

***CITY OF PALOS VERDES ESTATES  
ANNUAL FINANCIAL REPORT OF THE  
PROPOSITION A LOCAL RETURN FUND  
PROPOSITION C LOCAL RETURN FUND  
MEASURE R LOCAL RETURN FUND  
MEASURE M LOCAL RETURN FUND  
TRANSPORTATION DEVELOPMENT ACT  
ARTICLE 3 FUND  
FOR THE FISCAL YEARS ENDED  
JUNE 30, 2021 AND 2020***



**Metro<sup>®</sup>**



Simpson & Simpson, LLP  
Certified Public Accountants

**CITY OF PALOS VERDES ESTATES**

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***CITY OF PALOS VERDES ESTATES***

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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 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 (PALRF), Proposition C Local Return Fund (PCLRF), Measure R Local Return Fund (MRLRF), Measure M Local Return Fund (MMLRF), and Transportation Development Act Article 3 Fund (TDAA3F) (collectively, the Funds), of the City of Palos Verdes Estates, California (the City) as of and for the years ended June 30, 2021 and 2020, 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 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial 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 PALRF, PCLRF, MRLRF, MMLRF and TDAA3F of the City of Palos Verdes Estates, California, as of June 30, 2021 and 2020, 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 PALRF, PCLRF, MRLRF, MMLRF and TDAA3F of the City and do not purport to, and do not, present fairly the financial position of the City of Paramount, California, as of June 30, 2021 and 2020, 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. 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 Funds' financial statements. Such 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 Funds' financial statements or to the Funds' 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' financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have issued our report dated November 19, 2021, on our consideration of the City's internal control over the Funds' financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over the Funds' financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over the Funds' financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over the Funds' financial reporting and compliance.

A handwritten signature in cursive script, reading "Simpson &amp; Simpson".

Los Angeles, California  
November 19, 2021

**CITY OF PALOS VERDES ESTATES**  
**PROPOSITION A LOCAL RETURN FUND**  
**BALANCE SHEETS**  
June 30

	2021	2020
<b>ASSETS</b>		
Cash and investments	\$ 113,847	\$ 95,797
Total assets	\$ 113,847	\$ 95,797
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ -	\$ -
Total liabilities	-	-
 <b>Fund Balance</b>		
Restricted	113,847	95,797
Total fund balance	113,847	95,797
Total liabilities and fund balance	\$ 113,847	\$ 95,797

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

**CITY OF PALOS VERDES ESTATES**  
**PROPOSITION A LOCAL RETURN FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
For the Fiscal Years Ended June 30

	2021	2020
<b>REVENUES</b>		
Proposition A	\$ 272,507	\$ 262,325
Interest income	1,231	1,298
Total revenues	273,738	263,623
 <b>EXPENDITURES</b>		
Various projects	255,688	244,571
Total expenditures	255,688	244,571
 Excess of revenues over expenditures	18,050	19,052
 Fund balance at beginning of year	95,797	76,745
 Fund balance at end of year	\$ 113,847	\$ 95,797

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



**CITY OF PALOS VERDES ESTATES**  
**PROPOSITION A LOCAL RETURN FUND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES**  
**ACTUAL AND METRO APPROVED PROJECT BUDGET**  
**For the Fiscal Year Ended June 30, 2021**  
(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2020)

Project Code	Project Name	2021			2020 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
105	PV Transit/DAR	\$ 249,805	\$ 245,543	\$ 4,262	\$ 237,469
470	Member Dues - South Bay Cities COG FY 20/21	7,077 *	10,145	(3,068)	-
270-01	Member Dues - South Bay Cities COG	-	-	-	7,102
	Total expenditures	\$ <u>256,882</u>	\$ <u>255,688</u>	\$ <u>1,194</u>	\$ <u>244,571</u>

\* The City received a retroactive approval from Metro on November 22, 2021 to amend the budget for Project 470, Member Dues - South Bay Cities COG FY 20/21 from \$7,077 to \$10,145. See Compliance Matrix and Schedule of Findings and Recommendations, Finding No. 2021-001.

