

***CITY OF LA HABRA HEIGHTS
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***



Metro[®]



Simpson & Simpson, LLP
Certified Public Accountants

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

An audit involves performing procedures to obtain audit evidence about 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.





Opinion

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 La Habra Heights, 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.

Other 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 La Habra Heights, 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 La Habra Heights, 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 December 6, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Simpson & Simpson".

Los Angeles, California
December 6, 2017

CITY OF LA HABRA HEIGHTS

PROPOSITION A LOCAL RETURN FUND

BALANCE SHEETS

JUNE 30

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and investments	\$ 81,819	\$ 83,010
Interest Receivable	<u>143</u>	<u>30</u>
Total assets	<u>\$ 81,962</u>	<u>\$ 83,040</u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ <u>3,018</u>	\$ <u>8,917</u>
Total liabilities	<u>3,018</u>	<u>8,917</u>
 Fund Balance		
Restricted	<u>78,944</u>	<u>74,123</u>
Total fund balance	<u>78,944</u>	<u>74,123</u>
Total liabilities and fund balance	<u>\$ 81,962</u>	<u>\$ 83,040</u>

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

CITY OF LA HABRA HEIGHTS

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	\$ 99,247	\$ 97,832
Interest Income	172	136
Passenger fares	<u>775</u>	<u>735</u>
Total revenues	<u>100,194</u>	<u>98,703</u>
 EXPENDITURES		
Various projects	<u>95,373</u>	<u>94,085</u>
Total expenditures	<u>95,373</u>	<u>94,085</u>
 Excess of revenues over expenditures	4,821	4,618
 Fund balance at beginning of year	<u>74,123</u>	<u>69,505</u>
 Fund balance at end of year	\$ <u><u>78,944</u></u>	\$ <u><u>74,123</u></u>

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

CITY OF LA HABRA HEIGHTS

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	Dial-A-Ride	\$ 6,500	\$ 15,373	\$ (8,873)	\$ 14,085
405-08	Prop A Fund Trade (Note 7)	80,000	80,000	-	80,000
480-04	Prop A Administration	2,100	-	2,100	-
	Total Expenditures	<u>\$ 88,600</u>	<u>\$ 95,373</u>	<u>\$ (6,773)</u>	<u>\$ 94,085</u>

See accompanying independent auditor's report.

CITY OF LA HABRA HEIGHTS
PROPOSITION A LOCAL RETURN FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS

June 30, 2017

Date Acquired	Description	Balance 7/1/2016	Additions	Deletions	Balance 6/30/2017
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See accompanying independent auditor's report.

CITY OF LA HABRA HEIGHTS

PROPOSITION C LOCAL RETURN FUND

BALANCE SHEETS

JUNE 30

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and investments	\$ 226,812	\$ 203,543
Interest receivable	508	84
Prepaid expenses	<u>-</u>	<u>4,774</u>
Total assets	<u>\$ 227,320</u>	<u>\$ 208,401</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ <u>-</u>	\$ <u>8</u>
Total liabilities	<u>-</u>	<u>8</u>
Fund Balance		
Restricted	<u>227,320</u>	<u>208,393</u>
Total fund balance	<u>227,320</u>	<u>208,393</u>
Total liabilities and fund balance	<u>\$ 227,320</u>	<u>\$ 208,401</u>

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

CITY OF LA HABRA HEIGHTS

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	\$ 83,060	\$ 81,836
Interest income	<u>905</u>	<u>665</u>
Total revenues	<u>83,965</u>	<u>82,501</u>
EXPENDITURES		
Various projects	<u>65,038</u>	<u>119,144</u>
Total expenditures	<u>65,038</u>	<u>119,144</u>
Excess (deficiency) of revenues over expenditures	18,927	(36,643)
Fund balance at beginning of year	<u>208,393</u>	<u>245,036</u>
Fund balance at end of year	<u><u>\$ 227,320</u></u>	<u><u>\$ 208,393</u></u>

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

CITY OF LA HABRA HEIGHTS

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)	
200-01	Purchase of New Dial-A-Ride	\$ 10,000	\$ 4,774	\$ 5,226	\$ 25,407
440-04	Prop C Street Maintenance District #4	-	-	-	93,737
440-05	Various Roads Overlay	1	55,997	(55,996)	-
480-03	Prop C Administration	16,000	4,267	11,733	-
	Total Expenditures	<u>\$ 26,001</u>	<u>\$ 65,038</u>	<u>\$ (39,037)</u>	<u>\$ 119,144</u>

See accompanying independent auditor's report.

