



MetroTM

**City of South El Monte
Annual Financial Report of its**

**Proposition A Local Return Fund
Proposition C Local Return Fund
Measure R Local Return Fund
Transportation Development Act Article 3 Fund**

As of and for the Years Ended June 30, 2018 and 2017

and

Measure M Local Return Fund

**As of and for the Years Ended June 30, 2018
with Report of Independent Auditors**

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FINANCIAL SECTION

Report of Independent Auditors

**To the Honorable Members of the City Council of the
City of South El Monte, 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, the Proposition C Local Return Fund, the Measure R Local Return Fund and the Transportation Development Act Article 3 Fund (collectively, the Funds) of the City of South El Monte, California (the City) which comprise the Funds' balance sheets as of June 30, 2018 and 2017, and the related statements of revenues, expenditures and changes in fund balances for the years then ended, and the accompanying financial statements of the City's Measure M Local Return Fund (the Fund) which comprise the Fund's balance sheet as of June 30, 2018, and the related statement of revenues, expenditures and changes in fund balance for the year then ended, and the related notes to the financial statements.

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.

Auditors' 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City'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 City'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 qualified audit opinions.

Basis for Qualified Opinions

As of the date of our audit report, the City is still in the process of preparing the bank reconciliations statements. We were unable to confirm or verify by alternative means cash and investments balances included in the balance sheets at a total amount of \$578,533, \$245,346, \$340,915 and \$212,033 which represent 100% of the Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund and Measure M Local Return Funds' fund balance at June 30, 2018. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinions

In our opinion, except for the possible effects on the 2018 financial statements of the matter described in the Basis for Qualified Opinions paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Proposition A Local Return Fund, the Proposition C Local Return Fund, the Measure R Local Return Fund and the Transportation Development Act Article 3 Fund as of June 30, 2018 and 2017, and the Measure M Local Return Fund as of June 30, 2018, of the City of South El Monte, California, and the respective changes in 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 Proposition A Local Return Fund, the Proposition C Local Return Fund, the Measure R Local Return Fund, the Measure M Local Return Fund and the Transportation Development Act Article 3 Fund of the City of South El Monte, California, and do not purport to, and do not present fairly the financial position of the City as of June 30, 2018 and 2017, 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 audits were conducted for the purpose of forming opinions on each of the Funds' financial statements as a whole. The supplementary information identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2018, on our consideration of the City's internal control over the Funds' financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over the Funds' financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over the Funds' financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over the Funds' financial reporting and compliance.

A handwritten signature in black ink that reads "Vaquero & Company LLP".

**Glendale, California
December 27, 2018**

**City of South El Monte
Proposition A Local Return Fund
Balance Sheets**

		June 30	
		2018	2017
ASSETS			
Cash and investments	\$	578,533	\$ 499,005
Total assets	\$	578,533	\$ 499,005
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	4,766	\$ 11,106
Accrued payroll and employee benefits		-	7,075
Total liabilities		4,766	18,181
Fund balance			
Restricted		573,767	480,824
Total fund balance		573,767	480,824
Total liabilities and fund balance	\$	578,533	\$ 499,005

See notes to Funds financial statements.

City of South El Monte
Proposition A Local Return Fund
Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2018	2017
Revenues		
Proposition A	\$ 388,249	\$ 380,293
Investment income	1,009	1,587
Cash fares	5,661	6,094
Total revenues	394,919	387,974
 Expenditures		
Various projects	301,976	289,587
Total expenditures	301,976	289,587
 Excess of revenues over expenditures	 92,943	 98,387
 Fund balance at beginning of year	 480,824	 382,437
 Fund balance at end of year	 \$ 573,767	 \$ 480,824

See notes to Funds financial statements.

City of South El Monte
Proposition A Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2018
(With Comparative Actuals for 2017)

Project Code	Project Name	2018		Variance	2017 Actual
		LACMTA Budget	Actual	Positive (Negative)	
120-01	Paratransit	\$ 260,240	\$ 209,451	\$ 50,789	\$ 186,614
130-02	Special Events	12,520	11,121	1,399	2,519
170-01	Bus Shelter Maintenance	40,000	41,688	(1,688)	38,593
200-02	Vehicle Purchase	-	-	-	43,338
480-04	Administration	48,120	39,716	8,404	18,523
Total expenditures		\$ 360,880	\$ 301,976	\$ 58,904	\$ 289,587

See report of independent auditors.

