



Metro[™]

**City of Azusa
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, 2017 and 2016
with Report of Independent Auditors**

	<u>PAGE</u>
FINANCIAL SECTION	
Report of Independent Auditors	1
Proposition A Local Return Fund:	
Basic Financial Statements:	
Balance Sheets	4
Statements of Revenues, Expenditures and Changes in Fund Balance	5
Supplementary Information:	
Schedule of Expenditures – Actual and LACMTA Approved Project Budget	6
Schedule of Capital Assets	7
Proposition C Local Return Fund:	
Basic Financial Statements:	
Balance Sheets	8
Statements of Revenues, Expenditures and Changes in Fund Balance	9
Supplementary Information:	
Schedule of Expenditures – Actual and LACMTA Approved Project Budget	10
Schedule of Capital Assets	11
Measure R Local Return Fund:	
Basic Financial Statements:	
Balance Sheets	12
Statements of Revenues, Expenditures and Changes in Fund Balance	13
Supplementary Information:	
Schedule of Expenditures – Actual and LACMTA Approved Project Budget	14
Schedule of Capital Assets	15
Transportation Development Act Article 3 Fund:	
Basic Financial Statements:	
Balance Sheets	16
Statements of Revenues, Expenditures and Changes in Fund Balance	17
Supplementary Information:	
Schedule of Transportation Development Act Allocation for Specific Projects	18
Notes to Funds Financial Statements	19
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 <i>Government Auditing Standards</i>	26
COMPLIANCE SECTION	
Report of Independent Auditors on Compliance	28
Compliance Matrix	30
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	32
EXIT CONFERENCE	33

FINANCIAL SECTION

Report of Independent Auditors

To the Honorable Members of the City Council of the City of Azusa, 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 Azusa, California (the City) which comprise the Funds' balance sheets as of June 30, 2017 and 2016, and the related statements of revenues, expenditures and changes in fund balances for the years 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the 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 of the City of Azusa, California, as of June 30, 2017 and 2016, 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.

Other Matter

As discussed in Note 14, the fiscal year 2016 financial statements of Measure R Local Return Fund have been restated to remove interest expense on bond issuance from the Measure R Local Return Fund to the General Fund. Our opinion is not modified with respect to this matter.

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 and the Transportation Development Act Article 3 Fund of the City and do not purport to, and do not present fairly the financial position of the City as of June 30, 2017 and 2016, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Supplementary Information

Our 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 19, 2017 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.

Vaquero & Company LLP

**Los Angeles, California
December 19, 2017**

City of Azusa
Proposition A Local Return Fund
Balance Sheets

		June 30	
		2017	2016
ASSETS			
Cash and investments	\$	1,597,087	\$ 1,235,190
Accounts receivable		51,374	29,114
Interest receivable		3,924	675
Prepaid expense		249	-
Total assets	\$	<u>1,652,634</u>	\$ <u>1,264,979</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	27,172	\$ 19,601
Accrued payroll and employee benefits		22,570	23,617
Total liabilities		<u>49,742</u>	<u>43,218</u>
Deferred inflow of resources			
Unavailable revenue		23,352	-
Total deferred inflow of resources		<u>23,352</u>	<u>-</u>
Fund balance			
Restricted		1,579,540	1,221,761
Total fund balance		<u>1,579,540</u>	<u>1,221,761</u>
Total liabilities, deferred inflows of resources and fund balance	\$	<u>1,652,634</u>	\$ <u>1,264,979</u>

See notes to Funds financial statements.

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

	Years ended June 30	
	2017	2016
Revenues		
Proposition A	\$ 901,876	\$ 873,361
Proposition A Discretionary Incentive Program grant	42,778	83,942
Interest income	10,619	8,636
Project generated revenues	83,323	131,264
Other	10,078	14,869
Total revenues	1,048,674	1,112,072
 Expenditures		
Various projects	690,895	659,374
Total expenditures	690,895	659,374
 Excess of revenues over expenditures	 357,779	 452,698
 Fund balance at beginning of year	 1,221,761	 769,063
 Fund balance at end of year	 \$ 1,579,540	 \$ 1,221,761

See notes to Funds financial statements.

City of Azusa
 Proposition A Local Return Fund
 Supplementary Information
 Schedule of Expenditures – Actual and LACMTA Approved Project Budget
 Year ended June 30, 2017
 (With Comparative Actuals for 2016)

Project Code	Project Name	2017			2016 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
130-01	Demand Response	\$ 721,075	\$ 593,610	\$ 127,465	\$ 561,008
170-03	Transit Shelter Maintenance	45,000	19,555	25,445	19,555
480-01	Direct Administration	144,000	77,730	66,270	78,811
	Total expenditures	\$ 910,075	\$ 690,895	\$ 219,180	\$ 659,374

See report of independent auditors.