CITY OF LA HABRA HEIGHTS
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	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying independent auditor's report.

CITY OF LA HABRA HEIGHTS
MEASURE R LOCAL RETURN FUND
BALANCE SHEETS
JUNE 30

	2017	2016
ASSETS		
Cash and investments	\$ 190,320	\$ 171,605
Interest receivable	389	69
Total assets	\$ 190,709	\$ 171,674
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 9,912	\$ -
Total liabilities	9,912	-
 Fund Balance		
Restricted	180,797	171,674
Total fund balance	180,797	171,674
Total liabilities and fund balance	\$ 190,709	\$ 171,674

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

CITY OF LA HABRA HEIGHTS

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	\$ 61,757	\$ 60,899
Interest income	<u>739</u>	<u>542</u>
Total revenues	<u>62,496</u>	<u>61,441</u>
EXPENDITURES		
Various projects	<u>53,373</u>	<u>93,840</u>
Total expenditures	<u>53,373</u>	<u>93,840</u>
Excess (deficiency) of revenues over expenditures	9,123	(32,399)
Fund balance at beginning of year	<u>171,674</u>	<u>204,073</u>
Fund balance at end of year	<u>\$ 180,797</u>	<u>\$ 171,674</u>

The accompanying notes are an integral part of the financial statements

CITY OF LA HABRA HEIGHTS

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	\$ -	\$ -	\$ -	\$ 93,840
1.05	Roads Overlay/Fullerton Road Cape Seal	15,500	8,770	6,730	-
1.20	Storm Drain Rehabilitation	45,000	44,603	397	-
8.10	(20%) CAP Admin Allocation	12,100	-	12,100	-
	Total Expenditures	<u>\$ 72,600</u>	<u>\$ 53,373</u>	<u>\$ 19,227</u>	<u>\$ 93,840</u>

See accompanying independent auditor's report.

CITY OF LA HABRA HEIGHTS
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 LA HABRA HEIGHTS

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

BALANCE SHEETS

JUNE 30

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and investment	\$ -	\$ -
Metro receivable	<u>9,900</u>	<u>-</u>
Total assets	<u>\$ 9,900</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Due to General Fund	\$ -	\$ 370
Total liabilities	<u>-</u>	<u>370</u>
Fund Balance		
Restricted	<u>9,900</u>	<u>(370)</u>
Total fund balance	<u>9,900</u>	<u>(370)</u>
Total liabilities and fund balance	<u>\$ 9,900</u>	<u>\$ -</u>

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

CITY OF LA HABRA HEIGHTS

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	\$ 9,900	\$ 5,148
Reimbursement from general fund	<u>370</u>	<u>-</u>
Total revenues	<u>10,270</u>	<u>5,148</u>
EXPENDITURES		
Construction/Maintenance	<u>-</u>	<u>5,370</u>
Total expenditures	<u>-</u>	<u>5,370</u>
Excess (deficiency) of revenues over expenditures	10,270	(222)
Fund balance at beginning of year	<u>(370)</u>	<u>(148)</u>
Fund balance at end of year	<u>\$ 9,900</u>	<u>\$ (370)</u>

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

CITY OF LA HABRA HEIGHTS

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					
Bicycle Rack & Drinking Fountain	2016-17	\$ 10,270	\$ -	\$ 10,270	On-going
	Total	\$ 10,270	\$ -	10,270	
Unexpended interest accumulated to date				-	
Fund balance at beginning of year				(370)	
Fund balance at end of year				\$ 9,900	

See accompanying independent auditor's report.

CITY OF LA HABRA HEIGHTS

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

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 LA HABRA HEIGHTS

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, and 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 LA HABRA HEIGHTS

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 – PROPOSITION A LOCAL RETURN FUND EXCHANGE

During the fiscal year 2017, the City entered into an agreement with the City of Hawaiian Gardens to exchange the City’s Proposition A Local Return monies amounting to \$80,000 for \$60,000 General Fund monies or \$0.75 General Fund per \$1 of Proposition A Local Return.

