

***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, 2017 AND 2016***



***CITY OF COVINA***  
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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 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 years ended June 30, 2017 and 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 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 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, 2017 and 2016, 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, 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, 2017 and 2016, 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 Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have issued our report dated November 13, 2017, 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* and in considering the City's internal control over financial reporting and compliance.

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

Los Angeles, California  
November 13, 2017

**CITY OF COVINA**

**PROPOSITION A LOCAL RETURN FUND**

**BALANCE SHEETS**

**JUNE 30**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and investments	\$ 2,139,920	\$ 1,986,506
Accounts receivable	9,952	37,152
Total assets	<u>\$ 2,149,872</u>	<u>\$ 2,023,658</u>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ 59,352	\$ 92,433
Accrued payroll and benefits	2,989	412
Total liabilities	<u>62,341</u>	<u>92,845</u>
Deferred inflow of resources (Note 7)	<u>-</u>	<u>28,103</u>
Total deferred inflows of resources	<u>-</u>	<u>28,103</u>
<b>Fund Balance</b>		
Restricted	<u>2,087,531</u>	<u>1,902,710</u>
Total fund balance	<u>2,087,531</u>	<u>1,902,710</u>
Total liabilities and fund balance	<u>\$ 2,149,872</u>	<u>\$ 2,023,658</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

	<u>2017</u>	<u>2016</u>
<b>REVENUES</b>		
Proposition A	\$ 891,858	\$ 877,585
Proposition A Discretionary Incentive Grant (Note 8)	28,103	-
Project generated revenue (Note 9)	208,743	282,770
Interest income	16,495	2,754
Other revenue	438	668
Total revenues	<u>1,145,637</u>	<u>1,163,777</u>
<b>EXPENDITURES</b>		
Various projects	<u>960,816</u>	<u>746,126</u>
Total expenditures	<u>960,816</u>	<u>746,126</u>
Excess of revenues over expenditures	184,821	417,651
Fund balance at beginning of year	<u>1,902,710</u>	<u>1,485,059</u>
Fund balance at end of year	<u>\$ 2,087,531</u>	<u>\$ 1,902,710</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, 2017

(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2016)

Project Code	Project Name	2017			2016 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
130-01	Covina E and D Dial-A-Cab	\$ 407,150	\$ 343,620	\$ 63,530	\$ 323,791
140-07	Senior Center Excursions	8,000	6,880	1,120	-
140-08	Recreation Excursions	10,000	10,041	(41)	18,306
170-03	Bus Stop Maintenance Program	35,000	23,926	11,074	24,055
230-01	Metrolink Station and Parking Complex Surveillance Camera	17,173	5,617	11,556	-
230-02	Metrolink Station Security	85,000	84,249	751	94,134
230-03	Installation of CCTV at Metrolink Structure	135,000	146,942	(11,942)	-
240-02	Taxi Voucher	1,000	176	824	574
250-02	Bus Pass Subsidy Program	16,600	13,186	3,414	14,289
250-03	Metrolink Commuter Parking Subsidy	56,000	-	56,000	50,533
270-04	Consultant Services	50,000	55,730	(5,730)	3,435
370-02	Metrolink Pedestrian Improvement Project	3,447	3,446	1	-
390-01	Metrolink Parking Structure and Station (Ongoing Maintenance)	139,900	133,381	6,519	127,815
480-04	Transit Administraion	144,550	126,529	18,021	82,660
500-01	San Gabriel Valley COG	7,094	7,093	1	6,534
	Total expenditures	<u>\$ 1,115,914</u>	<u>\$ 960,816</u>	<u>\$ 155,098</u>	<u>\$ 746,126</u>

See accompanying independent auditor's report.