See accompanying independent auditor's report.

**CITY OF PALOS VERDES ESTATES**  
**PROPOSITION A LOCAL RETURN FUND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CAPITAL ASSETS**  
 June 30, 2021

Date Acquired	Description	Balance 7/1/2020	Additions	Deletions	Balance 6/30/2021
	None	\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See accompanying independent auditor's report.

**CITY OF PALOS VEDES ESTATES**  
**PROPOSITION C LOCAL RETURN FUND**  
**BALANCE SHEETS**  
June 30

	2021	2020
<b>ASSETS</b>		
Cash and investments	\$ 825,245	\$ 593,355
Total assets	\$ 825,245	\$ 593,355
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ -	\$ -
Total liabilities	-	-
 <b>Fund Balance</b>		
Restricted	825,245	593,355
Total fund balance	825,245	593,355
Total liabilities and fund balance	\$ 825,245	\$ 850,403

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

**CITY OF PALOS VERDES ESTATES**  
**PROPOSITION C LOCAL RETURN FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
For the Fiscal Years Ended June 30

	2021	2020
<b>REVENUES</b>		
Proposition C	\$ 226,035	\$ 217,599
Interest income	5,855	13,931
Total revenues	231,890	231,530
 <b>EXPENDITURES</b>		
Various projects	-	488,578
Total expenditures	-	488,578
 Excess (deficiency) of revenues over expenditures	231,890	(257,048)
 Fund balance at beginning of year	593,355	850,403
 Fund balance at end of year	\$ 825,245	\$ 593,355

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

**CITY OF PALOS VERDES ESTATES**  
**PROPOSITION C LOCAL RETURN FUND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES**  
**ACTUAL AND METRO APPROVED PROJECT BUDGET**  
**For the Fiscal Year Ended June 30, 2021**  
**(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2020)**

Project Code	Project Name	2021			2020 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
705	Arterial Street Resurfacing - Fiscal Year 2020/2021	\$ 500,000	\$ -	\$ 500,000	\$ -
440-02	Arterial Street Resurfacing	-	-	-	488,578
	Total expenditures	\$ <u>500,000</u>	\$ <u>-</u>	\$ <u>500,000</u>	\$ <u>488,578</u>

See accompanying independent auditor's report.

***CITY OF PALOS VERDES ESTATES***  
**PROPOSITION C LOCAL RETURN FUND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CAPITAL ASSETS**  
 June 30, 2021

Date Acquired	Description	Balance 7/1/2020	Additions	Deletions	Balance 6/30/2021
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See accompanying independent auditor's report.

**CITY OF PALOS VERDES ESTATES**  
**MEASURE R LOCAL RETURN FUND**  
**BALANCE SHEETS**  
June 30

	2021	2020
<b>ASSETS</b>		
Cash and investments	\$ 173,349	\$ 952
Total assets	\$ 173,349	\$ 952
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ -	\$ -
Total liabilities	-	-
 <b>Fund Balance</b>		
Restricted	173,349	952
Total fund balance	173,349	952
Total liabilities and fund balance	\$ 173,349	\$ 952

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

**CITY OF PALOS VERDES ESTATES**  
**MEASURE R LOCAL RETURN FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
For the Fiscal Years Ended June 30

	2021	2020
<b>REVENUES</b>		
Measure R	\$ 169,761	\$ 162,966
Interest income	2,636	4,021
Total revenues	172,397	166,987
 <b>EXPENDITURES</b>		
Various projects	-	348,983
Total expenditures	-	348,983
 Excess (deficiency) of revenues over expenditures	172,397	(181,996)
 Fund balance at beginning of year	952	182,948
 Fund balance at end of year	\$ 173,349	\$ 952

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



**CITY OF PALOS VERDES ESTATES**  
**MEASURE R LOCAL RETURN FUND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES**  
**ACTUAL AND METRO APPROVED PROJECT BUDGET**  
**For the Fiscal Year Ended June 30, 2021**  
**(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2020)**

Project Code	Project Name	2021			2020 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
705	Resurfacing and Slurry Seal on Local Streets - Fiscal Year 2020/2021	\$ 500,000	\$ -	\$ 500,000	\$ -
1.05	Resurfacing and Slurry Seal on Local Streets FY2019-20	-	-	-	348,983
	Total expenditures	\$ <u>500,000</u>	\$ <u>-</u>	\$ <u>500,000</u>	\$ <u>348,983</u>

See accompanying independent auditor's report.

