



MetroTM

**City of Walnut
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 Year 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 Walnut, 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 Walnut, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.



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

Opinions

In our opinion, 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 Walnut, 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 Walnut, 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 26, 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.

Vasquez & Company LLP

**Glendale, California
December 26, 2018**

**City of Walnut
Proposition A Local Return Fund
Balance Sheets**

		June 30	
		2018	2017
ASSETS			
Cash and investments	\$	1,565,091	\$ 1,302,415
Total assets	\$	1,565,091	\$ 1,302,415
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	64,444	\$ 31,856
Accrued payroll and employee benefits		3,433	1,850
Total liabilities		67,877	33,706
Fund balance			
Restricted		1,497,214	1,268,709
Total fund balance		1,497,214	1,268,709
Total liabilities and fund balance	\$	1,565,091	\$ 1,302,415

See notes to Funds financial statements.

City of Walnut
Proposition A Local Return Fund
Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2018	2017
Revenues		
Proposition A	\$ 562,433	\$ 552,110
Interest income	8,053	15,045
Unrealized loss on investments	(5,541)	(802)
Total revenues	564,945	566,353
 Expenditures		
Various projects	336,440	246,157
Total expenditures	336,440	246,157
 Excess of revenues over expenditures	228,505	320,196
 Fund balance at beginning of year	1,268,709	948,513
 Fund balance at end of year	\$ 1,497,214	\$ 1,268,709

See notes to Funds financial statements.

City of Walnut
 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			2017 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
120-02	Dial-A-Cab	\$ 230,600	\$ 194,329	\$ 36,271	\$ 197,082
160-02	Bus Bench Replacement	13,500	13,490	10	-
250-02	Metrolink Subsidies	61,990	54,708	7,282	-
270-01	Council of Governments	4,530	4,530	-	-
290-02	Park and Ride Lot Maintenance	16,300	14,363	1,937	-
480-06	Administration	66,560	55,020	11,540	49,075
	Total expenditures	\$ 393,480	\$ 336,440	\$ 57,040	\$ 246,157

See report of independent auditors.

City of Walnut
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>
06/30/1993	Bus Shelters (10)	\$ 57,619	\$ -	\$ -	\$ 57,619
06/30/2001	Bus Shelter	12,410	-	-	12,410
11/26/2003	La Puente Parking Lot	337,270	-	-	337,270
01/26/2005	Bus Benches (6)	7,179	-	-	7,179
06/30/2007	Fencing	57,136	-	-	57,136
02/11/2015	Photo ID System	3,645	-	-	3,645
Total		\$ 475,259	\$ -	\$ -	\$ 475,259

See report of independent auditors.

**City of Walnut
Proposition C Local Return Fund
Balance Sheets**

		June 30	
		2018	2017
ASSETS			
Cash and investments	\$	393,900	\$ 1,214,033
Total assets	\$	393,900	\$ 1,214,033
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	4,530	\$ 130,849
Accrued payroll and employee benefits		-	1,747
Total liabilities		4,530	132,596
Fund balance			
Restricted		389,370	1,081,437
Total fund balance		389,370	1,081,437
Total liabilities and fund balance	\$	393,900	\$ 1,214,033

See notes to Funds financial statements.

City of Walnut
Proposition C Local Return Fund
Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2018	2017
Revenues		
Proposition C	\$ 464,877	\$ 459,583
Interest income	3,910	13,923
Unrealized loss on investments	(2,599)	(960)
Total revenues	466,188	472,546
Expenditures		
Various projects	1,158,255	282,026
Total expenditures	1,158,255	282,026
Excess (deficiency) of revenues over expenditures	(692,067)	190,520
Fund balance at beginning of year	1,081,437	890,917
Fund balance at end of year	\$ 389,370	\$ 1,081,437

See notes to Funds financial statements.

