144	33	121,035
470-08	15-16 Pavement Management Program/ Revive 25	361,258	191,860	169,398	1,227,001
470-09	2016/17 Pavement Management Program R-25	336,149	216,887	119,262	243,808
470-10	17/18 Pavement Management Program	616,852	146,476	470,376	-
500-02	Computer Software	2,700	953	1,747	1,848
Total expenditures		\$ 8,426,230	\$ 5,383,196	\$ 3,043,034	\$ 2,903,868

See accompanying independent auditor's report.

**CITY OF LANCASTER**  
**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
5/23/2017	Cracked Sealer	\$ 98,901	\$ -	\$ -	\$ 98,901
	Total	\$ 98,901	\$ -	\$ -	\$ 98,901

See accompanying independent auditor's report.

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

	2018	2017
<b>ASSETS</b>		
Cash and investments	\$ 3,470,183	\$ 4,640,226
Due from Metro	1,641,649	989,411
Interest receivable	10,567	11,096
Due from other government (Note 10)	1,798,350	1,367,911
Total assets	\$ 6,920,749	\$ 7,008,644
 <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ -	\$ -
Total liabilities	-	-
 <b>Deferred Inflows of Resources</b>		
Unavailable revenue (Note 10)	1,798,350	1,367,911
Total deferred inflows of resources	1,798,350	1,367,911
 <b>Fund Balance</b>		
Restricted	5,122,399	5,640,733
Total fund balance	5,122,399	5,640,733
Total liabilities, deferred inflows of resources and fund balance	\$ 6,920,749	\$ 7,008,644

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

**CITY OF LANCASTER**  
**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	\$ 1,820,508	\$ 1,825,625
Measure R Highway Program Grant (Note 11)	1,641,755	3,155,363
Project reimbursements (Note 14)	29,263	-
Interest income	29,812	18,274
Unrealized loss on investments	(6,484)	(7,296)
Total revenues	3,514,854	4,991,966
<b>EXPENDITURES</b>		
Various projects funded by MRLRF	2,966,418	418,040
Various projects funded by Measure R Highway Program Grant (Note 11)	1,066,770	3,066,747
Total expenditures	4,033,188	3,484,787
 (Deficiency) excess of revenues (under) over expenditures	 (518,334)	 1,507,179
 Fund balance at beginning of year	 5,640,733	 4,133,554
 Fund balance at end of year	 \$ 5,122,399	 \$ 5,640,733