City of Azusa
Proposition A Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2017

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</u>
1992	5 Drawer Lateral File	\$ 771	\$ -	\$ -	\$ 771
1992	Training Video recorder	866	-	-	866
1993	2-Way Radios	9,411	-	-	9,411
1993	1993 Ford Collins #78-11 Passenger Vehicle	40,987	-	-	40,987
1994	1994 Ford Collins #79-11 Passenger Vehicle	40,987	-	-	40,987
1995	1995 Ford Collins #80-11 Passenger Vehicle	40,987	-	-	40,987
1996	HP LaserJet 4 Printer and Accessories	1,688	-	-	1,688
1996	HP Plain Paper Fax Machine	509	-	-	509
1996	GE 18 Cubic Foot Refrigerator	541	-	-	541
1996	46" RCA Television	1,623	-	-	1,623
1997	Bearcom Wireless-6 ea. Low Band 2-Way Radio	3,601	-	-	3,601
1997	5 Drawer Lateral File Cabinet	708	-	-	708
1997	"U" Shaped Workstation	592	-	-	592
1997	Lucent Technologies-Telephone Switch	16,950	-	-	16,950
1997	L&T Sink Co.	725	-	-	725
1997	Vega Audio/Radio Console	1,366	-	-	1,366
2001	1994 Ford Collins#79-11 Rebuild Transmission	2,948	-	-	2,948
2012	12 Starcraft Allstar 22' Unit # 42083	64,306	-	-	64,306
2012	12 Starcraft Allstar 22' Unit # 42084	64,306	-	-	64,306
Total \$		<u>293,872</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 293,872</u>

See report of independent auditors.

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

		June 30	
		2017	2016
ASSETS			
Cash and investments	\$	1,590,577	\$ 1,152,069
Accounts receivable		688	404
Interest receivable		3,930	645
Total assets	\$	1,595,195	\$ 1,153,118
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	10,300	\$ 47,468
Accrued payroll and employee benefits		71,088	15,911
Total liabilities		81,388	63,379
Fund balance			
Restricted		1,513,807	1,089,739
Total fund balance		1,513,807	1,089,739
Total liabilities and fund balance	\$	1,595,195	\$ 1,153,118

See notes to Funds financial statements.

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

	Years ended June 30	
	2017	2016
Revenues		
Proposition C	\$ 746,446	\$ 723,224
Interest income	10,210	12,016
Project generated revenues	22,760	43,695
Other revenues	98,544	-
Gain on disposal of asset	-	1,610
Total revenues	877,960	780,545
 Expenditures		
Various projects	453,892	1,523,984
Total expenditures	453,892	1,523,984
 Excess (deficiency) of revenues over expenditures	 424,068	 (743,439)
 Fund balance at beginning of year	 1,089,739	 1,833,178
 Fund balance at end of year	 \$ 1,513,807	 \$ 1,089,739

See notes to Funds financial statements.

City of Azusa
Proposition C Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2017
(With Comparative Actuals for 2016)

Project Code	Project Name	2017			2016 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
120-01	Metrolink Shuttle	\$ 343,520	\$ 182,827	\$ 160,693	\$ 193,482
140-01	Recreation and Special Events	30,000	24,620	5,380	25,200
250-01	Bus Pass Subsidy Program	142,000	112,017	29,983	135,220
270-03	Transportation Improvement Consultant	10,000	9,294	706	8,142
290-01	Transit Facility	30,000	-	30,000	1,018,239
300-01	Temporary Transit Administration and Fleet Facility	12,000	8,693	3,307	3,680
310-01	Parking Structure Maintenance	50,000	-	50,000	-
440-01	Street Improvement on Azusa Ave and San Gabriel Ave	87,490	-	87,490	-
470-01	Pavement Management System	59,070	53,727	5,343	36,565
480-02	Direct Administration	152,000	62,714	89,286	103,456
Total expenditures		\$ 916,080	\$ 453,892	\$ 462,188	\$ 1,523,984

See report of independent auditors.