City of South El Monte
Proposition A Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2018

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2018</u>
10/24/1991	2 Bus Shelters	\$ 10,036	\$ -	\$ -	\$ 10,036
11/27/1991	2 Bus Shelters	10,036	-	-	10,036
02/13/1992	91 Champion Bus-30 PAX	86,933	-	-	86,933
06/26/2003	2004 El Dorado Activan	40,685	-	-	40,685
10/25/2006	Pressure Washer with Trailer	6,473	-	-	6,473
04/29/2008	Pressure Washer	5,000	-	-	5,000
06/03/2008	Bus Shelters	84,366	-	-	84,366
09/01/2008	Bus Shelters	71,833	-	-	71,833
11/04/2014	Dodge Grand Caravan	45,260	-	-	45,260
11/30/2016	Dodge Caravan	43,338	-	-	43,338
Total		\$ 403,960	\$ -	\$ -	\$ 403,960

See report of independent auditors.

**City of South El Monte
Proposition C Local Return Fund
Balance Sheets**

		June 30	
		2018	2017
ASSETS			
Cash and investments		\$ 245,346	\$ 81,025
	Total assets	\$ 245,346	\$ 81,025
LIABILITIES AND FUND BALANCE			
Liabilities			
Account payable		\$ 1,087	\$ 3,309
Accrued payroll and employee benefits		-	1,617
	Total liabilities	1,087	4,926
Fund balance			
Restricted		244,259	76,099
	Total fund balance	244,259	76,099
	Total liabilities and fund balance	\$ 245,346	\$ 81,025

See notes to Funds financial statements.

City of South El Monte
Proposition C Local Return Fund
Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2018	2017
Revenues		
Proposition C	\$ 320,575	\$ 316,894
Investment income	236	4,425
Total revenues	320,811	321,319
Expenditures		
Various projects	152,651	1,493,646
Total expenditures	152,651	1,493,646
Excess (deficiency) of revenues over expenditures	168,160	(1,172,327)
Other financing source		
Transfer from General Fund	-	9,302
Total other financing source	-	9,302
Change in fund balance	168,160	(1,163,025)
Fund balance at beginning of year	76,099	1,239,124
Fund balance at end of year	\$ 244,259	\$ 76,099

See notes to Funds financial statements.

City of South El Monte
Proposition C Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2018
(With Comparative Actuals for 2017)

Project Code	Project Name	2018			2017 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
450-01	Durfee Median Improvement and Striping	\$ 195,000	\$ 122,121	\$ 72,879	\$ 1,474,961
480-02	Administration	60,080	30,530	29,550	18,685
	Total expenditures	\$ 255,080	\$ 152,651	\$ 102,429	\$ 1,493,646

See report of independent auditors.

City of South El Monte
Proposition C Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2018

Date Acquired	Description	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
05/27/1993	1993 Wagon	\$ 11,381	\$ -	\$ -	\$ 11,381
12/09/1993	Maco Bubble Top	3,150	-	-	3,150
12/09/1993	94 Aerotech 16 Passenger Van	38,204	-	-	38,204
12/09/1993	94 Aerotech 21 Passenger Van	41,744	-	-	41,744
02/04/1995	Diagnostic Computer	24,754	-	-	24,754
12/17/1997	Ricon Activan	39,919	-	-	39,919
06/30/2005	Garvey Avenue Pedestrian Safety Signal	45,620	-	-	45,620
06/30/2005	Michael Hunt to Merced Construction	95,259	-	-	95,259
06/30/2005	Garvey Reconstruction	531,299	-	-	531,299
06/03/2006	Durfee Street Improvement	455,245	-	-	455,245
10/31/2006	Santa Anita Avenue Phase I	376,843	-	-	376,843
10/27/2009	Peck/Durfee Project	749,529	-	-	749,529
Total		\$ 2,412,947	\$ -	\$ -	\$ 2,412,947

See report of independent auditors.