*CITY OF COVINA*

PROPOSITION A LOCAL RETURN FUND

SUPPLEMENTARY INFORMATION  
SCHEDULE OF CAPITAL ASSETS

June 30, 2017

<u>Date Acquired</u>	<u>Description</u>	<u>Balance 7/1/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2017</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 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>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and investments	\$ <u>2,448,090</u>	\$ <u>1,785,399</u>
Total assets	\$ <u><u>2,448,090</u></u>	\$ <u><u>1,785,399</u></u>
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ <u>99,343</u>	\$ <u>-</u>
Total liabilities	<u>99,343</u>	<u>-</u>
 <b>Fund Balance</b>		
Restricted	<u>2,348,747</u>	<u>1,785,399</u>
Total fund balance	<u>2,348,747</u>	<u>1,785,399</u>
 Total liabilities and fund balance	\$ <u><u>2,448,090</u></u>	\$ <u><u>1,785,399</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>2017</u>	<u>2016</u>
<b>REVENUES</b>		
Proposition C	\$ 740,300	\$ 728,090
Interest income	17,110	1,795
Other revenues (Note 10)	<u>33,746</u>	<u>32,449</u>
Total revenues	<u>791,156</u>	<u>762,334</u>
<b>EXPENDITURES</b>		
Various projects	<u>227,808</u>	<u>137,278</u>
Total expenditures	<u>227,808</u>	<u>137,278</u>
Excess of revenues over expenditures	563,348	625,056
Fund balance at beginning of year	<u>1,785,399</u>	<u>1,160,343</u>
Fund balance at end of year	<u><u>\$ 2,348,747</u></u>	<u><u>\$ 1,785,399</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, 2017

(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2016)

Project Code	Project Name	2017			2016 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
130-02	Covina Transit Vehicle Replacement	\$ 81,000	\$ 77,440	\$ 3,560	\$ -
270-05	Citywide Engineering and Traffic Survey	-	-	-	21,060
270-06	Downtown Covina Bicycle and Pedestrian Planning Study	84,000	29,799	54,201	-
370-04	Commuter Rail Capital Improvement Projects	-	130 *	(130)	67,609
400-04	KITS System Access	7,000	-	7,000	-
430-05	Covina Bikeways Improvement Program	433,464	3,437	430,027	-
450-03	Workman Street and Hollenbeck Avenue Improvement Project	922	922	-	-
450-04	Street Improvements Projects	-	-	-	22,621
450-05	Grand Avenue Rehabilitation	1,096,890	116,080	980,810	-
470-01	Pavement Management System Update	-	-	-	25,988
	<b>Total expenditures</b>	<b>\$ 1,703,276</b>	<b>\$ 227,808</b>	<b>\$ 1,475,468</b>	<b>\$ 137,278</b>

\* The expenditure was incurred but not reported in fiscal year 2015-16. The City properly received LACMTA budget approval for this project in fiscal year 2015-16.

See accompanying independent auditor's report.

**CITY OF COVINA**

**PROPOSITION C LOCAL RETURN FUND**

**SUPPLEMENTARY INFORMATION  
SCHEDULE OF CAPITAL ASSETS**

June 30, 2017

<u>Date Acquired</u>	<u>Description</u>	<u>Balance 7/1/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2017</u>
Sep-08	2008 Eldorado American Type IV	\$ 27,573	\$ -	\$ -	\$ 27,573
Sep-08	2008 Eldorado American 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
May-17	2017 Glaval Bus	-	77,440	-	77,440
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	Total	\$ 110,293	\$ -	\$ -	\$ 187,733

See accompanying independent auditor's report.

**CITY OF COVINA**

**MEASURE R LOCAL RETURN FUND**

**BALANCE SHEETS**

**JUNE 30**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and investments	\$ <u>1,080,042</u>	\$ <u>863,948</u>
Total assets	\$ <u><u>1,080,042</u></u>	\$ <u><u>863,948</u></u>
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ <u>12,773</u>	\$ <u>-</u>
Total liabilities	<u>12,773</u>	<u>-</u>
 <b>Fund Balance</b>		
Restricted	<u>1,067,269</u>	<u>863,948</u>
Total fund balance	<u>1,067,269</u>	<u>863,948</u>
 Total liabilities and fund balance	\$ <u><u>1,080,042</u></u>	\$ <u><u>863,948</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>2017</u>	<u>2016</u>
<b>REVENUES</b>		
Measure R	\$ 554,964	\$ 546,280
Interest income	<u>7,566</u>	<u>3,225</u>
Total revenues	<u>562,530</u>	<u>549,505</u>
<b>EXPENDITURES</b>		
Various projects	<u>359,209</u>	<u>987,672</u>
Total expenditures	<u>359,209</u>	<u>987,672</u>
Excess (deficiency) of revenues over expenditures	203,321	(438,167)
Fund balance at beginning of year	<u>863,948</u>	<u>1,302,115</u>
Fund balance at end of year	\$ <u><u>1,067,269</u></u>	\$ <u><u>863,948</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, 2017