City of Walnut
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		Variance Positive (Negative)	2017 Actual
		LACMTA Budget	Actual		
140-08	Recreation Excursions	\$ 43,000	\$ 34,653	\$ 8,347	\$ 37,275
160-02	Bus Bench Replacement	-	-	-	12,690
160-04	Solar Light at Bus Stop	-	-	-	3,176
250-02	Metrolink Subsidies	-	-	-	55,402
270-01	Council of Governments	-	-	-	4,530
290-02	Park and Ride Lot Maintenance	-	-	-	12,794
440-04	Amar Road Street Resurfacing Project	1,125,000	1,012,639	112,361	112,361
440-05	Slurry Seal Area 6 Streets	70,000	66,963	3,037	-
480-06	Administration	-	44,000 *	(44,000)	43,798
Total expenditures		\$ 1,238,000	\$ 1,158,255	\$ 79,745	\$ 282,026

* See Compliance Matrix and Schedule of Findings and Questioned Costs.

See report of independent auditors.

**City of Walnut
Proposition C Local Return Fund
Supplementary Information
Schedule of Capital Assets**

<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>
07/01/1998	Park Benches (11)	\$ 4,701	\$ -	\$ -	\$ 4,701
06/30/2001	Streets - Traffic Signals	247,635	-	-	247,635
08/25/2004	Bus Benches (2)	2,989	-	-	2,989
12/14/2004	Bus Benches (10)	13,578	-	-	13,578
12/12/2005	Bus Bench	1,358	-	-	1,358
01/10/2007	Streets - Pavement	372,611	-	-	372,611
04/09/2008	Bus Benches (12)	21,863	-	-	21,863
03/25/2009	Bus Benches (8)	13,826	-	-	13,826
03/24/2010	Bus Shelters (12)	16,522	-	-	16,522
06/13/2012	Bus Lighting (6)	7,873	-	-	7,873
06/13/2012	Streets - Temple Resurfacing	769,449	-	-	769,449
12/10/2014	Amar Road Street Rehabilitation Project	250,000	-	-	250,000
06/30/2017	Amar Road Street Resurfacing Project	112,361	-	112,361	-
05/09/2018	Amar Road Street Resurfacing Project	-	1,125,000	-	1,125,000
Total		<u>\$ 1,834,766</u>	<u>\$ 1,125,000</u>	<u>\$ 112,361</u>	<u>\$ 2,847,405</u>

See report of independent auditors.

**City of Walnut
Measure R Local Return Fund
Balance Sheets**

		June 30	
		2018	2017
ASSETS			
Cash and investments		\$ 159,173	\$ 1,108,603
	Total assets	\$ 159,173	\$ 1,108,603
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable		\$ -	\$ 45,000
	Total liabilities	-	45,000
Fund balance			
Restricted		159,173	1,063,603
	Total fund balance	159,173	1,063,603
	Total liabilities and fund balance	\$ 159,173	\$ 1,108,603

See notes to Funds financial statements.

City of Walnut
Measure R Local Return Fund

Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2018	2017
Revenues		
Measure R	\$ 349,421	\$ 343,554
Interest income	3,420	12,278
Unrealized loss on investments	(2,271)	(596)
Total revenues	350,570	355,236
 Expenditures		
Various projects	1,255,000	45,000
Total expenditures	1,255,000	45,000
 Excess (deficiency) of revenues over expenditures	(904,430)	310,236
 Fund balance at beginning of year	1,063,603	753,367
 Fund balance at end of year	\$ 159,173	\$ 1,063,603

See notes to Funds financial statements.

City of Walnut
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)	
1.05	Amar Road Street Resurfacing Project	\$ 1,300,000	\$ 1,255,000	\$ 45,000	\$ 45,000
	Total expenditures	<u>\$ 1,300,000</u>	<u>\$ 1,255,000</u>	<u>\$ 45,000</u>	<u>\$ 45,000</u>

See report of independent auditors.