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



**CITY OF LANCASTER**  
**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		
<i>Expenditures Funded by MRLRF</i>					
1.05	2015 Pavement Management Program	\$ 986,487	\$ 73,768	\$ 912,719	\$ 23,331
1.05	16/17 Pavement Mgmt/ Revive 25	4,065,615	662,071	-	172,123
1.05	Street Rehab/ Repair 20th W and Lancaster Blvd to Avenue J	200,574	5,019	195,555	-
1.05	Street Rehab/ Repair Lancaster Blvd/ 30th - 40th E	436,781	322,251	-	11,476
1.05	Avenue J-2 Street Improvements at 17th Street E	75,000	7,553	-	-
1.05	17/18 Pavement Management Program - R-25	1,840,770	148,364	1,692,406	-
1.05	Avenue H and 7th Street W Improvements	515,000	-	-	-
1.05	Lancaster Blvd Road Diets, 10th St W to Valley Central Way	601,455	601,455	-	-
1.10	Interchange Enhancement Projects	23,000,000	-	-	-
1.20	15th St East/ Lancaster Blvd., Roundabout	866,583	-	866,583	-
1.20	15th St West/ Lancaster Blvd., Roundabout	192,413	57	-	-
1.20	15/16 Neighborhood Speed Humps	18,082	-	-	119,390
1.25	10th St W Gap Closures, Avenue L to Avenue M	601,455	-	601,455	-
1.25	Ave I St Improvements Challenger to Price	133,580	21,119	-	375
1.25	Ave I St Improvements Price to 35th St E	158,065	404	-	186
1.90	Trevor Avenue Widening	41,660	16,098	25,562	43,021
3.05	10th St W Road Diet and Bikeway Improvement Project	230,000	57	-	-
3.05	Cole Middle School/ Tierra Bonita Pedestrian Improvements	359,889	11,011	-	-
3.05	5th St E Corridor Improvements	26,810	35,057	(8,247)	44,547
3.05	Intersection Improvemnets 10th W and 30th W at Avenue K	173,412	-	-	-
3.05	Avenue K-8 and 10th Street K Improvements	1,050,000	1,050,000	-	-
3.05	20th St W Road Diet, Ave J-9 to Ave L	-	-	-	3,591
3.90	2020 ATP - Safe Routes to School (SRTS) Pedestrian Improvements	469,000	12,134	456,866	-
	Total expenditures funded by MRLRF	<u>36,042,631</u>	<u>2,966,418</u>	<u>4,742,899</u>	<u>418,040</u>
<i>Expenditures Funded by Measure R Highway Program Grant</i>					
1.10	Avenue K and SR 14 Interchange	13,480,967	326,016	13,154,951	770,527
1.10	Avenue M and SR 14 Interchange	2,328,771	124,569	-	483,629
1.10	Avenue G and SR 14 Interchange	1,788,403	185,577	-	616,000
1.10	Ave J/ SR 14 Interchange	1,920,735	350,281	1,570,454	864,889
1.10	Avenue L and SR 14 Interchange	1,339,508	80,327	-	331,702
	Total expenditures funded by Measure R Highway Program Grant	<u>20,858,384</u>	<u>1,066,770</u>	<u>14,725,405</u>	<u>3,066,747</u>
	Total expenditures funded by MRLRF and Measure R Highway Program Grant	<u>\$ 56,901,015</u>	<u>\$ 4,033,188</u>	<u>\$ 19,468,304</u>	<u>\$ 3,484,787</u>

See accompanying independent auditor's report.

**CITY OF LANCASTER**  
**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
1/15/2013	Hydrostatic Spreader	\$ 162,127	\$ -	\$ -	\$ 162,127
1/15/2013	Pavement Preservation Broom	63,636	-	-	63,636
3/25/2013	Pneumatic Tire Compactor	87,745	-	-	87,745
3/25/2013	Pneumatic Tire Compactor	87,745	-	-	87,745
6/19/2014	Broce Model KR350 Broom with Kubo	56,758	-	-	56,758
7/14/2014	Avalance Sweeper	263,387	-	-	263,387
	Total \$	<u>721,398</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 721,398</u>

See accompanying independent auditor's report.

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

		2018
<b>ASSETS</b>		
Cash and investments	\$	1,370,313
Interest receivable		2,750
Total assets	\$	1,373,063
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$	-
Total liabilities		-
 <b>Fund Balance</b>		
Restricted		1,373,063
Total fund balance		1,373,063
Total liabilities and fund balance	\$	1,373,063

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

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

		<u>2018</u>
<b>REVENUES</b>		
Measure M	\$	1,649,797
Interest income		9,324
Unrealized loss on investments		<u>(8,983)</u>
Total revenues		<u>1,650,138</u>
 <b>EXPENDITURES</b>		
Various projects		<u>277,075</u>
Total expenditures		<u>277,075</u>
 Excess of revenues over expenditures		 1,373,063
 Fund balance at beginning of year		 <u>-</u>
 Fund balance at end of year	 \$	 <u><u>1,373,063</u></u>

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

**CITY OF LANCASTER**  
**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	17/18 Pavement Managemnet Program - R-25	\$ 1,223,000	\$ 75	\$ 1,222,925
1.05	Avenue I Street Improvement Price Lane to 35th Street East	27,000	-	27,000
1.05	Street Rehab/ Repair 20th W and Lancaster Blvd to Avenue J	277,000	277,000	-
	Total expenditures	\$ <u>1,527,000</u>	\$ <u>277,075</u>	\$ <u>1,249,925</u>

See accompanying independent auditor's report.

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

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

See accompanying independent auditor's report.

