

***CITY OF PALMDALE
ANNUAL FINANCIAL REPORT OF THE
PROPOSITION A LOCAL RETURN FUND
PROPOSITION C LOCAL RETURN FUND
MEASURE R LOCAL RETURN FUND
TRANSPORTATION DEVELOPMENT ACT
ARTICLE 3 FUND
TRANSPORTATION DEVELOPMENT ACT
ARTICLE 8 FUND
FOR THE FISCAL YEARS ENDED
JUNE 30, 2016 AND 2015***



Metro[®]



Simpson & Simpson, LLP
Certified Public Accountants

CITY OF PALMDALE
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FINANCIAL SECTION



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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Proposition A Local Return Fund (PALRF), Proposition C Local Return Fund (PCLRF), Measure R Local Return Fund (MRLRF), Transportation Development Act Article 3 Fund (TDAA3F) and Transportation Development Act Article 8 Fund (TDAA8F) of the City of Palmdale, California (City) as of and 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.

Auditor's 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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





Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the PALRF, PCLRF, MRLRF, TDAA3F, and TDAA8F of the City of Palmdale, California, as of June 30, 2016, and the respective changes in their financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of the PALRF, PCLRF, MRLRF, TDAA3F, and TDAA8F as of and for the year ended June 30, 2015, before the financial statements of Proposition C Local Return Fund and Measure R Local Return Fund were restated for the matter discussed in Note 7, were audited by other auditors, whose report, dated March 8, 2016, expressed an unmodified opinion on those statements.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the PALRF, PCLRF, MRLRF, TDAA3F, and TDAA8F and do not purport to, and do not, present fairly the financial position of the City of Palmdale, California, as of June 30, 2016 and 2015, and the changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Palmdale, California's PALRF, PCLRF, MRLRF, TDAA3F, and TDAA8F Fund financial statements as a whole. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects, in relation to the financial statements as a whole.



Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated December 22, 2016, on our consideration of the City of Palmdale's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance

A handwritten signature in black ink, appearing to read 'Simpson & Simpson'.

Los Angeles, California
December 22, 2016

CITY OF PALMDALE

PROPOSITION A LOCAL RETURN FUND

BALANCE SHEETS

JUNE 30

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and investments	\$ 4,459,790	\$ 4,299,498
Interest receivable	<u>8,137</u>	<u>4,846</u>
Total assets	<u>\$ 4,467,927</u>	<u>\$ 4,304,344</u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 18,092	\$ -
Due to general fund	39,006	-
Wages payable	<u>2,382</u>	<u>11,107</u>
Total liabilities	<u>59,480</u>	<u>11,107</u>
 Fund Balance		
Restricted	<u>4,408,447</u>	<u>4,293,237</u>
Total fund balance	<u>4,408,447</u>	<u>4,293,237</u>
 Total liabilities and fund balance	<u>\$ 4,467,927</u>	<u>\$ 4,304,344</u>

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

CITY OF PALMDALE

PROPOSITION A LOCAL RETURN FUND

**STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE**

For the Fiscal Years Ended June 30

	<u>2016</u>	<u>2015</u>
REVENUES		
Proposition A	\$ 2,809,648	\$ 2,732,994
Interest income	39,000	29,828
Unrealized gain	<u>10,583</u>	<u>-</u>
Total revenues	<u>2,859,231</u>	<u>2,762,822</u>
EXPENDITURES		
Various projects	<u>2,744,021</u>	<u>2,352,953</u>
Total expenditures	<u>2,744,021</u>	<u>2,352,953</u>
Excess of revenues over expenditures	115,210	409,869
Fund balance at beginning of year	<u>4,293,237</u>	<u>3,883,368</u>
Fund balance at end of year	\$ <u><u>4,408,447</u></u>	\$ <u><u>4,293,237</u></u>

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

CITY OF PALMDALE

PROPOSITION A LOCAL RETURN FUND

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES

ACTUAL AND METRO APPROVED PROJECT BUDGET

For the Fiscal Year Ended June 30, 2016

(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2015)

