

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

AND MEASURE M LOCAL RETURN FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018***



Simpson & Simpson, LLP
Certified Public Accountants

CITY OF DUARTE
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FINANCIAL SECTION



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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Proposition A Local Return Fund (PALRF), Proposition C Local Return Fund (PCLRF), Measure R Local Return Fund (MRLRF), and Transportation Development Act Article 3 Fund (TDAA3F) (collectively, the Funds), of the City of Duarte, California (the City) as of and for the years ended June 30, 2018 and 2017, and Measure M Local Return Fund (MMLRF) (the Fund) of the City of Duarte, California (the City) as of and for the year ended June 30, 2018, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the PALRF, PCLRF, MRLRF and TDAA3F of the City of Duarte, California, as of June 30, 2018 and 2017, and MMLRF of the City of Duarte, California, as of June 30, 2018, and the respective changes in their financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the PALRF, PCLRF, MRLRF, MMLRF, and TDAA3F of the City and do not purport to, and do not, present fairly the financial position of the City of Duarte, California, as of June 30, 2018 and 2017, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Supplementary Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated October 22, 2018, on our consideration of the City's internal control over the Funds' financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over the Funds' financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over the Funds' financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over the Funds' financial reporting and compliance.

A handwritten signature in cursive script, reading 'Simpson & Simpson'.

Los Angeles, California
October 22, 2018

CITY OF DUARTE
PROPOSITION A LOCAL RETURN FUND
BALANCE SHEETS
June 30

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and investments	\$ 2,245,111	\$ 2,368,900
Total assets	\$ <u>2,245,111</u>	\$ <u>2,368,900</u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 19,157	\$ 45,501
Payroll liabilities	<u>4,959</u>	<u>5,038</u>
Total liabilities	<u>24,116</u>	<u>50,539</u>
 Fund Balance		
Restricted	1,147,967	1,074,160
Restricted - Gold Rail Project (Note 8)	<u>1,073,028</u>	<u>1,244,201</u>
Total fund balance	<u>2,220,995</u>	<u>2,318,361</u>
 Total liabilities and fund balance	\$ <u>2,245,111</u>	\$ <u>2,368,900</u>

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

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

	<u>2018</u>	<u>2017</u>
REVENUES		
Proposition A	\$ 413,673	\$ 398,504
Proposition A Discretionary Incentive Grant (Note 9)	36,622	36,728
Interest income	18,959	13,459
Fund Exchange with City of Bradbury (Note 10)	<u>80,000</u>	<u>-</u>
Total revenues	<u>549,254</u>	<u>448,691</u>
EXPENDITURES		
Various projects	<u>1,017,420</u>	<u>1,248,919</u>
Total expenditures	<u>1,017,420</u>	<u>1,248,919</u>
OTHER FINANCING SOURCE		
Transfer-in from PCLRF (Note 11)	<u>370,800</u>	<u>352,800</u>
Total other financing source	<u>370,800</u>	<u>352,800</u>
Deficiency of revenues under expenditures and other financing source	(97,366)	(447,428)
Fund balance at beginning of year	<u>2,318,361</u>	<u>2,765,789</u>
Fund balance at end of year	\$ <u><u>2,220,995</u></u>	\$ <u><u>2,318,361</u></u>

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

CITY OF DUARTE
PROPOSITION A LOCAL RETURN FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES
ACTUAL AND METRO APPROVED PROJECT BUDGET
For the Fiscal Year Ended June 30, 2018
(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2017)

Project Code	Project Name	2018		Variance Favorable (Unfavorable)	2017 Actual
		Metro Budget	Actual		
110-01	Fixed Route Bus System *	\$ 708,200	\$ 705,799	\$ 2,401	\$ 661,998
200-01	Vehicle Purchase Program	680,000	-	680,000	-
200-02	Vehicle Purchase Program	22,000	26,681	(4,681)	-
380-01	Duarte's Local Match for Gold Line Rail System Project	1,338,515	180,940	1,157,575	482,921
480-04	Direct Administration	104,000	104,000	-	104,000
Total expenditures		\$ 2,852,715	\$ 1,017,420	\$ 1,835,295	\$ 1,248,919

* This project is partially funded by Proposition C Local Return Fund.

