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**City of Manhattan Beach
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, 2015 and 2014
with Report of Independent Auditors**

An Independently Owned Member
McGLADREY ALLIANCE



 **Vasquez**
& Company LLP
Certified Public Accountants and Business Consultants

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FINANCIAL SECTION

Report of Independent Auditors

To the Honorable Members of the City Council of the City of Manhattan Beach, 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, Proposition C Local Return Fund, Measure R Local Return Fund and the Transportation Development Act Article 3 Fund (collectively, the Funds) of the City of Manhattan Beach, California (the City) which comprise the Funds' balance sheets as of June 30, 2015 and 2014, and the related statements of revenues, expenditures and changes in fund balance 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 Manhattan Beach, California, as of June 30, 2015 and 2014, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the Proposition A Local Return Fund, the Proposition C Local Return Fund, the Measure R Local Return Fund 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, 2015 and 2014, 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 23, 2015 on our consideration of the City'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, 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.

Los Angeles, California
December 23, 2015

**City of Manhattan Beach
Proposition A Local Return Fund
Balance Sheets**

		June 30	
		2015	2014
ASSETS			
Cash and investments	\$	8,798	\$ 12,731
Prepaid expenses		-	375
Total assets	\$	8,798	\$ 13,106
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	7,728	\$ 13,106
Accrued liabilities		1,070	-
Total liabilities		8,798	13,106
Fund balance			
Restricted		-	-
Total fund balance		-	-
Total liabilities and fund balance	\$	8,798	\$ 13,106

See notes to financial statements.

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

	Years ended June 30	
	2015	2014
Revenues		
Proposition A	\$ 626,466	\$ 601,192
Interest income	-	1,032
Unrealized gain (loss) on investments	(162)	114
Project generated revenue	6,928	12,160
Proposition A Discretionary Incentive	17,527	17,825
Total revenues	650,759	632,323
Expenditures		
Various projects	703,891	865,458
Total expenditures	703,891	865,458
Deficiency of revenues over expenditures	(53,132)	(233,135)
Other financing sources:		
Operating transfer in from MRLRF	53,132	53,472
Excess (deficiency) of revenues over expenditures and other financing sources	-	(179,663)
Fund balance at beginning of year	-	179,663
Fund balance at end of year	\$ -	\$ -

See notes to financial statements.

City of Manhattan Beach
Proposition A Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2015
Actual for 2014

Project Code	Project Name	2015		Variance Positive (Negative)	2014 Actual
		LACMTA Budget	Actual		
110-01	Gateway to Los Angeles Ocean Express Shuttle Service	\$ 20,000	\$ 19,500	\$ 500	\$ 19,500
110-02	Beach Cities Transit Fixed Route #109	12,500	9,726	2,774	9,959
130-01	Dial-A-Ride	604,894	621,081	(16,187)	596,106
140-01	Recreation Trips	55,000	46,513	8,487	34,257
180-01	Dial-A-Ride Lift Station	27,623	-	27,623	-
200-01	Dial-A-Ride Vehicle	81,290	-	81,290	112,760
200-02	21 Passenger or Smaller Bus with Wheelchair Lift, plus Rear View Camera and Monitor, plus Accessories	-	-	-	71,478
250-01	MTA Bus Subsidy	3,000	7,071 ^a	(4,071)	21,398
Total expenditures		\$ 804,307	\$ 703,891	\$ 100,416	\$ 865,458

^a The true variance calculated as follows:

LACMTA approved budget		\$ 3,000
Total expenditures	\$ 7,071	
Less: Bus pass sales	1,925	5,146
True variance (over)/under		<u>\$ (2,146) *</u>

* See Compliance Matrix.

See report of independent auditors.

City of Manhattan Beach
Proposition A Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2015

<u>Date</u> <u>Acquired</u>	<u>Description</u>	<u>Balance</u> <u>July 1,</u> <u>2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30,</u> <u>2015</u>
Jul-04	Braun Transporter Ford E-350-2003 # 1006	\$ 44,495	\$ -	\$ -	\$ 44,495
Apr-06	Paratransit Bus # 1004	66,754	-	-	66,754
Sep-08	Paratransit Bus - ADA, Glaval CNG # 1007	98,648	-	-	98,648
Total		\$ 209,897	\$ -	\$ -	\$ 209,897

See report of independent auditors.