Project Code	Project Name	2016		Variance Favorable (Unfavorable)	2015 Actual
		Metro Budget	Actual		
110-01	AVTA (City Contribution to O&M)	\$ 2,104,640	\$ 1,904,885	\$ 199,755	\$ 2,000,552
140-01	Recreational Transit Services	25,000	17,434	7,566	17,463
180-01	New Vehicles/Parts, Repairs & Equipment Replacement	1	-	1	-
230-04	Park and Ride Security	76,250	60,838	15,412	55,657
230-05	PTC Security Cameras	100,000	95,474	4,526	-
270-01	HSR Station Planning	200,000	11,181	188,819	-
270-02	Multimodal Transit Facility Study	1	-	1	-
270-15	North County ITS Forum	750,000	599,009	150,991	228,003
290-04	Park and Ride Lot Improvement	200,000	-	200,000	3,237
310-20	Palmdale Transportation Center Wayfinding Signage	63,450	55,200	8,250	48,041
Total expenditures		<u>\$ 3,519,342</u>	<u>\$ 2,744,021</u>	<u>\$ 775,321</u>	<u>\$ 2,352,953</u>

Note: Of the total FY 2016 actual expenditures above, \$1,983,156 were transferred to the City's General Fund and were spent on approved Proposition A projects as listed above.

See accompanying independent auditor's report.

CITY OF PALMDALE

PROPOSITION A LOCAL RETURN FUND

**SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS**

June 30, 2016

<u>Date Acquired</u>	<u>Description</u>	<u>Balance 7/1/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2016</u>
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See accompanying independent auditor's report.

CITY OF PALMDALE

PROPOSITION C LOCAL RETURN FUND

BALANCE SHEETS

JUNE 30

			as restated
		2016	2015
ASSETS			
Cash and investments	\$	4,334,081	\$ 4,971,067
Due from LACMTA		3,651,326	372,608
Interest receivable		7,977	5,602
Other receivable		69,005	-
Total assets	\$	<u>8,062,389</u>	<u>\$ 5,349,277</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	1,023,218	\$ 42,875
Retention payable		392,947	-
Wages payable		347	956
Total liabilities		<u>1,416,512</u>	<u>43,831</u>
Deferred Inflow of Resources			
Unavailable revenue (Note 8)	\$	<u>3,651,326</u>	<u>\$ 86,607</u>
Total deferred inflow of resources		<u>3,651,326</u>	<u>86,607</u>
Fund Balance			
Restricted		<u>2,994,551</u>	<u>5,218,839</u>
Total fund balance		<u>2,994,551</u>	<u>5,218,839</u>
Total liabilities, deferred inflow of resources and fund balance	\$	<u>8,062,389</u>	<u>\$ 5,349,277</u>

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

CITY OF PALMDALE

PROPOSITION C LOCAL RETURN FUND

**STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE**

For the Fiscal Years Ended June 30

	2016	as restated 2015
REVENUES		
Proposition C	\$ 2,301,289	\$ 2,240,583
Proposition C 25% Call for Projects Grant	1,682,752	2,542,061
Interest income	41,441	27,542
Unrealized gain	10,568	810
Total revenues	<u>4,036,050</u>	<u>4,810,996</u>
EXPENDITURES		
Various projects funded by PCLRF	1,012,271	887,637
Various projects funded by Call for Projects Grant	<u>5,248,067</u>	<u>1,596,338</u>
Total expenditures	<u>6,260,338</u>	<u>2,483,975</u>
Excess (deficiency) of revenues over expenditures	(2,224,288)	2,327,021
Fund balance at beginning of year	<u>5,218,839</u>	<u>2,891,818</u>
Fund balance at end of year	\$ <u><u>2,994,551</u></u>	\$ <u><u>5,218,839</u></u>

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

CITY OF PALMDALE

PROPOSITION C LOCAL RETURN FUND

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES

ACTUAL AND METRO APPROVED PROJECT BUDGET

For the Fiscal Year Ended June 30, 2016

(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2015)

Project Code	Project Name	2016		Variance Favorable (Unfavorable)	2015 Actual
		Metro Budget	Actual		
110-01	AVTA (City Contribution to O&M)	\$ 288,140	\$ 241,954	\$ 46,186	\$ 220,000
290-05	Pave PTC Dirt Parking Lot	1	-	1	12,250
310-13	Facility Lease Payment	655,390	653,900	1,490	655,387
440-05	Pavement Management Program	225,000	116,417	108,583	-
	Total expenditures	<u>\$ 1,168,531</u>	<u>\$ 1,012,271</u>	<u>\$ 156,260</u>	<u>\$ 887,637</u>

Note: Of the total FY 2016 actual expenditures above, \$896,450 were transferred to the City's General Fund and were spent on approved Proposition C projects as listed above.

