

***CITY OF COVINA
ANNUAL FINANCIAL REPORT OF THE
PROPOSITION A LOCAL RETURN FUND
PROPOSITION C LOCAL RETURN FUND
MEASURE R LOCAL RETURN FUND
TRANSPORTATION DEVELOPMENT ACT
ARTICLE 3 FUND

FOR THE FISCAL YEARS ENDED
JUNE 30, 2016 AND 2015***



Simpson & Simpson, LLP
Certified Public Accountants

CITY OF COVINA
TABLE OF CONTENTS

	PAGE
FINANCIAL SECTION	
Independent Auditor's Report	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 Metro 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 Metro 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 Metro Approved Project Budget	14
Schedule of Capital Assets	15
Transportation Development Act Article 3 Fund:	
Basic Financial Statements:	
Balance Sheets	16
Statements of Revenues, Expenditures and Changes in Fund Balance	17
Supplementary Information:	
Schedule of Transportation Development Act Allocation for Specific Projects	18
Notes to Financial Statements	19
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 <i>Government Auditing Standards</i>	24
COMPLIANCE SECTION	
Independent Auditor's Report on Compliance	26
Compliance Matrix	29
Schedule of Findings and Questioned Costs	32
EXIT CONFERENCE	34

FINANCIAL SECTION



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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Proposition A Local Return Fund (PALRF), Proposition C Local Return Fund (PCLRF), Measure R Local Return Fund (MRLRF), and Transportation Development Act Article 3 Fund (TDAA3F) of the City of Covina, California (City) as of and for the year ended June 30, 2016, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the PALRF, PCLRF, MRLRF, and TDAA3F of the City of Covina, California, as of June 30, 2016, and the respective changes in their financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of the PALRF, PCLRF, MRLRF, and TDAA3F as of and for the year ended June 30, 2015, were audited by other auditors, whose report, dated March 21, 2016, expressed an unmodified opinion on those financial statements.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the PALRF, PCLRF, MRLRF, and TDAA3F and do not purport to, and do not, present fairly the financial position of the City of Covina, California, as of June 30, 2016 and 2015, and the changes in financial position thereof 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Covina, California's PALRF, PCLRF, MRLRF, and TDAA3F Fund financial statements as a whole. 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 financial statements.

The supplementary 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 financial statements or to the 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 the financial statements as a whole.



Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated December 7, 2016, on our consideration of the City of Covina's internal control over 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 financial reporting and compliance and the results of that testing, not to provide an opinion on internal control over 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 financial reporting and compliance.

A handwritten signature in black ink that reads "Simpson & Simpson". The signature is written in a cursive, flowing style.

Los Angeles, California
December 7, 2016

CITY OF COVINA

PROPOSITION A LOCAL RETURN FUND

BALANCE SHEETS

JUNE 30

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and investments	\$ 1,986,506	\$ 1,820,562
Accounts receivable	37,152	-
Prepaid expenses	<u>-</u>	<u>700</u>
Total assets	<u><u>\$ 2,023,658</u></u>	<u><u>\$ 1,821,262</u></u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 92,433	\$ 331,481
Accrued payroll and benefits	<u>412</u>	<u>4,722</u>
Total liabilities	<u>92,845</u>	<u>336,203</u>
 Deferred inflow of resources (Note 7)	<u>28,103</u>	<u>-</u>
Total deferred inflows of resources	<u>28,103</u>	<u>-</u>
 Fund Balance		
Restricted	<u>1,902,710</u>	<u>1,485,059</u>
Total fund balance	<u>1,902,710</u>	<u>1,485,059</u>
 Total liabilities and fund balance	<u><u>\$ 2,023,658</u></u>	<u><u>\$ 1,821,262</u></u>