City of Azusa
Proposition C Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2017

Date Acquired	Description	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
1996	96 Ford El Dorado-12 Passenger Van w/ Wheel Chair Lift	\$ 57,638	\$ -	\$ -	\$ 57,638
1997	HP Laserjet5 Printer and Accessories	1,689	-	-	1,689
1997	Jet Algo Pentium Computer	2,484	-	-	2,484
1997	Jet Algo Pentium Computer	2,484	-	-	2,484
1997	Lucent Technologies-Telephone Switch	11,609	-	-	11,609
1997	Infotelm/Base-Station Installed	2,484	-	-	2,484
1997	Shop Fire Door	586	-	-	586
1997	L&T Sink Cabinets	3,110	-	-	3,110
1997	Jet Algo Pentium II/333 Computer	2,003	-	-	2,003
1999	99 Ford Collins-World Trans Commuter 16 Passenger	58,894	-	-	58,894
2003	2005 Goshen GC11-CNG	51,527	-	-	51,527
2007	StarCraft Starlite Vehicle	22,326	-	-	22,326
2008	12 Radios	14,089	-	-	14,089
Total		\$ 230,923	\$ -	\$ -	\$ 230,923

See report of independent auditors.

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

		June 30	
		2017	(as restated) 2016
ASSETS			
Cash and investments	\$	4,223,203	\$ 4,944,336
Accounts receivable		50,576	2,947
Interest receivable		3,004	1,016
Total assets	\$	4,276,783	\$ 4,948,299
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	80,297	\$ 419,010
Accrued expenses		41,660	4,791
Accrued payroll and employee benefits		162	874
Total liabilities		122,119	424,675
Deferred inflow of resources			
Unavailable revenue		35,818	-
Total deferred inflow of resources		35,818	-
Fund balance			
Restricted - Total Road Improvement Program		3,512,735	3,513,493
Restricted		606,111	1,010,131
Total fund balance		4,118,846	4,523,624
Total liabilities, deferred inflows of resources and fund balance	\$	4,276,783	\$ 4,948,299

See notes to Funds financial statements.

City of Azusa
Measure R Local Return Fund

Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2017	(as restated) 2016
Revenues		
Measure R	\$ 561,197	\$ 543,651
Interest income	20,497	16,063
Other	11,176	-
Total revenues	592,870	559,714
 Expenditures		
Various projects	913,976	1,441,172
Total expenditures	913,976	1,441,172
 Deficiency of revenues over expenditures	(321,106)	(881,458)
 Debt service and other financing sources (uses)		
Proceeds from issuance of COP	-	3,738,899
Bond principal and interest payment	(83,672)	-
Total debt service and other financing sources (uses)	(83,672)	3,738,899
 Excess (deficiency) of revenues over expenditures and other financing sources (uses)	(404,778)	2,857,441
 Fund balance at beginning of year	4,523,624	1,666,183
 Fund balance at end of year	\$ 4,118,846	\$ 4,523,624

See notes to Funds financial statements.

City of Azusa
Measure R Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2017
(With Comparative Actuals for 2016)

Project Code	Project Name	2017			(as restated)
		LACMTA Budget	Actual	Variance Positive (Negative)	2016 Actual
1.05	Azusa Avenue Rehabilitation	\$ 80,000	\$ 79,347	\$ 653	\$ -
1.05	Staff	235,470	124,583	110,887	123,825
1.05	Street Repair and Maintenance - Street Division Operations	525,000	482,436	42,564	346,874
2.05	Traffic Signal Improvement and Modifications for Synchronization (TRIP)	227,460	208,608	18,852	226,265
5.20	Transportation Enhancements	-	-	-	718,232
7.90	Santa Fe Depot Rehabilitation	26,150	11,815	14,335	18,725
8.10	Fund Administration (20% Cap)	10,000	7,187	2,813	7,251
	Total expenditures	\$ 1,104,080	\$ 913,976	\$ 190,104	\$ 1,441,172

See report of independent auditors.

City of Azusa
Measure R Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2017

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</u>
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See report of independent auditors.

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

		June 30	
		2017	2016
ASSETS			
Cash		\$ -	\$ -
	Total assets	\$ -	\$ -
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable		\$ -	\$ -
	Total liabilities	-	-
Fund balance			
Restricted		-	-
	Total fund balance	-	-
	Total liabilities and fund balance	\$ -	\$ -

See notes to Funds financial statements.

City of Azusa
 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	
	2017	2016
Revenues		
Intergovernmental Allocations:		
TDA Article 3	\$ 34,640	\$ 7,757
Total revenues	34,640	7,757
Expenditures		
Various projects	34,640	7,757
Total expenditures	34,640	7,757
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 Azusa
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, 2017

Project Description	Program Year	Totals to Date			Project Status
		Allocations	Expenditures	Unexpended Allocations	
Local Allocations:					
Flashing Beacon Installation/Irwindale	2017	\$ 34,640	\$ 34,640	\$ -	Completed
	Totals	\$ 34,640	\$ 34,640	-	
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) and the 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 a county-wide ½ cent sales tax which is distributed to the jurisdictions within Los Angeles County based on a per capita basis and must be used exclusively for transportation purposes.