**City of Manhattan Beach
Proposition C Local Return Fund
Balance Sheets**

		June 30	
		2015	2014
ASSETS			
Cash and investments	\$	4,499,275	\$ 4,133,316
Due from other government agencies		551,633	100,443
Total assets	\$	5,050,908	\$ 4,233,759
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	464,684	\$ 85,365
Accrued liabilities		52,079	-
Total liabilities		516,763	85,365
Deferred inflows of resources			
Unavailable revenue - SAFETEA-LU grant		551,633	100,443
Total Deferred Inflows of Resources		551,633	100,443
Fund balance			
Restricted - Sepulveda Bridge Widening Project		3,053,720	3,639,748
Restricted - Others		928,792	408,203
Total fund balance		3,982,512	4,047,951
Total liabilities, deferred inflows of resources and fund balance	\$	5,050,908	\$ 4,233,759

See notes to financial statements.

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

	Years ended June 30	
	2015	2014
Revenues		
Proposition C	\$ 520,589	\$ 499,530
Interest income	37,776	32,138
Unrealized gain on investments	1,923	2,358
SAFETEA-LU federal grant	197,161	300,179
Total revenues	757,449	834,205
 Expenditures		
Various projects funded by PCLRF	174,538	71,944
Various projects funded by SAFETEA-LU federal grant	648,350	286,544
Total expenditures	822,888	358,488
 Excess (deficiency) of revenues over expenditures	 (65,439)	 475,717
Fund balance at beginning of year	4,047,951	3,572,234
Fund balance at end of year	\$ 3,982,512	\$ 4,047,951

See notes to financial statements.

City of Manhattan Beach
Proposition C Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2015
Actual for 2014

Project Code- Seq No.	Project Name	2015			2014 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
450-05	Rosecrans Ave Utility Undergrounding	\$ 29,772	\$ -	\$ 29,772	\$ -
450-07	Rosecrans Avenue Utility Relocations and Street Widening	178,626	-	178,626	-
450-08	Dual Left-turns for Eastbound and Westbound	383,203	-	383,203	120
380-01	Capital Reserve for Sepulveda Blvd Bridge Widening Project	<u>3,226,287</u>	<u>174,538</u>	<u>3,051,749</u>	<u>71,824</u>
	Total expenditures funded by PCLRF	\$ <u>3,817,888</u>	174,538	\$ <u>3,643,350</u>	71,944
380-01	Capital Reserve for Sepulveda Blvd Bridge Widening Project				
	Total expenditures funded by SAFETEA-LU Federal Grant		<u>648,350</u>		<u>286,544</u>
			\$ <u>822,888</u>		\$ <u>358,488</u>

See report of independent auditors.

City of Manhattan Beach
Proposition C Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2015

Date Acquired	Description	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
	None	\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See report of independent auditors.

**City of Manhattan Beach
Measure R Local Return Fund
Balance Sheets**

		June 30	
		2015	2014
ASSETS			
Cash and investments	\$	1,529,145	\$ 1,180,546
Total assets	\$	1,529,145	\$ 1,180,546
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	-	\$ 1,250
Total liabilities	\$	-	1,250
Fund balance			
Restricted		1,529,145	1,179,296
Total fund balance		1,529,145	1,179,296
Total liabilities and fund balance	\$	1,529,145	\$ 1,180,546

See notes to financial statements.

City of Manhattan Beach
Measure R Local Return Fund

Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2015	2014
Revenues		
Measure R	\$ 389,816	\$ 372,156
Investment income	12,344	9,279
Unrealized gain on investments	821	694
Total revenues	402,981	382,129
 Expenditures		
Various projects	-	25,299
Total expenditures	-	25,299
 Excess of revenues over expenditures	 402,981	 356,830
 Other financing use		
Operating transfer out to PALRF	53,132	53,472
 Excess (deficiency) of revenues over expenditures and other financing sources	 349,849	 303,358
 Fund balance at beginning of year	 1,179,296	 875,938
 Fund balance at end of year	 \$ 1,529,145	 \$ 1,179,296

See notes to financial statements.

City of Manhattan Beach
Measure R Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2015
Actual for 2014

Project Code- Seq No.	Project Name	2015			2014 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
1.90	Raised Median Construction	\$ 150,000	\$ -	\$ 150,000	\$ -
1.20	Signalized Crosswalk	185,000	-	185,000	-
3.20	ADA Improvement Pathway to the Sea	-	-	-	25,299
	Total expenditures	<u>335,000</u>	<u>-</u>	<u>335,000</u>	<u>25,299</u>
	Operating transfer out to PALRF				
4.30	Trips to Area Libraries During Library Construction and Fund DAR Services	67,582	53,132	14,450	53,472
		<u>\$ 402,582</u>	<u>\$ 53,132</u>	<u>\$ 349,450</u>	<u>\$ 78,771</u>

See report of independent auditors.

