



MetroTM

**City of Covina
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, 2015 and 2014
with Report of Independent Auditors**

An Independently Owned Member
McGLADREY ALLIANCE



 **Vasquez**
& Company LLP
Certified Public Accountants and Business Consultants

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FINANCIAL SECTION

Report of Independent Auditors

**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, Proposition C Local Return Fund, Measure R Local Return Fund and the Transportation Development Act Article 3 Fund (collectively, the Funds), of the City of Covina, California (the City) which comprise the Funds' balance sheets as of June 30, 2015 and 2014, and the related statements of revenues, expenditures and changes in fund balance for the years 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 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 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 of the City of Covina, California, as of June 30, 2015 and 2014, 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 and the Transportation Development Act Article 3 Fund of the City and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2015 and 2014, 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 March 21, 2016 on our consideration of the City'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, and 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.

Los Angeles, California
March 21, 2016

**City of Covina
Proposition A Local Return Fund
Balance Sheets**

		June 30	
		2015	2014
ASSETS			
Cash and investments	\$	1,820,562	\$ 1,379,930
Accounts receivable - other		-	12,025
Prepaid expenses		700	-
Total assets	\$	<u>1,821,262</u>	<u>\$ 1,391,955</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Account payable	\$	331,481	\$ 47,065
Accrued payroll and benefits		4,722	4,594
Total liabilities		<u>336,203</u>	<u>51,659</u>
Fund balance			
Restricted		1,485,059	1,340,296
Total fund balance		<u>1,485,059</u>	<u>1,340,296</u>
Total liabilities and fund balance	\$	<u>1,821,262</u>	<u>\$ 1,391,955</u>

See notes to financial statements.

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

	Years ended June 30	
	2015	2014
Revenues		
Proposition A	\$ 855,207	\$ 820,705
Proposition A Discretionary Incentive Grant	27,996	23,968
Project generated revenue	260,569	285,529
Investment income	15,908	4,800
Rental income	5,200	30,900
Miscellaneous revenue	126	-
Total revenues	1,165,006	1,165,902
 Expenditures		
Expenditures funded by PALRF	1,020,243	1,101,816
Total expenditures	1,020,243	1,101,816
 Excess of revenues over expenditures	 144,763	 64,086
 Fund balance at beginning of year	 1,340,296	 1,276,210
 Fund balance at end of year	 \$ 1,485,059	 \$ 1,340,296

See notes to financial statements.

City of Covina
Proposition A Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2015
Actual for 2014

Project Code	Project Name	2015		Variance Positive (Negative)	2014 Actual
		LACMTA Budget	Actual		
130-01	Covina E and D Dial-A-Cab	\$ 400,000	\$ 393,722	\$ 6,278	\$ 393,594
140-07	Senior Center Excursions	8,000	8,396	(396)	10,362
140-08	Recreation Excursions	10,000	8,807	1,193	8,218
170-03	Bus Stop Maintenance Program	40,000	24,767	15,233	43,161
200-04	Covina Transit Vehicle Procurement	1	-	1	87,310
230-02	Metrolink Station Security	200,000	171,236	28,764	168,053
230-05	Parking Enforcement at Metrolink Structure and Station	1,000	374	626	-
240-02	Taxi Voucher	1,000	548	452	484
250-02	Bus Pass Subsidy Program	12,000	13,830	(1,830)	11,656
250-03	Metrolink Commuter Parking Subsidy	60,000	54,388	5,612	57,960
270-04	Consultant Services	100,000	148,167	(48,167) *	78,213
390-01	Metrolink Parking Structure and Station (Ongoing Maintenance)	110,000	102,378	7,622	103,772
480-04	Transit Administration	120,000	87,506	32,494	132,940
500-01	San Gabriel Valley COG	6,090	6,124	(34)	6,093
Total expenditures		\$ 1,068,091	\$ 1,020,243	\$ 47,848	\$ 1,101,816

* See Compliance Matrix.

See report of independent auditors.

City of Covina
Proposition A Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2015

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2015</u>
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 Lighting 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 report of independent auditors.

**City of Covina
 Proposition C Local Return Fund
 Balance Sheets**

		June 30	
		<u>2015</u>	<u>2014</u>
ASSETS			
Cash and investments		\$ <u>1,160,343</u>	\$ <u>1,101,360</u>
Total assets		\$ <u>1,160,343</u>	\$ <u>1,101,360</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable		\$ <u>-</u>	\$ <u>-</u>
Total liabilities		\$ <u>-</u>	\$ <u>-</u>
Fund balance			
Restricted		<u>1,160,343</u>	<u>1,101,360</u>
Total fund balance		<u>1,160,343</u>	<u>1,101,360</u>
Total liabilities and fund balance		\$ <u>1,160,343</u>	\$ <u>1,101,360</u>

See notes to financial statements.