**City of South El Monte
Measure R Local Return Fund
Balance Sheets**

		June 30	
		2018	2017
ASSETS			
Cash and investments		\$ 340,915	\$ 514,691
	Total assets	\$ 340,915	\$ 514,691
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable		\$ -	\$ 6,000
	Total liabilities	-	6,000
Fund balance			
Restricted		340,915	508,691
	Total fund balance	340,915	508,691
	Total liabilities and fund balance	\$ 340,915	\$ 514,691

See notes to Funds financial statements.

City of South El Monte
Measure R Local Return Fund

Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2018	2017
Revenues		
Measure R	\$ 241,206	\$ 236,639
Investment income	1,015	1,752
Other reimbursements	-	94,000
Total revenues	242,221	332,391
Expenditures		
Various projects	409,997	227,359
Total expenditures	409,997	227,359
Excess (deficiency) of revenues over expenditures	(167,776)	105,032
Other financing source		
Transfer from General Fund	-	4,015
Total other financing source	-	4,015
Change in fund balance	(167,776)	109,047
Fund balance at beginning of year	508,691	399,644
Fund balance at end of year	\$ 340,915	\$ 508,691

See notes to Funds financial statements.

City of South El Monte
Measure R Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2018
(With Comparative Actuals for 2017)

Project Code	Project Name	2018			2017 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
2.16	Rush and Peck Protected Left Turn Phases	\$ -	\$ -	\$ -	1,308
2.16	Santa Anita & Klingerman Protected Left Turn Phase	23,170	1,918	21,252	-
2.16	Santa Anita & Rush Protected Left Turn Phases	23,430	1,918	21,512	-
2.16	Santa Anita & Central Protected Left Turn Phases	13,100	1,918	11,182	-
2.16	Durfee Median Improvement and Striping	-	-	-	52,000
2.16	Miramonte Sidewalk & ADA Ramp Project	-	-	-	10,001
2.16	Rush and Peck Signalization Project	32,000	2,013	29,987	-
2.29	Fern & Klingerman Street Rehabilitation Project	140,000	139,316	684	-
2.29	Street & Sidealk improvement & Maintenance	200,000	253,614	(53,614)	-
4.90	SR-60 Coalition Work	-	-	-	164,050
7.10	San Gabriel Valley Council of Governments	3,300	3,300	-	-
8.10	Fund Administration	6,310	6,000	310	-
Total expenditures		\$ 441,310	\$ 409,997	\$ 31,313	\$ 227,359

See report of independent auditors.

City of South El Monte
Measure R Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2018

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2018</u>
	None	\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See report of independent auditors.

City of South El Monte
Measure M Local Return Fund
Balance Sheet
June 30, 2018

ASSETS

Cash and investments		\$	212,033
	Total assets	\$	<u>212,033</u>

LIABILITIES AND FUND BALANCE

Liabilities			
Accounts payable		\$	-
	Total liabilities		<u>-</u>

Fund balance			
Restricted			212,033
	Total fund balance		<u>212,033</u>
	Total liabilities and fund balance	\$	<u>212,033</u>

See notes to Funds financial statements.

City of South El Monte
Measure M Local Return Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Year ended June 30, 2018

Revenues		
Measure M	\$	218,588
Investment income		10
	Total revenues	<u>218,598</u>
 Expenditures		
Various projects		<u>6,565</u>
	Total expenditures	<u>6,565</u>
Excess of revenues over expenditures		212,033
Fund balance at beginning of year		<u>-</u>
Fund balance at end of year	\$	<u>212,033</u>

See notes to Funds financial statements.

City of South El Monte
Measure M Local Return Fund
Supplementary Information

Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2018

Project Code	Project Name	LACMTA Budget	Actual	Variance Positive (Negative)
1.20	Safety Street Light Design from Santa Anita/Tyler to Fawcett	\$ 31,900	\$ 6,565	\$ 25,335
	Total expenditures	\$ 31,900	\$ 6,565	\$ 25,335

See report of independent auditors.

City of South El Monte
Measure M Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2018

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2018</u>
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See report of independent auditors.