See accompanying independent auditor's report.

CITY OF PALMDALE

PROPOSITION C LOCAL RETURN FUND

**SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS**

June 30, 2016

<u>Date Acquired</u>	<u>Description</u>	<u>Balance 7/1/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2016</u>
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See accompanying independent auditor's report.

CITY OF PALMDALE

MEASURE R LOCAL RETURN FUND

BALANCE SHEETS

JUNE 30

			as restated
		2016	2015
ASSETS			
Cash and investments	\$	6,811,923	\$ 5,433,222
Accounts receivable		2,165,720	1,882,800
Interest receivable		12,539	6,123
Total assets	\$	<u>8,990,182</u>	<u>\$ 7,322,145</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	798,279	\$ 138,623
Wages payable		2,888	5,561
Total liabilities		<u>801,167</u>	<u>144,184</u>
Deferred Inflow of Resources			
Unavailable revenue (Note 8)		1,943,316	66,009
Total deferred inflow of resources		<u>1,943,316</u>	<u>66,009</u>
Fund Balance			
Restricted		6,245,699	7,111,952
Total fund balance		<u>6,245,699</u>	<u>7,111,952</u>
Total liabilities, deferred inflow of resources and fund balance	\$	<u>8,990,182</u>	<u>\$ 7,322,145</u>

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

CITY OF PALMDALE

MEASURE R LOCAL RETURN FUND

**STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE**

For the Fiscal Years Ended June 30

	2016	as restated 2015
REVENUES		
Measure R	\$ 1,748,954	\$ 1,700,597
Measure R Highway Program Grant	1,438,403	2,207,561
Interest income	62,053	37,030
Unrealized gain	16,268	-
Total revenues	<u>3,265,678</u>	<u>3,945,188</u>
EXPENDITURES		
Expenditures funded by MRLRF	816,221	208,672
Expenditures funded by Measure R Highway Program Grant	<u>3,315,710</u>	<u>2,273,570</u>
Total expenditures	<u>4,131,931</u>	<u>2,482,242</u>
Excess of revenues over expenditures	(866,253)	1,462,946
Fund balance at beginning of year	<u>7,111,952</u>	<u>5,649,006</u>
Fund balance at end of year	\$ <u><u>6,245,699</u></u>	\$ <u><u>7,111,952</u></u>

The accompanying notes are an integral part of the financial statements

CITY OF PALMDALE

MEASURE R LOCAL RETURN FUND

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES

ACTUAL AND METRO APPROVED PROJECT BUDGET

For the Fiscal Year Ended June 30, 2016

(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2015)

Project Code	Project Name	2016		Variance Favorable (Unfavorable)	2015 Actual
		Metro Budget	Actual		
1.20	Road safety improvements	\$ 287,000	\$ 287,000	\$ -	\$ -
1.30	Ave S Widen 30th Street East to 47th Street East	3,212,050	483,349	2,728,701	97,951
1.30	RVB Widen - GAP closure	180,000	45,871	134,129	-
2.03	Traffic Signal - Repairs and Maintenance	23,350	1	23,349	24,050
2.03	Ave R and 55th Street	-	-	-	86,671
	Total expenditures	<u>\$ 3,702,400</u>	<u>\$ 816,221</u>	<u>\$ 2,886,179</u>	<u>\$ 208,672</u>

See accompanying independent auditor's report.

CITY OF PALMDALE

MEASURE R LOCAL RETURN FUND

**SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS**

June 30, 2016

<u>Date Acquired</u>	<u>Description</u>	<u>Balance 7/1/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2016</u>
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See accompanying independent auditor's report.