City of Manhattan Beach
Measure R Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2015

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2015</u>
May-13	Paratransit Bus - 22-Passenger CNG #1010	\$ 140,931	\$ -	\$ -	\$ 140,931
Jul-13	Braun Vista Ford 7 Passenger Van #1008	71,478	-	-	71,478
Oct-13	Paratransit Bus - 22 Passenger CNG # 1009	112,760	-	-	112,760
	Total	<u>\$ 325,169</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 325,169</u>

See report of independent auditors.

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

		June 30	
		2015	2014
ASSETS			
Cash and investments	\$	-	\$ -
Total assets	\$	-	\$ -
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	-	\$ -
Total liabilities		-	-
Commitments and Contingencies		Note 11	
Fund balance			
Restricted		-	-
Total fund balance		-	-
Total liabilities and fund balance	\$	-	\$ -

See notes to financial statements.

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

		Years ended June 30	
		2015	2014
Revenues			
Intergovernmental allocations:			
Article 3	\$	-	\$ 72,760
Total revenues		-	72,760
 Expenditures			
Construction/Maintenance		-	72,760
Total expenditures		-	72,760
 Excess of revenues over expenditures			
		-	-
 Fund balance at beginning of year			
		-	-
 Fund balance at end of year			
	\$	-	\$ -

See notes to financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

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

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

MRLRF is derived from 15% of 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

PALRF, PCLRF, MRLRF and TDAA3F 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.

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.

Unrealized Gain (Loss) on Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, local governments are required to use fair value (instead of amortized costs) for financial reporting purposes. As a result of such implementation, the City recognizes the unrealized gain (loss) on investments.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows and Inflows of Resources

Pursuant to GASB Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and No. 65, *Items Previously Reported as Assets and Liabilities*, the City recognizes deferred outflows and 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.

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, 2015 and 2014, 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.

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.

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 and investment 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 monthly 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 PROJECT GENERATED REVENUE

Project generated revenue under PALRF for the years ended June 30, 2015 and 2014 consisted of the following:

		2015		2014
Dial-A-Ride Fares	\$	5,003	\$	4,322
Bus Pass Sales		1,925		7,838
	\$	6,928	\$	12,160

NOTE 8 PROPOSITION A DISCRETIONARY INCENTIVE GRANTS

The Proposition A Discretionary Incentive Grant for the years ended June 30, 2015 and 2014 of \$17,527 and \$17,825, respectively, represent additional funds received from LACMTA for participating in the Voluntary NTD Program.

The Proposition A Discretionary Incentive Grants were recorded under PALRF.

NOTE 9 CAPITAL RESERVE

In June 20, 2007, LACMTA and the City entered into capital reserve agreements to establish a capital reserve account (Account) for the Sepulveda Boulevard Bridge Widening projects. The original period of performance for the agreement is from June 20, 2007 to June 30, 2013. This was extended to June 30, 2016 with an approved capital reserve amount of \$3,416,320.

The Account will be funded with the Proposition C Local Return funds allocated to the City. All interest shall be accrued and placed in the Account for use exclusively for the said projects.

NOTE 9 CAPITAL RESERVE (CONTINUED)

For the years ended June 30, 2015 and 2014, the capital reserve amount for PCLRF is as follows:

Capital reserve at 6/30/2013	\$	2,980,512
Reimbursement from SAFETEA-LU grant		300,179
Additional reserve		682,929
Interest income allocation		34,496
Capital expenditures during the year		<u>(358,368)</u>
Capital reserve at 6/30/2014		3,639,748
Reimbursement from SAFETEA-LU grant		197,161
Interest income allocation		39,699
Capital expenditures during the year		<u>(822,888)</u>
Capital reserve at 6/30/2015	\$	<u>3,053,720</u>

NOTE 10 TRANSPORTATION DEVELOPMENT ACT FUND REVENUE ALLOCATION

The revenue allocation for the years ended June 30, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
FY 2010/11 reserve	\$ -	\$ 144
FY 2011/12 reserve	-	17,730
FY 2012/13 reserve	-	26,174
FY 2013/14 allocation	-	<u>28,712</u>
	<u>\$ -</u>	<u>\$ 72,760</u>

The City did not draw down TDA Article 3 funds in FY 2014/15.

NOTE 11 TRANSPORTATION DEVELOPMENT ACT 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, 2015 and 2014, the City has funds on reserve as follows:

	<u>2015</u>	<u>2014</u>
FY 2014/15 allocation	\$ <u>23,387</u>	\$ -
Available reserve balance	\$ <u>23,387</u>	\$ -

For FY 2014/15, any TDA Article 3 funds left on reserve for FY 2010/11 or prior, are subject to lapse if not claimed by the City by June 30, 2015. There were no funds that lapsed in FY 2014/15.

NOTE 12 SUBSEQUENT EVENTS

The City has evaluated subsequent events through December 23, 2015, 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 Manhattan Beach, 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 Manhattan Beach, California (the City) as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated December 23, 2015.

