

***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, 2017 AND 2016***



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) of the City of Duarte, 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 Duarte, 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 Duarte, 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 Duarte, 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 October 17, 2017, on our consideration of the City of Duarte'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 cursive script that reads "Simpson & Simpson".

Los Angeles, California
October 17, 2017

CITY OF DUARTE

PROPOSITION A LOCAL RETURN FUND

BALANCE SHEETS

JUNE 30

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 2,368,900	\$ 2,856,758
Prepaid expenses	-	1,370
Total assets	<u>\$ 2,368,900</u>	<u>\$ 2,858,128</u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 45,501	\$ 87,038
Payroll liabilities	<u>5,038</u>	<u>5,301</u>
Total liabilities	<u>50,539</u>	<u>92,339</u>
 Fund Balance		
Restricted	1,074,160	1,047,743
Restricted - Gold Rail Project (Note 7)	<u>1,244,201</u>	<u>1,718,046</u>
Total fund balance	<u>2,318,361</u>	<u>2,765,789</u>
 Total liabilities and fund balance	 <u>\$ 2,368,900</u>	 <u>\$ 2,858,128</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>2017</u>	<u>2016</u>
REVENUES		
Proposition A	\$ 398,504	\$ 391,113
Interest income	13,459	9,203
Gain on sale of capital asset	-	1,616
Proposition A Discretionary Incentive Grant (Note 8)	36,728	37,479
Total revenues	<u>448,691</u>	<u>439,411</u>
EXPENDITURES		
Various projects	1,248,919	1,026,550
Total expenditures	<u>1,248,919</u>	<u>1,026,550</u>
Deficiency of revenues over expenditures	(800,228)	(587,139)
OTHER FINANCING SOURCE		
Transfer in - PCLRF (Note 9)	352,800	303,100
Total other financing source	<u>352,800</u>	<u>303,100</u>
Deficiency of revenues over expenditures and other financing source	(447,428)	(284,039)
Fund balance at beginning of year	<u>2,765,789</u>	<u>3,049,828</u>
Fund balance at end of year	<u>\$ 2,318,361</u>	<u>\$ 2,765,789</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, 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		
110-01	Fixed Route Bus System *	\$ 693,900	\$ 661,998	\$ 31,902	\$ 607,085
200-01	Vehicle Purchase Program	600,000	-	600,000	-
270-01	Transit Study and Bike Pedestrian Project Study	-	-	-	18,714
380-01	Duarte's Local Match for Gold Line Rail System Project	1,718,047	482,921	1,235,126	296,751
480-04	Direct Administration	104,000	104,000	-	104,000
	Total expenditures	<u>\$ 3,115,947</u>	<u>\$ 1,248,919</u>	<u>\$ 1,867,028</u>	<u>\$ 1,026,550</u>

* 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, 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>
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
	Total	\$ <u>1,021,007</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,021,007</u>

See accompanying independent auditor's report.

CITY OF DUARTE

PROPOSITION C LOCAL RETURN FUND

BALANCE SHEETS

JUNE 30

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 237,400	\$ 266,830
Total assets	<u>\$ 237,400</u>	<u>\$ 266,830</u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Due to other funds	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>
 Fund Balance		
Restricted	<u>237,400</u>	<u>266,830</u>
Total fund balance	<u>237,400</u>	<u>266,830</u>
 Total liabilities and fund balance	 <u>\$ 237,400</u>	 <u>\$ 266,830</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>2017</u>	<u>2016</u>
REVENUES		
Proposition C	\$ 331,446	\$ 325,208
Interest income	<u>1,924</u>	<u>1,100</u>
Total revenues	<u>333,370</u>	<u>326,308</u>
EXPENDITURES		
Various projects	<u>10,000</u>	<u>10,000</u>
Total expenditures	<u>10,000</u>	<u>10,000</u>
Excess of revenues over expenditures	323,370	316,308
OTHER FINANCING USE		
Transfer out - PALRF (Note 9)	<u>352,800</u>	<u>303,100</u>
Total other financing use	<u>352,800</u>	<u>303,100</u>
(Deficiency) excess of revenues over expenditures and other financing use	(29,430)	13,208
Fund balance at beginning of year	<u>266,830</u>	<u>253,622</u>
Fund balance at end of year	<u>\$ 237,400</u>	<u>\$ 266,830</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, 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		
480-04	Direct Administration	\$ 10,000	\$ 10,000	\$ -	\$ 10,000
	Total expenditures	10,000	10,000	-	10,000
Transfer out - PALRF (Note 9)					
110-01	Fixed Route Bus System	362,800	352,800	10,000	303,100
	Total transfer out to PALRF	362,800	352,800	10,000	303,100
	Total expenditures and transfer out	<u>\$ 372,800</u>	<u>\$ 362,800</u>	<u>\$ 10,000</u>	<u>\$ 313,100</u>

See accompanying independent auditor's report.