**CITY OF LANCASTER**  
**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	\$ 13,515	\$ 1,768
Total assets	\$ 13,515	\$ 1,768
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Due to General Fund	\$ 69,771	\$ 101
Total liabilities	69,771	101
 <b>Fund Balance</b>		
Restricted	-	1,667
Unassigned	(56,256)	-
Total fund balance	(56,256)	1,667
Total liabilities and fund balance	\$ 13,515	\$ 1,768

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

**CITY OF LANCASTER**  
**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	\$ 13,515	\$ 1,768
Project reimbursements (Note 14)	7,596	-
Interest income (loss)	6	(3)
Total revenues	21,117	1,765
 <b>EXPENDITURES</b>		
10th Street W & Avenue J Improvements	79,040	3,091
Total expenditures	79,040	3,091
 Deficiency of revenues under expenditures	(57,923)	(1,326)
 Fund balance at beginning of year	1,667	2,993
 Fund balance at end of year	\$ (56,256)	\$ 1,667

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



**CITY OF LANCASTER**  
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>					
10th Street W & Avenue J Improvements	2017-18	\$ <u>13,515</u>	\$ <u>79,040</u>	\$ <u>(65,525)</u>	On-going
	Total	\$ <u>13,515</u>	\$ <u>79,040</u>	(65,525)	
Interest income				6	
Project reimbursements				7,596	
Fund balance at beginning of year				<u>1,667</u>	
Fund balance at end of year				\$ <u>(56,256)</u>	

See accompanying independent auditor's report.

**CITY OF LANCASTER**  
**TRANSPORTATION DEVELOPMENT ACT ARTICLE 8 FUND**  
**(PURSUANT TO PUBLIC UTILITIES CODE SECTION 99400)**

**BALANCE SHEETS**

June 30

	2018	2017
<b>ASSETS</b>		
Due from Metro	\$ 5,482,120	\$ 2,798,498
Total assets	\$ 5,482,120	\$ 2,798,498
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>		
<b>Liabilities</b>		
Due to General Fund	\$ 7,215,773	\$ 2,999,998
Total liabilities	7,215,773	2,999,998
<b>Deferred Inflows of Resources</b>		
Unavailable revenue (Note 10)	-	2,798,498
Total deferred inflows of resources	-	2,798,498
<b>Fund Balance</b>		
Unassigned	(1,733,653)	(2,999,998)
Total fund balance	(1,733,653)	(2,999,998)
Total liabilities, deferred inflows of resources and fund balance	\$ 5,482,120	\$ 2,798,498

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

**CITY OF LANCASTER**  
**TRANSPORTATION DEVELOPMENT ACT ARTICLE 8 FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
For the Fiscal Years Ended June 30

	2018	2017
<b>REVENUES</b>		
TDA 8	\$ 8,280,618	\$ -
Project reimbursements (Note 14)	184,136	50,825
Interest income	-	(3,426)
Unrealized gain on investments	-	1,821
Other income	-	2,663
Total revenues	8,464,754	51,883
<b>EXPENDITURES</b>		
Various projects	7,198,409	3,387,475
Total expenditures	7,198,409	3,387,475
Excess (deficiency) of revenues over (under) expenditures	1,266,345	(3,335,592)
Fund balance at beginning of year	(2,999,998)	335,594
Fund balance at end of year	\$ (1,733,653)	\$ (2,999,998)

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

**CITY OF LANCASTER**  
TRANSPORTATION DEVELOPMENT ACT ARTICLE 8 FUND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF TRANSPORTATION DEVELOPMENT ACT  
ALLOCATION FOR SPECIFIC PROJECTS  
For the Fiscal Year Ended June 30, 2018