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

	Years ended June 30	
	2015	2014
Revenues		
Proposition C	\$ 709,834	\$ 681,086
Investment income	16,195	10,005
Rental income	31,200	-
Total revenues	757,229	691,091
Expenditures		
Various projects	698,246	493,500
Total expenditures	698,246	493,500
Excess of revenues over expenditures	58,983	197,591
Fund balance at beginning of year	1,101,360	903,769
Fund balance at end of year	\$ 1,160,343	\$ 1,101,360

See notes to financial statements.

City of Covina
Proposition C Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2015
Actual for 2014

Project Code	Project Name	2015		Variance Positive (Negative)	2014 Actual
		LACMTA Budget	Actual		
370-01	Debt Service on Metrolink Parking Structure	\$ -	\$ -	\$ -	\$ 493,500
370-04	Commuter Rail Capital Improvement Projects	500,000	698,246	(198,246) *	-
420-02	Congestion Management Program (CMP)				
	Traffic Count Study	1,000	-	1,000	-
430-04	Bicycle Parking Improvements at Covina				
	Metrolink Station	30,000	-	30,000	-
450-04	Street Improvements Project	100,000	-	100,000	-
	Total expenditures	<u>\$ 631,000</u>	<u>\$ 698,246</u>	<u>\$ (67,246)</u>	<u>\$ 493,500</u>

* See Compliance Matrix.

See report of independent auditors.

City of Covina
Proposition C Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2015

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2015</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		\$ 110,293	\$ -	\$ -	\$ 110,293

See report of independent auditors.

**City of Covina
Measure R Local Return Fund
Balance Sheets**

		June 30	
		2015	2014
ASSETS			
Cash and investments		\$ 1,302,115	\$ 1,249,020
	Total assets	\$ 1,302,115	\$ 1,249,020
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable		\$ -	\$ -
	Total liabilities	-	-
Fund balance			
Restricted		1,302,115	1,249,020
	Total fund balance	1,302,115	1,249,020
	Total liabilities and fund balance	\$ 1,302,115	\$ 1,249,020

See notes to financial statements.

City of Covina
Measure R Local Return Fund

Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2015	2014
Revenues		
Measure R	\$ 532,150	\$ 508,041
Investment income	13,413	4,344
Total revenues	545,563	512,385
Expenditures		
Various projects	492,468	118,594
Total expenditures	492,468	118,594
Excess of revenues over expenditures	53,095	393,791
Fund balance at beginning of year	1,249,020	855,229
Fund balance at end of year	\$ 1,302,115	\$ 1,249,020

See notes to financial statements.

City of Covina
Measure R Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2015
Actual for 2014

Project Code	Project Name	2015			2014 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
1.05	Street Repair and Maintenance	\$ 200,900	\$ 134,186	\$ 66,714	\$ 118,594
5.90	Other Public Transit Capital	200,000	358,282	(158,282)	-
	Total expenditures	<u>\$ 400,900</u>	<u>\$ 492,468</u>	<u>\$ (91,568)</u>	<u>\$ 118,594</u>

See report of independent auditors.

City of Covina
Measure R Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2015

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2015</u>
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See report of independent auditors.

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

		June 30	
		2015	2014
ASSETS			
Cash and investments		\$ -	\$ 41,091
	Total assets	\$ -	\$ 41,091
LIABILITIES AND FUND BALANCE			
Liabilities			
Due to LACMTA		\$ -	\$ 41,091
	Total liabilities	-	41,091
Fund balance			
Restricted		-	-
	Total fund balance	-	-
	Total liabilities and fund balance	\$ -	\$ 41,091

See notes to financial statements.

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

	Years ended June 30	
	2015	2014
Revenues		
Intergovernmental allocations:		
Article 3	\$ 12,345	\$ 22,365
Interest income	-	109
Total revenues	12,345	22,474
Expenditures		
Construction/Maintenance	12,345	-
Total expenditures	12,345	-
Excess of revenues over expenditures	-	22,474
Other funding use		
Return of funds to LACMTA	-	(46,390)
Deficiency of revenues over expenditures after other funding use	-	(23,916)
Fund balance at beginning of year	-	23,916
Fund balance at end of year	\$ -	\$ -

See notes to financial statements.