City of Walnut
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>
12/10/2014	Amar Road Street Rehabilitation	\$ 250,000	\$ -	\$ -	\$ 250,000
06/30/2017	Amar Road Street Resurfacing Project	45,000	-	45,000	-
05/09/2018	Amar Road Street Resurfacing Project	-	1,300,000	-	1,300,000
	Total	\$ 295,000	\$ 1,300,000	\$ 45,000	\$ 1,550,000

See report of independent auditors.

City of Walnut
Measure M Local Return Fund
Balance Sheet
June 30, 2018

ASSETS

Cash and investments		\$	58,716
	Total assets	\$	<u>58,716</u>

LIABILITIES AND FUND BALANCE

Liabilities

Due to other funds		\$	58,716
	Total liabilities		<u>58,716</u>

Fund balance

Restricted			-
	Total fund balance		<u>-</u>
	Total liabilities and fund balance	\$	<u>58,716</u>

See notes to Funds financial statements.

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

Revenues		
Measure M	\$	316,656
Interest income		228
Unrealized loss on investments		(163)
	Total revenues	<u>316,721</u>
Expenditures		
Various projects		<u>375,600</u>
	Total expenditures	<u>375,600</u>
Other funding source		
Operating transfer in		<u>58,879</u>
	Total other funding source	<u>58,879</u>
Excess of revenues over expenditures		-
Fund balance at beginning of year		<u>-</u>
Fund balance at end of year	\$	<u><u>-</u></u>

See notes to Funds financial statements.

City of Walnut
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)
1.05	Amar Road Street Resurfacing Project	\$ 375,600	\$ 375,600	\$ -
	Total expenditures	\$ 375,600	\$ 375,600	\$ -

See report of independent auditors.

City of Walnut
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>
05/09/2018	Amar Road Street Resurfacing Project	\$ -	\$ 375,600	\$ -	\$ 375,600
	Total	<u>\$ -</u>	<u>\$ 375,600</u>	<u>\$ -</u>	<u>\$ 375,600</u>

See report of independent auditors.

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

		June 30	
		2018	2017
ASSETS			
Due from LACMTA		\$ 20,060	\$ 38,910
	Total assets	\$ 20,060	\$ 38,910
LIABILITIES AND FUND BALANCE			
Liabilities			
Due to other funds		\$ 20,060	\$ 38,910
	Total liabilities	20,060	38,910
Fund balance			
Restricted		-	-
	Total fund balance	-	-
	Total liabilities and fund balance	\$ 20,060	\$ 38,910

See notes to Funds financial statements.

City of Walnut
 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	\$ 20,060	\$ 38,910
Total revenues	20,060	38,910
Expenditures		
Equestrian/Walking Trail Improvement	20,060	38,910
Total expenditures	20,060	38,910
Excess of revenues over expenditures	-	-
Fund balance at beginning of year	-	-
Fund balance at end of year	\$ -	\$ -

See notes to Funds financial statements.

City of Walnut
Transportation Development Act Article 3 Fund
Pursuant to Public Utilities Code Section 99234
Supplementary Information
Schedule of Transportation Development Act Allocation for Specific Projects
Year ended June 30, 2018

Project Description	Program Year	Totals to Date			Project Status
		Allocations	Expenditures	Unexpended Allocations	
Local Allocations:					
Equestrian/Walking Trail Improvement	2018	\$ 20,060	\$ 20,060	\$ -	Completed
Totals		\$ 20,060	\$ 20,060	-	
Fund balance at beginning of year				-	
Fund balance at end of year				\$ -	

See report of independent auditors.

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 Transportation Development Act Article 3 Fund (TDAA3F) (collectively, the Funds) 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.

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 TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND REVENUE ALLOCATION

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

		2018		2017
FY 2013/14 reserve	\$	-	\$	991
FY 2014/15 reserve		-		19,774
FY 2015/16 reserve		1,053		18,145
FY 2016/17 reserve		19,007		-
	\$	20,060	\$	38,910

NOTE 9 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:

		2018		2017
FY 2015/16 reserve	\$	-	\$	1,053
FY 2016/17 reserve		1,051		20,058
FY 2017/18 allocation		19,647		-
	\$	20,698	\$	21,111

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 10 SUBSEQUENT EVENTS

The City has evaluated subsequent events through December 26, 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 Walnut, 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 Walnut, 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 26, 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 City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits 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 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*.