CITY OF DUARTE

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>
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See accompanying independent auditor's report.

CITY OF DUARTE

MEASURE R LOCAL RETURN FUND

BALANCE SHEETS

JUNE 30

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ <u>985,494</u>	\$ <u>807,029</u>
Total assets	\$ <u><u>985,494</u></u>	\$ <u><u>807,029</u></u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 14,409	\$ 40,802
Total liabilities	<u>14,409</u>	<u>40,802</u>
 Fund Balance		
Restricted	<u>971,085</u>	<u>766,227</u>
Total fund balance	<u>971,085</u>	<u>766,227</u>
 Total liabilities and fund balance	 \$ <u><u>985,494</u></u>	 \$ <u><u>807,029</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>2017</u>	<u>2016</u>
REVENUES		
Measure R	\$ 247,971	\$ 243,460
Interest income	<u>4,887</u>	<u>2,472</u>
Total revenues	<u>252,858</u>	<u>245,932</u>
EXPENDITURES		
Various projects	<u>48,000</u>	<u>135,618</u>
Total expenditures	<u>48,000</u>	<u>135,618</u>
Excess of revenues over expenditures	204,858	110,314
Fund balance at beginning of year	<u>766,227</u>	<u>655,913</u>
Fund balance at end of year	\$ <u><u>971,085</u></u>	\$ <u><u>766,227</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, 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)	
1.05	Street Repair and Maintenance - Asphalt Repair and Crack and Seals	\$ 162,000	\$ -	\$ 162,000	\$ 36,148
3.05	Bike/Pedestrian Facilities, Construction and Maintenance	40,000	40,000	-	60,646
5.05	Bus Stop, Stations- Bus Pad Improvements	-	-	-	16,221
8.10	Transportation Administration	<u>50,500</u>	<u>8,000</u>	<u>42,500</u>	<u>22,603</u>
	Total expenditures	<u>\$ 252,500</u>	<u>\$ 48,000</u>	<u>\$ 204,500</u>	<u>\$ 135,618</u>

See accompanying independent auditor's report.

CITY OF DUARTE

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 DUARTE

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

**BALANCE SHEETS
JUNE 30**

	<u>2017</u>	<u>2016</u>
ASSETS		
Due from LACMTA	\$ <u>1,207</u>	\$ <u>-</u>
Total assets	\$ <u><u>1,207</u></u>	\$ <u><u>-</u></u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Due to General Fund	\$ <u>1,207</u>	\$ <u>-</u>
Total liabilities	<u>1,207</u>	<u>-</u>
 Fund Balance		
Restricted	<u>-</u>	<u>-</u>
Total fund balance	<u>-</u>	<u>-</u>
 Total liabilities and fund balance	 \$ <u><u>1,207</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

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

For the Fiscal Years Ended June 30

	<u>2017</u>	<u>2016</u>
REVENUES		
TDA 3	\$ 14,482	\$ 13,820
Total revenues	<u>14,482</u>	<u>13,820</u>
EXPENDITURES		
Concrete Repair Program	<u>14,482</u>	<u>13,820</u>
Total expenditures	<u>14,482</u>	<u>13,820</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, 2017

<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	2016-17	\$ <u>14,482</u>	\$ <u>14,482</u>	\$ -	Complete
Total		\$ <u><u>14,482</u></u>	\$ <u><u>14,482</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, 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 DUARTE

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 of 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 DUARTE

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 quarterly balances to the total of the pooled cash and investments.

NOTE 7 – CAPITAL RESERVE - PALRF

On January 16, 2008, LACMTA 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, related station art and/or enhancements. The capital agreement was scheduled to expire on June 30, 2014 at which time the funds would had been subject to lapse. On June 18, 2014, the agreement was extended and the funds will lapse on June 30, 2020.

For the years ended June 30, 2017 and 2016, following is the capital reserve amount for PALRF:

Capital reserve at June 30, 2015	\$	2,008,741
Add: Interest income at June 30, 2016		6,056
Less: Expenditures at June 30, 2016		<u>(296,751)</u>
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	\$	<u>1,244,201</u>

CITY OF DUARTE

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 \$36,728 and \$37,479 for the years ended June 30, 2017 and 2016, respectively, represent additional funds received from LACMTA for participating in the Voluntary NTD Program.