See accompanying independent auditor's report.

CITY OF DUARTE
PROPOSITION A LOCAL RETURN FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
June 30, 2018

Date Acquired	Description	Balance 7/1/2017	Additions	Deletions	Balance 6/30/2018
May-92	1 Modular Trailer	\$ 30,000	\$ -	\$ -	\$ 30,000
Sep-01	2002 El Dorado E-Z Rider-101	231,536	-	-	231,536
Sep-01	2002 El Dorado E-Z Rider-102	231,536	-	-	231,536
Jul-02	2002 Trailblazer	27,173	-	-	27,173
Oct-06	2006 El Dorado E-Z Rider-103	250,381	-	-	250,381
Oct-06	2006 El Dorado E-Z Rider-104	250,381	-	-	250,381
Oct-17	2016 Chevy Colorado	-	26,681	-	26,681
Total		\$ 1,021,007	\$ 26,681	\$ -	\$ 1,047,688

See accompanying independent auditor's report.

CITY OF DUARTE
PROPOSITION C LOCAL RETURN FUND
BALANCE SHEETS
June 30

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and investments	\$ <u>201,033</u>	\$ <u>237,400</u>
Total assets	\$ <u><u>201,033</u></u>	\$ <u><u>237,400</u></u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ <u>-</u>	\$ <u>-</u>
Total liabilities	<u>-</u>	<u>-</u>
 Fund Balance		
Restricted	<u>201,033</u>	<u>237,400</u>
Total fund balance	<u>201,033</u>	<u>237,400</u>
 Total liabilities and fund balance	\$ <u><u>201,033</u></u>	\$ <u><u>237,400</u></u>

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

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

	<u>2018</u>	<u>2017</u>
REVENUES		
Proposition C	\$ 342,216	\$ 331,446
Interest income	<u>2,217</u>	<u>1,924</u>
Total revenues	<u>344,433</u>	<u>333,370</u>
EXPENDITURES		
Direct Administration	<u>10,000</u>	<u>10,000</u>
Total expenditures	<u>10,000</u>	<u>10,000</u>
OTHER FINANCING USE		
Transfer-out to PALRF (Note 11)	<u>370,800</u>	<u>352,800</u>
Total other financing use	<u>370,800</u>	<u>352,800</u>
Deficiency of revenues under expenditures and other financing use	(36,367)	(29,430)
Fund balance at beginning of year	<u>237,400</u>	<u>266,830</u>
Fund balance at end of year	\$ <u><u>201,033</u></u>	\$ <u><u>237,400</u></u>

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

CITY OF DUARTE
PROPOSITION C LOCAL RETURN FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES
ACTUAL AND METRO APPROVED PROJECT BUDGET
For the Fiscal Year Ended June 30, 2018
(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2017)

Project Code	Project Name	2018		Variance	2017 Actual
		Metro Budget	Actual	Favorable (Unfavorable)	
480-04	Direct Administration	\$ 10,000	\$ 10,000	\$ -	\$ 10,000
	Total expenditures	10,000	10,000	-	10,000
Transfer-out to PALRF (Note 11)					
110-01	Fixed Route Bus System	370,800	370,800	-	352,800
	Total transfer-out to PALRF	370,800	370,800	-	352,800
Total expenditures and transfer-out to PALRF		\$ 380,800	\$ 380,800	\$ -	\$ 362,800

See accompanying independent auditor's report.

CITY OF DUARTE
PROPOSITION C LOCAL RETURN FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
June 30, 2018

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

See accompanying independent auditor's report.

