



MetroTM

**City of Gardena
Annual Financial Report of its**

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

As of and for the Years Ended June 30, 2018 and 2017

and

Measure M Local Return Fund

**As of and for the Year Ended June 30, 2018
with Report of Independent Auditors**

	<u>PAGE</u>
FINANCIAL SECTION	
Report of Independent Auditors	1
Proposition A Local Return Fund:	
Basic Financial Statements:	
Balance Sheets	4
Statements of Revenues, Expenditures and Changes in Fund Balance	5
Supplementary Information:	
Schedule of Expenditures – Actual and LACMTA Approved Project Budget	6
Schedule of Capital Assets	7
Proposition C Local Return Fund:	
Basic Financial Statements:	
Balance Sheets	8
Statements of Revenues, Expenditures and Changes in Fund Balance	9
Supplementary Information:	
Schedule of Expenditures – Actual and LACMTA Approved Project Budget	10
Schedule of Capital Assets	11
Measure R Local Return Fund:	
Basic Financial Statements:	
Balance Sheets	12
Statements of Revenues, Expenditures and Changes in Fund Balance	13
Supplementary Information:	
Schedule of Expenditures – Actual and LACMTA Approved Project Budget	14
Schedule of Capital Assets	15
Measure M Local Return Fund:	
Basic Financial Statements:	
Balance Sheet	16
Statement of Revenues, Expenditures and Changes in Fund Balance	17
Supplementary Information:	
Schedule of Expenditures – Actual and LACMTA Approved Project Budget	18
Schedule of Capital Assets	19
Transportation Development Act Article 3 Fund:	
Basic Financial Statements:	
Balance Sheets	20
Statements of Revenues, Expenditures and Changes in Fund Balance	21
Supplementary Information:	
Schedule of Transportation Development Act Allocation for Specific Projects	22
Notes to Funds Financial Statements	23
Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29

	<u>PAGE</u>
COMPLIANCE SECTION	
Report of Independent Auditors on Compliance	31
Compliance Matrix	33
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	37
EXIT CONFERENCE	38

FINANCIAL SECTION

Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Proposition A Local Return Fund, the Proposition C Local Return Fund, the Measure R Local Return Fund and the Transportation Development Act Article 3 Fund (collectively, the Funds) of the City of Gardena, California (the City) which comprise the Funds' balance sheets as of June 30, 2018 and 2017, and the related statements of revenues, expenditures and changes in fund balances for the years then ended, and the accompanying financial statements of the City's Measure M Local Return Fund (the Fund) which comprise the Fund's balance sheet as of June 30, 2018, and the related statement of revenues, expenditures and changes in fund balance for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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



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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Proposition A Local Return Fund, the Proposition C Local Return Fund, the Measure R Local Return Fund and the Transportation Development Act Article 3 Fund as of June 30, 2018 and 2017 and the Measure M Local Return Fund as of June 30, 2018, of the City of Gardena, California, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the Proposition A Local Return Fund, the Proposition C Local Return Fund, the Measure R Local Return Fund, the Measure M Local Return Fund and the Transportation Development Act Article 3 Fund of the City of Gardena, California, and do not purport to, and do not present fairly the financial position of the City as of June 30, 2018 and 2017, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Supplementary Information

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

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



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 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 solely to describe the scope of our testing of internal control over the Funds' financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over the Funds' financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over the Funds' financial reporting and compliance.

Vasquez & Company LLP

**Glendale, California
December 17, 2018**

City of Gardena
 Proposition A Local Return Fund
 Balance Sheets

		June 30	
		2018	2017
ASSETS			
Cash and investments	\$	3,493,815	\$ 3,291,722
Accounts receivable		163,274	-
Total assets	\$	3,657,089	\$ 3,291,722
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	100,573	\$ -
Total liabilities		100,573	-
 Fund balance			
Restricted		3,556,516	3,291,722
Total fund balance		3,556,516	3,291,722
Total liabilities and fund balance	\$	3,657,089	\$ 3,291,722

See notes to Funds financial statements.