City of Covina
 Transportation Development Act Article 3 Fund
 Supplementary Information
 Schedule of Transportation Development Act Allocation for Specific Projects
 Pursuant to Public Utilities Code Section 99234
 Year ended June 30, 2015

Project Description	Program Year	Totals to Date		Unexpended Allocations	Project Status
		Allocations	Expenditures		
Local allocations:					
Lockers/Restroom Facility for Covina Bikestation	2015	\$ 4,088	\$ -	\$ 4,088	Ongoing
Install Locker/Restroom at Covina Metrolink	2015	<u>8,257</u>	<u>12,345</u>	<u>(4,088)</u>	Ongoing
Total		<u>\$ 12,345</u>	<u>\$ 12,345</u>	<u>\$ -</u>	
Fund balance at beginning of the year				<u>-</u>	
Fund balance at end of the year				<u>\$ -</u>	

See report of independent auditors.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

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

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

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

Transportation Development Act Article 3 Fund (TDAA3F) is pooled with other City monies in the Special Revenue Fund. The Special Revenue Fund accounts for the City's share of the Transportation Development Act Article 3 allocations which are legally restricted for specific purposes.

Basis of Accounting

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.

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.

Unrealized Gain (Loss) on Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, local governments are required to use fair value (instead of amortized costs) for financial reporting purposes. As a result of such implementation, the City recognizes the unrealized gain (loss) on investments.

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 do not purport to, and do not, present fairly the City's financial position as of June 30, 2015 and 2014, 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.

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.

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 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 6 CASH AND INVESTMENTS

The PALRF, PCLRF, MRLRF and TDAA3F cash and investment balances were pooled with various other City funds for deposit and investment purposes. The share of each fund in the pooled cash account was separately maintained and interest income was apportioned to the participating funds based on the relationship of their average monthly 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 7 PROJECT GENERATED REVENUE

Project generated revenue under PALRF for the years ended June 30, 2015 and 2014 consisted of the following:

		<u>2015</u>		<u>2014</u>
Parking permit revenues	\$	256,745	\$	281,534
Bus pass revenues		3,824		3,995
	\$	<u>260,569</u>	\$	<u>285,529</u>

NOTE 8 PROPOSITION A DISCRETIONARY INCENTIVE GRANTS

The Proposition A Discretionary Incentive Grant amounting to \$27,996 and \$23,968 for the years ended June 30, 2015 and 2014, respectively, represent additional funds received from LACMTA for participating in the Voluntary NTD Program.

The Proposition A Discretionary Incentive Grants were recorded under PALRF.

NOTE 9 TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND REVENUE ALLOCATION

The revenue allocation for the years ended June 30, 2015 and 2014 consisted of the following:

		<u>2015</u>		<u>2014</u>
FY 2011/12 reserve	\$	5,299	\$	5,299
FY 2012/13 reserve		6,678		16,698
FY 2013/14 reserve		368		368
	\$	<u>12,345</u>	\$	<u>22,365</u>

NOTE 10 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, 2015 and 2014, the City has funds on reserve as follows:

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

For FY 2014/15, any TDA Article 3 funds left on reserve for FY 2010/11 or prior, are subject to lapse if not claimed by the City by June 30, 2015. There were no funds that lapsed in FY 2014/15.

NOTE 11 SUBSEQUENT EVENTS

The City has evaluated subsequent events through March 21, 2016, the date the financial statements were available to be issued, and concluded that no events have occurred that require disclosure in 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 Covina, 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 and the Transportation Development Act Article 3 Fund (collectively, the Funds) of the City of Covina, California (the City) as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated March 21, 2016.

Internal Control over Financial Reporting

In planning and performing our audits of the Funds' financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the Funds' financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our 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, 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 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.

Los Angeles, California
March 21, 2016

COMPLIANCE SECTION

Report of Independent Auditors on Compliance

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

Report on Compliance

We have audited the compliance of the City of Covina, California (the 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 Transportation Development Act Article 3 Bicycle and Pedestrian Funds (collectively, the Guidelines) for the year ended June 30, 2015.

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 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, 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 Covina, California complied, in all material respects, with the compliance requirements of the Guidelines for the year ended June 30, 2015.



Other matters

The results of our auditing procedures disclosed instances of noncompliance with the requirements, which are described in the accompanying Compliance Matrix. Our opinion is not modified with respect to these matters.

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

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, 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 that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Compliance Matrix as Finding #2015-001, that we consider to be a significant deficiency.

The City's response to the internal control over compliance finding identified in our audit is described in the accompanying Compliance Matrix. 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.

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.