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 26, 2018**

COMPLIANCE SECTION

Report of Independent Auditors on Compliance

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

Report on Compliance

We have audited the compliance of the City of Walnut, 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 Walnut, California complied, in all material respects, with the compliance requirements of the Guidelines for the year ended June 30, 2018.



Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with the requirements, which is described in the accompanying Schedule of Findings and Questioned Costs as Finding #2018-001. Our opinion 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 Questioned Costs. 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 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 or significant deficiencies 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 "Vagueny & Company LLP".

**Glendale, California
December 26, 2018**

**City of Walnut
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			Finding #2018-001
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 independents auditors on compliance.

**City of Walnut
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		No administrative expenses charged to MRLRF.
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 Walnut
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 fund 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 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 Walnut
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				

See report of independent auditors on compliance.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Walnut
Schedule of Findings and Questioned Costs
Year ended June 30, 2018

PCLRF: Finding #2018-001

Compliance Reference	Section 1(C) states that, "Jurisdiction shall submit for approval a Project Description Form prior to the expenditure of funds for: 1) a new project; 2) a new route; 3) a 25 percent change (increase or decrease) in route or revenue vehicle miles for an established LR Funded transit service; 4) a 0.75 miles or greater service change that duplicates/overlays an existing transit service; or 5) a 25 percent greater change in an approved LR project budget on all operating or capital LR projects."
Condition	<p>The City claimed expenditures under PCLRF Project code 480-06, Administrative costs, totaling \$44,000, with no prior approval from LACMTA.</p> <p>Although we found the expenditures for this project to be eligible for Proposition C Local Return funding, this project had no prior approval from LACMTA.</p> <p>The City submitted a Form A to the LACMTA Program Manager and obtained a retroactive approval of the said projects on September 17, 2018.</p>
Cause	The City concurs with the finding that Project Form A should have been submitted for prior approval on transit and capital project expenditures. The finding was caused by an oversight by City staff.
Effect	Proposition C Local Return funds were expended towards project expenditures without prior approval by the LACMTA.
Recommendation	We recommend for the City to establish procedures and controls to ensure that approval is obtained from LACMTA prior to spending on any Local Return-funded projects.
Management's Response	The City will ensure in the future that Project Form A's will be submitted for prior approval.
Finding Corrected During the Audit	LACMTA Program Manager granted a retroactive approval of projects' budget on September 17, 2018. No follow up is required.

EXIT CONFERENCE

An exit conference was held on December 26, 2018, with the City of Walnut representatives. Those in attendance were:

Vasquez and Company LLP representatives:
 Marialyn Salvador – Audit Senior Manager
 Emer Fabro – Audit Supervisor

City of Walnut representatives:
 Jessica Cortez – Finance Officer
 Karen Ogawa – Administrative Services Director

Matters discussed:

Results of the audit disclosed an instance of noncompliance with the Guidelines.

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

 Jessica Cortez – Finance Officer
 Karen Ogawa – Administrative Services Director



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Vasquez & Company LLP has over 45 years of experience in performing audit, accounting & consulting services for all types of nonprofit organizations, for-profit companies, governmental entities and publicly traded companies. Vasquez is a member of the RSM US Alliance. RSM US Alliance provides its members with access to resources of RSM US LLP. RSM US Alliance member firms are separate and independent businesses and legal entities that are responsible for their own acts and omissions, and each are separate and independent from RSM US LLP. RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Members of RSM US Alliance have access to RSM International resources through RSM US LLP but are not member firms of RSM International. Visit rsmus.com/about-us for more information regarding RSM US LLP and RSM International. The RSM™ logo is used under license by RSM US LLP. RSM US Alliance products and services are proprietary to RSM US LLP.