CITY OF DUARTE
MEASURE R LOCAL RETURN FUND
BALANCE SHEETS
June 30

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and investments	\$ <u>1,161,863</u>	\$ <u>985,494</u>
Total assets	\$ <u><u>1,161,863</u></u>	\$ <u><u>985,494</u></u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ <u>-</u>	\$ <u>14,409</u>
Total liabilities	<u>-</u>	<u>14,409</u>
 Fund Balance		
Restricted	<u>1,161,863</u>	<u>971,085</u>
Total fund balance	<u>1,161,863</u>	<u>971,085</u>
 Total liabilities and fund balance	\$ <u><u>1,161,863</u></u>	\$ <u><u>985,494</u></u>

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

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

	<u>2018</u>	<u>2017</u>
REVENUES		
Measure R	\$ 257,002	\$ 247,971
Interest income	<u>9,417</u>	<u>4,887</u>
Total revenues	<u>266,419</u>	<u>252,858</u>
 EXPENDITURES		
Various projects	<u>75,641</u>	<u>48,000</u>
Total expenditures	<u>75,641</u>	<u>48,000</u>
 Excess of revenues over expenditures	190,778	204,858
 Fund balance at beginning of year	<u>971,085</u>	<u>766,227</u>
 Fund balance at end of year	\$ <u><u>1,161,863</u></u>	\$ <u><u>971,085</u></u>

The accompanying notes are an integral part of the financial statements

CITY OF DUARTE
MEASURE R LOCAL RETURN FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES
ACTUAL AND METRO APPROVED PROJECT BUDGET
For the Fiscal Year Ended June 30, 2018
(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2017)

Project Code	Project Name	2018		Variance Favorable (Unfavorable)	2017 Actual
		Metro Budget	Actual		
3.05	Bike/Pedestrian Facilities, Contruction and Maintenance	\$ 75,000	\$ 63,034	\$ 11,966	\$ 40,000
8.10	Transportation Administration	15,000	12,607	2,393	8,000
	Total expenditures	\$ 90,000	\$ 75,641	\$ 14,359	\$ 48,000

See accompanying independent auditor's report.

CITY OF DUARTE
MEASURE R LOCAL RETURN FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
June 30, 2018

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

See accompanying independent auditor's report.

CITY OF DUARTE
MEASURE M LOCAL RETURN FUND
BALANCE SHEET
June 30

	<u>2018</u>
ASSETS	
Cash and investments	\$ <u>234,050</u>
Total assets	\$ <u><u>234,050</u></u>
 LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ <u>-</u>
Total liabilities	<u>-</u>
 Fund Balance	
Restricted	<u>234,050</u>
Total fund balance	<u>234,050</u>
 Total liabilities and fund balance	\$ <u><u>234,050</u></u>

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

CITY OF DUARTE
MEASURE M LOCAL RETURN FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCE
For the Fiscal Year Ended June 30

	<u>2018</u>
REVENUES	
Measure R	\$ 232,902
Interest income	<u>1,148</u>
Total revenues	<u>234,050</u>
 EXPENDITURES	
Various projects	<u>-</u>
Total expenditures	<u>-</u>
 Excess of revenues over expenditures	 234,050
 Fund balance at beginning of year	 <u>-</u>
 Fund balance at end of year	 \$ <u><u>234,050</u></u>

The accompanying notes are an integral part of the financial statements

CITY OF DUARTE
MEASURE M LOCAL RETURN FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES
ACTUAL AND METRO APPROVED PROJECT BUDGET
For the Fiscal Year Ended June 30, 2018

Project Code	Project Name	2018		Variance
		Metro Budget	Actual	Favorable (Unfavorable)
None		\$ -	\$ -	\$ -
	Total expenditures	\$ -	\$ -	\$ -

See accompanying independent auditor's report.

CITY OF DUARTE
MEASURE M LOCAL RETURN FUND
SUPPLEMENTAL INFORMATION
SCHEDULE OF CAPITAL ASSETS
June 30, 2018

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

See accompanying independent auditor's report.

