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**City of Palos Verdes Estates
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 Palos Verdes Estates, 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 Palos Verdes Estates, 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 Palos Verdes Estates, 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 March 8, 2016 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.

A handwritten signature in black ink that reads "Vaguez & Company LLP".

Los Angeles, California
March 8, 2016

**City of Palos Verdes Estates
Proposition A Local Return Fund
Balance Sheets**

		June 30	
		2015	2014
ASSETS			
Cash and investments	\$	585,215	\$ 545,423
Interest receivable		-	186
Total assets	\$	585,215	\$ 545,609
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	-	\$ -
Total liabilities		-	-
Fund balance			
Restricted		585,215	545,609
Total fund balance		585,215	545,609
Total liabilities and fund balance	\$	585,215	\$ 545,609

See notes to financial statements.

City of Palos Verdes Estates
Proposition A Local Return Fund
Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2015	2014
Revenues		
Proposition A	\$ 240,325	\$ 230,630
Investment income	4,590	2,531
Total revenues	244,915	233,161
 Expenditures		
Various projects	205,309	205,309
Total expenditures	205,309	205,309
 Excess of revenues over expenditures	39,606	27,852
 Fund balance at beginning of year	545,609	517,757
 Fund balance at end of year	\$ 585,215	\$ 545,609

See notes to financial statements.

City of Palos Verdes Estates
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			2014 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
270-01	Membership Dues - South Bay Cities COG	\$ 5,310	\$ 5,309	\$ 1	\$ 5,309
405-16	Prop A Fund Exchange	200,000	200,000	-	200,000
	Total expenditures	\$ 205,310	\$ 205,309	\$ 1	\$ 205,309

See report of independent auditors.

City of Palos Verdes Estates
Proposition A 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>
None		\$ -	\$ -	\$ -	\$ -
	Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See report of independent auditors.

**City of Palos Verdes Estates
Proposition C Local Return Fund
Balance Sheets**

		June 30	
		2015	2014
ASSETS			
Cash and investments	\$	274,634	\$ 171,450
Interest receivable		-	54
Total assets	\$	274,634	\$ 171,504
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	98,422	\$ -
Total liabilities		98,422	-
Fund balance			
Restricted		176,212	171,504
Total fund balance		176,212	171,504
Total liabilities and fund balance	\$	274,634	\$ 171,504

See notes to financial statements.

City of Palos Verdes Estates
Proposition C Local Return Fund
Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2015	2014
Revenues		
Proposition C	\$ 199,733	\$ 191,654
Investment income	1,818	767
Total revenues	201,551	192,421
Expenditures		
Various projects	196,843	189,578
Total expenditures	196,843	189,578
Excess of revenues over expenditures	4,708	2,843
Fund balance at beginning of year	171,504	168,661
Fund balance at end of year	\$ 176,212	\$ 171,504

See notes to financial statements.

City of Palos Verdes Estates
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	Project Name	2015			2014 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
110-09	PV Transit / Dial-A-Ride	\$ 197,000	\$ 196,843	\$ 157	\$ 189,578
	Total expenditures	<u>\$ 197,000</u>	<u>\$ 196,843</u>	<u>\$ 157</u>	<u>\$ 189,578</u>

See report of independent auditors.

City of Palos Verdes Estates
Proposition C 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>
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See report of independent auditors.

**City of Palos Verdes Estates
Measure R Local Return Fund
Balance Sheets**

		June 30	
		2015	2014
ASSETS			
Cash and investments	\$	118,729	\$ 116,930
Interest receivable		-	37
Total assets	\$	118,729	\$ 116,967
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	-	\$ -
Total liabilities		-	-
Fund balance			
Restricted		118,729	116,967
Total fund balance		118,729	116,967
Total liabilities and fund balance	\$	118,729	\$ 116,967

See notes to financial statements.

**City of Palos Verdes Estates
Measure R Local Return Fund**

Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2015	2014
Revenues		
Measure R	\$ 149,542	\$ 142,767
Investment income	1,761	624
Total revenues	151,303	143,391
 Expenditures		
Various projects	149,541	200,000
Total expenditures	149,541	200,000
 Excess (deficiency) of revenues over expenditures	1,762	(56,609)
 Fund balance at beginning of year	116,967	173,576
 Fund balance at end of year	\$ 118,729	\$ 116,967

See notes to financial statements.

City of Palos Verdes Estates
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	Project Name	2015			2014 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
1.05	Overlay FY 2013-2014	\$ -	\$ -	\$ -	200,000
1.05	Overlay FY 2014-2015	128,000	149,541	(21,541)	-
	Total expenditures	\$ 128,000	\$ 149,541	\$ (21,541)	\$ 200,000

See report of independent auditors.

City of Palos Verdes Estates
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>
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See report of independent auditors.

City of Palos Verdes Estates
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 8	
Fund balance			
Restricted		-	-
	Total fund balance	-	-
	Total liabilities and fund balance	\$ -	\$ -

See notes to financial statements.