CITY OF PALMDALE

**TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND
(PURSUANT TO PUBLIC UTILITIES CODE SECTION 99234)**

BALANCE SHEETS

JUNE 30

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and investment	\$ 104,722	\$ 221,458
Interest receivable	<u>191</u>	<u>250</u>
Total assets	<u>\$ 104,913</u>	<u>\$ 221,708</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 13,546	\$ 33,278
Wages payable	<u>916</u>	<u>4,923</u>
Total liabilities	<u>14,462</u>	<u>38,201</u>
Fund Balance		
Reserved	<u>90,451</u>	<u>183,507</u>
Total fund balance	<u>90,451</u>	<u>183,507</u>
Total liabilities and fund balance	<u>\$ 104,913</u>	<u>\$ 221,708</u>

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

CITY OF PALMDALE

TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND

**STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE**

For the Fiscal Years Ended June 30

	<u>2016</u>	<u>2015</u>
REVENUES		
Payment from prior year reserve	\$ 99,170	\$ 216,633
Interest income	662	873
Unrealized gain	<u>251</u>	<u>-</u>
Total revenues	<u>100,083</u>	<u>217,506</u>
EXPENDITURES		
Construction/Maintenance	<u>193,139</u>	<u>182,736</u>
Total expenditures	<u>193,139</u>	<u>182,736</u>
Excess (deficiency) of revenues over expenditures	(93,056)	34,770
Fund balance at beginning of year	<u>183,507</u>	<u>148,737</u>
Fund balance at end of year	\$ <u><u>90,451</u></u>	\$ <u><u>183,507</u></u>

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

CITY OF PALMDALE

**TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND
SUPPLEMENTARY INFORMATION**

**SCHEDULE OF TRANSPORTATION DEVELOPMENT ACT
ALLOCATION FOR SPECIFIC PROJECTS**

For the Fiscal Year Ended June 30, 2016

<u>Project Description</u>	<u>Program Year</u>	<u>Allocations</u>	<u>Expenditures</u>	<u>Unexpended Allocations</u>	<u>Project Status</u>
Local allocations					
Desert Willow	2016	\$ -	\$ 120,593	\$ (120,593)	Complete
Ave S Widen	2016	<u>99,170</u>	<u>72,546</u>	<u>26,624</u>	Ongoing
Total		<u>\$ 99,170</u>	<u>\$ 193,139</u>	(93,969)	
Unexpended interest accumulated to date				913	
Fund balance at beginning of year				<u>183,507</u>	
Fund balance at end of year				<u>\$ 90,451</u> *	

* The fund balance of \$90,451 was encumbered as of June 30, 2016.

See accompanying independent auditor's report.

CITY OF PALMDALE

**TRANSPORTATION DEVELOPMENT ACT ARTICLE 8 FUND
(PURSUANT TO PUBLIC UTILITIES CODE SECTION 99234)**

BALANCE SHEETS

JUNE 30

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and investment	\$ 269,848	\$ 539,827
Accounts receivable	487,724	-
Interest receivable	<u>496</u>	<u>608</u>
Total assets	<u><u>\$ 758,068</u></u>	<u><u>\$ 540,435</u></u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ <u>-</u>	\$ <u>-</u>
Total liabilities	<u>-</u>	<u>-</u>
Fund Balance		
Reserved	<u>758,068</u>	<u>540,435</u>
Total fund balance	<u>758,068</u>	<u>540,435</u>
Total liabilities and fund balance	<u><u>\$ 758,068</u></u>	<u><u>\$ 540,435</u></u>

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

CITY OF PALMDALE

TRANSPORTATION DEVELOPMENT ACT ARTICLE 8 FUND

**STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE**

For the Fiscal Years Ended June 30

	<u>2016</u>	<u>2015</u>
REVENUES		
Drawdown FY 2015-16 Allocation	\$ 5,852,688	\$ 6,017,373
Interest income	2,153	3,280
Unrealized gain	<u>463</u>	<u>-</u>
Total revenues	<u>5,855,304</u>	<u>6,020,653</u>
EXPENDITURES		
Various expenditures	<u>5,637,671</u>	<u>5,480,818</u>
Total expenditures	<u>5,637,671</u>	<u>5,480,818</u>
Excess of revenues over expenditures	217,633	539,835
Fund balance at beginning of year	<u>540,435</u>	<u>600</u>
Fund balance at end of year	\$ <u><u>758,068</u></u>	\$ <u><u>540,435</u></u>