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

	<u>2018</u>	<u>2017</u>
ASSETS		
Due from Metro	\$ <u>-</u>	\$ <u>1,207</u>
Total assets	\$ <u><u>-</u></u>	\$ <u><u>1,207</u></u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Due to General Fund	\$ <u>-</u>	\$ <u>1,207</u>
Total liabilities	<u>-</u>	<u>1,207</u>
 Fund Balance		
Restricted	<u>-</u>	<u>-</u>
Total fund balance	<u>-</u>	<u>-</u>
 Total liabilities and fund balance	\$ <u><u>-</u></u>	\$ <u><u>1,207</u></u>

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

CITY OF DUARTE
TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
For the Fiscal Years Ended June 30

	<u>2018</u>	<u>2017</u>
REVENUES		
TDA 3	\$ 14,455	\$ 14,482
Total revenues	<u>14,455</u>	<u>14,482</u>
EXPENDITURES		
Concrete Repair Program	<u>14,455</u>	<u>14,482</u>
Total expenditures	<u>14,455</u>	<u>14,482</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 DUARTE
TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF TRANSPORTATION DEVELOPMENT ACT
ALLOCATION FOR SPECIFIC PROJECTS
For the Fiscal Year Ended June 30, 2018

<u>Project Description</u>	<u>Program Year</u>	<u>Allocations</u>	<u>Expenditures</u>	<u>Unexpended Allocations</u>	<u>Project Status</u>
Local allocations					
Concrete Repair Program	2017-18	\$ <u>14,455</u>	\$ <u>14,455</u>	\$ -	Complete
Total		\$ <u><u>14,455</u></u>	\$ <u><u>14,455</u></u>	-	
Fund balance at beginning of year				-	
Fund balance at end of year				\$ <u><u>-</u></u>	

See accompanying independent auditor's report.

CITY OF DUARTE
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

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

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

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

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

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

Basis of Accounting and Measurement Focus

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

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

Budgets and Budgetary Accounting

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurement

In accordance with Government Accounting Standard Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, which became effective for the fiscal year ended June 30, 2016, the City categorizes its fair value measurement within the fair value hierarchy that is based on the valuation inputs used to measure the fair value of the investment. Level 1 inputs are quoted prices in active markets for identical investments; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Accordingly, the City reports its investment at fair value and recognizes unrealized gain (loss) on investments.

Refer to City's 2018 Comprehensive Annual Financial Report for detailed disclosures regarding the City's investments policy and fair value measurement.

Fund Balance Reporting

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

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

- Restricted - Amounts that are constrained for specific purpose, which are externally imposed by providers, such as creditors, or amounts constrained due to constitutional provisions or enabling legislation. The uses of the funds' remaining fund balances are restricted for projects approved by Los Angeles County Metropolitan Transportation Authority (Metro).

Information regarding the fund balance reporting policy adopted by the City is described in Note 1 to the City's Comprehensive Annual Financial Report.

NOTE 2 – ANNUAL FINANCIAL STATEMENTS

The financial statements reflect only the financial position and results of operations of the PALRF, PCLRF, MRLRF, MMLRF, and TDAA3F and their compliance with the Proposition A and Proposition C Local Return Program Guidelines, Measure R Local Return Program Guidelines, Measure M Local Return Program Guidelines, Transportation Development Act Article 3 and the Los Angeles County Metropolitan Transportation Authority Funding and Allocation Guidelines for Transportation Development Act Article 3 Bicycle and Pedestrian Funds.

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

NOTE 3 – PROPOSITION A AND PROPOSITION C LOCAL RETURN COMPLIANCE REQUIREMENTS

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

NOTE 4 – MEASURE R LOCAL RETURN COMPLIANCE REQUIREMENTS

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

NOTE 5 – MEASURE M LOCAL RETURN COMPLIANCE REQUIREMENTS

On June 23, 2016, the Metro Board of Directors approved the Los Angeles County Traffic Improvement Plan Ordinance, known as Measure M. In accordance with Measure M Local Return Program Guidelines, funds received pursuant to these guidelines may only be used for Measure M Local Return approved programs. The first revenue allocation was received in the current period. See accompanying Compliance Matrix.

NOTE 6 – TRANSPORTATION DEVELOPMENT ACT COMPLIANCE REQUIREMENTS

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

NOTE 7 – CASH AND INVESTMENTS

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

NOTE 8 – CAPITAL RESERVE - PALRF

On January 16, 2008, Metro and the City entered into a capital reserve agreement to establish a capital reserve account (Account) to provide for a local match of the proposed Gold Line Light Rail Transit Station, related station capital projects, and related station art and/or enhancements. The capital agreement expired on June 30, 2014 at which time the funds would have been subject to lapse. On June 18, 2014, the agreement was extended and the funds will lapse on June 30, 2020.