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

CITY OF COVINA

PROPOSITION A LOCAL RETURN FUND

**STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE**

For the Fiscal Years Ended June 30

	2016	2015
REVENUES		
Proposition A	\$ 877,585	\$ 855,207
Proposition A Discretionary Incentive Grant (Note 8)	-	27,996
Project generated revenue (Note 9)	282,770	260,569
Interest income	2,754	15,908
Rental income	-	5,200
Other revenue	668	126
Total revenues	<u>1,163,777</u>	<u>1,165,006</u>
EXPENDITURES		
Various projects	<u>746,126</u>	<u>1,020,243</u>
Total expenditures	<u>746,126</u>	<u>1,020,243</u>
Excess of revenues over expenditures	417,651	144,763
Fund balance at beginning of year	<u>1,485,059</u>	<u>1,340,296</u>
Fund balance at end of year	\$ <u><u>1,902,710</u></u>	\$ <u><u>1,485,059</u></u>

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

CITY OF COVINA

PROPOSITION A LOCAL RETURN FUND

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES

ACTUAL AND METRO APPROVED PROJECT BUDGET

For the Fiscal Year Ended June 30, 2016

(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2015)

Project Code	Project Name	2016			2015 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
130-01	Covina E and D Dial-A-Cab	\$ 324,000	\$ 323,791	\$ 209	\$ 393,722
140-07	Senior Center Excursions	1	-	1	8,396
140-08	Recreation Excursions	19,000	18,306	694	8,807
170-03	Bus Stop Maintenance Program	35,000	24,055	10,945	24,767
230-02	Metrolink Station Security	114,680	94,134	20,546	171,236
240-02	Taxi Voucher	600	574	26	548
230-05	Parking Enforcement at Metrolink Structure and Station	-	-	-	374
250-02	Bus Pass Subsidy Program	14,300	14,289	11	13,830
250-03	Metrolink Commuter Parking Subsidy	51,000	50,533	467	54,388
270-04	Consultant Services	4,000	3,435	565	148,167
370-04	Commuter Rail Capital Improvement Projects	131,100	-	131,100	-
390-01	Metrolink Parking Structure and Station (Ongoing Maintenance)	128,000	127,815	185	102,378
480-04	Transit Administration	83,000	82,660	340	87,506
500-01	San Gabriel Valley COG	6,600	6,534	66	6,124
	Total expenditures	<u>\$ 911,281</u>	<u>\$ 746,126</u>	<u>\$ 165,155</u>	<u>\$ 1,020,243</u>

See accompanying independent auditor's report.

CITY OF COVINA

PROPOSITION A LOCAL RETURN FUND

**SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS**

June 30, 2016

Date Acquired	Description	Balance 7/1/2015	Additions	Deletions	Balance 6/30/2016
1998	IMB Select Typewriter	\$ 916	\$ -	\$ -	\$ 916
1990	Polaroid ID Camera	843	-	-	843
1992	Wide Van	45,162	-	-	45,162
1999	Bus Stop Benches	4,092	-	-	4,092
1999	Land and Land Improvements	365,697	-	-	365,697
2005	Rail Station Bollards	6,245	-	-	6,245
2005	Rail Station Lightings Standards	4,727	-	-	4,727
2005	Dell Pentium Computer	2,550	-	-	2,550
2005	Desk Jet Computer	445	-	-	445
2005	Pacific Parking Pay and Display	5,759	-	-	5,759
2005	Vue-Way Signs	62	-	-	62
2005	Transit Center	69,457	-	-	69,457
2007	Bus Shelter	61,374	-	-	61,374
2010	16-Passenger Vehicle	59,743	-	-	59,743
2010	Bikestation	85,216	-	-	85,216
2014	2014 Braun Entervan	43,655	-	-	43,655
2014	2014 Braun Entervan	43,655	-	-	43,655
Total		\$ 799,598	\$ -	\$ -	\$ 799,598

See accompanying independent auditor's report.

