

***CITY OF WEST 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***



**Metro<sup>®</sup>**



Simpson & Simpson, LLP  
Certified Public Accountants

**CITY OF WEST COVINA**  
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*FINANCIAL SECTION*

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SIMPSON & SIMPSON  
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS  
BRAINARD C. SIMPSON, CPA  
MELBA W. SIMPSON, CPA

## Independent Auditor's Report

To the Honorable Members of the City Council of the  
City of West 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 West 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 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.



### ***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 West 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 West Covina, California, as of June 30, 2017 and 2016, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of West 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 29, 2017, on our consideration of the City of West 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* in considering the City's internal control over financial reporting and compliance.

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

Los Angeles, California  
November 29, 2017

**CITY OF WEST COVINA**

**PROPOSITION A LOCAL RETURN FUND**

**BALANCE SHEETS**

**JUNE 30**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and cash investments	\$ 169,689	\$ 486,864
Interest receivable	<u>37</u>	<u>300</u>
Total assets	<u>\$ 169,726</u>	<u>\$ 487,164</u>
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ <u>58,958</u>	\$ <u>1,880</u>
Total liabilities	<u>58,958</u>	<u>1,880</u>
 <b>FUND BALANCE</b>		
Restricted	<u>110,768</u>	<u>485,284</u>
Total fund balance	<u>110,768</u>	<u>485,284</u>
Total liabilities and fund balance	<u>\$ 169,726</u>	<u>\$ 487,164</u>

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

**CITY OF WEST 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	\$ 1,978,032	\$ 1,946,323
Proposition A Discretionary Incentive Grant (Note 7)	97,022	100,420
Interest income	50	1,392
Other income	-	3,224
Total revenues	<u>2,075,104</u>	<u>2,051,359</u>
<b>EXPENDITURES</b>		
Various projects	<u>2,449,620</u>	<u>2,172,122</u>
Total expenditures	<u>2,449,620</u>	<u>2,172,122</u>
Deficiency of revenues over expenditures	(374,516)	(120,763)
Fund balance at beginning of year	<u>485,284</u>	<u>606,047</u>
Fund balance at end of year	<u>\$ 110,768</u>	<u>\$ 485,284</u>

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

**CITY OF WEST 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	Elderly and Disabled Dial-A-Ride	\$ 120,000	\$ 81,758	\$ 38,242	\$ -
160-02	Bus Shelters	-	-	-	20,000
200-01	Purchase of Buses - Fixed Route	41,835	47,515	(5,680)	214,474
270-06	Transportation Planning SGVCOG	32,168	32,167	1	31,200
300-02	Accessibility Ramp at Transit Provider Office	-	-	-	6,448
405-05	Fund Exchange with City of Hawaiian Gardens (Note 8)	500,000	500,000	-	350,000
405-06	Fund Exchange with City of West Hollywood (Note 8)	-	-	-	1,550,000
405-07	Fund Exchange with Foothill Transit (Note 8)	1,781,155	1,781,155	-	-
480-02	Administration	7,025	7,025	-	-
	<b>Total expenditures</b>	<b>\$ 2,482,183</b>	<b>\$ 2,449,620</b>	<b>\$ 32,563</b>	<b>\$ 2,172,122</b>

See accompanying independent auditor's report.



**CITY OF WEST 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>
April 2004	Thomas Bus SLF200	\$ 316,691	\$ -	\$ -	\$ 316,691
April 2004	Thomas Bus SLF200	233,309	-	-	233,309
June 2016	El Dorado Elite Bus	106,297	-	-	106,297
June 2016	El Dorado Elite Bus	106,297	-	-	106,297
January 2017	Propane-Fuled Shuttle Bus	-	23,758	-	23,758
March 2017	Propane-Fuled Shuttle Bus	-	23,757	-	23,757
	Total	\$ <u>762,594</u>	\$ <u>47,515</u>	\$ <u>-</u>	\$ <u>810,109</u>

See accompanying independent auditor's report.