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

NOTE 8 – CAPITAL RESERVE - PALRF (Continued)

For the years ended June 30, 2018 and 2017, following is the capital reserve amount for PALRF:

Capital reserve at June 30, 2016	\$ 1,718,046
Add: Interest income at June 30, 2017	9,076
Less: Expenditures at June 30, 2017	<u>(482,921)</u>
Capital reserve at June 30, 2017	1,244,201
Add: Interest income at June 30, 2018	9,767
Less: Expenditures at June 30, 2018	<u>(180,940)</u>
Capital reserve at June 30, 2018	<u><u>\$ 1,073,028</u></u>

NOTE 9 – PROPOSITION A DISCRETIONARY INCENTIVE GRANT - PALRF

The City entered into various Memorandum of Understanding (MOU) agreements with Metro to receive Proposition A Discretionary Incentive Grants for participating in the Consolidated National Transit Database (NTD) Voluntary Reporting. The amounts received for the years ended June 30, 2018 and 2017 consisted of the following:

Agreement Date	Period	NTD Voluntary Reporting	MOU Amount	Amount Received	
				<u>2018</u>	<u>2017</u>
July 31, 2017	7/1/17 – 6/30/19	FY 2014-15	\$ 36,622	\$ 36,622	\$ -
May 21, 2016	7/1/15 – 6/30/17	FY 2013-14	\$ 36,728	-	36,728
		Total	\$	<u>36,622</u>	<u>36,728</u>

The Proposition A Discretionary Incentive Grant was recorded under PALRF.

NOTE 10 – FUND EXCHANGE WITH CITY OF BRADBURY - PALRF

On October 24, 2017, the City entered into an agreement with the City of Bradbury to exchange \$0.70 (or 70 cents) of its General Fund monies for every \$1 of Proposition A Local Return. Accordingly, the City received \$80,000 of the City of Bradbury's Proposition A Local Return Funds on November 29, 2017 and assigned \$56,000 of its General Fund to the City of Bradbury on November 28, 2017.

NOTE 11 – TRANSFERS IN/OUT - PALRF AND PCLRF

In fiscal years ended June 30, 2018 and 2017, transfers were made from PCLRF to PALRF in the amounts of \$370,800 and \$352,800, respectively, to provide and subsidize funding for PALRF's Project Code 110-01, Fixed Route Bus System.

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

NOTE 12 – TRANSPORTATION DEVELOPMENT ACT FUND REVENUE ALLOCATION

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

	<u>2018</u>		<u>2017</u>
FY 2016-17 allocation	\$ -	\$	14,482
FY 2017-18 allocation	14,455		-
Total payment requested	\$ <u>14,455</u>	\$	<u>14,482</u>

NOTE 13 – TRANSPORTATION DEVELOPMENT ACT FUNDS RESERVED

In accordance with TDA Article 3 (SB821) Guidelines, funds not spent during the fiscal year have been placed on reserve in the Local Transportation Fund (LTF) account with the County Auditor-Controller to be drawn down whenever the funds become eligible for a specific project and an approved drawdown request is received by Metro. As of June 30, 2018 and 2017, the City has no funds on reserve.

NOTE 14 – SUBSEQUENT EVENTS

The City has evaluated events or transactions that occurred subsequent to June 30, 2018 through October 22, 2018, the date the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined no subsequent matters require disclosure or adjustment to the accompanying financial statements.



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 Duarte, California and the
Los Angeles County Metropolitan Transit Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund, Measure M Local Return Fund, and Transportation Development Act Article 3 Fund (collectively, the Funds) of the City of Duarte, 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 October 22, 2018.