(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2016)

Project Code	Project Name	2017		Variance Favorable (Unfavorable)	2016 Actual
		Metro Budget	Actual		
1.05	Intersection of Workman Avenue and Hollenbeck Avenue Improve	\$ -	\$ -	\$ -	\$ 343,443
1.05	Resurfacing of Streets at Hollenbeck Avenue, Cypress Street, et al	-	-	-	10,879
1.05	Street Repair and Maintenance	188,171	188,171	-	238,697
1.05	Regulatory Sign Replacement Program	215,000	10,000	205,000	-
1.05	Grand Avenue Rehabilitation, Arrow Highway to San Bernardino Road	331,060	12,888	318,172	-
1.05	Citywide Concrete Repair Program	150,000	148,150	1,850	-
2.01	Glendora Avenue and Cienega Street Traffic Signal Installation	-	-	-	76,957
5.90	Metrolink Pedestrian Improvements	-	-	-	317,696
	Total expenditures	<u>\$ 884,231</u>	<u>\$ 359,209</u>	<u>\$ 525,022</u>	<u>\$ 987,672</u>

See accompanying independent auditor's report.



**CITY OF COVINA**

**MEASURE R LOCAL RETURN FUND**

**SUPPLEMENTARY INFORMATION  
SCHEDULE OF CAPITAL ASSETS**

June 30, 2017

<u>Date Acquired</u>	<u>Description</u>	<u>Balance 7/1/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2017</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>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and investments	\$ 22,000	\$ 2,995
Total assets	\$ <u>22,000</u>	\$ <u>2,995</u>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ -	\$ 2,995
Due to other funds	<u>302</u>	<u>-</u>
Total liabilities	<u>302</u>	<u>2,995</u>
<b>Fund Balance</b>		
Restricted	<u>21,698</u>	<u>-</u>
Total fund balance	<u>21,698</u>	<u>-</u>
Total liabilities and fund balance	\$ <u>22,000</u>	\$ <u>2,995</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>2017</u>	<u>2016</u>
<b>REVENUES</b>		
Payment from prior years reserve	\$ -	\$ 99,380
Payment from FY2015-16 apportionment	22,000	638
Interest income	53	-
Total revenues	<u>22,053</u>	<u>100,018</u>
<b>EXPENDITURES</b>		
Various projects	<u>355</u>	<u>100,018</u>
Total expenditures	<u>355</u>	<u>100,018</u>
Excess of revenues over expenditures	21,698	-
Fund balance at beginning of year	<u>-</u>	<u>-</u>
Fund balance at end of year	<u>\$ 21,698</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, 2017

<u>Project Description</u>	<u>Program Year</u>	<u>Allocations</u>	<u>Expenditures</u>	<u>Unexpended Allocations</u>	<u>Project Status</u>
<b>Local allocations</b>					
Management of Covina Bikehub	2016-17	\$ 21,000	\$ -	\$ 21,000	Ongoing
Bikehub Facility Supplies	2016-17	1,000	355	645	Ongoing
Total		<u>\$ 22,000</u>	<u>\$ 355</u>	<u>21,645</u>	
Interest income				53	
Fund balance at beginning of year				<u>-</u>	
Fund balance at end of year				<u>\$ 21,698</u> *	

\* The City was granted a one-time waiver by LACMTA to expend the remaining funds in fiscal year 2017-18.

See accompanying independent auditor's report.

**CITY OF COVINA**

**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Years Ended June 30, 2017 and 2016

**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, 2017 and 2016  
(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 2017 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, 2017:

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

Information regarding the fund balance reporting policy adopted by the City is described in 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, 2017 and 2016  
(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 reimbursement from other fund was not available for spending PALRF in the fiscal year ended June 30, 2016, the amount of \$28,103 is reported as deferred inflows of resources.

**CITY OF COVINA**

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Years Ended June 30, 2017 and 2016  
(Continued)

**NOTE 8 – PROPOSITION A DISCRETIONARY INCENTIVE GRANTS - PALRF**

The Proposition A Discretionary Incentive Grant amounting to \$28,103 for the year ended June 30, 2017 represent additional funds received from LACMTA for participating in the Voluntary NTD Program.