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

	Years ended June 30	
	2018	2017
Revenues		
Proposition A	\$ 1,133,839	\$ 1,102,396
Proposition A Discretionary Incentive Program grant	163,274	146,085
Passenger fares	12,858	12,204
Elderly and handicapped services program income	355,104	218,737
Interest income	46,165	27,504
Total revenues	1,711,240	1,506,926
 Expenditures		
Various projects	1,446,446	1,142,104
Total expenditures	1,446,446	1,142,104
 Excess of revenues over expenditures	264,794	364,822
 Fund balance at beginning of year	3,291,722	2,926,900
 Fund balance at end of year	\$ 3,556,516	\$ 3,291,722

See notes to Funds financial statements.

City of Gardena
 Proposition A Local Return Fund
 Supplementary Information
 Schedule of Expenditures – Actual and LACMTA Approved Project Budget
 Year ended June 30, 2018
 (With Comparative Actuals for 2017)

Project Code	Project Name	2018		Variance Positive (Negative)	2017 Actual
		LACMTA Budget	Actual		
110-01	Fixed Route Transit	\$ 855,219	\$ 1,142,104 *	\$ (286,885)	\$ 866,804
130-01	Special Service Paratransit	55,300	55,300	-	55,300
480-63	Paratransit Administrative Expenditures	220,000	249,042	(29,042)	220,000
	Total expenditures	\$ 1,130,519	\$ 1,446,446	\$ (315,927)	\$ 1,142,104

* See Compliance Matrix and Schedule of Findings and Questioned Costs.

See report of independent auditors.

City of Gardena
Proposition A Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2018

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2018</u>
2002	Buick Century (Veh ID 839)	\$ 19,103	\$ -	\$ -	\$ 19,103
2003	Destination Signs & Annunciators	11,610	-	-	11,610
2008	2008 Ford Crown Victoria	23,094	-	-	23,094
Total		\$ 53,807	\$ -	\$ -	\$ 53,807

See report of independent auditors.

City of Gardena
 Proposition C Local Return Fund
 Balance Sheets

		June 30	
		2018	2017
ASSETS			
Cash and investments		\$ 2,743,419	\$ 1,925,440
	Total assets	\$ 2,743,419	\$ 1,925,440
LIABILITIES AND FUND BALANCE			
Liabilities			
Payroll payable		\$ 418	\$ 417
	Total liabilities	418	417
Fund balance			
Restricted		2,743,001	1,925,023
	Total fund balance	2,743,001	1,925,023
	Total liabilities and fund balance	\$ 2,743,419	\$ 1,925,440

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

	Years ended June 30	
	2018	2017
Revenues		
Proposition C	\$ 939,889	\$ 914,961
Interest income	31,595	15,440
Total revenues	971,484	930,401
 Expenditures		
Various projects	153,506	510,513
Total expenditures	153,506	510,513
 Excess of revenues over expenditures	 817,978	419,888
 Fund balance at beginning of year	 1,925,023	1,505,135
 Fund balance at end of year	 \$ 2,743,001	\$ 1,925,023

City of Gardena
Proposition C Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2018
(With Comparative Actuals for 2017)

Project Code	Project Name	2018		Variance Positive (Negative)	2017 Actual
		LACMTA Budget	Actual		
440-55	158th Street Improvement - Western Ave to Normandie Ave (JN 886)	\$ -	\$ -	\$ -	292
440-59	139th Street Improvement - Western Ave to Budlong Avenue Ave (JN 893)	-	-	-	344,990
440-64	Crenshaw Blvd Street Improvement - Redondo Beach Blvd to Rosecrans Ave (JN 925)	650,000	112,411	537,589	34,672
440-65	Crenshaw Blvd Street Improvement - JN 925	15,000	-	15,000	15,000
440-66	Pavement Management Program 2015 - 2016 (JN 883)	40,000	26,016	13,984	195
440-67	Normandie Ave St Improvement - Redondo Beach Blvd to Artesia Blvd (JN 920)	800,000	3,088	796,912	-
480-60	139th Street Improvement - Western Ave to Budlong Ave (JN 893)	-	-	-	14,770
480-65	General Project Management	-	-	-	4,221
480-70	Direct Administration Fiscal Year 2017-2018	25,000	11,991	13,009	-
500-61	Traffic Signal Upgrade, Various Locations, JN 911	-	-	-	96,373
Total expenditures		\$ 1,530,000	\$ 153,506	\$ 1,376,494	\$ 510,513

See report of independent auditors.

City of Gardena
Proposition C Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2018

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2018</u>
None		\$ -	\$ -	\$ -	\$ -
	Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See report of independent auditors.

City of Gardena
Measure R Local Return Fund
Balance Sheets

		June 30	
		2018	2017
ASSETS			
Cash and investments	\$	146,175	\$ 170,145
Total assets	\$	146,175	\$ 170,145
LIABILITIES AND FUND BALANCE			
Liabilities			
Accrued payroll	\$	418	\$ 417
Total liabilities		418	417
Fund balance			
Restricted		145,757	169,728
Total fund balance		145,757	169,728
Total liabilities and fund balance	\$	146,175	\$ 170,145

See notes to Funds financial statements.

City of Gardena
Measure R Local Return Fund

Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2018	2017
Revenues		
Measure R	\$ 704,417	\$ 685,972
Measure R Highway Grant	-	352,936
Interest income	1,872	2,682
Total revenues	706,289	1,041,590
 Expenditures		
Expenditures funded by MRLRF	728,451	807,677
Expenditures funded by Measure R Highway Grant	1,809	-
Total expenditures	730,260	807,677
 Excess (deficiency) of revenues over expenditures	 (23,971)	 233,913
 Fund balance (deficit) at beginning of year	 <u>169,728</u>	 <u>(64,185)</u>
 Fund balance at end of year	 <u>\$ 145,757</u>	 <u>\$ 169,728</u>

See notes to Funds financial statements.

City of Gardena
Measure R Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2018
(With Comparative Actuals for 2017)

Project Code	Project Name	2018			2017 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
1.05	Street Maintenance and Repair, Various Locations	\$ 1,974,237	\$ 409,903	\$ 1,564,334	\$ 443,511
3.05	Pedestrian Safety Improvement JN 862	348,215	-	348,215	-
3.05	Pedestrian Safety Improvement JN 867	350,000	-	350,000	-
3.05	Pedestrian Safety Improvement JN 887	350,000	-	350,000	584
3.05	Pedestrian Safety Improvement JN 894	350,000	-	350,000	66,364
3.05	Pedestrian Safety Improvement JN 918	350,000	160,841	189,159	292,997
3.05	Pedestrian Safety Improvement JN 923	350,000	145,716	204,284	-
7.90	General Planning and Engineering	-	-	-	4,221
8.10	Fund Administration	25,000	11,991	13,009	-
Total expenditures		\$ 4,097,452	\$ 728,451	\$ 3,369,001	\$ 807,677

See report of independent auditors.

City of Gardena
Measure R Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2018

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2018</u>
	None	\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See report of independent auditors.
 15

City of Gardena
Measure M Local Return Fund
Balance Sheet
June 30, 2018

ASSETS

Cash and investments		\$	642,943
			<u>642,943</u>
Total assets		\$	<u>642,943</u>

LIABILITIES AND FUND BALANCE

Liabilities			
Accounts payable		\$	-
			<u>-</u>
Total liabilities		\$	<u>-</u>
Fund balance			
Restricted			642,943
			<u>642,943</u>
Total fund balance			<u>642,943</u>
Total liabilities and fund balance		\$	<u>642,943</u>

See notes to Funds financial statements.

City of Gardena
Measure M Local Return Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Year ended June 30, 2018

Revenues	
Measure M	\$ 638,362
Interest income	4,581
Total revenues	<u>642,943</u>
 Expenditures	
Various projects	-
Total expenditures	<u>-</u>
Excess of revenues over expenditures	642,943
Fund balance at beginning of year	<u>-</u>
Fund balance at end of year	<u>\$ 642,943</u>

See notes to Funds financial statements.

City of Gardena
 Measure M Local Return Fund
 Supplementary Information
 Schedule of Expenditures – Actual and LACMTA Approved Project Budget
 Year ended June 30, 2018

Project Code	Project Name	LACMTA Budget	Actual	Variance Positive (Negative)
None		\$ -	\$ -	\$ -
	Total expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See report of independent auditors.

City of Gardena
Measure M Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2018

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2018</u>
	None	\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See report of independent auditors.

City of Gardena
 Transportation Development Act Article 3 Fund
 Pursuant to Public Utilities Code Section 99234
 Balance Sheets

		June 30	
		2018	2017
ASSETS			
Cash and investments		\$ -	\$ -
	Total assets	\$ -	\$ -
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable		\$ -	\$ -
	Total liabilities	-	-
Fund balance			
Restricted		-	-
	Total fund balance	-	-
	Total liabilities and fund balance	\$ -	\$ -

See notes to Funds financial statements.

City of Gardena
 Transportation Development Act Article 3 Fund
 Pursuant to Public Utilities Code Section 99234
Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2018	2017
Revenues		
Intergovernmental Allocations:		
Article 3	\$ 40,034	\$ 38,289
Interest income	71	40
Total revenues	40,105	38,329
Expenditures		
Sidewalk Replacement	40,168	38,331
Total expenditures	40,168	38,331
Deficiency of revenues over expenditures	(63)	(2)
Other funding source		
Transfer in from General Fund	63	-
Total other funding source	63	-
Change in fund balance	-	(2)
Fund balance at beginning of year	-	2
Fund balance at end of year	\$ -	\$ -

See notes to Funds financial statements.

City of Gardena
Transportation Development Act Article 3 Fund
Pursuant to Public Utilities Code Section 99234
Supplementary Information
Schedule of Transportation Development Act Allocation for Specific Projects
Year ended June 30, 2018

Project Description	Program Year	Totals to Date		Unexpended Allocations	Project Status
		Allocations	Expenditures		
Local Allocations:					
Sidewalk Replacement	2018	\$ 40,034	\$ 40,168	\$ (134)	Completed
	Totals	<u>\$ 40,034</u>	<u>\$ 40,168</u>	(134)	
Interest income				71	
Other funding source					
Transfer in from General Fund				63	
Fund balance at beginning of year				<u>-</u>	
Fund balance at end of year				<u>\$ -</u>	

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The operations of the Proposition A Local Return Fund (PALRF), the Proposition C Local Return Fund (PCLRF), the Measure R Local Return Fund (MRLRF), the Measure M Local Return Fund (MMLRF) and the Transportation Development Act Article 3 Fund (TDAA3F) (collectively, the Funds) are accounted for in separate sets of self-balancing accounts that comprise their assets, liabilities, fund balance, revenues and expenditures.

PALRF and PCLRF represent 25% and 20%, respectively, of the ½ cent Proposition A and ½ cent Proposition C sales taxes which are distributed to the jurisdictions within Los Angeles County based on population and must be used exclusively for transportation related programs and projects.

MRLRF is derived from 15% of the county-wide ½ cent Measure R sales tax which is distributed to the jurisdictions within Los Angeles County based on a per capita basis and must be used exclusively for transportation purposes.

MMLRF is derived from 17% of the county-wide ½ cent Measure M sales tax which is distributed to the jurisdictions within Los Angeles County based on a per capita basis and must be used exclusively for transportation purposes.

TDAA3F is a Special Revenue Fund that accounts for the City's share of the Transportation Development Act Article 3 allocations which are legally restricted for specific purposes.

Basis of Accounting and Measurement Focus

The PALRF, PCLRF, MRLRF, MMLRF and TDAA3F are reported as Special Revenue Funds of the City and are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become "susceptible to accrual", that is, measurable and available to finance expenditures of the current period. Expenditures are recorded when the liability is incurred.

Special Revenue Funds are reported on a spending or "financial flow" measurement focus. This means that generally, only current assets, current liabilities and deferred inflows and outflows of resources are included on their balance sheets. Statements of revenues, expenditures and changes in fund balances for Special Revenue Funds generally present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Budgets and Budgetary Accounting

The budgeted amounts presented in this report for comparison to the actual amounts are based on budgets approved by LACMTA and are presented in accordance with accounting principles generally accepted in the United States of America.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurement

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, the City categorizes its fair value measurement within the fair value hierarchy that is based on the valuation inputs used to measure the fair value of the investment. Level 1 inputs are quoted prices in active markets for identical investments; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Accordingly, the City reports its investments at fair value and recognizes unrealized gain (loss) on investments.

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

Fund Balance Reporting

Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes the fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The PALRF, PCLRF, MRLRF, MMLRF and TDAA3F report the following fund balance classification as of June 30, 2018 and 2017:

- Restricted - Amounts that are constrained for specific purposes, which are externally imposed by providers, such as creditors, or amounts constrained due to constitutional provisions or enabling legislation. The use of the Funds' remaining fund balances are restricted for projects approved by LACMTA.

Information regarding the fund balance reporting policy adopted by the City is described in the City's Comprehensive Annual Financial Report.

NOTE 2 ANNUAL FINANCIAL STATEMENTS

The financial statements reflect only the financial position and results of operations of the PALRF, PCLRF, MRLRF, MMLRF and TDAA3F, and do not purport to, and do not present fairly the City's financial position as of June 30, 2018 and 2017, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

NOTE 3 PROPOSITION A AND PROPOSITION C LOCAL RETURN COMPLIANCE REQUIREMENTS

The Proposition A Ordinance requires that Local Return (LR) funds be used exclusively to benefit public transit. Expenditures related to fixed route and paratransit services, Transportation Demand Management, Transportation Systems Management and fare subsidy programs that exclusively benefit transit are all eligible uses of Proposition A LR funds. Proposition A LR funds may also be traded with other Jurisdictions in exchange for general or other funds.

The Proposition C Ordinance directs that LR funds also be used to benefit public transit, as described above, but provides an expanded list of eligible project expenditures including Congestion Management Programs, bikeways and bike lanes, street improvements supporting public transit service, and Pavement Management System projects. Proposition C LR funds cannot be traded.

Proposition A and Proposition C LR funds must be expended within three years of the last day of the fiscal year in which funds were originally allocated.

In accordance with *Proposition A and Proposition C Local Return Program Guidelines*, funds received pursuant to these guidelines may only be used for Proposition A and Proposition C Local Return approved programs. See accompanying Compliance Matrix.

NOTE 4 MEASURE R LOCAL RETURN COMPLIANCE REQUIREMENTS

The Measure R Ordinance specifies that LR funds be used exclusively for transportation purposes.

Measure R LR funds must be expended within five years of the first day of the fiscal year in which funds were originally allocated or received.

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

NOTE 5 MEASURE M LOCAL RETURN COMPLIANCE REQUIREMENTS

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

Measure M LR funds must be expended within five years of the first day of the fiscal year in which funds were originally allocated or received.

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

NOTE 6 TRANSPORTATION DEVELOPMENT ACT COMPLIANCE REQUIREMENTS

In accordance with *Public Utilities Code Section 99234*, funds received pursuant to this Code's section may only be used for activities relating to pedestrians and bicycle facilities. See accompanying Compliance Matrix.

NOTE 7 CASH AND INVESTMENTS

The PALRF, PCLRF, MRLRF, MMLRF and TDAA3F cash balances were pooled with various other City funds for deposit and investment purposes. The share of each fund in the pooled cash account was separately maintained and interest income was apportioned to the participating funds based on the relationship of their average quarterly balances to the total of the pooled cash and investments.

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

NOTE 8 PROPOSITION A DISCRETIONARY INCENTIVE PROGRAM GRANTS

The City received Proposition A Discretionary Incentive Program grant amounting to \$163,274 and \$146,085 for the years ended June 30, 2018 and 2017 which represent additional funds received from LACMTA for participating in the sub-regional paratransit services program.

The Proposition A Discretionary Incentive Grant was recorded under the PALRF.

NOTE 9 ELDERLY AND HANDICAPPED (E&H) SERVICES PROGRAM INCOME – PALRF

The City's Bus Lines provide E&H services to residents of the City of Hawthorne and the unincorporated areas known as Alondra Park, Del Aire, and Hawthorne Island. Total revenue recognized from these services amounted to \$355,104 and \$218,737 during the years ended June 30, 2018 and 2017, respectively. These amounts represent local assistance from the City of Hawthorne, the Los Angeles County and cash fares collected.

NOTE 10 MEASURE R HIGHWAY PROGRAM GRANT

In February 2011, LACMTA Board approved to fund “Project Development, Design and Construction of the N-42-Rosecrans Avenue Arterial Improvements from Vermont Avenue to Crenshaw Boulevard and N67-Vermont Avenue Arterial Improvements from Rosecrans Avenue to 182nd Street (collectively, the “Projects”). Under the agreement (MOUs #MR312.17 and #MR312.21), to the extent the Measure R funds are available, LACMTA shall make to the City a grant of the Measure R funds for the Projects. The funds will be released to the City on a reimbursement basis in accordance with invoices submitted in support of the monthly progress report and the quarterly expenditure report submitted to LACMTA a few days after the close of each quarter.

The City recognized \$0 and \$352,936 of revenue from these projects during the years ended June 30, 2018 and 2017, respectively.

NOTE 11 TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND REVENUE ALLOCATION

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

		<u>2018</u>		<u>2017</u>
FY 2015/16 reserve	\$	-	\$	38,289
FY 2016/17 reserve		40,034		-
	\$	<u>40,034</u>	\$	<u>38,289</u>

NOTE 12 TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUNDS RESERVED

In accordance with TDA Article 3 (SB821) Guidelines, funds which will not be spent during the fiscal year have been placed on reserve in the Local Transportation Fund (LTF) account with the County Auditor-Controller to be drawn down whenever the funds become eligible for a specific project and an approved drawdown request is received by LACMTA. As of June 30, 2018 and 2017, the City has funds on reserve as follows:

		<u>2018</u>		<u>2017</u>
FY 2016/17 allocation	\$	-	\$	40,034
FY 2017/18 allocation		39,590		-
	\$	<u>39,590</u>	\$	<u>40,034</u>

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

NOTE 13 SUBSEQUENT EVENTS

The City has evaluated subsequent events through December 17, 2018, the date the financial statements were available to be issued and concluded no events have occurred that require disclosure or adjustments to the financial statements.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Proposition A Local Return Fund, the Proposition C Local Return Fund, the Measure R Local Return Fund, the Measure M Local Return Fund and the Transportation Development Act Article 3 Fund (collectively, the Funds) of the City of Gardena, 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 17, 2018.

Internal Control over Financial Reporting

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

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



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund, 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 results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**Glendale, California
December 17, 2018**

COMPLIANCE SECTION

Report of Independent Auditors on Compliance

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

Report on Compliance

We have audited the compliance of the City of Gardena, California (the City) with the Proposition A and Proposition C Local Return Guidelines, Measure R Local Return Guidelines, Measure M Local Return Guidelines, Transportation Development Act Article 3, and the Los Angeles County Metropolitan Transportation Authority's Funding and Allocation Guidelines for Transportation Development Act Article 3 Bicycle and Pedestrian Funds (collectively, the Guidelines) for the year ended June 30, 2018.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on the City's compliance with the Guidelines based on our audit. We conducted our audit of compliance in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the Guidelines. Those standards and the Guidelines require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the Proposition A Local Return Program, Proposition C Local Return Program, Measure R Local Return Program, Measure M Local Return Program and Transportation Development Act Article 3 Program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with the Guidelines. However, our audit does not provide a legal determination of the City's compliance with the Guidelines.

Opinion

In our opinion, the City of Gardena, California 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 with the requirements, which is described in the accompanying Schedule of Findings and Questioned Costs as Finding #2018-001. Our opinion is not modified with respect to this matter.

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

Report on Internal Control over Compliance

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

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

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

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

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

**Glendale, California
December 17, 2018**

**City of Gardena
Compliance Matrix
Year ended June 30, 2018**

Compliance Requirements	In Compliance			Questioned Costs	If no, provide details and management response.
	Yes	No	N/A		
A. Proposition A and Proposition C Local Return Funds					
1. Uses the State Controller's Uniform System of Accounts and Records.	X				
2. Timely use of funds.	X				
3. Funds expended were approved and have not been substituted for property tax.	X				
4. Expenditures that exceeded 25% of approved project budget have approved amended Project Description Form (Form A)		X			See Finding#2018-001
5. Administrative expenses are within the 20% cap of the total annual Local Return Expenditures.	X				
6. All on-going and carryover projects were reported in Form B.	X				
7. Annual Project Summary Report (Form B) was submitted timely.	X				
8. Annual Expenditure Report (Form C) was submitted timely.	X				
9. Cash or cash equivalents are maintained.	X				
10. Accounting procedures, record keeping and documentation are adequate.	X				
11. Pavement Management System (PMS) in place and being used for Street Maintenance or Improvement Projects Expenditures.	X				
12. Local Return Account is credited for reimbursable expenditures.			X		
13. Self-Certification was completed and submitted for Intelligent Transportation Systems projects or elements.			X		
14. Assurances and Understandings form was on file.	X				
15. Recreational Transit Form was submitted timely.			X		

See report of independent auditors on compliance.

**City of Gardena
Compliance Matrix
Year ended June 30, 2018**

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

See report of independent auditors on compliance.

**City of Gardena
Compliance Matrix
Year ended June 30, 2018**

Compliance Requirements	In Compliance			Questioned Costs	If no, provide details and management response.
	Yes	No	N/A		
C. Measure M Local Return Fund					
1. Funds were expended for transportation purposes.			X		There were no expenditures in FY 2017/18.
2. Funds were used to augment, not supplant, existing local revenues being used for transportation purposes unless there is a fund shortfall.			X		There were no expenditures in FY 2017/18.
3. Signed Assurances and Understandings on file.	X				
4. Separate Measure M Local Return Account was established.	X				
5. Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure M Local Return Account.	X				
6. Funds were expended with LACMTA's approval.			X		There were no expenditures in FY 2017/18.
7. Expenditure Plan (Form M-One) was submitted on time.			X		There were no expenditures in FY 2017/18.
8. Expenditure Report (Form M-Two) was submitted on time.	X				
9. Timely use of funds.	X				
10. Administrative expenses are within the 20% cap.			X		There were no expenditures in FY 2017/18.
11. Fund exchanges were approved by LACMTA.			X		
12. A separate account was established for Capital reserve funds and Capital reserve was approved by LACMTA.			X		
13. Recreational transit form was submitted timely.			X		

See report of independent auditors on compliance.

**City of Gardena
Compliance Matrix
Year ended June 30, 2018**

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

See report of independent auditors on compliance.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Gardena
Schedule of Findings and Questioned Costs
Year ended June 30, 2018

PALRF: Finding #2018-001

Compliance Reference	Section I(C) of the Proposition A and C Local Return Guidelines states that, "Jurisdictions shall submit for approval a Project Description Form (Form A) prior to the expenditure of funds for: 1) a new project; 2) a new route; 3) a 25 percent change (increase or decrease) in route or revenue vehicle miles for an established LR funded transit service; 4) a 0.75 miles or greater service change that duplicates/overlays an existing transit service; or 5) a 25 percent or greater change in an approved LR project budget or scope on all operating or capital LR projects."
Condition	<p>The City exceeded LACMTA's approved budget by more than 25% without obtaining approval through a revised Form A for PALRF's Project Code 110-01, Fixed Route Transit. Amount in excess of 25% of the approved budget was \$73,080.</p> <p>Projects with greater than 25% change from the approved project budget should be amended by submitting a Project Description Form (Form A).</p> <p>The City submitted a Form A to the LACMTA Program Manager and obtained a retroactive approval of the project on December 4, 2018.</p>
Cause	The City concurs with the finding that Project Form A should have been submitted for prior approval on transit expenditures. The finding was caused by an oversight by City staff.
Effect	The City's PALRF project expenditures exceeded 25 percent of LACMTA's approved budget without LACMTA's approval and the City did not comply with the Guidelines.
Recommendation	We recommend for the City submit a Form A to obtain LACMTA's approval for the change in project budget and for the City to implement control to ensure compliance to this requirement at all times.
Management's Response	The City will ensure in the future that Project Form A's will be submitted for prior approval.
Finding Corrected During the Audit	LACMTA Program Manager granted a retroactive approval of the increase in the project's budget on December 4, 2018. No follow up is required.

EXIT CONFERENCE

An exit conference was held on December 17, 2018 with the City of Gardena representative. Those in attendance were:

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

City of Gardena representative:
Raymond Beeman – Accounting/Finance Manager

Matters discussed:

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

A copy of this report was forwarded to the following City of Gardena representative for comments prior to the issuance of the final report:

Raymond Beeman – Accounting/Finance Manager



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Vasquez & Company LLP has over 45 years of experience in performing audit, accounting & consulting services for all types of nonprofit organizations, for-profit companies, governmental entities and publicly traded companies. Vasquez is a member of the RSM US Alliance. RSM US Alliance provides its members with access to resources of RSM US LLP. RSM US Alliance member firms are separate and independent businesses and legal entities that are responsible for their own acts and omissions, and each are separate and independent from RSM US LLP. RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Members of RSM US Alliance have access to RSM International resources through RSM US LLP but are not member firms of RSM International. Visit rsmus.com/about-us for more information regarding RSM US LLP and RSM International. The RSM™ logo is used under license by RSM US LLP. RSM US Alliance products and services are proprietary to RSM US LLP.

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