**CITY OF WEST COVINA**

**PROPOSITION C LOCAL RETURN FUND**

**BALANCE SHEETS**

**JUNE 30**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and investments	\$ 1,451,899	\$ 1,184,423
Interest receivable	<u>323</u>	<u>727</u>
Total assets	<u>\$ 1,452,222</u>	<u>\$ 1,185,150</u>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ 157,862	\$ 139,838
Accrued salaries and benefits	<u>5,027</u>	<u>5,526</u>
Total liabilities	<u>162,889</u>	<u>145,364</u>
<b>Fund Balance</b>		
Restricted	<u>1,289,333</u>	<u>1,039,786</u>
Total fund balance	<u>1,289,333</u>	<u>1,039,786</u>
Total liabilities and fund balance	<u>\$ 1,452,222</u>	<u>\$ 1,185,150</u>

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

**CITY OF WEST 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	\$ 1,644,472	\$ 1,617,352
Interest income	7,990	6,156
Other income	408	1,200
Total revenues	<u>1,652,870</u>	<u>1,624,708</u>
<b>EXPENDITURES</b>		
Various projects	<u>1,403,323</u>	<u>1,265,670</u>
Total expenditures	<u>1,403,323</u>	<u>1,265,670</u>
Excess of revenues over expenditures	249,547	359,038
Fund balance at beginning of year	<u>1,039,786</u>	<u>680,748</u>
Fund balance at end of year	<u><u>\$ 1,289,333</u></u>	<u><u>\$ 1,039,786</u></u>

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

**CITY OF WEST 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)	
110-03	West Covina Shuttle	\$ 177,453	\$ 147,826	\$ 29,627	\$ 139,200
110-05	West Covina Shuttle-Green Line Supplemental	285,000	285,325	(325)	280,509
130-01	Elderly and Disabled Dial-A-Ride	153,085	155,359	(2,274)	141,837
140-04	Recreation Event Transit	80,000	58,574	21,426	70,033
160-01	Bus Shelters	74,500	61,396	13,104	60,525
200-01	Purchase of Buses - Fixed Route	41,835	-	41,835	-
270-05	Transportation Planning	26,695	8,730	17,965	120,215
270-07	Geographical Information System	460,000	259,157	200,843	37,233
300-01	Paving the City Yard Along Bus Travel Way	47,944	1,025	46,919	2,500
420-01	General Plan Circulation Element	55,298	55,297	1	31,332
440-16	SP17003 Street Rehabilitation - Cameron Avenue	150,000	16,450	133,550	-
450-01	Francisquito/Sunset Left Turn	19,640	13,803	5,837	5,672
460-13	Traffic Controller and Cabinet Upgrades	74,459	-	74,459	-
470-01	Pavement Management System	28,560	5,760	22,800	56,440
470-06	Pavement Management System	253,614	197,173	56,441	119,924
480-01	Administration	140,345	137,448	2,897	200,250
	<b>Total Expenditures</b>	<b>\$ 2,068,428</b>	<b>\$ 1,403,323</b>	<b>\$ 665,105</b>	<b>\$ 1,265,670</b>

See accompanying independent auditor's report.

**CITY OF WEST COVINA**  
**PROPOSITION C 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
Jun 2005	Thomas Bus SLF200	\$ 83,383	\$ -	\$ -	\$ 83,383
	Total	\$ 83,383	\$ -	\$ -	\$ 83,383

See accompanying independent auditor's report.

**CITY OF WEST COVINA**

**MEASURE R LOCAL RETURN FUND**

**BALANCE SHEETS**

**JUNE 30**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and investments	\$ 1,543,091	\$ 922,540
Interest receivable	334	567
Total assets	<u>\$ 1,543,425</u>	<u>\$ 923,107</u>
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ 44,424	\$ 66,340
Accrued salaries and benefits	695	940
Total liabilities	<u>45,119</u>	<u>67,280</u>
 <b>Fund Balance</b>		
Restricted	<u>1,498,306</u>	<u>855,827</u>
Total fund balance	<u>1,498,306</u>	<u>855,827</u>
 Total liabilities and fund balance	 <u>\$ 1,543,425</u>	 <u>\$ 923,107</u>

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

**CITY OF WEST 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	\$ 1,230,841	\$ 1,211,550
Interest income	<u>7,993</u>	<u>6,062</u>
Total revenues	<u>1,238,834</u>	<u>1,217,612</u>
<b>EXPENDITURES</b>		
Various projects	<u>596,355</u>	<u>1,055,643</u>
Total expenditures	<u>596,355</u>	<u>1,055,643</u>
Excess of revenues over expenditures	642,479	161,969
Fund balance at beginning of year	<u>855,827</u>	<u>693,858</u>
Fund balance at end of year	\$ <u><u>1,498,306</u></u>	\$ <u><u>855,827</u></u>

The accompanying notes are an integral part of the financial statements

**CITY OF WEST 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			2016 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
1.05	SP13110 Street Rehabilitation - Amar Road	\$ 77,531	\$ 8,247	\$ 69,284	\$ -
1.05	SP15106 Street Rehabilitation - Major Streets	287,384	30,732	256,652	272,228
1.05	SP16002 Street Rehabilitation - Major Streets	55,417	5,000	50,417	181,450
1.05	SP17028 Implementation of Green Streets Improvements	225,000	-	225,000	-
1.05	SP17029 Street Rehabilitation - Residential Streets	500,000	-	500,000	-
1.05	Transportable Traffic Message Boards	30,000	29,906	94	-
1.05	Drought Tolerant Landscaping - Sunset Avenue Median	80,000	3,209	76,791	-
2.03	Traffic Signal - Repairs and Maintenance	15,000	-	15,000	6,642
2.19	SP17030 Installation of Traffic Controllers	30,000	17,514	12,486	-
4.20	West Covina Shuttle (Fixed Route)	260,000	227,592	32,408	249,752
4.35	Dial-A-Ride	145,000	145,000	-	250,000
5.05	SP16033 Bus Stop Enhancement Program	9,640	-	9,640	5,471
7.90	SP17031 Update Traffic and Engineering Studies	30,000	52,407	(22,407)	-
8.10	Fund Administration (20% cap)	83,891	76,748	7,143	90,100
	Total expenditures	<u>\$ 1,828,863</u>	<u>\$ 596,355</u>	<u>\$ 1,232,508</u>	<u>\$ 1,055,643</u>

See accompanying independent auditor's report.



**CITY OF WEST 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 WEST 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	\$ 11	\$ -
Due from LACMTA	<u>-</u>	<u>86,389</u>
Total assets	<u>\$ 11</u>	<u>\$ 86,389</u>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Cash overdraft	\$ -	\$ 74,704
Accounts payable	39,624	3,660
Due to LACMTA	<u>-</u>	<u>8,025</u>
Total liabilities	<u>39,624</u>	<u>86,389</u>
<b>Fund Balance</b>		
Restricted	<u>(39,613)</u>	<u>-</u>
Total fund balance	<u>(39,613)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 11</u>	<u>\$ 86,389</u>

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

**CITY OF WEST 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>		
TDA 3	\$ -	\$ 78,364
Interest income	<u>11</u>	<u>-</u>
Total revenues	<u>11</u>	<u>78,364</u>
<b>EXPENDITURES</b>		
Construction/Maintenance	<u>39,624</u>	<u>76,069</u>
Total expenditures	<u>39,624</u>	<u>76,069</u>
(Deficiency) excess of revenues over expenditures	(39,613)	2,295
Fund balance at beginning of year	<u>-</u>	<u>(2,295)</u>
Fund balance at end of year	<u><u>\$ (39,613)</u></u>	<u><u>\$ -</u></u>

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

**CITY OF WEST 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>					
Bicycle Master Plan	2016-17	\$ <u>-</u>	\$ <u>39,624</u>	\$ <u>(39,624)</u>	Ongoing
Total		\$ <u><u>-</u></u>	\$ <u><u>39,624</u></u>	<u>(39,624)</u>	
Unexpended interest accumulate to date				11	
Fund balance at beginning of year				<u>-</u>	
Fund balance at end of year				\$ <u><u>(39,613)</u></u>	

See accompanying independent auditor's report.

**CITY OF WEST 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 WEST 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 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 WEST 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 – PROPOSITION A DISCRETIONARY INCENTIVE GRANTS - PALRF**

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:

Agreement <u>Date</u>	<u>Period</u>	NTD Voluntary <u>Reporting</u>	MOU <u>Amount</u>	Amount Received	
				<u>2017</u>	<u>2016</u>
May 21, 2016	7/1/15 – 6/30/17	FY 2013-14	\$ 97,022	\$ 97,022	\$ -
September 14, 2015	7/1/14 – 6/30/16	FY 2012-13	\$ 100,420	-	100,420
Total				<u>\$ 97,022</u>	<u>\$ 100,420</u>

The Proposition A discretionary incentive grants for fiscal years ended June 30, 2017 and 2016 were recorded under PALRF.

**CITY OF WEST COVINA**

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

**NOTE 8 – PROPOSITION A FUND EXCHANGES - PALRF**

In fiscal year 2016-17, the City entered into an agreement on June 15, 2016 with the City of Hawaiian Gardens to exchange \$1 of Proposition A Local Return Funds for every \$.75 (or 75 cents) of General Fund. Accordingly, the City received \$375,000 of the City of Hawaiian Gardens General Fund on July 21, 2016 and assigned \$500,000 of its Proposition A Local Return Funds to the City of Hawaiian Gardens on July 21, 2016.

In fiscal year 2016-17, the City entered into an agreement on June 28, 2016 with Foothill Transit to exchange \$1 of Proposition A Local Return Funds for every \$.75 (or 75 cents) of General Fund. Accordingly, the City received \$ 1,335,866 of Foothill Transit’s General Fund on July 15, 2016 and assigned \$ 1,781,155 of its Proposition A Local Return Funds to Foothill Transit on July 14, 2016.

In fiscal year 2015-16, the City entered into an agreement on August 18, 2015 with the City of Hawaiian Gardens to exchange \$1 of Proposition A Local Return Funds for every \$.75 (or 75 cents) of General Fund. Accordingly, the City received \$262,500 of the City of Hawaiian Gardens General Fund on September 24, 2015 and assigned \$350,000 of its Proposition A Local Return Funds to the City of Hawaiian Gardens on October 1, 2015.

In fiscal year 2015-16, the City entered into an agreement on August 19, 2015 with the City of West Hollywood to exchange \$1 of Proposition A Local Return Funds for every \$.70 (or 70 cents) of General Fund. Accordingly, the City received \$ 1,085,000 of the City of West Hollywood’s General Fund on September 18, 2015 and assigned \$ 1,550,000 of its Proposition A Local Return Funds to the City of West Hollywood on October 1, 2015.

**NOTE 9 – 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 2013-14 allocation	\$ -	\$	78,364
Total	\$ -	\$	78,364



*CITY OF WEST COVINA*

**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Years Ended June 30, 2016 and 2015**  
(Continued)

**NOTE 10 – TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND 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 2013-14 allocation	\$ 8,025	\$ 8,025
FY 2014-15 allocation	70,774	70,774
FY 2015-16 allocation	68,702	68,702
FY 2016-17 allocation	71,820	-
Available reserve balance	\$ <u>219,321</u>	\$ <u>147,501</u>

**NOTE 12– SUBSEQUENT EVENTS**

The City has evaluated events or transactions that occurred subsequent to June 30, 2017 through November 29, 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  
BRAINARD C. SIMPSON, CPA  
MELBA W. SIMPSON, CPA

**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 West Covina, California and the  
Los Angeles County Metropolitan Transportation 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 West 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 29, 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 &amp; Simpson".

Los Angeles, California  
November 29, 2017

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*COMPLIANCE SECTION*

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SIMPSON & SIMPSON  
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS  
BRAINARD C. SIMPSON, CPA  
MELBA W. SIMPSON, CPA

## Independent Auditor's Report On Compliance

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

### Report on Compliance

We have audited the compliance of the City of West 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 West 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 an instance of noncompliance, which is required to be reported in accordance with the Guidelines and which is described in the accompanying Schedule of Findings and Recommendations as Findings #2017-001. Our opinion on each local return program is not modified with respect to this matter.

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

### **Report on Internal Control Over Compliance**

Management of the City of West 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 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 weakness 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".

Los Angeles, California  
November 29, 2017

**CITY OF WEST 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		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	

**CITY OF WEST 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 WEST 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 WEST COVINA**

SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
Year ended June 30, 2017

**PALRF and PCLRF: Finding #2017-001**

<b>Compliance Reference</b>	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...”
<b>Condition</b>	<p>The City incurred expenditures in the amounts of \$54,540 and \$314,454 for PALRF and PCLRF, respectively, for a total amount of \$368,994, prior to receiving approval from LACMTA for the following projects:</p> <ul style="list-style-type: none"> <li>a) PALRF’s Project Code 200-01, Purchase of Buses - Fixed Route, in the amount of \$47,515. However, the project was subsequently approved on September 26, 2017.</li> <li>b) PALRF’s Project Code 480-02, Administration, in the amount of \$7,025. However, the project was subsequently approved on October 4, 2017.</li> <li>c) PCLRF’s Project Code 270-07, Design of Glendora Avenue, in the amount of \$259,157. However, the project was subsequently approved on September 29, 2017.</li> <li>d) PCLRF’s Project Code 420-01, General Plan Circulation Element, in the amount of \$55,297. However, the project was subsequently approved on September 26, 2017.</li> </ul>
<b>Cause</b>	<p>The causes for the expenditures incurred prior to receiving LACMTA approval for the following projects were as follows:</p> <ul style="list-style-type: none"> <li>a) The City mistakenly requested the approval for PALRF’s Project Code 200-01, Purchase of Buses - Fixed Route, as a carryover PCLRF project in Form B.</li> <li>b) There was no initial budget submitted for PALRF’s Project Code 480-02, Administration. However in fiscal year 2016-17, there were allowable overhead charges based on the cost allocation plan prepared by a third party allocated to PALRF. The City requested LACMTA’s approval retroactively for the charges.</li> <li>c) The City mistakenly did not include the PCLRF’s Project Code 270-07, Design of Glendora Avenue, as a carryover PCLRF project in Form B.</li> <li>d) The City mistakenly did not include the PCLRF’s Project Code 420-01, General Plan Circulation Element, as a carryover PCLRF project in Form B.</li> </ul>
<b>Effect</b>	The City did not comply with the Guidelines when expenditures for PALRF and PCLRF project are incurred without LACMTA’s approval.

**CITY OF WEST COVINA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**

Year ended June 30, 2017

(Continued)

**PALRF and PCLRF: Finding #2017-001 (Continued)**

<b>Recommendation</b>	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.
<b>Management's Response</b>	Three (3) projects totaling \$361,969 (PALRF's Project Code 200-01, Purchase of Buses – Fixed Route, in the amount of \$47,515. PCLRF's Project Code 270-07, Design of Glendora Avenue, in the amount of \$259,157. PCLRF's Project Code 420-01, General Plan Circulation Element, in the amount of \$55,297) were originally approved by LACMTA in prior years. However, the City did not, within the program year, request the subsequent approvals needed to carry the unexpended balances forward due to administrative error. PALRF's Project Code 480-02, Administration, in the amount of \$7,025 was a new project. The City received retroactive LACMTA approval for the four (4) projects prior to the audit. In the future, the City will incorporate a second level of review of submittals and request a project listing from LACMTA at mid-year to identify and correct any discrepancies on the projects approved.
<b>Finding Corrected During the Audit</b>	LACMTA Program Manager granted retroactive approval of the expenditures for PALRF's Purchase of Buses - Fixed Route Project Code 200-01 on September 26, 2017, PALRF's Administration Project Code 480-02 on October 4, 2017, PCLRF's Design of Glendora Avenue Project Code 270-07 on September 29, 2017 and PCLRF's General Plan Circulation Element Project Code 420-01 on September 26, 2017.

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***EXIT CONFERENCE***

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***CITY OF WEST 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 18, 2017 with the City of West Covina. Those in attendance were:

Simpson & Simpson Representative:

Yung Dang, Auditor

City's Representative:

Brenda Ramirez, Accountant

Nicole Lugotoff, Interim Finance Director

Nikole Bresciani, Assistant City Manager/Community Service Director

Matters Discussed:

Results of the audit disclosed no significant control deficiencies and one (1) non-compliance issue 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:

Brenda Ramirez, Accountant

Kelly McDonald, Management Analyst II

Nicole Lugotoff, Interim Finance Director

Nikole Bresciani, Assistant City Manager/Community Service Director

Simpson & Simpson, LLP  
633 West 5<sup>th</sup> Street, Suite 3320  
Los Angeles, CA 90071

RE: CITY OF WEST 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 West 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

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Title

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Date