Project Description	Program Year	Allocations	Expenditures	Unexpended Allocations	Project Status
<b>Local allocations</b>					
St Rehab/ Repair-Lancaster Blvd/ 30th W	2014	\$ 14,742	\$ 14,660	\$ 82	Complete
2015 Pavement Management Program	2015	48,747	48,472	275	Ongoing
15/16 Pavement Management Program R25	2016	1,777,681	1,777,618	63	Ongoing
Lancaster Health District (Medical Main Street)	2016	374,005	46,980	327,025	Ongoing
10th St W Gap Closure Ave L/ Ave M	2015	761,287	288,909	472,378	Ongoing
16/17 Pavement Management Program R25	2017	518,754	518,754	-	Ongoing
2014 Citywide Gap Closures (16/17 Ave J-8 Gap Closure)	2017	16,847	16,847	-	Ongoing
Avenue K-8 Fence	2018	209,500	25,194	184,306	Ongoing
St Rehab/ Repair-20th W Lanc Blvd to J	2018	331,246	331,246	-	Ongoing
17/18 Pavement Management Program R25	2018	69,604	69,604	-	Ongoing
18/19 Pavement Management Program R25	2018	75	75	-	Ongoing
Ave I Streetscape Enhance	2018	406,453	406,453	-	Ongoing
Pedestrian Gap Closure IMPS	2018	-	-	-	Ongoing
15th St W/ Lanc Blvd Roundabout	2018	231,099	-	231,099	Ongoing
Traffic Operations and Maintenance	2018	451,090	584,109	(133,019)	Ongoing
Street Maintenance	2018	2,990,350	2,990,350	-	Ongoing
Street Light Maintenance	2018	79,138	79,138	-	Ongoing
	Total	<u>\$ 8,280,618</u>	<u>\$ 7,198,409</u>	<u>\$ 1,082,209</u>	
Unexpended interest accumulated to date				-	
Project reimbursements				184,136	
Fund balance at beginning of year				(2,999,998)	
Fund balance at end of year				<u>(1,733,653)</u>	

See accompanying independent auditor's report.

**CITY OF LANCASTER**  
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), Transportation Development Act Article 3 Fund (TDAA3F) and Transportation Development Act Article 8 Fund (TDAA8F) (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) and Transportation Development Act Article 8 Fund (TDAA8F) are Special Revenue Funds that account for the City’s share of the Transportation Development Act Article 3 and 8 allocations which are legally restricted for specific purposes.

*Basis of Accounting and Measurement Focus*

PALRF, PCLRF, MRLRF, MMLRF, TDAA3F and TDAA8F 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 balances for Special Revenue Funds generally presents 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 LANCASTER**  
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 Governmental 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 TDAA3F and TDAA8F 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).
- Unassigned – The unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted to those purposes.

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, TDAA3F and TDAA8F 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, the Los Angeles County Metropolitan Transportation Authority Funding and Allocation Guidelines for Transportation Development Act (TDA) Article 3 Bicycle and Pedestrian Funds, and the Los Angeles County Metropolitan Transportation Authority Guidelines to the Administration of TDA Article 8.

**CITY OF LANCASTER**  
**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 – TDA ARTICLE 3 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 – TDA ARTICLE 8 COMPLIANCE REQUIREMENTS**

In accordance with Public Utilities Code Section 99400, funds received pursuant to this Code’s section may only be used for activities relating to transit, paratransit, and local streets and roads, including facilities for the exclusive use of pedestrians and bicycles to fulfill unmet transit needs in areas outside the service area of Metro operations. See accompanying Compliance Matrix.

**NOTE 8 – CASH AND INVESTMENTS**

The PALRF, PCLRF, MRLRF, MMLRF, TDAA3F and TDAA8F’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 quarterly balances to the total of the pooled cash and investments.

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

**NOTE 9 – PROPOSITION A LOCAL RETURN FUND EXCHANGE**

On July 18, 2017 and on August 1, 2016, the City entered into agreements with the City of Commerce to exchange \$1,425,000 of the City’s Proposition A Local Return funds for \$997,550 of the City of Commerce’s General funds or \$0.70 of General funds given for each \$1.00 of Proposition A Local Return funds received. The agreements were only applicable to the fiscal years ended June 30, 2018 and June 30, 2017.

**NOTE 10 – DEFERRED INFLOWS OF RESOURCES**

The City recognizes revenue when the payments for services rendered become measurable and available. In fiscal years ended June 30, 2018 and 2017, the City recorded deferred inflows of resources when the availability of funds was not determined at fiscal year-end.