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

CITY OF PALMDALE

**TRANSPORTATION DEVELOPMENT ACT ARTICLE 8 FUND
SUPPLEMENTARY INFORMATION**

**SCHEDULE OF TRANSPORTATION DEVELOPMENT ACT
ALLOCATION FOR SPECIFIC PROJECTS**

For the Fiscal Year Ended June 30, 2016

<u>Project Description</u>	<u>Program Year</u>	<u>Allocations</u>	<u>Expenditures</u>	<u>Unexpended Allocations</u>	<u>Project Status</u>
Local allocations					
Street Maintenance	2016	\$ 3,988,338	\$ 5,637,671	\$ (1,649,333)	Completed
Traffic Engineering	2016	<u>1,864,350</u>	<u>-</u>	<u>1,864,350</u>	Ongoing
Total		<u>\$ 5,852,688</u>	<u>\$ 5,637,671</u>	215,017	
Unexpended interest accumulated to date				2,616	
Fund balance at beginning of year				<u>540,435</u>	
Fund balance at end of year				<u>\$ 758,068</u>	*

* The fund balance of \$758,068 was encumbered as of June 30, 2016.

See accompanying independent auditor's report.

CITY OF PALMDALE

NOTES TO FINANCIAL STATEMENTS For the Fiscal Years Ended June 30, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The operations of the Proposition A Local Return Fund (PALRF) and Proposition C Local Return Funds (PCLRF), Measure R Local Return Fund (MRLRF), Transportation Development Act Article 3 Fund (TDAA3F), and Transportation Development Act Article 8 Fund (TDAA8F) are accounted for in separate sets of self-balancing accounts that comprise their assets, liabilities, fund balance, revenues and expenditures.

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

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

Transportation Development Act Article 3 Fund (TDAA3F) and Transportation Development Act Article 8 Fund (TDAA8F) is a Special Revenue Fund that accounts for the City's share of the Transportation Development Act Article 3 and 8 allocations which are legally restricted for specific purposes.

Basis of Accounting and Measurement Focus

PALRF, PCLRF, MRLRF, TDAA3F and TDAA8F are accounted for using the modified accrual basis of accounting whereby revenues are recognized when they become both measurable and available to finance expenditures of the current period and expenditures are generally recognized when the related fund liabilities are incurred.

Special Revenue funds are reported on a spending or "financial flow" measurement focus. This means that generally only current assets, current liabilities and deferred inflows and outflows of resources are included on their balance sheets. Statements of revenues, expenditures and changes in fund balances for Special Revenue Funds generally present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Budgets and Budgetary Accounting

The budgeted amounts presented in this report for comparison to the actual amounts are presented in accordance with accounting principles generally accepted in the United States of America.

CITY OF PALMDALE

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair Value Measurement

In accordance with GASB Statement No. 72, Fair Value Measurement and Application, which became effective for the fiscal year ended June 30, 2016, the City categorizes its fair value measurement within the fair value hierarchy that is based on the valuation inputs used to measure the fair value of the investment. Level 1 inputs are quoted prices in active markets for identical investments; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Accordingly, the City reports its investments at fair value and recognizes unrealized gain (loss) on investments.

Refer to the City's 2016 Comprehensive Annual Financial Report for detailed disclosures regarding the City's investments policy and fair value measurements.

Fund Balance Reporting

Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, establishes the fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The PALRF, PCLRF, MRLRF, TDAA3F, and TDAA8F report the following fund balance classification as of June 30, 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 Note 1 to the City's Comprehensive Annual Financial Report.

NOTE 2 – ANNUAL FINANCIAL STATEMENTS

The financial statements reflect only the financial position and results of operations of the PALRF, PCLRF, MRLRF, TDAA3F, and TDAA8F and their compliance with the Proposition A and Proposition C Local Return Program Guidelines, Measure R Local Return Program Guidelines, and Transportation Development Act Article 3 & 8 and the Los Angeles County Metropolitan Transportation Authority Funding, and Allocation Guidelines for Transportation Development Act Article 3 Bicycle and Pedestrian Funds, and Allocation Guidelines for Transportation Development Act Article 8 transit and paratransit programs to fulfill unmet transit needs in areas outside the service area of LACMTA operations.