**CITY OF PALOS VERDES ESTATES**  
**MEASURE R LOCAL RETURN FUND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CAPITAL ASSETS**  
 June 30, 2021

Date Acquired	Description	Balance 7/1/2020	Additions	Deletions	Balance 6/30/2021
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See accompanying independent auditor's report.

**CITY OF PALOS VERDES ESTATES**  
**MEASURE M LOCAL RETURN FUND**  
**BALANCE SHEETS**  
June 30

	2021	2020
<b>ASSETS</b>		
Cash and investments	\$ 197,903	\$ 4,570
Total assets	\$ 197,903	\$ 4,570
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ -	\$ -
Total liabilities	-	-
 <b>Fund Balance</b>		
Restricted	197,903	4,570
Total fund balance	197,903	4,570
Total liabilities and fund balance	\$ 197,903	\$ 4,570

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

**CITY OF PALOS VERDES ESTATES**  
**MEASURE M LOCAL RETURN FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
For the Fiscal Years Ended June 30

	2021	2020
<b>REVENUES</b>		
Measure M	\$ 192,345	\$ 183,393
Interest income	988	6,482
Total revenues	193,333	189,875
 <b>EXPENDITURES</b>		
Various projects	-	528,223
Total expenditures	-	528,223
 Excess (deficiency) of revenues over expenditures	193,333	(338,348)
 Fund balance at beginning of year	4,570	342,918
 Fund balance at end of year	\$ 197,903	\$ 4,570

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

**CITY OF PALOS VERDES ESTATES**  
**MEASURE M LOCAL RETURN FUND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES**  
**ACTUAL AND METRO APPROVED PROJECT BUDGET**  
**For the Fiscal Year Ended June 30, 2021**

Project Code	Project Name	2021			2020 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
705	Citywide Resurfacing and Slurry Seal on Local Streets Project - Fiscal Year 2021/2021.	\$ 150,000	\$ -	\$ 150,000	\$ -
1.05	Resurfacing and Slurry Seal on Local Streets FY2019-20	-	-	-	528,223
	Total expenditures	\$ 150,000	\$ -	\$ 150,000	\$ 528,223

See accompanying independent auditor's report.

**CITY OF PALOS VERDES ESTATES**  
**MEASURE M LOCAL RETURN FUND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CAPITAL ASSETS**  
 June 30, 2021

Date Acquired	Description	Balance 7/1/2020	Additions	Deletions	Balance 6/30/2021
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See accompanying independent auditor's report.

**CITY OF PALOS VERDES ESTATES**  
TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND  
(PURSUANT TO PUBLIC UTILITIES CODE SECTION 99234)  
BALANCE SHEETS  
June 30

	2021	2020
<b>ASSETS</b>		
Cash and investments	\$ -	\$ -
Total assets	\$ -	\$ -
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ -	\$ -
Total liabilities	-	-
 <b>Fund Balance</b>		
Restricted	-	-
Total fund balance	-	-
Total liabilities and fund balance	\$ -	\$ -

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

**CITY OF PALOS VERDES ESTATES**  
**TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
For the Fiscal Years Ended June 30

	2021	2020
<b>REVENUES</b>		
TDA 3	\$ -	\$ -
Total revenues	-	-
 <b>EXPENDITURES</b>		
Annual sidewalk program	-	9,275
Total expenditures	-	9,275
 Excess (deficiency) of revenues over expenditures	-	(9,275)
 Fund balance at beginning of year	-	9,275
 Fund balance at end of year	\$ -	\$ -