City of Palos Verdes Estates
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	\$	-	-
Total revenues		-	-
Expenditures			
Construction/Maintenance			
Total expenditures		-	-
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.

Transportation Development Act Article 3 Fund (TDAA3F) is pooled with other City monies in the Special Revenue Fund. The Special Revenue Fund 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 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 PROPOSITION A FUND EXCHANGE

As permitted under the Guidelines, the City entered into an agreement with the City of Torrance to exchange Proposition A monies amounting to \$200,000 in fiscal years 2014/2015 and 2013/2014 for \$138,000 or \$0.69 general fund per \$1 PALRF monies.

NOTE 8 TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUNDS RESERVED

In accordance with TDA Article 3 (SB821) Guidelines, funds which will not be spent during the fiscal year have been placed on reserve in the Local Transportation Fund (LTF) account with the County Auditor-Controller to be drawn down whenever the funds become eligible for a specific project and an approved drawdown request is received by LACMTA. As of June 30, 2015 and 2014, the City has funds on reserve as follows:

	<u>2015</u>		<u>2014</u>
FY 2012/13 reserve	\$ 10,034	\$	10,034
FY 2013/14 reserve	11,022		11,022
FY 2014/15 allocation	8,982		-
	<u>\$ 30,038</u>	\$	<u>21,056</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 9 SUBSEQUENT EVENTS

The City has evaluated subsequent events through March 8, 2016, the date the financial statements were available to be issued, and concluded that no events have occurred that require disclosure in 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 Palos Verdes Estates, 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 Palos Verdes Estates, 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 March 8, 2016.

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.

Los Angeles, California
March 8, 2016

COMPLIANCE SECTION

Report of Independent Auditors on Compliance

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

Report on Compliance

We have audited the compliance of the City of Palos Verdes Estates, 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 Palos Verdes Estates, 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 instances of noncompliance with the requirements, which are described in the accompanying Compliance Matrix. Our opinion is not modified with respect to these matters.



The City's responses to the noncompliance findings identified in our audit are described in the accompanying Compliance Matrix. The City's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

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

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

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

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

A handwritten signature in black ink that reads "Vagueney & Company LLP".

**Los Angeles, California
March 8, 2016**

**City of Palos Verdes Estates
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		None	
4. Administrative expenses are within the 20% cap.	X		None	
5. All on-going and carryover projects were reported in 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	<p><i>Finding #2015-001</i></p> <p>The City submitted its Form C (Annual Expenditure Report) on November 13, 2015, which is beyond the due date set under the Guidelines.</p> <p>We recommend for the City to establish procedures and controls to ensure that Form C (Annual Expenditure Report) is submitted by October 15 as required by the Guidelines.</p> <p><i>Management Response</i></p> <p>At the end of FY 2015 the City lost two and a half long term staff members. As the department has a total of 4.5 FTE positions, that was over half the department. The duties of the resigned staff were highly segregated and not well known to the remaining and newly hired staff. The City will work toward developing its remaining and new staff to be able to complete all required forms in a timely manner.</p>

**City of Palos Verdes Estates
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)				
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	
5. Revenues received including allocations, project generated revenues and interest income was 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	<p><i>Finding #2015-002</i></p> <p>The City submitted its Form Two (Expenditure Report) on November 13, 2015, which is beyond the due date set under the Guidelines.</p> <p>We recommend for the City to establish procedures and controls to ensure that Form Two (Expenditure Report) is submitted by October 15 as required by the Guidelines.</p>

**City of Palos Verdes Estates
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)				
8. Expenditure Report (Form Two) was submitted on time. (continued)				<i>Management Response</i> At the end of FY 2015 the City lost two and a half long term staff members. As the department has a total of 4.5 FTE positions, that was over half the department. The duties of the resigned staff were highly segregated and not well known to the remaining and newly hired staff. The City will work toward developing its remaining and new staff to be able to complete all required forms in a timely manner.
9. Timely use of funds.	X		None	
10. Administrative expenses are within the 20% cap.	X		None	
11. Fund exchanges were approved by LACMTA.				Not applicable.
12. A separate account was established for Capital reserve funds and Capital reserve was 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.				Not applicable. There were no expenditures in FY 2014/15.

EXIT CONFERENCE

An exit conference was held on March 8, 2016 with a City of Palos Verdes Estates representative. Those in attendance were:

Vasquez and Company LLP representatives:
Roger Martinez – Partner
Marialyn Salvador – Audit Manager

City of Palos Verdes Estates representative:
Donna Coonan – Financial Services Manager

Matters discussed:

Results of the audit disclosed issues of noncompliance with the Guidelines.

A copy of this report was forwarded to the following City of Palos Verdes Estates representative for comments prior to the issuance of the final report:

Donna Coonan – Financial Services Manager



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