City of South El Monte
 Transportation Development Act Article 3 Fund
 Pursuant to Public Utilities Code Section 99234
 Balance Sheets

		June 30	
		2018	2017
ASSETS			
Accounts receivable	\$	-	\$ 55
Total assets	\$	-	\$ 55
LIABILITIES AND FUND BALANCE			
Liabilities			
Cash overdraft	\$	-	\$ 55
Total liabilities		-	55
Fund balance			
Restricted		-	-
Total fund balance		-	-
Total liabilities	\$	-	\$ 55

See notes to Funds financial statements.

City of South El Monte
Transportation Development Act Article 3 Fund
Pursuant to Public Utilities Code Section 99234
Statements of Revenues, Expenditures and Changes in Fund Balance

		Years ended June 30	
		2018	2017
Revenues			
Intergovernmental Allocations:			
Article 3	\$	-	\$ 30,000
Total revenues		-	30,000
 Expenditures			
Construction/Maintenance		-	30,000
Total expenditures		-	30,000
Excess of revenues over expenditures		-	-
Fund balance at beginning of year		-	-
Fund balance at end of year	\$	-	-

See notes to Funds financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

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

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

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

MMLRF is derived from 17% of the county-wide ½ cent Measure M 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.

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

The PALRF, PCLRF, MRLRF, MMLRF and TDAA3F are reported as Special Revenue Funds of the City and are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become "susceptible to accrual", that is, measurable and available to finance expenditures of the current period. Expenditures are recorded when the liability is 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 based on budgets approved by LACMTA and are presented in accordance with accounting principles generally accepted in the United States of America.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurement

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, 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 Comprehensive Annual Financial Report for detailed disclosures regarding the City's investments policy and fair value measurement disclosures.

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, MMLRF and TDAA3F report the following fund balance classification as of June 30, 2018 and 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 the City's Comprehensive Annual Financial Report.

NOTE 2 ANNUAL FINANCIAL STATEMENTS

The financial statements reflect only the financial position and results of operations of the PALRF, PCLRF, MRLRF, MMLRF and TDAA3F, and do not purport to, and do not present fairly the City's financial position as of June 30, 2018 and 2017, 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.

NOTE 3 PROPOSITION A AND PROPOSITION C LOCAL RETURN COMPLIANCE REQUIREMENTS

The Proposition A Ordinance requires that Local Return (LR) funds be used exclusively to benefit public transit. Expenditures related to fixed route and paratransit services, Transportation Demand Management, Transportation Systems Management and fare subsidy programs that exclusively benefit transit are all eligible uses of Proposition A LR funds. Proposition A LR funds may also be traded with other Jurisdictions in exchange for general or other funds.

The Proposition C Ordinance directs that LR funds also be used to benefit public transit, as described above, but provides an expanded list of eligible project expenditures including Congestion Management Programs, bikeways and bike lanes, street improvements supporting public transit service, and Pavement Management System projects. Proposition C LR funds cannot be traded.

Proposition A and Proposition C LR funds must be expended within three years of the last day of the fiscal year in which funds were originally allocated.

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

NOTE 4 MEASURE R LOCAL RETURN COMPLIANCE REQUIREMENTS

The Measure R Ordinance specifies that LR funds be used exclusively for transportation purposes.

Measure R LR funds must be expended within five years of the first day of the fiscal year in which funds were originally allocated or received.

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

NOTE 5 MEASURE M LOCAL RETURN COMPLIANCE REQUIREMENTS

Measure M was approved by the voters of Los Angeles County on November 8, 2016 to improve transportation and ease traffic congestion consistent with the Los Angeles County Traffic Improvement Plan Ordinance approved by the Metro Board of Directors on June 23, 2016. The Measure M Ordinance specifies that LR funds be used exclusively for transportation purposes.

Measure M LR funds must be expended within five years of the first day of the fiscal year in which funds were originally allocated or received.

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

NOTE 6 TRANSPORTATION DEVELOPMENT ACT COMPLIANCE REQUIREMENTS

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

NOTE 7 CASH AND INVESTMENTS

The PALRF, PCLRF, MRLRF, MMLRF and TDAA3F 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.

Please refer to the City's Comprehensive Annual Financial Report (CAFR) for a full description of risks relating to cash and investments.