CITY OF PALMDALE

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

NOTE 3 – PROPOSITION A AND PROPOSITION C LOCAL RETURN COMPLIANCE REQUIREMENTS

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

NOTE 4 – MEASURE R LOCAL RETURN COMPLIANCE REQUIREMENTS

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

NOTE 5 – TRANSPORTATION DEVELOPMENT ACT COMPLIANCE REQUIREMENTS

In accordance with Public Utilities Code Section 99234 and 99400 (a), funds received pursuant to this Code's section may only be used for activities relating to pedestrians and bicycle facilities, transit and paratransit programs to fulfill unmet transit needs in areas outside the service area of LACMTA operations. See accompanying Compliance Matrix.

NOTE 6 – CASH AND INVESTMENTS

The PALRF, PCLRF, MRLRF, TDAA3F, and TDAA8F 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.

NOTE 7 – RESTATEMENT OF PCLRF'S & MRLRF'S 2015 FINANCIAL STATEMENTS

The 2015 financial statements of PCLRF & MRLRF were restated to properly report deferred inflow of resources and earned revenue for the Proposition C 25% Call for Projects Grant and the Measure R Highway Grant, respectively.

PCLRF:

	Deferred Inflow of Resources	Revenues	Fund Balance	2015 Beginning Fund Balance
Balance, as previously reported	\$ -	\$ 1,597,908	\$ 5,305,446	\$ 3,922,578
Adjustment	86,607	944,153	(86,607)	(1,030,760)
Balance, as restated	<u>\$ 86,607</u>	<u>\$ 2,542,061</u>	<u>\$ 5,218,839</u>	<u>\$ 2,891,818</u>

CITY OF PALMDALE

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

NOTE 7 – RESTATEMENT OF PCLRF’S & MRLRF’S 2015 FINANCIAL STATEMENTS
(continued)

MRLRF:

	Deferred Inflow of Resources	Revenues	Fund Balance
Balance, as previously reported	\$ -	\$ 2,273,570	\$ 7,177,961
Adjustment	66,009	(66,009)	(66,009)
Balance, as restated	\$ 66,009	\$ 2,207,561	\$ 7,111,952

NOTE 8 – DEFERRED INFLOW OF RESOURCES – PCLRF & MRLRF

The City recognizes revenue when the payments for services rendered become measurable and available. In fiscal year ended June 30, 2016, the City recorded deferred inflow of resources when the availability of the funds was not available within the revenue recognition period of 60 days.

The issuance of Governmental Accounting Standards Board No. 65, Items Previously Reported as Assets and Liabilities, established accounting and financial reporting standards that reclassify certain liabilities as deferred inflows of resources. A deferred inflow of resources is defined as those resources that are not available for spending in the current period. Since the reimbursements from other funds were not available for spending PCLRF & MRLRF in fiscal year ended June 30, 2016, the amount was reported as deferred inflows of resources.

As of June 30, 2016 and 2015 the deferred inflow of resources were \$3,651,326 and \$86,607, respectively, from the Proposition C 25% Call for Projects Grant.

As of June 30, 2016 and 2015 the deferred inflow of resources were \$1,943,316 and \$66,009, respectively, from the Measure R Highway Grant.

Proposition C 25% Call for Projects Grant projects and expenditure amounts are as follows:

MOU Number	Project Name	Expenditure Amount
F1300	North County Traffic Forum ITS Expansion	\$ 3,659,216
F3107	Avenue S Widening Phase II	1,514,766
F7121	Rancho Vista Boulevard Widening	74,085
	Total Expenditures	\$ 5,248,067

CITY OF PALMDALE

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

NOTE 8 – DEFERRED INFLOW OF RESOURCES – PCLRF & MRLRF (continued)

Measure R Highway Grant projects and expenditure amounts are as follows:

MOU Number	Project Name	Expenditure Amount
MR460064	Rancho Vista Grade Boulevard Grade Separation	\$ 469,003
MR330.09	State Route 138 (Palmdale Boulevard) between 5 th Street East and 10 th Street East	567,322
MR330.09	State Route 138 (SR-14) 10 th Street West Interchange	500,422
MR330.08	State Route 138 (SR-14) Southbound Off-Ramp at Palmdale Boulevard and Interchange Improvement	509,373
MR330.10	State Route 138 (SR-14) Widening Rancho Vista Boulevard to Palmdale Boulevard	1,027,306
MR330.11	SR-138 Avenue N Overcrossing	242,284
Total Expenditures		\$ 3,315,710

NOTE 9 – TRANSPORTATION DEVELOPMENT ACT 3 FUND REVENUE ALLOCATION

The revenue allocation for the years ended June 30, 2016 and 2015 consisted of the following:

	2016	2015
FY 2011-12 reserve	\$ -	\$ 29,594
FY 2012-13 reserve	-	108,590
FY 2013-14 reserve	46,767	78,449
FY 2014-15 reserve	52,403	-
Total payment requested	\$ 99,170	\$ 216,633

CITY OF PALMDALE

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

NOTE 10 – TRANSPORTATION DEVELOPMENT ACT 3 FUNDS RESERVED

In accordance with TDA Article 3 (SB821) Guidelines, funds not spent during the fiscal year have been placed on reserve in the Local Transportation Fund (LTF) account with the County Auditor-Controller to be drawn down whenever the funds become eligible for a specific project and an approved drawdown request is received by Metro. As of June 30, 2016 and 2015, the City has funds on reserve as follows:

	2016	2015
FY 2013-14 reserve	\$ -	\$ 46,767
FY 2014-15 reserve	49,569	101,972
FY 2015-16 allocation	99,169	-
Available reserve balance	\$ 148,738	\$ 148,739

For FY 2015-16, any TDA Article 3 funds left on reserve for FY 2011-12 or prior, are subject to lapse if not claimed by the City by June 30, 2016. There were no funds that lapsed in FY 2015-16.

NOTE 11 – SUBSEQUENT EVENTS

The City has evaluated events or transactions that occurred subsequent to June 30, 2016 through December 22, 2016, the date the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined no subsequent matters require disclosure or adjustment to the accompanying financial statements.



SIMPSON & SIMPSON
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**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

To the Honorable Members of the City Council of the
City of Palmdale, California and the
Los Angeles County Metropolitan Transit Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Proposition A Local Return Fund (PALRF), Proposition C Local Return Fund (PCLRF), Measure R Local Return Fund (MRLRF), Transportation Development Act Article 3 Fund (TDAA3F), and Transportation Development Act Article 8 Fund (TDAA8F) of the City of Palmdale, California (City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated December 22, 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's local return funds, TDAA3F and TDAA8F financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify any deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However material weaknesses may exist that have not been identified.





Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements of the Proposition A Local Return Fund (PALRF), Proposition C Local Return Fund (PCLRF), Measure R Local Return Fund (MRLRF), Transportation Development Act Article 3 Fund (TDAA3F), and Transportation Development Act Article 8 Fund (TDAA8F) are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Los Angeles, California
December 22, 2016

COMPLIANCE SECTION



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Independent Auditor's Report On Compliance

To the Honorable Members of the City Council of the
City of Palmdale, California and the
Los Angeles County Metropolitan Transit Authority

Report on Compliance

We have audited the compliance of the City of Palmdale, California (City) with the Proposition A and Proposition C Local Return Guidelines, Measure R Local Return Guidelines, Transportation Development Act Article 3, and the Los Angeles County Metropolitan Transportation Authority's Funding and Allocation Guidelines for the Transportation Development Act Article 3 Bicycle and Pedestrian Funds (Guidelines) and Transportation Development Act Article 8 Funds (Guidelines) for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for the City's compliance with those guidelines.

Auditor's Responsibility

Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Guidelines referred to in the preceding paragraph. Those standards and the Guidelines require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a local return program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Local Return Program, Transportation Development Act Article 3 and Transportation Development Act Article 8

In our opinion, the City of Palmdale complied, in all material respects, with the compliance requirements referred to above that apply to Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund, Transportation Development Act Article 3 (TDAA3F), and Transportation Development Act Article 8 (TDAA8F) Fund for the year ended June 30, 2016.