NOTE 8 – TRANSPORTATION DEVELOPMENT ACT FUND REVENUE ALLOCATION

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

	2017	2016
FY 2011-12 allocation	\$ -	\$ 5,000
FY 2012-13 allocation	4,852	148
FY 2013-14 allocation	5,000	-
FY 2014-15 allocation	48	-
Total payment requested	\$ 9,900	\$ 5,148

CITY OF LA HABRA HEIGHTS

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

NOTE 9 – 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:

	2017	2016
FY 2012-13 allocation	\$ -	\$ 4,852
FY 2013-14 allocation	-	5,000
FY 2014-15 allocation	4,952	5,000
FY 2015-16 allocation	5,000	5,000
FY 2016-17 allocation	5,000	-
Available reserve balance	\$ 14,952	\$ 19,852

For the fiscal year ended June 30, 2017, any TDA Article 3 funds left on reserve for FY 2012/13 or prior, are subject to lapse if not claimed by the city by June 30, 2017. During the year, the City drew down FY 2012/13 reserve balance of \$4,852. These funds were neither encumbered nor spent by June 30, 2017, resulting in the entire amount being subject to lapse at year end. See compliance Matrix and Schedule of Findings and Recommendations.

NOTE 10 – SUBSEQUENT EVENTS

The City has evaluated events or transactions that occurred subsequent to June 30, 2017 through December 6, 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.



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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 La Habra Heights, 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 (TDAA3F) Fund of the City of La Habra Heights, 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 December 6, 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 any 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 are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

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

Los Angeles, California
December 6, 2017

COMPLIANCE SECTION



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 La Habra Heights, California and the
Los Angeles County Metropolitan Transit Authority

Report on Compliance

We have audited the compliance of the City of La Habra Heights, 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 (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 La Habra Heights 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 with the requirements, 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 No. 2017-001, Finding No. 2017-002, and Finding No. 2017-003. Our opinion on each local return fund program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

Management of the City of La Habra Heights 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 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 the Requirements that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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, reading "Simpson & Simpson".

Los Angeles, California
December 6, 2017

CITY OF LA HABRA HEIGHTS
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	
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 No. 2017-001 and Finding No. 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) was submitted on time.	X		None	
9.	Cash or cash equivalents were maintained.	X		None	
10.	Accounting procedures, record keeping and documentation were adequate.	X		None	
11.	Revenues received including allocations, project generated revenues, and interest income were properly credited to the PALRF and PCLRF accounts.	X		None	

CITY OF LA HABRA HEIGHTS
COMPLIANCE MATRIX
Year Ended June 30, 2017
(Continued)

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

CITY OF LA HABRA HEIGHTS
COMPLIANCE MATRIX
Year Ended June 30, 2017
(Continued)

Compliance Requirement	In Compliance		Questioned Costs	If no, provide details and management response.	
	Yes	No			
C. Transportation Development Act Article 3 Fund					
1.	Timely use of funds.		X	None	See Finding No. 2017-003 on the Schedule of Findings and Recommendations
2.	Expenditures were incurred for activities relating to pedestrian and bicycle facilities and amenities.	X		None	

CITY OF LA HABRA HEIGHTS

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

June 30, 2017

PALRF: Finding No. 2017-001

Finding	Entity
Compliance Requirement	According to the Proposition A Guidelines, Section C, "Jurisdiction shall submit for approval a Project Description Form (Form A) prior to the expenditure of funds for 1) a new project; 2) a new route; 3) a 25 percent change (increase or decrease) in route or revenue vehicle miles for an established Local Return fund transit service; 4) a 0.75 miles or greater service change that duplicates/overlays an existing transit service; or 5) a 25 percent or greater change in an approved Local Return project budget or scope on all operating Local Return projects."
Condition	The City expended more than 25% of Metro's approved budget on PALRF Project Code 130-01, Dial-A-Ride, in the amount of \$7,248.
Cause	On June 28, 2017, the City submitted a Form A to LACMTA with the intention of increasing the budget from \$10,500 to \$17,000; however, when completing the Form, the City erroneously reduced the project budget from \$10,500 to \$6,500 (the amount they wanted to add to the budget); because of this error, total expenditures charged to the Dial-A-Ride project exceeded the 25 percent threshold.
Effect	The total expenditures charged to project code 130-01 Dial-A-Ride, exceeded the project budget by more than 25 percent.
Recommendation	We recommend that the City implement internal control procedures to review all Form submissions prior to submittal to LACMTA, to ensure that Forms are processed accurately.
Management's Response	The City agrees with the auditor's finding; the City submitted the Form A with amended budget amounts. Metro used the adjustment amount as the final budget instead of the amount to be increased/decreased. City will comply with Metro on any additional forms or reports that need to be submitted.