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



**CITY OF PALOS VERDES ESTATES**  
TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF TRANSPORTATION DEVELOPMENT ACT  
ALLOCATION FOR SPECIFIC PROJECTS  
For the Fiscal Year Ended June 30, 2021

<u>Project Description</u>	<u>Program Year</u>	<u>Allocations</u>	<u>Expenditures</u>	<u>Unexpended Allocations</u>	<u>Project Status</u>
<b>Local allocations</b>					
Annual sidewalk program		\$ -	\$ -	\$ -	
Total		<u>\$ -</u>	<u>\$ -</u>		
Fund balance at beginning of year				-	
Fund balance at end of year				<u>\$ -</u>	

See accompanying independent auditor's report.

**CITY OF PALOS VERDES ESTATES**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Years Ended June 30, 2021 and 2020

**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), Measure M Local Return Fund (MMLRF) 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.

MMLRF is derived from 17% 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 a Special Revenue Fund that accounts for the City’s share of the Transportation Development Act Article 3 allocations which are legally restricted for specific purposes.

*Basis of Accounting and Measurement Focus*

PALRF, PCLRF, MRLRF, MMLRF 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.

Special Revenue funds are reported on the 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. The statement of revenues, expenditures and changes in fund balance 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 PALOS VERDES ESTATES**  
NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Years Ended June 30, 2021 and 2020  
(Continued)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Fair Value Measurement*

In accordance with Governmental Accounting Standards Board (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 investment at fair value and recognizes unrealized gain (loss) on investments.

Refer to City’s 2021 Comprehensive Annual Financial Report for detailed disclosures regarding the City’s investments policy and fair value measurement.

*Fund Balance Reporting*

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 resources reported in governmental funds.

The PALRF, PCLRF, MRLRF, MMLRF and TDAA3F report the following fund balance classifications as of June 30, 2021:

- Restricted – Amounts that are constrained for specific purpose, which are externally imposed by providers, such as creditors, or amounts constrained due to constitutional provisions or enabling legislation. The uses of the funds’ remaining fund balances are restricted for projects approved by Los Angeles County Metropolitan Transportation Authority (Metro).

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, MMLRF and TDAA3F and their compliance with the Proposition A and Proposition C Local Return Program Guidelines, Measure R Local Return Program Guidelines, Measure M Local Return Program Guidelines and Transportation Development Act Article 3 and the Los Angeles County Metropolitan Transportation Authority Funding and Allocation Guidelines for Transportation Development Act Article 3 Bicycle and Pedestrian Funds.

**CITY OF PALOS VERDES ESTATES**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Years Ended June 30, 2021 and 2020  
(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. See accompanying Compliance Matrix.

**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. See accompanying Compliance Matrix.

**NOTE 5 – MEASURE M LOCAL RETURN COMPLIANCE REQUIREMENTS**

On June 23, 2016, the Metro Board of Directors approved the Los Angeles County Traffic Improvement Plan Ordinance, known as Measure M. In accordance with Measure M Local Return Program Guidelines, funds received pursuant to these guidelines may only be used for Measure M Local Return approved programs. See accompanying Compliance Matrix.

**NOTE 6 – 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 7 – CASH AND INVESTMENTS**

The PALRF, PCLRF, MRLRF, MMLRF and TDAA3F's 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 and investments 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.

**CITY OF PALOS VERDES ESTATES**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Years Ended June 30, 2021 and 2020  
(Continued)

**NOTE 8 – TRANSPORTATION DEVELOPMENT ACT FUND REVENUE ALLOCATION**

The revenue allocation for the years ended June 30, 2021 and 2020 consisted of the following:

	2021	2020
FY 2019-20 allocation	\$ -	\$ -
FY 2020-21 allocation	-	-
Total payment requested	\$ -	\$ -

**NOTE 9 – TRANSPORTATION DEVELOPMENT ACT 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, 2021, and 2020, the City has funds on reserve as follows:

	2021	2020
FY 2019-20 allocation	\$ 9,775	\$ 9,775
FY 2020-21 allocation	7,566	-
Available reserve balance	\$ 17,341	\$ 9,775

**NOTE 10 – IMPACT OF CORONAVIRUS**

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the United States.