The City entered into a Memorandum of Understanding (MOU) agreement with the Los Angeles County Metropolitan Transportation Authority (LACMTA) 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, 2017 and 2016 consisted of the following:

Agreement Date	Period	NTD Voluntary Reporting	MOU Amount	Amount Received	
				2017	2016
September 14, 2015	7/1/14 – 6/30/16	FY 2012-13	\$ 28,103	\$ 28,103	\$ -
Total				\$ 28,103	\$ -

The Proposition A discretionary incentive grant was recorded under PALRF.

**NOTE 9 – PROJECT GENERATED REVENUE - PALRF**

Project generated revenues for the year ended June 30, 2017 and 2016 consisted of the following:

	2017	2016
LACMTA bus pass revenues	\$ 3,725	\$ 3,960
LACMTA parking permit revenues	205,018	278,810
Total	\$ 208,743	\$ 282,770

**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 \$33,746 and \$32,449 for the years ended June 30, 2017 and June 30, 2016, respectively.



**CITY OF COVINA**

**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Years Ended June 30, 2017 and 2016  
(Continued)

**NOTE 11 – TRANSPORTATION DEVELOPMENT ACT FUND REVENUE ALLOCATION**

The revenue allocations for the years ended June 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
FY 2012-13 allocation	\$ -	\$ 28,637
FY 2013-14 allocation	-	38,823
FY 2014-15 allocation	-	31,920
FY 2015-16 allocation	22,000	638
Total	<u>\$ 22,000</u>	<u>\$ 100,018</u>

**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, 2017 and 2016, the City has funds on reserve as follows:

	<u>2017</u>	<u>2016</u>
FY 2015-16 allocation	\$ 8,349	\$ 30,349
FY 2016-17 allocation	32,391	-
Available reserve balance	<u>\$ 40,740</u>	<u>\$ 30,349</u>

**NOTE 13 – SUBSEQUENT EVENTS**

The City has evaluated events or transactions that occurred subsequent to June 30, 2017 through November 13, 2017, 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 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 (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, 2017, and the related notes to the financial statements, and have issued our report thereon dated November 13, 2017.

**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 &amp; Simpson". The signature is written in a cursive, flowing style.

Los Angeles, California  
November 13, 2017

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*COMPLIANCE SECTION*

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SIMPSON & SIMPSON  
CERTIFIED PUBLIC ACCOUNTANTS

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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, 2017.

### *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 (TDAA3F) for the year ended June 30, 2017.





### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Guidelines and which are described in the accompanying Schedule of Findings and Recommendations as Finding #2017-001 and #2017-002. Our opinion on each local return program 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 Schedule of Findings and Recommendations. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

### **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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with Requirements that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

A handwritten signature in cursive script that reads "Simpson &amp; Simpson". The signature is written in black ink and is positioned above the printed name and date.

Los Angeles, California  
November 13, 2017

**CITY OF COVINA**  
**COMPLIANCE MATRIX**  
Year Ended June 30, 2017

Compliance Requirement	In Compliance		Questioned Costs	If no, provide details and management response.	
	Yes	No			
<b>A. Proposition A and Proposition C Local Return Funds</b>					
1.	Timely use of funds.		X	PCLRF: \$38,028	See Finding #2017-001 on the Schedule of Findings and Recommendations.
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.	Expenditures did not exceed 25% of Metro's approved budget.		X	None	See Finding #2017-002 on the Schedule of Findings and Recommendations.
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	

**CITY OF COVINA**  
**COMPLIANCE MATRIX**  
Year Ended June 30, 2017  
(Continued)

Compliance Requirement		In Compliance		Questioned Costs	If no, provide details and management response.
		Yes	No		
11.	Revenues received including allocations, project generated revenues, and interest income were properly credited to the PALRF and PCLRF accounts.	X		None	
<b>B. Measure R Local Return Fund</b>					
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	