NOTE 8 PROFESSIONAL AND REIMBURSEMENT AGREEMENT – MRLRF

The Los Angeles County Metropolitan Transit Authority ("LACMTA") designed and constructed, in phases, a light rail project known as the Metro Gold Line. The LACMTA is currently evaluating potential alternatives for the second phase of the Metro Gold Line Eastside Extension. One of the alternative routes LACMTA is considering is "Alternative 1" aligned with State Highway 60.

In May 2009, the City entered into a professional services agreement with Mike Roos & Company ("Mike Roos"), under which Mike Roos will perform all services necessary to accomplish the City's goal of LACMTA's selection of Alternative 1. The term of the agreement was from May 13, 2009 to December 31, 2012. The agreement was amended on June 9, 2015 to extend the term to May 28, 2016. The agreement was further amended to extend the term to December 31, 2017. The City was contractually obligated to pay Mike Roos \$10,000 per month for fiscal year 2015-2016 and 2016-2017 on an as needed basis to compensate Mike Roos for all the services and normal and ordinary expenses incurred with such services.

Also, the City has entered into a reimbursement agreement with the Cities of Monterey Park, El Monte, Industry, Rosemead, and Montebello ("Cities") to support the selection of Alternative I. Each of the Cities shall reimburse the City one-fifth of the fees and costs incurred by the City pursuant to the professional services agreement dated May 5, 2009, as described in the previous paragraph.

Reimbursements recorded during the years ended June 30, 2018 and 2017 are as follows:

		2018		2017
City of El Monte	\$	-	\$	52,000
City of Industry		-		14,000
City of Montebello		-		14,000
City of Rosemead		-		14,000
Total	\$	-	\$	94,000

NOTE 9 TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND REVENUE ALLOCATION

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

		<u>2018</u>		<u>2017</u>
FY 2013/14 allocation	\$	-	\$	2,890
FY 2014/15 allocation		-		13,418
FY 2015/16 allocation		-		13,028
FY 2017/17 allocation		-		664
	\$	<u>-</u>	\$	<u>30,000</u>

NOTE 10 TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUNDS RESERVED

In accordance with TDA Article 3 (SB821) Guidelines, funds which will not be 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 LACMTA. As of June 30, 2018 and 2017, the City has funds on reserve as follows:

		<u>2018</u>		<u>2017</u>
FY 2016/17 allocation	\$	13,158	\$	13,158
FY 2017/18 allocation		13,567		-
	\$	<u>26,725</u>	\$	<u>13,158</u>

For FY 2017/18, any TDA Article 3 funds left on reserve for FY 2013/14 or prior, are subject to lapse if not claimed by the City by June 30, 2018. There were no funds that lapsed in FY 2017/18.

NOTE 11 SUBSEQUENT EVENTS

The City has evaluated subsequent events through December 27, 2018, the date the financial statements were available to be issued, and concluded no events have occurred that require disclosure or adjustments to the financial statements.

**Report of Independent Auditors 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 South El Monte, California and the
Los Angeles County Metropolitan Transportation Authority**

We have audited, in accordance with the 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, the Proposition C Local Return Fund, the Measure R Local Return Fund, the Measure M Local Return Fund and the Transportation Development Act Article 3 Fund (collectively, the Funds) of the City of South El Monte, California (the City) as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated December 27, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting described in the Schedule of Findings on Internal Control over Financial Reporting as Findings Nos. FS 2018-001 and FS 2018-002 that we consider to be material weaknesses.



Compliance and Other Matters

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

The City's Responses to the Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings on Internal Control over Financial Reporting. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the responses.

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 results of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**Glendale, California
December 27, 2018**

Finding No. FS 2018-001: Cash Management and Bank Reconciliation

Criteria

Section V of the Proposition A and Proposition C Local Return Guidelines, Section VII of the Measure R Local Return Guidelines and Section XXV of the Measure M Local Return Guidelines states that, "It is the jurisdictions' responsibility to maintain proper accounting records and documentation to facilitate the performance of the audit as prescribed in these Guidelines".

Condition

We noted during our audit that the City had not prepared its monthly bank reconciliation statements. The reconciliation of bank account balances with accounting records is a necessary element of an effective internal control system for cash. This process should be a routine procedure in the City's accounting process.