It is unknown how long these conditions will last and what the complete financial effect will be to businesses and other affected organizations, including local governmental entities. However, the City's management believes that the financial impact, if any, will not materially affect the June 30, 2021 Funds' financial statement.

**NOTE 11 – SUBSEQUENT EVENTS**

The City has evaluated subsequent events through November 19, 2021, the date the financial statements were available to be issued and concluded no other events have occurred that require disclosure or adjustments to the financial statements.



SIMPSON & SIMPSON  
CERTIFIED PUBLIC ACCOUNTANTS  
FOUNDING PARTNERS  
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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 Palos Verdes Estates, 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, Proposition C Local Return Fund, Measure R Local Return Fund, Measure M Local Return Fund, and 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, 2021, and the related notes to the financial statements, and have issued our report thereon dated November 19, 2021.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the Funds’ financial statements, we considered the City’s internal control over financial reporting (internal control) as a basis for designing 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 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 Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund, Measure M 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 financial statements. 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 &amp; Simpson".

Los Angeles, California  
November 19, 2021

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*COMPLIANCE SECTION*

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SIMPSON & SIMPSON

CERTIFIED PUBLIC ACCOUNTANTS  
FOUNDING PARTNERS  
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## Independent Auditor's Report On Compliance

To the Honorable Members of the City Council of the  
City of Palos Verdes Estates, California and the  
Los Angeles County Metropolitan Transit 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, Measure M 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 (collectively, the Guidelines) for the year ended June 30, 2021.

### *Management's Responsibility*

Management is responsible for the City's compliance with the 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 Proposition A Local Return Program, Proposition C Local Return Program, Measure R Local Return Program, Measure M 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 on Each Local Return Program and Transportation Development Act Article 3*

In our opinion, the City complied, in all material respects, with the compliance requirements of the Guidelines for the year ended June 30, 2021.



## Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Guidelines and which are described in the accompanying Schedule of Findings and Recommendations as Finding No. 2021-001 to Finding No. 2021-002. Our opinions on each local return and Transportation Development Act Article 3 program are not modified with respect to this matter.

The City's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Recommendations. 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 Guidelines 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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance under the Guidelines 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 Guidelines 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. We did identify a deficiency in internal control over compliance, described in the accompanying Schedule of Findings and Recommendations as Finding No. 2021-002, that we consider to be a significant deficiency.

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 cursive script that reads "Simpson &amp; Simpson".

Los Angeles, California  
November 19, 2021

**CITY OF PALOS VERDES ESTATES**  
**COMPLIANCE MATRIX**  
Year Ended June 30, 2021

Compliance Requirement		In Compliance			Questioned Costs	If no, provide details and management response.
		Yes	No	N/A		
<b>A. Proposition A and Proposition C Local Return Funds</b>						
1.	Uses the State Controller's Uniform System of Accounts and Records or has established a separate Proposition A and Proposition C Local Transit Assistance Account for Local Return purposes.	X			None	
2.	Revenues received including allocations, project generated revenues and interest income was properly credited to the Proposition A and/or Proposition C Local Return Account	X			None	
3.	Funds were expended with Metro's approval and were not substituted for property tax.	X			None	
4.	Timely use of funds.		X		\$119,441	See Finding No. 2021-002 on the Schedule of Findings and Recommendations.
5.	Administrative expenses are within the 20% cap.			X	None	There were no administrative expenditures in FY20/21.
6.	Expenditures that exceeded 25% of approved project budget have approved amended Project Description Form (Form A) or electronic equivalent.		X		\$1,299	See Finding No. 2021-001 on the Schedule of Findings and Recommendations.
7.	Annual Project Update Report (Form B) or electronic equivalent was submitted on time.	X			None	
8.	Annual Expenditure Report (Form C) or electronic equivalent was submitted on time.	X			None	
9.	Pavement Management System (PMS) is in place and being used for Street Maintenance or Improvement Projects Expenditures.			X	None	There were no Street Maintenance or Improvement Projects Expenditures in FY20/21.
10.	Local Return Account is credited for reimbursable expenditures.	X			None	
11.	Where Proposition A funds were given, loaned or exchanged by one jurisdiction to another, the receiving jurisdiction has credited its Local Return Account with the funds received.			X	None	Prop A and Prop C funds were not given, loaned, or exchanged in FY20/21.
12.	Self-Certification was completed and submitted for Intelligent Transportation Systems projects and elements.			X	None	ITS Certification was not required for Prop A and Prop C funds in FY20/21.