The City entered into various Memorandum of Understanding (MOU) agreements 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:

<u>Agreement Date</u>	<u>Period</u>	<u>NTD Voluntary Reporting</u>	<u>MOU Amount</u>	<u>Amount Received</u>	
				<u>2017</u>	<u>2016</u>
May 21, 2016	7/1/15 – 6/30/17	FY 2013-14	\$ 36,728	\$ 36,728	\$ -
September 14, 2015	7/1/14 – 6/30/16	FY 2012-13	\$ 37,479	-	37,479
Total				<u>\$ 36,728</u>	<u>\$ 37,479</u>

The Proposition A discretionary incentive grants were recorded under PALRF.

NOTE 9 – TRANSFERS IN/OUT – PALRF AND PCLRF

In fiscal years 2016-17 and 2015-16, transfers were made from PCLRF to PALRF in the amounts of \$352,800 and \$303,100, respectively, to provide and subsidize funding for PALRF’s Project Code 110-01, Fixed Route Bus System.

NOTE 10 – TRANSPORTATION DEVELOPMENT ACT FUND REVENUE ALLOCATION

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

	<u>2017</u>	<u>2016</u>
FY 2016-17 allocation	\$ 14,482	\$ -
FY 2015-16 allocation	-	13,820
Total	<u>\$ 14,482</u>	<u>\$ 13,820</u>

CITY OF DUARTE

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

NOTE 11 – 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 no funds on reserve.

NOTE 12 – SUBSEQUENT EVENTS

The City has evaluated events or transactions that occurred subsequent to June 30, 2017 through October 17, 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 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 (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 Duarte, 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 October 17, 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 & Simpson". The signature is written in a cursive, flowing style.

Los Angeles, California
October 17, 2017

COMPLIANCE SECTION



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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 (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 Duarte 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 response were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the City of Duarte 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 & Simpson".

Los Angeles, California
October 17, 2017

CITY OF DUARTE
COMPLIANCE MATRIX
Year Ended June 30, 2017

Compliance Requirement	In Compliance		Questioned Costs	If no, provide details and management response.	
	Yes	No			
A. Proposition A and Proposition C Local Return Funds					
1.	Timely use of funds.	X		None	
2.	Expenditures were approved before being incurred.		X	None	See Finding #2017-001 on the Schedule of Findings and Recommendations.
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	
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	See Finding #2017-002 on the Schedule of Findings and Recommendations.

CITY OF DUARTE
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. Measure R Local Return Fund				
1. Timely use of funds.	X		None	
2. Expenditures were approved before being incurred.	X		None	
3. Funds were used on approved projects only and expenditures were supported and allowable per Guidelines.	X		None	
4. Fund were not substituted for property tax.	X		None	
5. Administrative expenses were within the 20% cap.	X		None	
6. Expenditure Plan (Form One) was submitted on time.	X		None	
7. Expenditure Report (Form Two) was submitted on time.	X		None	
8. Cash or cash equivalents were maintained.	X		None	
9. Accounting procedures, record keeping and documentation were adequate.	X		None	
10. Revenues received including allocations, project generated revenues, and interest income were properly credited to the Measure R account.	X		None	

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

Compliance Requirement	In Compliance		Questioned Costs	If no, provide details and management response.
	Yes	No		
11. Funds were not used to supplant existing local revenues being used for transportation purpose.	X		None	
C. Transportation Development Act Article 3 Fund				
1. Timely use of funds.	X		None	
2. Expenditures were incurred for activities relating to pedestrian and bicycle facilities and amenities.	X		None	