Internal control is key to ensuring that account balances are accurate so that financial positions of the City is accurate and the City's governing body can make informed decisions. The timely preparation of the monthly bank reconciliation statements enables management to detect and resolve any discrepancies and problems in the account balances within a reasonable period of time.

Cause and Effect

We learned that the City lost key employees in the finance and accounting department during the fiscal year 2018. As such, preparation of the monthly bank reconciliation statements was delayed as account balances are not properly adjusted. Delay in the preparation and review of the bank reconciliation statements can lead to the risk that discrepancies will not be detected or resolved in a timely manner, and also can lead to a higher risk of misappropriation.

Recommendation

Bank and cash reconciliations should be performed monthly to ensure accuracy and accountability for all cash transactions. The City should review its internal control procedures to determine what changes need to be made to ascertain bank accounts are always reconciled on a timely basis. Some changes to consider could be cross-training as well as developing relationships with consultants that could assist the accounting department when employee turnover occurs.

Views of Responsible Officials

The City of South El Monte agrees the bank and cash reconciliation are not performed in a timely manner. The City has taken actions to address this finding by opening a separate bank account to receive LACMTA funding. In addition, the City is in the process of hiring additional employees to help elevate the workflow.

Finding No. FS 2018-002: Year-end Closing Process

Criteria

Section V of the Proposition A and Proposition C Local Return Guidelines, Section VII of the Measure R Local Return Guidelines and Section XXV of the Measure M Local Return Guidelines states that, "It is the jurisdictions' responsibility to maintain proper accounting records and documentation to facilitate the performance of the audit as prescribed in these Guidelines".

Condition and Context

This year's closing process was delayed because some important procedures were not performed on time. These include reconciliation of major balance sheet accounts including bank accounts.

Cause and Effect

We learned that the City lost key employees in the finance and accounting department during the fiscal year 2018. As such, there was delay in the closing of the City's books for the fiscal year 2018. Currently, the accounting personnel and support do not have the institutional knowledge to ensure the books are updated and transactions are recorded correctly. These conditions resulted in delays in producing closing entries, trial balances, schedules, reconciliations, account analysis, and other financial reports needed by management and the auditors.

Recommendation

We recommend that the City establish and document proper closing and reconciliation procedures and assign responsibility for completing the procedures to specific City personnel. The closing procedures should be documented in a checklist that indicates who will perform each procedure and when completion of each procedure is due and is accomplished. The timing of specific procedures could be coordinated with the timing of management's or the auditor's need for the information. These reconciliations will provide assurance that financial statements are meaningful and accurate.

Views of Responsible Officials

The City of South El Monte agrees with this finding. The City is developing policies and procedures for the year end closing process and bank reconciliation process. In addition, the City is in the process of hiring additional employees to help elevate the workflow.

COMPLIANCE SECTION

Report of Independent Auditors on Compliance

**To the Honorable Members of the City Council of the
City of South El Monte, California and the
Los Angeles County Metropolitan Transportation Authority**

Report on Compliance

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

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on the City's compliance with the Guidelines based on our audit. We conducted our audit of compliance in accordance with the 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. Those standards and the Guidelines require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the Proposition A Local Return Program, Proposition C Local Return Program, Measure R Local Return Program, Measure M Local Return Program and Transportation Development Act Article 3 Program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion

In our opinion, the City of South El Monte, California complied, in all material respects, with the compliance requirements of the Guidelines for the year ended June 30, 2018.



Report on Internal Control over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with the requirements, such that there is a reasonable possibility that material noncompliance 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 might 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 requirements of the Guidelines. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Vaqueria & Company LLP".