Internal Control Over Financial Reporting

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

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

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



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund, Measure M Local Return Fund, and Transportation Development Act Article 3 Fund financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

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

Los Angeles, California
October 22, 2018

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 Duarte, California and the
Los Angeles County Metropolitan Transit Authority

Report on Compliance

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

Management's Responsibility

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

Auditor's Responsibility

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

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

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

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



Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Guidelines and which is described in the accompanying Schedule of Findings and Recommendations as Finding No. 2018-001. Our opinion on each local return program and Transportation Development Act Article 3 is not modified with respect to this matter.

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

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that we consider to be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Recommendations as Finding No. 2018-001.

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

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, appearing to read 'Simpson & Simpson', written in a cursive style.

Los Angeles, California
October 22, 2018

CITY OF DUARTE
COMPLIANCE MATRIX
Year Ended June 30, 2018

Compliance Requirement		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			None	
2.	Timely use of funds.	X			None	
3.	Funds expended were approved and have not been substituted for property tax.	X			None	
4.	Expenditures that exceeded 25% of approved project budget have approved amended project Description Form (Form A).	X			None	
5.	Administrative expenses are within the 20% cap of the total annual Local Return Expenditures.	X			None	
6.	All on-going and carryover projects were reported in Form B.	X			None	
7.	Annual Project Summary Report (Form B) was submitted on time.	X			None	
8.	Annual Expenditure Report (Form C) was submitted on time.	X			None	
9.	Cash or cash equivalents are maintained.	X			None	
10.	Accounting procedures, record keeping and documentation are adequate.		X		None	See Finding No. 2018-001 on the Schedule of Findings and Recommendations.
11.	Pavement Management System (PMS) in place and being used for Street Maintenance or Improvement Projects Expenditures.	X			None	
12.	Local Return Account is credited for reimbursable expenditures.			X	None	
13.	Self-Certification was completed and submitted for Intelligent Transportation Systems projects or elements.			X	None	
14.	Assurances and Understandings form was on file.	X			None	
15.	Recreational transit form was submitted on time.			X	None	

CITY OF DUARTE
COMPLIANCE MATRIX
Year Ended June 30, 2018
(Continued)

Compliance Requirement		In Compliance			Questioned Costs	If no, provide details and management response.
		Yes	No	N/A		
B. 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 Metro's approval.	X			None	
7.	Expenditure Plan (Form One) was submitted on time.	X			None	
8.	Expenditure Report (Form Two) was submitted on time.	X			None	
9.	Timely use of funds.	X			None	
10.	Administrative expenditures are within the 20% cap.	X			None	
11.	Fund exchanges were approved by Metro.			X	None	
12.	A separate account was established for Capital reserve funds and Capital reserve was approved by Metro.	X			None	
13.	Recreational transit form was submitted on time.			X	None	

CITY OF DUARTE
COMPLIANCE MATRIX
Year Ended June 30, 2018
(Continued)

Compliance Requirement		In Compliance			Questioned Costs	If no, provide details and management response.
		Yes	No	N/A		
C. Measure M 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 fund shortfall.			X	None	
3.	Signed Assurances and Understandings on file.	X			None	
4.	Separate Measure M Local Return Account was established.	X			None	
5.	Revenue received including allocations, project generated revenues and interest income was properly credited to the Measure M Local Return Account.	X			None	
6.	Funds were expended with Metro's approval.			X	None	
7.	Expenditure Plan (Form M-One) was submitted on time.	X			None	
8.	Expenditure Report (Form M-Two) was submitted on time.	X			None	
9.	Timely use of funds.	X			None	
10.	Administrative expenses are within the 20% cap.			X	None	
11.	Fund exchanges were approved by Metro.			X	None	
12.	A separate account was established for Capital reserve funds and Capital reserve was approved by Metro.			X	None	
13.	Recreational transit form was submitted timely.			X	None	

CITY OF DUARTE
COMPLIANCE MATRIX
Year Ended June 30, 2018
(Continued)

Compliance Requirement		In Compliance			Questioned Costs	If no, provide details and management response.
		Yes	No	N/A		
D. 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 DUARTE
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2018