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, 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 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, and TDAA3F report the following fund balance classification as of June 30, 2017 and 2016:

- 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.

Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the City recognizes deferred outflows and deferred inflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period.

Deferred inflows of resources reported by the City represent resources that are not available for spending as of June 30, 2017 and 2016.

NOTE 2 ANNUAL FINANCIAL STATEMENTS

The financial statements reflect only the financial position and results of operations of the PALRF, PCLRF, MRLRF and TDAA3F, and do not purport to, and do not present fairly the City's financial position as of June 30, 2017 and 2016, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 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 6 CASH AND INVESTMENTS

The PALRF, PCLRF, MRLRF and TDAA3F cash balances were pooled with various other City funds for deposit and investment purposes. The share of each fund in the pooled cash account was separately maintained and interest income was apportioned to the participating funds based on the relationship of their average quarterly balances to the total of the pooled cash and investments.

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

NOTE 7 ACCOUNTS RECEIVABLE

Accounts receivable for the years ended June 30, 2017 and 2016 consisted of the following:

PALRF

	<u>2017</u>	<u>2016</u>
Los Angeles County - DPW	\$ 47,543	\$ 26,394
Clear Channel	2,751	2,325
Fees/riders fares	1,080	395
	<u>\$ 51,374</u>	<u>\$ 29,114</u>

MRLRF

	<u>2017</u>	<u>2016</u>
Bond Trustee	\$ 46,993	\$ -
City of Azusa	2,500	-
Employee receivable and advances	1,081	2,947
	<u>\$ 50,574</u>	<u>\$ 2,947</u>

NOTE 8 PROPOSITION A DISCRETIONARY GRANT

The Proposition A Discretionary Incentive Grant represents additional funds received from LACMTA for participating in the Voluntary NTD Program. The amounts received for the years ended June 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
FY 2013/14 Voluntary NTD Reporting Program Year	\$ 42,778	\$ -
FY 2012/13 Voluntary NTD Reporting Program Year	-	40,605
FY 2011/12 Voluntary NTD Reporting Program Year	-	43,337
	<u>\$ 42,778</u>	<u>\$ 83,942</u>

The Proposition A Discretionary Incentive Grants were recorded under PALRF.

NOTE 9 PROJECT GENERATED REVENUES

Project generated revenues for the years ended June 30, 2017 and 2016 consisted of the following:

PALRF

	<u>2017</u>	<u>2016</u>
County Dial-A-Ride	\$ 74,578	\$ 120,905
Fees/riders fares	8,745	10,359
	<u>\$ 83,323</u>	<u>\$ 131,264</u>

PCLRF

	<u>2017</u>	<u>2016</u>
Metrolink and bus pass sales	\$ 17,685	\$ 38,339
Fees/riders fares	5,075	5,356
	<u>\$ 22,760</u>	<u>\$ 43,695</u>

NOTE 10 OTHER REVENUES

Other revenues under PALRF for the years ended June 30, 2017 and 2016 consisted of the following:

PALRF

	<u>2017</u>	<u>2016</u>
Advertising fees	\$ 9,494	\$ 14,869
Insurance reimbursement	584	-
	<u>\$ 10,078</u>	<u>\$ 14,869</u>

PCLRF

	<u>2017</u>	<u>2016</u>
Gold Line lease	\$ 85,775	\$ -
Foothill Transit Park and Ride	12,574	-
Insurance reimbursement	195	-
	<u>\$ 98,544</u>	<u>\$ -</u>

MRLRF

	<u>2017</u>	<u>2016</u>
TRIP reimbursement from Bond Trustee	\$ 11,176	\$ -
	<u>\$ 11,176</u>	<u>\$ -</u>

NOTE 11 TOTAL ROAD IMPROVEMENT PROGRAM (TRIP) CERTIFICATES OF PARTICIPATION (COP), Series 2016

In March 2016, the City issued \$3,500,000 of Series 2016 Certificates of Participation (“COPs”) through the California Communities’ Total Road Improvement Program (TRIP) for the purpose of financing the design, acquisition, and construction of certain roadway and street improvement projects in the City of Azusa. The COPs are secured and payable solely from the City’s annual Local Measure R Sales Tax receipts. The interest rate on the COPs ranges from 2.0% to 5.0% with annual principal and interest payments ranging from \$226,144 to \$230,963. Principal and interest is payable each June 1 and December 1, commencing December 1, 2016; maturing on June 1, 2036. Proceeds from the issuance of COP was recorded under MRLRF.

On March 24, 2016, LACMTA approved the City’s Five-Year Capital Improvement Program that includes the projects for the use of the MRLRF in connection with the TRIP Financing Program as described above.

The following is the capital reserve balance for the TRIP project:

Proceeds from issuance of COP	\$	3,738,899
Add: Investment income allocated during FY 2016		859
Less: Cost of issuance of COP		<u>(226,265)</u>
Capital reserve balance at June 30, 2016		3,513,493
Add: Investment income allocated during FY 2017		10,582
Less: Cost of issuance of COP		<u>(11,340)</u>
Capital reserve balance at June 30, 2017	\$	<u><u>3,512,735</u></u>

NOTE 12 TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND REVENUE ALLOCATION

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

		<u>2017</u>		<u>2016</u>
FY 2012/13 allocation	\$	<u>34,640</u>	\$	<u>7,377</u>
FY 2013/14 allocation		<u>-</u>		<u>380</u>
	\$	<u><u>34,640</u></u>	\$	<u><u>7,757</u></u>

NOTE 13 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, 2017 and 2016, the City has funds on reserve as follows:

	2017	2016
FY 2012/13 reserve	\$ -	\$ 34,640
FY 2013/14 reserve	38,566	38,566
FY 2014/15 reserve	15,838	15,838
FY 2015/16 reserve	30,838	30,838
FY 2016/17 allocation	32,755	-
	\$ 117,997	\$ 119,882

For FY 2016/17, any TDA Article 3 funds left on reserve for FY 2012/13 or prior, are subject to lapse if not claimed by the City by June 30, 2017. There were no funds that lapsed in FY 2016/17.

NOTE 14 RESTATEMENT OF 2016 MRLRF FINANCIAL STATEMENTS

The 2016 financial statements of MRLRF financial statements were restated to remove from MRLRF the bond interest expense recognized in the City's General Fund during the fiscal year 2015/16.

	Balance, as previously reported	Adjustment	Balance, as restated
Accrued expenses	\$ 18,629	\$ (13,838)	\$ 4,791
Expenditures	1,455,010	(13,838)	1,441,172
Fund balance - Restricted - TRIP Program	3,499,655	13,838	3,513,493

NOTE 15 SUBSEQUENT EVENTS

The City has evaluated subsequent events through December 19, 2017, 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 Azusa, 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 and the Transportation Development Act Article 3 Fund (collectively, the Funds) of the City of Azusa, California (the City) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, and have issued our report thereon dated December 19, 2017.

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. 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, 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.

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

**Los Angeles, California
December 19, 2017**

COMPLIANCE SECTION

Report of Independent Auditors on Compliance

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

Report on Compliance

We have audited the compliance of the City of Azusa, California (the City) with the Proposition A and Proposition C Local Return Guidelines, Measure R Local Return Guidelines, Transportation Development Act Article 3, and the Los Angeles County Metropolitan Transportation Authority's Funding and Allocation Guidelines for Transportation Development Act Article 3 Bicycle and Pedestrian Funds (collectively, the Guidelines) for the year ended June 30, 2017.

Management's Responsibility

Management is responsible for the City's compliance with 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, 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 Azusa, California complied, in all material respects, with the compliance requirements of the Guidelines for the year ended June 30, 2017.



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 "Vagueney & Company LLP". The signature is written in a cursive, flowing style.

**Los Angeles, California
December 19, 2017**

**City of Azusa
Compliance Matrix
Year ended June 30, 2017**

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 on time.	X				
8. Annual Expenditure Report (Form C) was submitted on time.	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 on time.	X				

See report of independent auditors on compliance.

**City of Azusa
Compliance Matrix
Year ended June 30, 2017**

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 on time.	X				
8. Expenditure Report (Form Two) was submitted on time.	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 on time.			X		
C. 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

There were no findings noted.

EXIT CONFERENCE

An exit conference was held on December 19, 2017 with the City of Azusa representative. Those in attendance were:

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

City of Azusa representative:
Henry Quintero – Senior Accountant

Matters discussed:

Results of the audit disclosed no significant compliance or financial statement issues.

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

Talika Johnson – Finance Director
Henry Quintero – Senior Accountant



www.vasquezcpa.com

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](http://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.

801 South Grand Avenue, Suite 400 • Los Angeles, California 90017-4646 • Ph. (213) 873-1700 • Fax (213) 873-1777