CITY OF DUARTE

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

For the Fiscal Years Ended June 30, 2017 and 2016

PCLRF: Finding #2017-001

Compliance Reference	According to Proposition A and Proposition C Local Return Guidelines, Section I (B.3), “If Local Return Funds have been expended prior to Metro approval and/or used for ineligible purposes, Jurisdictions will be required to reimburse their Proposition C Local Return account...”
Condition	The City incurred expenditures prior to receiving approval from LACMTA for PCLRF’s Project Code 480-04 Direct Administration in the amount of \$10,000. However, the project was subsequently approved on September 18, 2017.
Cause	The City mistakenly included the budget for PCLRF’s administrative cost of \$10,000 with PCLRF’s Fixed Route Bus System Project Code 110-01’s budget of \$362,800 in which the City properly received approval from LACMTA.
Effect	The City did not comply with the Guidelines when expenditures for PCLRF project are incurred without LACMTA’s approval.
Recommendation	We recommend that the City establish procedures to ensure that it obtains approval from LACMTA prior to implementing any Proposition A and Proposition C Local Return projects. Form B (Annual Project Summary Report) should be properly prepared and submitted before the due date of August 1st so that the City’s expenditures of Proposition A and Proposition C Local Return Funds are in accordance with LACMTA’s approval and the Guidelines. In accordance with the Guidelines, the City should include all approved on-going and carryover Local Return projects in Form B.
Management’s Response	In the future, the City will ensure that the LACMTA’s approval for administrative cost will be requested as a separate project. Also, the City’s staff will review and make necessary adjustments on PCLRF or PALRF approval requests to receive appropriate authorization from LACMTA before fiscal year end and to be in compliance with the Guidelines.
Finding Corrected During the Audit	LACMTA Program Manager granted retroactive approval of the said expenditures on September 18, 2017.

CITY OF DUARTE

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

For the Fiscal Years Ended June 30, 2017 and 2016

(Continued)

PALRF and PCLRF: Finding #2017-002

<p>Compliance Reference</p>	<p>According to Proposition A and C Local Return Guidelines, Section II, “A proposed expenditure of funds shall be deemed to be for public transit purposes to the extent that it can reasonably be expected to sustain or improve the quality and safety of and/or access to public transit services by the general public or those requiring special public transit assistance” and Section V, “It is jurisdictions’ responsibility to maintain proper accounting records and documentation...”</p> <p>The City’s Finance Manual Section 2.36.050(m), <i>Exemptions from Purchasing Requirements</i>, states “Where the City Council finds that the purchasing requirements are unreasonably difficult or expensive to use, or are not suitable for the item(s) being procured.”</p>
<p>Condition</p>	<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) Two (2) payments made to La Mobo Bus Service, Inc., in the total amount of \$17,901; b) A payment made to Canyon Tire Sales, Inc., in the amount of \$2,554. c) A payment made to Cummins Pacific LLC, in the amount of \$886. <p>According to the City, these are payments made to the equally qualified vendors for when buses break down and needed urgent repairs and replacement of parts to ensure that the buses are back in service quickly.</p> <p>However, there was no indication on the supporting documentations that provide evidence that the repairs were within the definition of Section 2.36.050(m) of the City’s Finance Manual.</p>
<p>Cause</p>	<p>The City utilized several different vendors to repair the buses. Decisions were made based on what repairs are needed, which vendors are capable and what is the turnaround time to get the buses back into service. These repairs were frequent but generally under \$2,000 each. This was below the City requirement to utilize a purchase order even if the City was not relying on Section 2.36.050(m) to increase the effectiveness of staff by avoiding the use of Purchase Orders for each and every invoice. As the buses age, maintenance costs are increasing to a point where additional categorization of repairs would assist in monitoring spending.</p>

CITY OF DUARTE

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

For the Fiscal Years Ended June 30, 2017 and 2016

(Continued)

PALRF and PCLRF: Finding #2017-002 (Continued)

Effect	Since the voucher package and other supporting documentation for these payments do not indicate that these are repairs that require immediate action or attention, we were unable to determine that the services provided by these vendors were exempted from the purchasing requirements stated under Section 2.36.050(m).
Recommendation	We recommend the City provide additional supporting documentation in the voucher package to clearly state that the repairs are urgent as defined under Section 2.36.050(m) of the City’s Finance Manual. Such documentation should include evidence attesting to the immediate repair needs and the proper approval as required by the City’s Finance Manual and in compliance with the Local Return Guidelines.
Management’s Response	The City recognizes the importance of this matter. Purchases made from these vendors are not suitable for ‘bundling’ or bidding. However, over the course of the year, the dollars spent with these vendors are substantial. The City proposes to issue blanket Purchase Orders to appropriate vendors for “Preventative Maintenance” and for “Urgent Repairs”. As the buses needed more attention, the costs will be directed to the appropriate Purchase Order for payment.

EXIT CONFERENCE

CITY OF DUARTE

**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 5, 2017 via telephone conference. Those in attendance were:

Simpson & Simpson Representative:

Samuel Qiu, Managing Director
Dulce Kapuno, Audit Manager
Yung Dang, Semi-Senior Auditor

City's Representative:

Roger A. Cathey, Financial Services Manager
Gina Quevedo, Accountant

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:

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, 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 Duarte and agree with the contents of the report except as indicated below:

(Attach additional pages if necessary)

Very truly yours,

Name

Title

Date