PALRF and PCLRF: Finding No. 2018-001

Compliance Reference	<p>According to Proposition A and Proposition C Local Return Guidelines, Section II, “A proposed expenditure of funds shall be deemed to be for public transit purposes to the extent that it can reasonably be expected to sustain or improve the quality and safety of and/or access to public transit services by the general public or those requiring special public transit assistance” and Section V, “It is jurisdictions’ responsibility to maintain proper accounting records and documentation...”</p> <p>The City’s Finance Manual Section 2.36.090, <i>Award of Contracts and Purchase Orders</i>, states “The purchase of supplies, services or equipment with a value greater than three thousand dollars shall be made only by written contract or written purchase order.” Section 2.36.090(b) states the specific guidelines for selecting qualified vendors.</p>
Condition	<p>To support the propriety of expenditures being charged to the Proposition A and C Local Return Funds, non-payroll expenditures should be supported by properly executed contracts, invoices, and vouchers. Although payments to vendors were allowable and were properly supported by invoices and cancelled checks, the following expenditures for Project Code 110-01, Fixed Route Bus System were not supported by an existing contract or purchase order form for the following vendors:</p> <ul style="list-style-type: none"> a) Payments made to La Mobo Bus Service, Inc. in the total amount of \$88,986; b) Payments made to Alex Romo, Inc. in the total amount of \$10,131; c) Payments made to Canyon Tire Sales, Inc. in the total amount of \$14,627. <p>This is a repeat finding from prior fiscal year.</p>
Cause	<p>According to the City, these are payments made to the equally qualified vendors for when buses break down and need urgent repairs and replacement of parts to ensure that the buses are back in service quickly.</p>

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

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

Effect	Without proper procurement documentation i.e., contract or purchase order, there is no indication that the vendors met the necessary qualifications stated in Section 2.36.090(b) of the City's Finance Manual to provide greater efficiency for the purchase of supplies, services and equipment at the lowest possible cost commensurate with the quality needed and a better match with desired goods or services.
Recommendation	We recommend that the City follow its procurement guidelines for selecting qualified vendors with accordance to Section 2.36.090(b) of the City's Finance Manual. The services provided by the selected vendors should be covered by a blanket Purchase Order that is created within the City's requisition process.
Management's Response	The City's approach to the issue of "utilizing Purchase Orders" was to cover the purchase of repairs and maintenance on an "as needed" basis and not as an "aggregate" purchase. Subsequent to the conference call between LACMTA and the City held on November 27, 2018, the City understands the desire by LACMTA to approach the repairs and maintenance purchases as an <i>aggregate</i> . The City understands this change in approach from simply "using Purchase Orders" to cover the transaction versus "using a Blanket Purchase Order" for vendors who have been selected based on a <u>procurement process</u> . The City has conducted an informal bidding process as of December 12, 2018. For the remaining months of fiscal year 2019, the City will implement the use of Blanket Purchase Orders. Prior to the abovementioned conference call, the invoices that did not have a Purchase Order on record and invoices exceeding the \$3,000 threshold, the City's Transit Manager or Supervisor initialed the invoices and indicated that the services were urgent. The City anticipates the new electric buses to be on-line in February 2019. Based on the Memorandum of Understanding with Foothill Transportation, Foothill Transportation will be responsible for the repairs and maintenance of the buses.

EXIT CONFERENCE

CITY OF DUARTE
PROPOSITION A LOCAL RETURN FUND, PROPOSITION C LOCAL RETURN FUND,
MEASURE R LOCAL RETURN FUND, MEASURE M LOCAL RETURN FUND, AND
TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND
EXIT CONFERENCE
June 30, 2018

An exit conference was held on December 19, 2018 with the City of Duarte. Those in attendance were:

Simpson & Simpson Representative:

Yung Dang, Senior Auditor

City's Representative:

Roger Cathey, Finance Manager
Gina Quevedo, Accountant

Matters Discussed:

Results of the audit disclosed one (1) significant control deficiency and one (1) non-compliance issue with Metro Guidelines.

A copy of this report was forwarded to the following City representative(s) for their comments prior to the issuance of the final report:

Gina Quevedo, Accountant

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

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

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

(Attach additional pages if necessary)

Very truly yours,

Name

Title

Date