Internal Control over Financial Reporting

In planning and performing our audits of the Funds' 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 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 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.

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

**Los Angeles, California
December 23, 2015**

COMPLIANCE SECTION

Report of Independent Auditors on Compliance

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

Report on Compliance

We have audited the compliance of the City of Manhattan Beach, 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, 2015.

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 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 Manhattan Beach, California complied, in all material respects, with the compliance requirements of the Guidelines for the year ended June 30, 2015.



Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with the requirements, which is described in the accompanying Compliance Matrix. Our opinion is not modified with respect to this matter.

The City's response to the noncompliance finding identified in our audit is described in the accompanying Compliance Matrix. The City's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the requirements 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, such that there is a reasonable possibility that material noncompliance with 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 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 "Vaguez & Company LLP".

**Los Angeles, California
December 23, 2015**

**City of Manhattan Beach
Compliance Matrix
Year ended June 30, 2015**

Compliance Requirements	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 approved before being incurred.	X		None	
3. Expenditures did not exceed 25% of LACMTA's approved budget.		X	\$1,396	<p><i>Finding #2015-001</i></p> <p><u>PALRF</u></p> <p>The City exceeded LACMTA's approved budget for PALRF Project code 250-01 MTA Bus Subsidy by 47%, without LACMTA's prior approval.</p> <p>Projects with greater than 25% change from the approved project budget should be amended by submitting an amended Project Description Form (Form A).</p> <p>LACMTA Program Manager granted a retroactive approval on the amended budget for the said project on December 9, 2015.</p> <p>We recommend that the City submit a Form A to obtain approval for the change in project budget, and that the City implement controls to ascertain compliance at all times.</p> <p><i>Management Response</i></p> <p>We always strive to conform with Prop A forms and procedures. However, compliance must be considered in the context of materiality and total expenditures were over \$700,000. The bus pass subsidy item overage is \$1,396. The Prop A total budget was over \$800,000. Item should have been passed.</p>

**City of Manhattan Beach
Compliance Matrix
Year ended June 30, 2015**

Compliance Requirements	In Compliance		Questioned Costs	If no, provide details and management response.
	Yes	No		
A. Proposition A and Proposition C Local Return Funds (Continued)				
3. Expenditures did not exceed 25% of LACMTA's approved budget. (continued)				<i>Auditor Rejoinder</i> We understand that the amount involved is not materially significant to the total fund expenditure and will not result in a material misstatement to the financial statements; however, this is a compliance matter that has to be brought to the attention of the project administrator.
4. Administrative expenses are within the 20% cap.	X		None	
5. All on-going and carryover projects were reported on Form B.	X		None	
6. Annual Project Summary Report (Form B) was submitted on time.	X		None	
7. Annual Expenditure Report (Form C) was submitted on time.	X		None	
8. Cash or cash equivalents are maintained.	X		None	
9. Accounting procedures, record keeping and documentation are adequate.	X		None	
B. Measure R Local Return Fund				
1. Funds were expended for transportation purposes.	X		None	
2. Funds were used to augment, not supplant, existing local revenues being used for transportation purposes unless there is a funding shortfall.	X		None	
3. Signed Assurances and Understandings on file	X		None	
4. Separate Measure R Local Return Account was established.	X		None	

**City of Manhattan Beach
Compliance Matrix
Year ended June 30, 2015**

Compliance Requirements	In Compliance		Questioned Costs	If no, provide details and management response.
	Yes	No		
B. Measure R Local Return Fund (Continued)				
5. Revenues received including allocations, project generated revenues and interest income were properly credited to the Measure R Local Return Account	X		None	
6. Funds were expended with LACMTA's approval.	X		None	
7. Expenditure Plan (Form One) was submitted on time.	X		None	
8. Expenditure Report (Form Two) was submitted on time.	X		None	
9. Timely use of funds.	X		None	
10. Administrative expenses are within the 20% cap.				Not applicable.
11. Fund exchanges were approved by LACMTA.				Not applicable.
13. Recreational transit form was submitted on time.				Not applicable.
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	

EXIT CONFERENCE

An exit conference was held on December 24, 2015 with the City of Manhattan Beach representatives. Those in attendance were:

Vasquez & Company LLP representatives:
Roger A. Martinez – Partner
Marialyn Salvador – Audit Manager

City of Manhattan Beach representatives:
Henry Mitzner – Controller
Julie Bondarchuk – Senior Accountant
Libby Bretthauer – Financial Analyst

Matters discussed:

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

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

Henry Mitzner – Controller
Julie Bondarchuk – Senior Accountant
Libby Bretthauer – Financial Analyst



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