**CITY OF PALOS VERDES ESTATES**  
**COMPLIANCE MATRIX**  
Year Ended June 30, 2021

Compliance Requirement		In Compliance			Questioned Costs	If no, provide details and management response.
		Yes	No	N/A		
<b>A. Proposition A and Proposition C Local Return Funds</b>						
13.	A separate account was established for Capital reserve funds, Capital reserve was approved by Metro and current status is reported in the Annual Project Update (Form B) or electronic equivalent.			X	None	No capital reserve fund established for Prop A and Prop C funds in FY20/21.
14.	Recreational transit form was submitted on time.			X	None	There was no recreational transit funded by Prop A and Prop C funds in FY20/21.
15.	Fund exchanges (trades, loans, or gifts) were approved by Metro.			X	None	There were no fund exchanges in FY20/21.
16.	Proposition C Local Return Funds were used to augment, not supplant existing local revenues being used for road improvement purposes.	X			None	
17.	All on-going and carryover projects were reported on Form B or electronic equivalent.	X			None	
18.	Cash or cash equivalents are maintained.	X			None	
19.	Accounting procedures, record keeping, and documentation are adequate.	X			None	

**CITY OF PALOS VERDES ESTATES**  
**COMPLIANCE MATRIX**  
Year Ended June 30, 2021  
(Continued)

Compliance Requirement		In Compliance			Questioned Costs	If no, provide details and management response.
		Yes	No	N/A		
<b>B. Measure R Local Return Fund</b>						
1.	Funds were expended for transportation purposes.	X			None	
2.	Separate Measure R Local Return Account was established.	X			None	
3.	Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure R Local Return Account.	X			None	
4.	Funds were expended with Metro's approval.			X	None	There were no expenditures in FY20/21.
5.	Funds were not substituted for property tax and are in compliance with the Maintenance of Effort.	X			None	
6.	Timely use of funds.	X			None	
7.	Administrative expenses are within the 20% cap.			X	None	There were no administrative expenditures in FY20/21.
8.	Expenditure Plan (Form One) or electronic equivalent) was submitted on time.	X			None	
9.	Expenditure Report (Form Two) or electronic equivalent) was submitted on time.	X			None	
10.	Where funds expended were reimbursable by other grants or fund sources, the reimbursement was credited to the Local Return Account upon receipt of the reimbursement.	X			None	
11.	Where Measure R funds were given, loaned or exchanged by one jurisdiction to another, the receiving jurisdiction has credited its Local Return Account with the funds received.			X	None	Measure R funds were not given, loaned or exchanged in FY20/21.
12.	A separate account was established for Capital reserve funds and Capital reserve was approved by Metro.			X	None	No capital reserve fund established for Measure R Fund in FY20/21.
13.	Funds were used to augment, not supplant existing local revenues being used for transportation purposes unless there is a fund shortfall.	X			None	

**CITY OF PALOS VERDES ESTATES**  
**COMPLIANCE MATRIX**  
Year Ended June 30, 2021  
(Continued)

Compliance Requirement		In Compliance			Questioned Costs	If no, provide details and management response.
		Yes	No	N/A		
<b>B. Measure R Local Return Fund</b>						
14.	Recreational transit form was submitted on time.			X	None	There was no recreational transit funded by Measure R in FY20/21.
15.	Fund exchanges (trades, loans, or gifts) were approved by Metro.			X	None	There were no fund exchanges in FY20/21.
16.	Accounting procedures, record keeping, and documentation are adequate.	X			None	

**CITY OF PALOS VERDES ESTATES**  
**COMPLIANCE MATRIX**  
Year Ended June 30, 2021  
(Continued)

Compliance Requirement		In Compliance			Questioned Costs	If no, provide details and management response.
		Yes	No	N/A		
<b>C. Measure M Local Return Fund</b>						
1.	Funds were expended for transportation purposes.	X			None	
2.	Separate Measure M Local Return Account was established.	X			None	
3.	Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure M Local Return Account.	X			None	
4.	Funds were expended with Metro's approval.			X	None	There were no expenditures in FY20/21.
5.	Funds were not substituted for property tax and are in compliance with the Maintenance of Effort.	X			None	
6.	Timely use of funds.	X			None	
7.	Administrative expenses are within the 20% cap.			X	None	There were no administrative expenditures in FY20/21.
8.	Expenditure Plan (or electronic equivalent) was submitted on time.	X			None	
9.	Expenditure Report (or electronic equivalent) was submitted on time.	X			None	
10.	Where funds expended were reimbursable by other grants or fund sources, the reimbursement was credited to the Local Return Account upon receipt of the reimbursement.	X			None	
11.	Where Measure M funds were given, loaned or exchanged by one jurisdiction to another, the receiving jurisdiction has credited its Local Return Account with the funds received.			X	None	Measure M funds were not given, loaned or exchanged in FY20/21.
12.	A separate account was established for Capital reserve funds and Capital reserve was approved by Metro.			X	None	No capital reserve fund established for Measure M Fund in FY20/21.
13.	Funds were used to augment, not supplant existing local revenues being used for transportation purposes unless there is a fund shortfall.	X			None	

**CITY OF PALOS VERDES ESTATES**  
**COMPLIANCE MATRIX**  
Year Ended June 30, 2021  
(Continued)

Compliance Requirement		In Compliance			Questioned Costs	If no, provide details and management response.
		Yes	No	N/A		
<b>C. Measure M Local Return Fund</b>						
14.	Recreational transit form was submitted on time.			X	None	There was no recreational transit funded by Measure M in FY20/21.
15.	Fund exchanges (trades, loans, or gifts) were approved by Metro.			X	None	There were no fund exchanges in FY20/21.
16.	Accounting procedures, record keeping, and documentation are adequate.	X			None	



**CITY OF PALOS VERDES ESTATES**  
**COMPLIANCE MATRIX**  
 Year Ended June 30, 2021  
 (Continued)

Compliance Requirement		In Compliance			Questioned Costs	If no, provide details and management response.
		Yes	No	N/A		
<b>D. Transportation Development Act Article 3 Fund</b>						
1.	Timely use of funds.	X			None	
2.	Expenditures were incurred for activities relating to pedestrian and bicycle facilities and amenities.	X			None	

**CITY OF PALOS VERDES ESTATES**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
June 30, 2021

**PALRF: Finding No. 2021-001**

<b>Compliance Reference</b>	According to Proposition A and Proposition C Local Return Guidelines, Section I (C), Project Description Form (Form A): “Jurisdictions shall submit for approval a Project Description Form prior to the expenditure of funds for: 1) a new project; 2) a new route; 3) a 25 percent change (increase or decrease) in route or revenue vehicle miles for an established LR funded transit service; 4) a 0.75 miles or greater service change that duplicates/overlays an existing transit service; or 5) a 25 percent or greater change in an approved LR project budget or scope on all operating or capital LR projects.”
<b>Condition</b>	The City exceeded more than 25 percent of Metro’s approved budget on PALRF Project Code 105, PV Transit/DAR prior to approval from Metro. The amount that exceeded the approved budget by more than 25 percent was \$1,299. Subsequently, the City submitted a request to increase the budget to Metro for Project Code 105 and received subsequent approval on November 19, 2021.
<b>Cause</b>	It was due to staff turnover and oversight by the City’s program department.
<b>Effect</b>	The City’s PALRF project expenditures exceeded 25 percent of Metro’s approved budget. The City did not comply with the Proposition A and Proposition C Local Return Guidelines.
<b>Recommendation</b>	We recommend that the City establish procedures to ensure that project expenditures are within the 25 percent cap of Metro’s approved budget. If the City expects project expenditures will be in excess of 25 percent of the approved budget, the City should update in the Local Return Management System (LRMS) to obtain Metro’s approval for the change in project budget prior to the expenditure of funds.
<b>Management’s Response</b>	The City will establish procedures to ensure that project expenditures are within the 25 percent cap of Metro’s approved budget.
<b>Corrected During the Audit</b>	The City requested and obtained a budget increase from Metro on November 19, 2021. No follow-up is required.

**CITY OF PALOS VERDES ESTATES**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
June 30, 2021

**PCLRF: Finding No. 2021-002**

<b>Compliance Reference</b>	According to Proposition A and Proposition C Local Return Guidelines Section IV. E. Timey Use of Funds, “Under the Proposition A and Proposition C Ordinances, Jurisdictions have three years to expend LR funds. Funds must be expended within three years of the last day of the fiscal year in which funds were originally allocated. Therefore, by method of calculation, each Jurisdiction has the Fiscal Year of allocation plus three years to expend Proposition A and/or Proposition C funds.”
<b>Condition</b>	The City’s fiscal year 2018 ending fund balance in the amount of \$119,441 was not expended within 3 years as of June 30, 2021 and it was not reserved for capital projects as required by the Proposition A and Proposition C Local Return Guidelines.  This is a repeat finding from fiscal year 2019.
<b>Cause</b>	It was due to staff turnover and oversight by the City’s program department.
<b>Effect</b>	The City is not in compliance with the requirements of the Guidelines.
<b>Recommendation</b>	In order to avoid future lapsed funds, we recommend that the City establish a procedure where the Finance staff review the estimated annual fund balance so that a capital reserve account can be established when warranted.
<b>Management’s Response</b>	The City will establish procedures to ensure that ensure all funds are appropriately expended or reserved for capital projects according to the Proposition A and Proposition C Local Return Guidelines.
<b>Corrected During the Audit</b>	On November 19, 2021, Metro granted the City an extension on the usage of lapsed funds until June 30, 2022.

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***EXIT CONFERENCE***

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**CITY OF PALOS VERDES ESTATES**  
PROPOSITION A, PROPOSITION C, MEASURE R, MEASURE M LOCAL RETURN FUNDS AND  
TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND  
EXIT CONFERENCE  
June 30, 2021

An exit conference was held on November 22, 2021 with the City of Palos Verdes Estates. Those in attendance were:

***Simpson & Simpson Representative:***

Terry Bian, Senior Auditor

***City's Representative:***

Stephen W. Hannah, Director, City Support Services

***Matters Discussed:***

Results of the audit disclosed no significant control deficiencies and two (2) non-compliance issues with Metro Guidelines.

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

Stephen W. Hannah, Director, City Support Services

Simpson & Simpson, LLP  
633 West 5<sup>th</sup> Street, Suite 3320  
Los Angeles, CA 90071

RE: CITY OF PALOS VERDES ESTATES ANNUAL FINANCIAL REPORT OF THE PROPOSITION A LOCAL RETURN FUND, PROPOSITION C LOCAL RETURN FUND, MEASURE R LOCAL RETURN FUND, MEASURE M LOCAL RETURN FUND AND TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND FOR THE FISCAL YEARS ENDED JUNE 30, 2021 AND 2020

I have received the annual financial report of the Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund, Measure M Local Return Fund and Transportation Development Act Article 3 Fund for the years ended June 30, 2021 and 2020 for the City of Palos Verdes Estates and agree with the contents of the report except as indicated below:

(Attach additional pages if necessary)

Very truly yours,

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Name

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Title

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Date