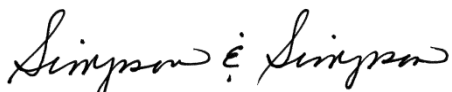
Report on Internal Control Over Compliance

Management of the City of Palmdale is responsible for establishing and maintaining effective internal control over compliance with the Requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the Requirements that could have a direct and material effect on the Local Return programs, the TDAA3F and the TDAA8F to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Requirements, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that we consider to be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirement of the Guidelines. Accordingly, this report is not suitable for any other purpose.



Los Angeles, California
December 22, 2016

CITY OF PALMDALE
COMPLIANCE MATRIX
Year Ended June 30, 2016

Compliance Requirement		In Compliance		Questioned Costs	If no, provide details and management response.
		Yes	No		
A. Proposition A and Proposition C Local Return Funds					
1.	Timely use of funds.	X		None	
2.	Expenditures were approved before being incurred.	X		None	
3.	Funds were used on approved projects only and expenditures were supported and allowable per Guidelines.	X		None	
4.	Expenditures did not exceed 25% of Metro's approved budget.	X		None	
5.	Administrative expenses were within the 20% cap.	X		None	
6.	All on-going and carryover projects were reported in Form B.	X		None	
7.	Annual Project Summary Report (Form B) was submitted on time.	X		None	
8.	Annual Expenditure Report (Form C) was submitted on time.	X		None	
9.	Recreational Transit Form was submitted on time.	X		None	
10.	Cash or cash equivalents were maintained.	X		None	
11.	Accounting procedures, record keeping and documentation were adequate.	X		None	

CITY OF PALMDALE
COMPLIANCE MATRIX
Year Ended June 30, 2016
(Continued)

Compliance Requirement		In Compliance		Questioned Costs	If no, provide details and management response.
		Yes	No		
12.	Revenues received including allocations, project generated revenues, and interest income were properly credited to the PALRF and PCLRF accounts.	X		None	
B. Measure R Local Return Fund					
1.	Timely use of funds.	X		None	
2.	Expenditures were approved before being incurred.	X		None	
3.	Funds were used on approved projects only and expenditures were supported and allowable per Guidelines.	X		None	
4.	Fund were not substituted for property tax.	X		None	
5.	Administrative expenses were within the 20% cap.	N/A		None	
6.	Expenditure Plan (Form One) was submitted on time.	X		None	
7.	Expenditure Report (Form Two) was submitted on time.	X		None	
8.	Cash or cash equivalents were maintained.	X		None	
9.	Accounting procedures, record keeping and documentation were adequate.	X		None	
10.	Revenues received including allocations, project generated revenues, and interest income were properly credited to the Measure R account.	X		None	

N/A - Not applicable as the City did not expend funds.

CITY OF PALMDALE
COMPLIANCE MATRIX
Year Ended June 30, 2016
(Continued)

Compliance Requirement		In Compliance		Questioned Costs	If no, provide details and management response.
		Yes	No		
11.	Funds were not used to supplant existing local revenues being used for transportation purpose.	X		None	
C. Transportation Development Act Article 3 Fund					
1.	Timely use of funds.	X		None	
2.	Expenditures were incurred for activities relating to pedestrian and bicycle facilities and amenities.	X		None	
D. Transportation Development Act Article 8 Fund					
1.	Timely use of funds.	X		None	
2.	Expenditures were incurred for transit, paratransit, and local streets and roads.	X		None	

CITY OF PALMDALE

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

June 30, 2016

No findings were noted.

EXIT CONFERENCE

CITY OF PALMDALE

**PROPOSITION A, PROPOSITION C, MEASURE R LOCAL RETURN FUNDS, AND
TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND**

EXIT CONFERENCE

June 30, 2016

An exit conference was held on December 22, 2016 with the City of Palmdale. Those in attendance were:

Simpson & Simpson Representative:

Caprice McGuire, Senior Auditor

City's Representative:

Joyce Workman, Financial analyst

Karen, Johnson, Finance Manager

Matters Discussed:

Results of the audit, no findings were noted

A copy of this report was forwarded to the following City representative(s) for their comments prior to the issuance of the final report: