

CITY OF WESTMORLAND, CALIFORNIA

MEASURE D SALES TAX FUND

**Financial Statements and
Other Information with
Independent Auditors' Reports**

For the year ended June 30, 2016

CITY OF WESTMORLAND, CALIFORNIA

**Measure D Sales Tax Fund
For the Year Ended June 30, 2016**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Imperial County Local Transportation Authority
El Centro, California

Report on the Financial Statements

We have audited the accompanying statement of revenues and allowable expenditures of the Measure D Sales Tax Fund of the City of Westmorland, California (City) for the year ended June 30, 2016, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on this financial statement 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 statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement 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 statement.

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

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues and allowable expenditures of the Measure D Sales Tax Fund of the City for the year ended June 30, 2016, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The statement of revenues and allowable expenditures presents only the activity of Measure D Sales Tax Fund and does not purport to, and does not, present fairly the financial position of the City of Westmorland, California, as of June 30, 2016, the changes in its financial position, or where applicable, its cash flows for the year 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the statement of revenues and allowable expenditures of the Measure D Sales Tax Fund of the City. The other information, on pages 12 through 16 is presented for purposes of additional analysis and is not a required part of the financial statements. The other information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2017, on our consideration of the City's internal control over financial reporting over the statement of revenues and allowable expenditures and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



San Diego, California
January 26, 2017

FINANCIAL STATEMENT

**CITY OF WESTMORLAND, CALIFORNIA
MEASURE D SALES TAX FUND**

**STATEMENT OF REVENUES AND ALLOWABLE EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2016**

Revenues:	
Sales tax revenue	\$ 239,771
Interest revenue	1
Other revenue	<u>4,450</u>
Total Revenues	<u>244,222</u>
Expenditures:	
Current:	
Road repairs and maintenance	<u>24,177</u>
Excess revenues over allowable expenditures	<u><u>\$ 220,045</u></u>

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

**CITY OF WESTMORLAND, CALIFORNIA
MEASURE D SALES TAX FUND**

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Imperial County Local Transportation Authority

The Imperial County Local Transportation Authority (the Authority) was created to implement the Imperial County Local Transportation Authority Retail Transactions and Use Tax Ordinance which was adopted by the electorate on November 4, 2008. The tax is imposed in accordance with the provisions of Part 1.6 (commencing with Section 7251) of Division 2 of the Revenue and Taxation Code and Division 19 of the Public Utilities Code (Code Section 180000). The purpose of this ordinance was to allow the Authority to issue bonds payable from the enactment of a one half of one percent sales tax for a period of forty years. The proceeds of this tax are first allocated to the monthly debt service payments of the bonds, then to the County of Imperial and the member agencies for local street road purposes. Also, a portion of the tax revenues would be used for administration, transit services, and state highway purposes.

The funds that are generated by implementation of the Imperial County Transportation Authority Retail Transactions and Use Tax Ordinance are intended to supplement and not to replace existing local revenues used for transportation purposes.

The Authority consists of the following member agencies:

- 1) City of Brawley
- 2) City of Calexico
- 3) City of Calipatria
- 4) City of El Centro
- 5) City of Holtville
- 6) City of Imperial
- 7) City of Westmorland
- 8) County of Imperial

The members of the Board of the Authority consist of one member of the City Council of each incorporated city of Imperial County and two members of the Board of Supervisors of Imperial County. The members serve staggered terms with no term exceeding a four year period. The chairman and vice-chairman of the Board of the Authority are elected annually in June.

Compliance requirements of the Imperial County Local Transportation Authority

Each member agency is required to comply with the By-Laws of the Imperial County Local Transportation Authority and the Imperial County Local Transportation Authority Retail Transactions and Use Tax Ordinance and Transportation Authority Expenditure Plan.

Fund accounting

Fund accounting is designed to demonstrate local compliance and to aid financial management by segregating transactions related to certain government functions or activities. The City of Westmorland has an established special revenue fund to account for revenues and expenditures related to Ordinance 1-2008.

**CITY OF WESTMORLAND, CALIFORNIA
MEASURE D SALES TAX FUND**

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE B – BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, the Measure D Sales Tax Fund presents increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses).

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). Measureable means the amount of the transaction can be determined and “available” means within the current period or soon enough thereafter to be used to pay liabilities of the current period. Generally, revenues are considered available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred.

Ordinance No. 1-2008, The Imperial County Local Transportation Authority Retail Transactions and Use Tax Ordinance and Expenditure Plan, between the City of Westmorland and the Imperial County Local Transportation Authority dated July 27, 2008 requires the schedule of revenues and allowable expenditures be reported in conformity with the terms of the agreement. The City uses the modified accrual basis of accounting to record the revenues and expenditures related to this ordinance.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – RESTRICTION OF NET REVENUES

The revenues in excess of expenditures reported on the financial statement are restricted for future expenditures authorized by Ordinance No. 1-2008.

OTHER REPORTS



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS AND MEASURE D COMPLIANCE REQUIREMENTS**

Board of Directors
Imperial County Local Transportation Authority
El Centro, California

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 statement of revenues and allowable expenditures of the Measure D Sales Tax Fund of the City of Westmorland, California (City), for the year ended June 30, 2016, and the related notes to the financial statement, and have issued our report thereon dated January 26, 2017. Our report included an emphasis of matter stating that the financial statement of the Measure D Sales Tax Fund does not purport to, and does not, present fairly the financial statements of the City as of June 30, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 entity'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. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2016-001 and 2016-002 to be material weaknesses.

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. We consider the deficiencies described in the accompany schedule of findings and responses as item 2016-003 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statement of the Measure D Sales Tax Fund of the City is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements including the requirements of Measure D matters as specified in the Imperial County Local Transportation Authority Retail Transactions and Use Ordinance No. 1-2008 (Ordinance), noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance, which are required to be reported under *Government Auditing Standards* and in accordance with the Ordinance and which are described in the accompanying schedule of findings and responses as items 2016-001 and 2016-003.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



San Diego, California
January 26, 2017

**CITY OF WESTMORLAND, CALIFORNIA
MEASURE D SALES TAX FUND**

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2016**

Finding 2016-001

ALLOCATION OF INTEREST EARNED ON MEASURE D CASH AND INVESTMENTS

Criteria:

The *Imperial County Local Transportation Authority Retail Transactions and Use Tax Expenditure Plan (Plan)*, Section 9, states interest earned on funds allocated pursuant to this Ordinance shall be expended only for those purposes for which the funds were allocated.

Condition:

During our testing of revenues, it was noted that the City did not equitably allocate interest revenue to the Measure D Sales Tax Fund during the year.

Context:

In January 2016 a separate bank account was created and funded with \$141,815 that was recorded in the Measure D Sales Tax Fund. The remaining cash balance recorded in the fund is \$893,125, which was pooled with other City cash.

Effect:

The City did not comply with Section 9 of the Plan.

Cause:

The City did not maintain policies and procedures to ensure interest revenue was equitably allocated to the Measure D Sales Tax Fund.

Recommendation:

We recommend that the City implement procedures to allocate interest revenue equitably to the Measure D Sales Tax Fund.

View of Responsible Official and Planned Corrective Action:

Corrective Action Plan:

The City has contacted an independent accountant to assist the City with tracking the interest earned on the Measure D monies, which will begin in early 2017.

**CITY OF WESTMORLAND, CALIFORNIA
MEASURE D SALES TAX FUND**

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2016**

Finding 2016-002

BANK RECONCILIATIONS

Criteria:

The City of Westmorland should ensure that bank reconciliations are performed timely and accurately.

Condition:

During our testing, we noted that monthly bank reconciliations for the City's pooled cash and investment accounts were only performed for one bank account. The remaining cash accounts were not reconciled by the City.

Context:

The condition noted above was identified during testing of cash and investment balances.

Effect:

The City's internal control is weakened by not performing bank reconciliations for all cash balances.

Cause:

The City did not maintain procedures to ensure that the bank reconciliations were properly prepared.

Recommendation:

We recommend strengthening procedures to ensure the bank reconciliations are performed completely.

View of Responsible Official and Planned Corrective Action:

Corrective Action Plan:

The City's Treasurer and Clerk will be working with an independent accountant to better improve the City's bank reconciliation process.

**CITY OF WESTMORLAND, CALIFORNIA
MEASURE D SALES TAX FUND**

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2016**

Finding 2016-003

Unallowable Expenditures

Criteria:

The *Imperial County Local Transportation Authority Retail Transactions and Use Tax Expenditure Plan (Plan)*, Section 4, states the revenues received by the Authority pursuant to the adoption of this Measure, shall be used to improve transportation and transit. Section 5, states each Local Agency shall annually then develop a five-year list of projects to be funded with revenues made available under Section 4.

Condition:

During our testing of expenditures, we noted Measure D revenues were used for payroll related costs. The City was unable to provide a nexus between the costs and the City's projects listed in the City's 5 year list of projects.

Context:

The condition was noted during our testing of expenditures and Section 4 & 5 of the Plan. The amount related to the exceptions noted in the condition above was \$600.

Effect:

The City did not comply with Section 4 & 5 of the Plan.

Cause:

The City did not maintain policies and procedures to ensure Measure D revenues are used for allowable expenditures and only for projects that are listed in the City's 5 year list of projects.

Recommendation:

We recommend that the City implement procedures to ensure Measure D revenues are used only for expenditures related to the improvement of transportation and transit that are allowable under the plan, and the revenues are used only for projects approved in the City's 5 year list of projects.

View of Responsible Official and Planned Corrective Action:

Corrective Action Plan:

The City has communicated to their Public Works Department that their employees are to document on their timesheets the streets and activities that were performed as they relate to Measure D projects.

**CITY OF WESTMORLAND, CALIFORNIA
MEASURE D SALES TAX FUND**

**SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2016**

<u>Finding No.</u>	<u>Description</u>	<u>Status</u>
2015-001	Allocation of Interest Earned on Measure D Cash and Investments	Partially Implemented, See Finding 2016-001

OTHER INFORMATION

**CITY OF WESTMORLAND, CALIFORNIA
MEASURE D SALES TAX FUND**

**SCHEDULE OF ASSETS, LIABILITIES AND FUND BALANCE
JUNE 30, 2016**

Assets:	
Cash and cash equivalents	<u>\$ 1,008,420</u>
Total Assets	<u><u>\$ 1,008,420</u></u>
Liabilities and Fund Balance:	
Liabilities:	
Accounts payable	<u>\$ 136</u>
Fund Balance:	
Restricted:	
Road repairs and maintenance	<u>1,008,284</u>
Total Liabilities and Fund Balance	<u><u>\$ 1,008,420</u></u>

**CITY OF WESTMORLAND, CALIFORNIA
MEASURE D SALES TAX FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2016**

Revenues:	
Sales tax	\$ 253,641
Interest	1
Other revenue	<u>4,450</u>
Total Revenues	<u>258,092</u>
 Expenditures:	
Current:	
Road repairs and maintenance	<u>24,177</u>
 Net Change in Fund Balance	233,915
 Restricted Fund Balance, Beginning of Year as restated	<u>774,369</u>
Restricted Fund Balance, End of Year	<u><u>\$ 1,008,284</u></u>

**CITY OF WESTMORLAND, CALIFORNIA
MEASURE D SALES TAX FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budget</u>	<u>Actual</u>	<u>Variance-Over (Under)</u>
Revenues:			
Revenues	\$ 278,200	\$ 253,641	\$ (24,559)
Interest	-	1	1
Other revenue	-	4,450	4,450
Total Revenues	<u>278,200</u>	<u>258,092</u>	<u>(20,108)</u>
Expenditures:			
Current:			
Road repairs and maintenance	<u>56,362</u>	<u>24,177</u>	<u>32,185</u>
Net Change in Fund Balance	221,838	233,915	12,077
Restricted Fund Balance, Beginning of Year as restated	<u>774,369</u>	<u>774,369</u>	<u>-</u>
Restricted Fund Balance, End of Year	<u><u>\$ 996,207</u></u>	<u><u>\$ 1,008,284</u></u>	<u><u>\$ 12,077</u></u>

**CITY OF WESTMORLAND, CALIFORNIA
MEASURE D SALES TAX FUND**

**RECONCILIATION OF THE SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE TO THE STATEMENTS
OF REVENUES AND ALLOWABLE EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2016**

Revenues:

Sales tax - Schedule	\$ 253,641
May and June 2015 sales tax received in 2015-2016	(56,274)
May and June 2016 sales tax received in 2016-2017	<u>42,404</u>
Sales tax - Statement of Revenues and Allowable Expenditures	<u><u>\$ 239,771</u></u>

**CITY OF WESTMORLAND, CALIFORNIA
MEASURE D SALES TAX FUND**

**FIVE YEAR PROGRAM OF PROJECTS
JUNE 30, 2016**

<u>ROAD</u>	<u>FROM</u>	<u>TO</u>	<u>PROJECT DESCRIPTION</u>
S.Center Street	SR 86	Baughman Rd	Traffic Calming
N. Center Street	SR 86	7th Street	Rehabilitation
N. Center Street	7th Street	8th Street	Reconstruction
1st Street	S. Center Street	F Street	Rehabilitation
1st Street	S. Center Street	C Street	Maintenance
1st Street	H Street	G Street	Rehabilitation
2nd Street	G Street	S. Center Street	Maintenance
3rd Street	F Street	S. Center Street	Maintenance
5th Street	G Street	B Street	Maintenance
5th Street	H Street	west end of street	Repair/Maintenance
G Street	6th Street	7th Street	Rehabilitation
6th Street	F Street	N. Center Street	Reconstruct
6th Street	H Street	west end of street	Repair/Maintenance
7th Street	N.Center	H Street	Minor / Maint
7th Street	H Street	Martin Rd	Rehabilitation
7th Street	D Street	Center Street	Reconstruction
8th Street	J Street	H Street	Reconstruction
8th Street	Center Street	150' E. of D St.	Repair/Maintenance
B Street	SR86	7th Street	Reconstruction
B Street	3rd Street	SR86	Reconstruction
C Street	SR 86	7th Street	Repair/Maintenance
D Street	7th Street	8th Street	Repair/Maintenance
F Street	SR86	5th Street	Reconstruction
F Street	6th Street	7th Street	Reconstruction
G Street	SR 86	3rd Street	Rehabilitation
H Street	5th Street	SR 86	Reconstruction
H Street	7th Street	8th Street	Reconstruction
J Street	7th Street	8th Street	Repair/Maintenance
Jauregui Street	G Street	End of Cul-de-sac	Repair/Maintenance
Sundance	J Street	End of Cul-de-sac	Repair/Maintenance