**Glendale, California
December 27, 2018**

**City of South El Monte
Compliance Matrix
Year ended June 30, 2018**

Compliance Requirements	In Compliance			Questioned Costs	If no, provide details and management response.
	Yes	No	N/A		
A. Proposition A and Proposition C Local Return Funds					
1. Uses the State Controller's Uniform System of Accounts and Records.	X				
2. Timely use of funds.	X				
3. Funds expended were approved and have not been substituted for property tax.	X				
4. Expenditures that exceeded 25% of approved project budget have approved amended Project Description Form (Form A)	X				
5. Administrative expenses are within the 20% cap of the total annual Local Return Expenditures.	X				
6. All on-going and carryover projects were reported in Form B.	X				
7. Annual Project Summary Report (Form B) was submitted timely.	X				
8. Annual Expenditure Report (Form C) was submitted timely.	X				
9. Cash or cash equivalents are maintained.	X				
10. Accounting procedures, record keeping and documentation are adequate.	X				
11. Pavement Management System (PMS) in place and being used for Street Maintenance or Improvement Projects Expenditures.	X				
12. Local Return Account is credited for reimbursable expenditures.			X		
13. Self-Certification was completed and submitted for Intelligent Transportation Systems projects or elements.			X		
14. Assurances and Understandings form was on file.	X				
15. Recreational Transit Form was submitted timely.			X		

See report of independent auditors on compliance.

**City of South El Monte
Compliance Matrix
Year ended June 30, 2018**

Compliance Requirements	In Compliance			Questioned Costs	If no, provide details and management response.
	Yes	No	N/A		
B. Measure R Local Return Fund					
1. Funds were expended for transportation purposes.	X				
2. Funds were used to augment, not supplant, existing local revenues being used for transportation purposes unless there is a funding shortfall.	X				
3. Signed Assurances and Understandings on file.	X				
4. Separate Measure R Local Return Account was established.	X				
5. Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure R Local Return Account.	X				
6. Funds were expended with LACMTA's approval.	X				
7. Expenditure Plan (Form One) was submitted timely.	X				
8. Expenditure Report (Form Two) was submitted timely.	X				
9. Timely use of funds.	X				
10. Administrative expenses are within the 20% cap.	X				
11. Fund exchanges were approved by LACMTA.			X		
12. A separate account was established for Capital reserve funds and Capital reserve was approved by LACMTA.			X		
13. Recreational transit form was submitted timely.			X		

See report of independent auditors on compliance.

**City of South El Monte
Compliance Matrix
Year ended June 30, 2018**

Compliance Requirements	In Compliance			Questioned Costs	If no, provide details and management response.
	Yes	No	N/A		
C. Measure M Local Return Fund					
1. Funds were expended for transportation purposes.	X				
2. Funds were used to augment, not supplant, existing local revenues being used for transportation purposes unless there is a funding shortfall.	X				
3. Signed Assurances and Understandings on file.	X				
4. Separate Measure M Local Return Account was established.	X				
5. Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure M Local Return Account.	X				
6. Funds were expended with LACMTA's approval.	X				
7. Expenditure Plan (Form M-One) was submitted timely.	X				
8. Expenditure Report (Form M-Two) was submitted timely.	X				
9. Timely use of funds.	X				
10. Administrative expenses are within the 20% cap.			X		No administrative expenses were charged to MMLRF.
11. Fund exchanges were approved by LACMTA.			X		
12. A separate account was established for Capital reserve funds and Capital reserve was approved by LACMTA.			X		
13. Recreational transit form was submitted timely.			X		

See report of independent auditors on compliance.

**City of South El Monte
Compliance Matrix
Year ended June 30, 2018**

Compliance Requirements	In Compliance			Questioned Costs	If no, provide details and management response.
	Yes	No	N/A		
D. Transportation Development Act Article 3 Fund					
1. Timely use of funds.	X				
2. Expenditures were incurred for activities relating to pedestrian and bicycle facilities and amenities.			X		There were no expenditures in FY 2017/18.

See report of independent auditors on compliance.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**City of South El Monte
Schedule of Findings and Questioned Costs
Year ended June 30, 2018**

There were no findings noted.

EXIT CONFERENCE

An exit conference was held on December 20, 2018 with the City of South El Monte representatives. Those in attendance were:

Vasquez and Company LLP representative:
Marialyn Salvador – Audit Senior Manager

City of South El Monte representatives:
Carlos Carazzco – Finance Director
Angela Chiaromonte – Accounting Manager

Matters discussed:

Results of the audit disclosed no significant compliance issues. However, we identified certain deficiencies in internal control over financial reporting.

A copy of this report was forwarded to the following City of South El Monte representatives for comments prior to the issuance of the final report:

Carlos Carazzco – Finance Director
Angela Chiaromonte – Accounting Manager



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