CITY OF LA HABRA HEIGHTS

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

June 30, 2017

PCLRF: Finding No. 2017-002

Finding	Entity
Compliance Requirement	According to the Proposition A Guidelines, Section C, "Jurisdiction shall submit for approval a Project Description Form (Form A) prior to the expenditure of funds for 1) a new project; 2) a new route; 3) a 25 percent change (increase or decrease) in route or revenue vehicle miles for an established Local Return fund transit service; 4) a 0.75 miles or greater service change that duplicates/overlays an existing transit service; or 5) a 25 percent or greater change in an approved Local Return project budget or scope on all operating Local Return projects."
Condition	During the fiscal year ended June 30, 2017, the City incurred \$55,997 of expenditures for project 440-05 Various Roads Overlay; however, the city only obtained an approved budget of \$1. The total amount expended for this local return project exceeded the approved budget.
Cause	On June 28, 2017, the City submitted a Form A to LACMTA with the intention of re-purposing the \$70,000 of approved budget for Various Roads Overlay; they intended to reduce this budget amount by \$14,000 and use the remaining \$56,000 for Guardrail Replacement; however, when completing the Form, the City erroneously reduced the project budget from \$70,000 to (\$14,000) (the amount they wanted to remove from the budget); because of this error, total expenditures charged to the Various Roads Overlay projects exceeded the 25 percent threshold.
Effect	The total expenditures charged to project code 440-05 Various Roads Overlay, exceeded the project budget by more than 25 percent.
Recommendation	We recommend that the City implement internal control procedures to review all Form submissions prior to submittal to LACMTA, to ensure that Forms are processed accurately.
Management's Response	The City agrees with the auditor's finding; the City submitted the Form A with amended budget amounts. Metro used the adjustment amount as the final budget instead of the amount to be increased/decreased. City will comply with Metro on any additional forms or reports that need to be submitted.

CITY OF LA HABRA HEIGHTS

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

June 30, 2017

TDA Article 3: Finding No. 2017-003

Finding	Entity
Compliance Requirement	<p>According to the TDA Article 3 Guidelines, “Local agency may only draw down local return funds that will be fully spent or encumbered before the end of the fiscal year (June 30) in which they were allocated.”</p> <p>“TDA Article 3 local funds may be placed on reserve for up to three years, (i.e./ no longer than the fourth June 30 after they were made available by Metro Board Action). Agencies may accumulate three years’ worth of reserved TDA Article 3 funds before being required to obligate them or return them to the TDA Article 3 Fund.</p>
Condition	<p>During the fiscal year ended June 30, 2017, the City had a remaining fund balance of \$9,900. The City claimed \$4,852 from its fiscal year 2012-13 reserves during fiscal year 2016-17, and the City incurred \$0 of allowable expenditures during the year. As such, \$4,852 of the remaining fund balance at 6/30/17 is from the fiscal year 2012-13 and was subject to lapse if not expended during the fiscal year. However, on October 19, 2017, the City returned \$9,923.32 (9,900 +23.22 (interest)) to LACTMA as required by the guidelines.</p>
Cause	<p>The City earmarked these funds to be utilized for pedestrian related projects during the fiscal year 2016-17, but the funds were not utilized during the fiscal year.</p>
Effect	<p>Because these funds were not expended within the required timeline per the guidelines and have not been returned to the LACMTA for re-allocation, the City did not comply with TDA Article 3 guidelines.</p>
Recommendation	<p>We recommend that the City implement internal control procedures to track the TDA Article reserve balance to ensure that all TDA Article 3 funds are claimed and expended within the required timeline per the guidelines.</p>
Management’s Response	<p>Metro issued the TDA funds to the City on June 29, 2017 (check date). The City received the funds on July 5, 2017; however, during fiscal year 2017-18, the City Council did not approve the proposed project for these funds; as such, the funds plus accrued interest was returned to LACMTA during October 2017.</p>
Finding Corrected During the Audit	<p>On December 13, 2017, the city received an extension on the unexpended funds from the LACMTA program</p>

CITY OF LA HABRA HEIGHTS

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2017

	manager. Funds must be expended by June 30, 2018.
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EXIT CONFERENCE

CITY OF LA HABRA HEIGHTS

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 6, 2017 with the City of La Habra Heights. Those in attendance were:

Simpson & Simpson Representative:

Tianren Bian: Staff Auditor

City's Representative:

Eric Hendrickson, Finance Manager

Matters Discussed:

Results of the audit disclosed issues of noncompliance with the 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:

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

RE: CITY OF LA HABRA HEIGHTS 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 La Habra Heights and agree with the contents of the report except s indicated below:

(Attach additional pages if necessary)

Very truly yours,

Name

Title

Date