The issuance of GASB Statement 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 reimbursements from other funds were not available for spending in fiscal years ended June 30, 2018 and 2017, the amounts were reported as deferred inflows of resources. As of June 30, 2018, and 2017, the deferred inflows of resources reported in MRLRF were \$1,798,350 and \$1,376,911, respectively from Measure R Highway Program Grant.

<u>MOU Number</u>	<u>Project Name</u>		<u>2018</u>	<u>2017</u>
MR330.02	15BR004 Ave K/SR 14 Interchange	\$	520,759	\$ 345,140
MR330.03	15BR006 Ave G/SR 14 Interchange		309,602	150,765
MR330.04	15BR007 Ave J/SR 14 Interchange		279,289	261,187
MR330.05	15BR008 Ave L/SR 14 Interchange		574,236	510,764
MR330.06	15BR005 Ave M/SR 14 Interchange		114,464	100,055
	Total deferred inflows of resources	\$	<u>1,798,350</u>	<u>\$ 1,367,911</u>

As of June 30, 2018, and 2017, the deferred inflows of resources reported in TDAA8F were \$0 and \$2,798,498, respectively from TDA Article 8.



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

**NOTE 11 – MEASURE R HIGHWAY PROGRAM GRANT REVENUES AND EXPENDITURES**

For fiscal years ended June 30, 2018 and 2017, Measure R Highway Program Grant had the following projects revenues:

<u>MOU Number</u>	<u>Project Name</u>		<u>2018</u>		<u>2017</u>
MR330.02	15BR004 Ave K/SR 14 Interchange	\$	424,282	\$	596,913
MR330.06	15BR005 Ave M/SR 14 Interchange		174,302		1,145,325
MR330.03	15BR006 Ave G/SR 14 Interchange		315,560		567,007
MR330.04	15BR007 Ave J/SR 14 Interchange		598,212		573,869
MR330.05	15BR008 Ave L/SR 14 Interchange		129,399		272,249
		\$	<u>1,641,755</u>	\$	<u>3,155,363</u>

For fiscal years ended June 30, 2018 and 2017, Measure R Highway Program Grant had the following projects expenditures:

<u>MOU Number</u>	<u>Project Name</u>		<u>2018</u>		<u>2017</u>
MR330.02	15BR004 Ave K/SR 14 Interchange	\$	326,016	\$	770,527
MR330.06	15BR005 Ave M/SR 14 Interchange		124,569		483,629
MR330.03	15BR006 Ave G/SR 14 Interchange		185,577		616,000
MR330.04	15BR007 Ave J/SR 14 Interchange		350,281		864,889
MR330.05	15BR008 Ave L/SR 14 Interchange		80,327		331,702
		\$	<u>1,066,770</u>	\$	<u>3,066,747</u>

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

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

TDA Article 3 Fund

		<u>2018</u>		<u>2017</u>
FY 2014-15 allocation	\$	13,515	\$	1,768
Total payments requested	\$	<u>13,515</u>	\$	<u>1,768</u>

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

**NOTE 12 -- TRANSPORTATION DEVELOPMENT ACT FUNDS REVENUE ALLOCATION**  
**(Continued)**

TDA Article 8 Fund

	2018	2017
FY 2015-16 allocation	\$ 4,186,397	\$ -
FY 2016-17 allocation	4,094,221	-
Total payments requested *	\$ 8,280,618	\$ -

\* The total revenue recognized in the fiscal year 2017-18 is \$8,280,618 which consisted of drawn down of \$5,482,120 in the fiscal year 2017-18 TDA 8 process claims and the remainder balance of \$2,798,498 was claimed for reimbursement in the fiscal year 2016-17 which was recorded as deferred inflows of resources in the same year due to a timing issue.

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

In accordance with state 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:

TDA Article 3 Fund

	2018	2017
FY 2014-15 allocation	\$ 38,879	\$ 52,394
FY 2015-16 allocation	101,858	101,858
FY 2016-17 allocation	106,518	106,518
FY 2017-18 allocation	102,292	-
Available reserve balance	\$ 349,547	\$ 260,770

For fiscal year 2017-18, any TDA Article 3 funds left on reserve for FY 2013-14 or prior, are subject to lapse if not by claimed by the City by June 30, 2018. There were no lapsed funds in FY 2017-18.