CITY OF COVINA
PROPOSITION C LOCAL RETURN FUND
BALANCE SHEETS
JUNE 30

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and investments	\$ <u>1,785,399</u>	\$ <u>1,160,343</u>
Total assets	\$ <u><u>1,785,399</u></u>	\$ <u><u>1,160,343</u></u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts Payable	\$ <u>-</u>	\$ <u>-</u>
Total liabilities	<u>-</u>	<u>-</u>
 Fund Balance		
Restricted	<u>1,785,399</u>	<u>1,160,343</u>
Total fund balance	<u>1,785,399</u>	<u>1,160,343</u>
 Total liabilities and fund balance	\$ <u><u>1,785,399</u></u>	\$ <u><u>1,160,343</u></u>

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

CITY OF COVINA

PROPOSITION C LOCAL RETURN FUND

**STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE**

For the Fiscal Years Ended June 30

	<u>2016</u>	<u>2015</u>
REVENUES		
Proposition C	\$ 728,090	\$ 709,834
Interest income	1,795	16,195
Other revenues (Note 10)	<u>32,449</u>	<u>31,200</u>
Total revenues	<u>762,334</u>	<u>757,229</u>
 EXPENDITURES		
Various projects	<u>137,278</u>	<u>698,246</u>
Total expenditures	<u>137,278</u>	<u>698,246</u>
 Excess of revenues over expenditures	625,056	58,983
 Fund balance at beginning of year	<u>1,160,343</u>	<u>1,101,360</u>
 Fund balance at end of year	<u><u>\$ 1,785,399</u></u>	<u><u>\$ 1,160,343</u></u>

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

CITY OF COVINA

PROPOSITION C LOCAL RETURN FUND

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES

ACTUAL AND METRO APPROVED PROJECT BUDGET

For the Fiscal Year Ended June 30, 2016

(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2015)

Project Code	Project Name	2016		Variance Favorable (Unfavorable)	2015 Actual
		Metro Budget	Actual		
270-05	Citywide Engineering and Traffic Survey	\$ 21,060	\$ 21,060	\$ -	\$ -
370-04	Commuter Rail Capital Improvement Projects	67,609	67,609	-	698,246
430-04	Bicycle Parking Improvements at Covina Metrolink Stations	30,000	-	30,000	-
450-04	Street Improvements Projects	23,000	22,621	379	-
470-01	Pavement Management System Update	26,000	25,988	12	-
Total expenditures		<u>\$ 167,669</u>	<u>\$ 137,278</u>	<u>\$ 30,391</u>	<u>\$ 698,246</u>

See accompanying independent auditor's report.

CITY OF COVINA

PROPOSITION C LOCAL RETURN FUND

**SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS**

June 30, 2016

<u>Date Acquired</u>	<u>Description</u>	<u>Balance 7/1/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2016</u>
Sep-08	2008 Eldorado Amerivan Type IV	\$ 27,573	\$ -	\$ -	\$ 27,573
Sep-08	2008 Eldorado Amerivan Type IV	27,573	-	-	27,573
Sep-08	2009 Eldorado Curaway IA	27,573	-	-	27,573
Sep-08	2009 Eldorado Curaway IA	27,574	-	-	27,574
Total		<u>\$ 110,293</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 110,293</u>

See accompanying independent auditor's report.

CITY OF COVINA

MEASURE R LOCAL RETURN FUND

BALANCE SHEETS

JUNE 30

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and investments	\$ <u>863,948</u>	\$ <u>1,302,115</u>
Total assets	\$ <u><u>863,948</u></u>	\$ <u><u>1,302,115</u></u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ <u>-</u>	\$ <u>-</u>
Total liabilities	<u>-</u>	<u>-</u>
 Fund Balance		
Restricted	<u>863,948</u>	<u>1,302,115</u>
Total fund balance	<u>863,948</u>	<u>1,302,115</u>
 Total liabilities and fund balance	\$ <u><u>863,948</u></u>	\$ <u><u>1,302,115</u></u>

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

CITY OF COVINA

MEASURE R LOCAL RETURN FUND

**STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE**

For the Fiscal Years Ended June 30

	<u>2016</u>	<u>2015</u>
REVENUES		
Measure R	\$ 546,280	\$ 532,150
Interest income	<u>3,225</u>	<u>13,413</u>
Total revenues	<u>549,505</u>	<u>545,563</u>
EXPENDITURES		
Various projects	<u>987,672</u>	<u>492,468</u>
Total expenditures	<u>987,672</u>	<u>492,468</u>
(Deficiency) excess of revenues over expenditures	(438,167)	53,095
Fund balance at beginning of year	<u>1,302,115</u>	<u>1,249,020</u>
Fund balance at end of year	\$ <u><u>863,948</u></u>	\$ <u><u>1,302,115</u></u>

The accompanying notes are an integral part of the financial statements

CITY OF COVINA

MEASURE R LOCAL RETURN FUND

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES

ACTUAL AND METRO APPROVED PROJECT BUDGET

For the Fiscal Year Ended June 30, 2016

(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2015)

Project Code	Project Name	2016		Variance Favorable (Unfavorable)	2015 Actual
		Metro Budget	Actual		
1.05	Intersection of Workman Avenue and Hollenbeck Avenue Improvement	\$ 343,443	\$ 343,443	\$ -	\$ -
1.05	Resurfacing of Streets at Hollenbeck Avenue, Cypress Street, et al	10,879	10,879	-	-
1.05	Street Repair and Maintenance	200,900	238,697	(37,797)	134,186
2.01	Glendora Avenue and Cienega Street Traffic Signal Installation	76,957	76,957	-	-
5.90	Other Public Transit Capital	-	-	-	358,282
5.90	Metrolink Pedestrian Improvements	330,000	317,696	12,304	-
	Total expenditures	<u>\$ 962,179</u>	<u>\$ 987,672</u>	<u>\$ (25,493)</u>	<u>\$ 492,468</u>

See accompanying independent auditor's report.

CITY OF COVINA

MEASURE R LOCAL RETURN FUND

**SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS**

June 30, 2016

<u>Date Acquired</u>	<u>Description</u>	<u>Balance 7/1/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2016</u>
None		\$ -	\$ -	\$ -	\$ -
	Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying independent auditor's report.

CITY OF COVINA

**TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND
(PURSUANT TO PUBLIC UTILITIES CODE SECTION 99234)**

BALANCE SHEETS

JUNE 30

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and investments	\$ <u>2,995</u>	\$ <u>-</u>
Total assets	\$ <u><u>2,995</u></u>	\$ <u><u>-</u></u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ <u>2,995</u>	\$ <u>-</u>
Total liabilities	<u>2,995</u>	<u>-</u>
 Fund Balance		
Restricted	<u>-</u>	<u>-</u>
Total fund balance	<u>-</u>	<u>-</u>
 Total liabilities and fund balance	\$ <u><u>2,995</u></u>	\$ <u><u>-</u></u>

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

CITY OF COVINA

TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND

**STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE**

For the Fiscal Years Ended June 30

	<u>2016</u>	<u>2015</u>
REVENUES		
Payment from prior years reserve	\$ 99,380	\$ 12,345
Payment from FY 2015-16 apportionment	<u>638</u>	<u>-</u>
Total revenues	<u>100,018</u>	<u>12,345</u>
EXPENDITURES		
Construction/Maintenance	<u>100,018</u>	<u>12,345</u>
Total expenditures	<u>100,018</u>	<u>12,345</u>
Excess of revenues over expenditures	-	-
Fund balance at beginning of year	<u>-</u>	<u>-</u>
Fund balance at end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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

CITY OF COVINA

**TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND
SUPPLEMENTARY INFORMATION**

**SCHEDULE OF TRANSPORTATION DEVELOPMENT ACT
ALLOCATION FOR SPECIFIC PROJECTS**

For the Fiscal Year Ended June 30, 2016

<u>Project Description</u>	<u>Program Year</u>	<u>Allocations</u>	<u>Expenditures</u>	<u>Unexpended Allocations</u>	<u>Project Status</u>
Local allocations					
Instllation and Management of Covina Bikehub	2015-16	\$ 40,831	\$ 40,831	\$ -	Complete
Supplies for Restroom/Locker Unit for Covina Bikehub	2015-16	59,187	59,187	-	Complete
Total		<u>\$ 100,018</u>	<u>\$ 100,018</u>	-	
Fund balance at beginning of year				-	
Fund balance at end of year				<u>\$ -</u>	

See accompanying independent auditor's report.

CITY OF COVINA

NOTES TO FINANCIAL STATEMENTS For the Fiscal Years Ended June 30, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The operations of the Proposition A Local Return Fund (PALRF) and Proposition C Local Return Funds (PCLRF), Measure R Local Return Fund (MRLRF), and Transportation Development Act Article 3 Fund (TDAA3F) 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 represents 15% of the ½ cent sales tax which is distributed to the jurisdictions within Los Angeles County based on a per capita basis and must be used exclusively for transportation purposes.

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

Basis of Accounting and Measurement Focus

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

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

Budgets and Budgetary Accounting

The budgeted amounts presented in this report for comparison to the actual amounts are presented in accordance with accounting principles generally accepted in the United States of America.

CITY OF COVINA

NOTES TO FINANCIAL STATEMENTS **For the Fiscal Years Ended June 30, 2016 and 2015** **(Continued)**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurement

In accordance with 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 investments at fair value and recognizes unrealized gain (loss) on investments.

Refer to the City's 2016 Comprehensive Annual Financial Report for detailed disclosures regarding the City's investments policy and fair value measurements.

Fund Balance Reporting

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

The PALRF, PCLRF, MRLRF, and TDAA3F report the following fund balance classification as of June 30, 2016:

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

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

CITY OF COVINA

NOTES TO FINANCIAL STATEMENTS **For the Fiscal Years Ended June 30, 2016 and 2015** **(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.

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.

NOTE 5 – TRANSPORTATION DEVELOPMENT ACT COMPLIANCE REQUIREMENTS

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

NOTE 6 – CASH AND INVESTMENTS

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

NOTE 7 – DEFERRED INFLOW OF RESOURCES - PALRF

The City recognizes revenue when the payments for services rendered become measurable and available. In fiscal year ended June 30, 2016, the City records deferred inflow of resources when the availability of the funds is not determined at fiscal year end.

The issuance of Governmental Accounting Standards Board No. 65, *Items Previously Reported as Assets and Liabilities*, established accounting and financial reporting standards that reclassify certain liabilities as deferred inflows of resources. A deferred inflow of resources is defined as those resources that are not available for spending in the current period. Since the Proposition A discretionary incentive grant for participating in the Consolidated National Transit Database (NTD) Voluntary Reporting was not available for spending for PALRF at fiscal year ended June 30, 2016, the amount of \$28,103 is reported as deferred inflow of resources.

CITY OF COVINA

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2016 and 2015
(Continued)

NOTE 8 – PROPOSITION A DISCRETIONARY INCENTIVE GRANTS

The Proposition A Discretionary Incentive Grant amounting to \$27,996 for the year ended June 30, 2015, represent additional funds received from LACMTA for participating in the Voluntary NTD Program.

NOTE 9 – PROJECT GENERATED REVENUE - PALRF

Project generated revenues for the year ended June 30, 2016 and 2015 consisted of the following:

	2016	2015
MTA bus pass revenues	\$ 3,960	\$ 3,824
MTA parking permit revenues	278,810	256,745
Total	<u>\$ 282,770</u>	<u>\$ 260,569</u>

NOTE 10 – OTHER REVENUES - PCLRF

Other revenues for PCLRF consisted of proceeds from rental income received from Cingular Wireless for rental of antennae located at the top of the City's Metrolink Station in the amounts of \$32,449 and \$31,200 for the years ended June 30, 2016 and June 30, 2015, respectively.