**CITY OF COVINA**  
**COMPLIANCE MATRIX**  
Year Ended June 30, 2017  
(Continued)

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

**CITY OF COVINA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**

For the Fiscal Years Ended June 30, 2017 and 2016

**PCLRF: Finding #2017-001**

<b>Compliance Reference</b>	According to Proposition A and C Local Return Guidelines, Section IV.E.1, “Jurisdictions have three years to expend LR funds. Funds must be expended within three years of the last day of the fiscal year in which funds were originally allocated.”
<b>Condition</b>	A portion of the City’s fiscal year 2014 ending fund balance in the amount of \$38,028 was not fully expended within 3 years as of June 30, 2017 and was not reserved for capital projects as required by Local Return guidelines. However, the City received a subsequent approval from LACMTA on November 21, 2017 to expend the lapsed funds until June 30, 2018.
<b>Cause</b>	The City is working with the Los Angeles County (LAC) and the California Department of Transportation (CalTrans) on a major project, Grand Avenue Rehabilitation, for which Proposition C Local Return Funds were budgeted. The project required a Joint User Agreement between the City and LAC. The approval process delayed the start of the implementation of the project and the timely expenditure of the funds.
<b>Effect</b>	The Proposition C Local Return funds were not expended or reserved within the Timely Use period resulting in questioned costs of \$38,028.
<b>Recommendation</b>	We recommend that the City establish a policy in place where the City Manager, City Engineer and Finance Department discuss the availability of Proposition C Local Return funds in conjunction with any eligible PCLRF projects and submit its Form B (Annual Project Update Form) on time. Alternative measure would include requesting a Capital Reserve Agreement with LACMTA.
<b>Management’s Response</b>	The City submitted on November 20, 2017 a request for an extension to expend the lapsed funds until June 30, 2018, which LACMTA approved on November 21, 2017. Currently, the City has already expended the lapsed Proposition C funds. In the future, the City management will monitor more closely to ensure compliance on the timely use of funds.
<b>Finding Corrected During the Audit</b>	On November 21, 2017, LACMTA subsequently approved an extension on the usage of lapsed funds until June 30, 2018.

**CITY OF COVINA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**

For the Fiscal Years Ended June 30, 2017 and 2016

(Continued)

**PALRF: Finding #2017-002**

<b>Compliance Reference</b>	According to Proposition A and C Local Return Guidelines, Section I (C), Project Description Form (Form A), Item 5: “Jurisdictions shall submit for approval a Project Description Form prior to the expenditure of funds for a 25 percent or greater change in an approved Local Return project budget or scope on all operating or capital Local Return projects.”
<b>Condition</b>	The City expended more than 25 percent of Metro’s approved budget on PALRF Project Code 370-02, Reimbursement of Construction Costs to Covina Redevelopment Agency, in the amount of \$3,447. However, the City filed the Form A to obtain retroactive approval on the budget amendment for the project from LACMTA. The Form A was subsequently approved on September 20, 2017.
<b>Cause</b>	Staff vacancies and changes in the Public Works Department caused difficulty in the City’s timely submission of Form A to LACMTA. As a result, the City exceeded the budget by more than 25 percent for Project Code 370-02, Reimbursement of Construction Costs to Covina Redevelopment Agency.
<b>Effect</b>	The City’s PALRF project expenditures exceeded 25 percent of LACMTA’s approved budget without LACMTA’s approval and the City did not comply with the Guidelines.
<b>Recommendation</b>	We recommend that the City establish procedures to ensure that project expenditures are within the 25 percent cap of the LACMTA’s approved budget and an amended Form A is properly prepared and submitted prior to the expenditure of funds which would result in a 25 percent or greater change in an approved Local Return project budget or scope on all operating or capital Local Return projects.
<b>Management’s Response</b>	A full-time staff member has been hired by the Public Works Department to track the timely submission of forms. In addition, quarterly meetings between the Finance Department and Public Works Department have been scheduled to closely monitor the expenditures and obtain the required approvals from LACMTA prior to incurring expenditures.
<b>Finding Corrected During the Audit</b>	The City filed Form A to obtain retroactive approval on the budget amendment for the project and was subsequently approved on September 20, 2017. No follow up is required.

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***EXIT CONFERENCE***

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**CITY OF COVINA**

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

June 30, 2017

An exit conference was held on December 4, 2017 via telephone conference. Those in attendance were:

***Simpson & Simpson Representative:***

Yung Dang, Semi-Senior Auditor

***City's Representative:***

Theresa Franke, Accounting Supervisor

Anita Agramonte, Finance Director

***Matters Discussed:***

Results of the audit disclosed no significant control deficiencies and two (2) non-compliance issues 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:

Theresa Franke, Accounting Supervisor

Simpson & Simpson, LLP  
633 West 5<sup>th</sup> 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, 2017 AND 2016.

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, 2017 and 2016 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,

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Name

---

Title

---

Date