TDA Article 8 Fund

	2018	2017
FY2015-16 allocation	\$ -	\$ 4,186,397
FY 2016-17 allocation	2,190,875	6,285,096
FY 2017-18 allocation	6,036,022	-
Available reserve balance	\$ 8,266,879	\$ 10,471,493

For fiscal year 2017-18, any TDA Article 8 funds left on reserve for FY 2013-14 or prior, are subject to lapse if not by claimed by the City by June 30, 2018. There were no lapsed funds in FY 2017-18.

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

**NOTE 14 – LOCAL RETURN FUNDS AND TRANSPORTATION DEVELOPMENT ACT  
PROJECT REIMBURSEMENTS**

For June 30, 2018, the following project reimbursements were noted:

MRLRF

<b>Project No.</b>	<b>Project Name</b>	<b>Purpose</b>	<b>Entity name</b>	<b>Amount</b>
15ST030	Downtown Gateway	Reimbursement to Measure R for FY14 expenditure projects from TEA funds.	Federal TEA Funds	\$ 29,263
Total				\$ <u>29,263</u>

TDAA3F

<b>Project No.</b>	<b>Project Name</b>	<b>Purpose</b>	<b>Entity name</b>	<b>Amount</b>
15BW007	Ave K-8 Facility Imp	Reimbursement from grant funds to TDA 3 for retention payment initially made from TDA 3 funding.	State of California- BTA Funds	\$ 7,596
Total				\$ <u>7,596</u>

TDAA8F

<b>Project No.</b>	<b>Project Name</b>	<b>Purpose</b>	<b>Entity name</b>	<b>Amount</b>
15ST042	Ave I Streetscape Enhancement	Reimbursement from grant funds to TDA 8 for retention payment initially made from TDA 8 funding.	Metro	\$ 22,446
15ST020	Ave G Widening, 45th St W to 50th St W	Reimbursement from EDA grant funds to cover project costs initially made from TDA 8 funding.	Federal Economic Development Administration	19,494
15ST020	Ave G Widening, 45th St W to 50th St W	Reimbursement from EDI grant funds to cover project costs initially made from TDA 8 funding.	HUD-Economic Development Initiative	139,653
15ST039	20th St W Road Diet, Ave J-8 to Ave L	Reimbursement from grant funds to TDA 8 for retention payment initially made from TDA 8 funding.	State of California- BTA Funds	2,543
Total				\$ <u>184,136</u>

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

**NOTE 14 – LOCAL RETURN FUNDS AND TRANSPORTATION DEVELOPMENT ACT  
PROJECT REIMBURSEMENTS (Continued)**

For June 30, 2017, the following project reimbursements were noted for TDAA8F.

Project No.	Project Name	Purpose	Entity name	Amount
15ST039	20th St W Road Diet - Ave J8 to Ave L	Reduce FY 14/15 salary expenses by funding with Measure R Tax Revenue.	Metro	\$ 2,555
15ST039	Bike Lanes 20th ST W/Ave J8 to Ave L	Reduce FY 14/15 salary expenses by funding with BTA112-07-LA-04 Grant.	State of California Department of Transportation	22,861
12TS004	Smart Crosswalks (Five Locations)	Reduce FY 06/07 expenses by funding with SR2SL-5419(018).	State of California Office of Traffic Safety	25,409
Total				<u>\$ 50,825</u>

**NOTE 15 – SUBSEQUENT EVENTS**

The City has evaluated events or transactions that occurred subsequent to June 30, 2018 through December 18, 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 Lancaster, 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, Transportation Development Act Article 3 Fund and Transportation Development Act Article 8 Fund (collectively, the Funds) of the City of Lancaster, 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 December 18, 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 City’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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, Transportation Development Act Article 3 and Transportation Development Act Article 8 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 cursive script that reads "Simpson &amp; Simpson".