NOTE 11 – TRANSPORTATION DEVELOPMENT ACT FUND REVENUE ALLOCATION

The revenue allocations for the years ended June 30, 2016 and 2015 consisted of the following:

	2016	2015
FY 2011-12 allocation	\$ -	\$ 5,299
FY 2012-13 allocation	28,637	6,678
FY 2013-14 allocation	38,823	368
FY 2014-15 allocation	31,920	-
FY 2015-16 allocation	638	-
Total	<u>\$ 100,018</u>	<u>\$ 12,345</u>

CITY OF COVINA

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2016 and 2015
(Continued)

NOTE 12 – TRANSPORTATION DEVELOPMENT ACT FUNDS RESERVED

In accordance with TDA Article 3 (SB821) Guidelines, funds not spent during the fiscal year have been placed on reserve in the Local Transportation Fund (LTF) account with the County Auditor-Controller to be drawn down whenever the funds become eligible for a specific project and an approved drawdown request is received by Metro. As of June 30, 2016 and 2015, the City has funds on reserve as follows:

	2016	2015
FY 2012-13 allocation	\$ -	\$ 28,637
FY 2013-14 allocation	-	38,823
FY 2014-15 allocation	-	31,920
FY 2015-16 allocation	30,349	-
Available reserve balance	<u>\$ 30,349</u>	<u>\$ 99,380</u>

NOTE 13 – SUBSEQUENT EVENTS

The City has evaluated events or transactions that occurred subsequent to June 30, 2016 through December 7, 2016, the date the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined no subsequent matters require disclosure or adjustment to the accompanying financial statements.



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
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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 Covina, California and the
Los Angeles County Metropolitan Transportation 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 (PALRF), Proposition C Local Return Fund (PCLRF), Measure R Local Return Fund (MRLRF), and Transportation Development Act Article 3 (TDAA3F) Fund of the City of Covina, California (City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated December 7, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 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 local return funds and TDAA3F 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 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 audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

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

Los Angeles, California
December 7, 2016

COMPLIANCE SECTION



SIMPSON & SIMPSON
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Independent Auditor's Report on Compliance

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

Report on Compliance

We have audited the compliance of the City of Covina, California (City) with the Proposition A and Proposition C Local Return Guidelines, Measure R Local Return Guidelines, Transportation Development Act Article 3, and the Los Angeles County Metropolitan Transportation Authority's Funding and Allocation Guidelines for the Transportation Development Act Article 3 Bicycle and Pedestrian Funds (collectively, the Guidelines) for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for the City's compliance with those 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 a local return program and the Transportation Development Act Article 3 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. Our audit does not provide a legal determination of the City's compliance with those requirements.

Opinion on Each Local Return Program and Transportation Development Act Article 3

In our opinion, the City of Covina complied, in all material respects, with the compliance requirements referred to above that apply to Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund, and Transportation Development Act Article 3 Fund for the year ended June 30, 2016.

Other Matters

The result of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Guidelines and which are described in the accompanying Schedule of Findings and Questioned Costs as Finding No. 2016-001. Our opinion on each local return program is not modified with respect to this matter.

The City's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and 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 of Covina is responsible for establishing and maintaining effective internal control over compliance with the Requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the Requirements that could have a direct and material effect on the Local Return programs and the TDAA3F to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Requirements, 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 under the Requirements 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 Requirements will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as Finding No. 2016-001. 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.

The City's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's responses and, accordingly, we express no opinion on the response.



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.

Simpson & Simpson

Los Angeles, California
December 7, 2016

CITY OF COVINA
COMPLIANCE MATRIX
Year Ended June 30, 2016

Compliance Requirement		In Compliance		Questioned Costs	If no, provide details and management response.
		Yes	No		
A. Proposition A and Proposition C Local Return Funds					
1.	Timely use of funds.	X		None	
2.	Expenditures were approved before being incurred.	X		None	
3.	Funds were used on approved projects only and expenditures were supported and allowable per Guidelines.		X	PALRF: \$46,290	See Finding No. 2016-001 on the Schedule of Findings and Questioned Costs.
4.	Expenditures did not exceed 25% of Metro's approved budget.	X		None	
5.	Administrative expenses were within the 20% cap.	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) and listing of Recreational Transit Services, if applicable, were submitted on time.	X		None	
9.	Cash or cash equivalents were maintained.	X		None	
10.	Accounting procedures, record keeping and documentation were adequate.	X		None	
11.	Revenues received including allocations, project generated revenues, and interest income were properly credited to the PALRF and PCLRf accounts.	X		None	