Los Angeles, California
March 21, 2016

**City of Covina
Compliance Matrix
Year ended June 30, 2015**

Compliance Requirements	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 approved before being incurred.	X		None	
3. Expenditures did not exceed 25% of LACMTA's approved budget.		X	PALRF - \$23,167 PCLRF - \$73,246	<p><i>Finding #2015-001</i></p> <p>The City exceeded LACMTA's approved budget by more than 25% for the following projects:</p> <p>a. PALRF Project code 270-04, Consultant Services (\$23,167) and,</p> <p>b. PCLRF Project code 370-04, Street Improvements Project (\$73,246).</p> <p>Projects with greater than 25% change from the approved project budget should be amended by submitting an amended Project Description Form (Form A).</p> <p>LACMTA Program Manager granted a retroactive approval on the amended budget for the said projects on February 26, 2016.</p> <p>We recommend for the City to submit to LACMTA Program Manager a Form A to obtain approval for the change in project budget, and that the City implement controls to ascertain compliance at all times.</p>

**City of Covina
Compliance Matrix
Year ended June 30, 2015**

Compliance Requirements	In Compliance		Questioned Costs	If no, provide details and management response.
	Yes	No		
A. Proposition A and Proposition C Local Return Funds (Continued)				
3. Expenditures did not exceed 25% of LACMTA's approved budget. (Continued)				<p><i>Management Response</i></p> <p>The City submitted Form A and was approved by LACMTA Program Manager on February 26, 2016. Findings were due to staffing changes which caused staff shortage and turnovers. Management will ensure submission for Form A for approval, prior to expenditure of funds for any changes that will exceed 25% of the approved budget. Actual expenditures will be monitored and tracked by responsible employee and ensure that spending will not exceed more than 25% of LACMTA approved budget.</p>
4. Administrative expenses are within the 20% cap.	X		None	
5. All on-going and carryover projects were reported on Form B.	X		None	
6. Annual Project Summary Report (Form B) was submitted on time.	X		None	

**City of Covina
Compliance Matrix
Year ended June 30, 2015**

Compliance Requirements	In Compliance		Questioned Costs	If no, provide details and management response.
	Yes	No		
A. Proposition A and Proposition C Local Return Funds (Continued)				
7. Annual Expenditure Report (Form C) was submitted on time.		X	None	<p><i>Finding #2015-002</i></p> <p>The Annual Expenditure Report (Form C) was submitted on October 16, 2015 which is beyond the due date of October 15, 2015.</p> <p>Under the Guidelines, the City is required to annually submit an Annual Expenditure Report (Form C) to notify LACMTA of previous year Local Return fund receipts and expenditures no later than October 15 after the fiscal year.</p> <p>We recommend for the City to establish procedures and controls to ensure that the Annual Expenditure Report (Form C) is submitted by October 15 as required by the Guidelines.</p> <p><i>Management Response</i></p> <p>Management will ensure submission of Annual Expenditure Report (Form C) before October 15 of each year. Finding was due to staffing changes. Procedures and controls will be implemented in compliance with the Guidelines which includes submission of report on a timely manner.</p>

**City of Covina
Compliance Matrix
Year ended June 30, 2015**

Compliance Requirements	In Compliance		Questioned Costs	If no, provide details and management response.
	Yes	No		
A. Proposition A and Proposition C Local Return Funds (Continued)				
8. Cash or cash equivalents are maintained.	X		None	
9. Accounting procedures, record keeping and documentation are adequate. Recreational Transit Report was submitted on time.	X	X	None None	<p><i>Finding #2015-003</i></p> <p>The Recreational Transit Report was submitted on October 16, 2015 which is beyond the due date of October 15, 2015.</p> <p>Under the Guidelines, the City is required to annually submit an accounting of Recreational Transit trips, destinations and costs. This information should be submitted along with the Form C, no later than October 15 after the fiscal year.</p> <p>We recommend for the City to establish procedures and controls to ensure that the Annual Recreational Transit Report is submitted by October 15 as required by the Guidelines.</p> <p><i>Management Response</i></p> <p>Management will ensure submission of Annual Recreational Transit Report before October 15 of each year. Finding was due to staffing changes. Procedures and controls will be implemented in compliance with the Guidelines which includes submission of report on a timely manner.</p>

**City of Covina
Compliance Matrix
Year ended June 30, 2015**

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

EXIT CONFERENCE

An exit conference was held on March 17, 2016 with City of Covina representatives. Those in attendance were:

Vasquez and Company LLP representative:
Roger Martinez – Partner

City of Covina representative:
Dennis Swink – Interim Finance Director
Marietta Santos – Senior Accountant
Kevin Ko – Transit Analyst

Matters discussed:

Results of the audit disclosed issues of noncompliance with the Guidelines.

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

Dennis Swink – Interim Finance Director
Marietta Santos – Senior Accountant
Kevin Ko – Transit Analyst



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