Los Angeles, California  
December 18, 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 Lancaster, California and the  
Los Angeles County Metropolitan Transit Authority

### **Report on Compliance**

We have audited the compliance of the City of Lancaster, California (the City) with the Proposition A and Proposition C Local Return Guidelines, Measure R Local Return Guidelines, Measure M Local Return Guidelines, the Los Angeles County Metropolitan Transportation Authority's Funding and Allocation Guidelines for the Transportation Development Act Article 3 Bicycle and Pedestrian Funds, and the Los Angeles County Metropolitan Transportation Authority Guidelines to the Administration of Transportation Development Act Article 8 (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 Articles 3 and 8 programs 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, Transportation Development Act Article 3 and Transportation Development Act Article 8***

In our opinion, 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 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 and Transportation Development Act Articles 3 and 8 programs 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 requirement of the Guidelines. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink, reading "Simpson &amp; Simpson".

Los Angeles, California  
December 18, 2018

**CITY OF LANCASTER**  
**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	There were no expenditures that exceeded 25% of approved project budget.
5.	Administrative expenditures 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	See PALRF Finding No. 2018-001.

**CITY OF LANCASTER**  
**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.	Fund 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 was 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	There were no administrative expenditures in FY 2017/18.
11.	Fund exchanges were approved by Metro.			X	None	There were no fund exchanges in FY 2017/18.
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 LANCASTER**  
**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 was 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	There were no administrative expenditures in FY 2017/18.
11.	Fund exchanges were approved by Metro.			X	None	There were no fund exchanges in FY 2017/18.
12.	A separate account was established for capital reserve funds and capital reserve was approved by Metro.			X	None	There were no projects which required this in FY 2017/18.
13.	Recreational transit form was submitted timely.			X	None	There were no projects which required submission of this form in FY 2017/18.

**CITY OF LANCASTER**  
**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	
<b>E. Transportation Development Act Article 8 Fund</b>						
1.	Timely use of funds.	X			None	
2.	Expenditures were incurred for activities relating to transit, paratransit and local streets and roads.	X			None	

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

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

<b>Compliance Requirement</b>	According to Proposition A and Proposition C Local Return Guidelines, Section II, 1.3, Recreational Transit Service: “Jurisdictions shall submit a Listing of Recreational Transit Services no later than October 15 <sup>th</sup> 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 subsequently submitted the listing on December 6, 2018.
<b>Cause</b>	The Finance Department lost a key member in the department to another department within the City near year-end. The compliance filings responsibility was assigned to another staff which resulted in overlooked the submission of the form before the due date.
<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> in accordance with the Proposition A and Proposition C Local Return Guidelines. Furthermore, we recommend that the City retain a confirmation of receipt by LACMTA to indicate the listing was submitted in a timely manner.
<b>Managements Response</b>	The City will establish procedures to ensure the timely filing of all required listings. In addition, the City will retain a confirmation of receipt by LACMTA to indicate the listing was submitted in a timely manner.

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***EXIT CONFERENCE***

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**CITY OF LANCASTER**  
PROPOSITION A, PROPOSITION C, MEASURE R, MEASURE M LOCAL RETURN FUNDS,  
TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND, TRANSPORTATION  
DEVELOPMENT ACT ARTICLE 8 FUND  
EXIT CONFERENCE  
June 30, 2018

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

***Simpson & Simpson Representative:***

Wanda Molina, Audit Supervisor

***City's Representative:***

Tammie Holladay, Treasury Manager  
Pam Statsmann, Finance Director

***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:

Tammie Holladay, Treasury Manager  
Pam Statsmann, Finance Director



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

RE: CITY OF LANCASTER ANNUAL FINANCIAL REPORT OF THE PROPOSITION A LOCAL RETURN FUND, PROPOSITION C LOCAL RETURN FUND, MEASURE R LOCAL RETURN FUND, MEASURE M LOCAL RETURN FUND, TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND AND TRANSPORTATION DEVELOPMENT ACT ARTICLE 8 FUND FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

I have received the annual financial report of the Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund, Measure M Local Return Fund, Transportation Development Act Article 3 Fund and Transportation Development Act Article 8 Fund for the fiscal years ended June 30, 2018 and 2017 for the City of Lancaster and agree with the contents of the report except as indicated below:

(Attach additional pages if necessary)

Very truly yours,

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Name

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Title

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Date