CITY OF COVINA
COMPLIANCE MATRIX
Year Ended June 30, 2016
(Continued)

Compliance Requirement		In Compliance		Questioned Costs	If no, provide details and management response.
		Yes	No		
B. Measure R Local Return Fund					
1.	Timely use of funds.	X		None	
2.	Expenditures were approved before being incurred.	X		None	
3.	Funds were used on approved projects only and expenditures were supported and allowable per Guidelines.	X		None	
4.	Fund were not substituted for property tax.	X		None	
5.	Administrative expenses were within the 20% cap.	X		None	
6.	Expenditure Plan (Form One) was submitted on time.	X		None	
7.	Expenditure Report (Form Two) was submitted on time.	X		None	
8.	Cash or cash equivalents were maintained.	X		None	
9.	Accounting procedures, record keeping and documentation were adequate.	X		None	
10.	Revenues received including allocations, project generated revenues, and interest income were properly credited to the Measure R account.	X		None	
11.	Funds were not used to supplant existing local revenues being used for transportation purpose.	X		None	

CITY OF COVINA
COMPLIANCE MATRIX
Year Ended June 30, 2016
(Continued)

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

CITY OF COVINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2016

PALRF: Finding No. 2016-001

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2016

(Continued)

PALRF: Finding No. 2016-001 (Continued)

Condition	To support the propriety of expenditures being charged to Proposition A Local Return Fund, payroll should be supported by properly executed payrolls, time records, activity reports, vouchers or other documentation evidencing in proper detail the nature of the charges. However, the salaries and benefits charged to Administration Project Code 480-04 amounting to \$46,290 were based on distribution percentages determined before the services were performed rather than employee's actual working hours spent for the Proposition A projects. In addition, there were no timesheets provided to support the actual hours or payroll expenditures charged to the project.
Cause	Time cards were not required for department directors prior to October 2015.
Effect	The payroll cost claimed under the Proposition A Local Return Fund projects may include expenditures which may not be an allowable Proposition A project expenditure. This resulted in questioned costs of \$46,290.
Recommendation	In accordance with the Guidelines, we recommend that the City reimburse its Proposition A Local Return Fund account by \$46,290. In addition, we recommend that the City revise its current labor costs reporting procedures to ensure that labor costs charged to the Local Return Funds are adequately supported by time sheets or similar documentation which includes employees' actual working hours.
Management's Response	Management agrees. Time allocations for the Public Works Director were based on a percentage of actual salary as determined during the budget process and re-evaluated during the mid-year analysis. As of October 2015, time cards are required for all City employees.

EXIT CONFERENCE

CITY OF COVINA

**PROPOSITION A, PROPOSITION C, MEASURE R LOCAL RETURN FUNDS, AND
TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND
EXIT CONFERENCE
June 30, 2016**

An exit conference was held on December 21, 2016 via telephone conference. Those in attendance were:

Simpson & Simpson Representative:

Yung Dang, Auditor

City's Representative:

Alan Sands, Senior Accountant

Anita Agramonte, Finance Director

Matters Discussed:

Results of the audit disclosed no significant control deficiencies and one non-compliance issue with LACMTA's 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:

Alan Sands, Senior Accountant

Anita Agramonte, Finance Director

Simpson & Simpson, LLP
633 West 5th Street, Suite 3320
Los Angeles, CA 90071

RE: CITY OF COVINA ANNUAL FINANCIAL REPORT OF THE PROPOSITION A LOCAL RETURN FUND, PROPOSITION C LOCAL RETURN FUND, MEASURE R LOCAL RETURN FUND, AND TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015.

I have received the annual financial report of the Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund, and Transportation Development Act Article 3 Fund for the years ended June 30, 2016 and 2015 for the City of Covina and agree with the contents of the report except as indicated below:

(Attach additional pages if necessary)

Very truly yours,

Name

Title

Date