

***CITY OF PALMDALE  
ANNUAL FINANCIAL REPORT OF THE  
PROPOSITION A LOCAL RETURN FUND  
PROPOSITION C LOCAL RETURN FUND  
MEASURE R LOCAL RETURN FUND  
TRANSPORTATION DEVELOPMENT ACT  
ARTICLE 3 FUND  
TRANSPORTATION DEVELOPMENT ACT  
ARTICLE 8 FUND***

***FOR THE FISCAL YEARS ENDED  
JUNE 30, 2017 AND 2016***



**Metro<sup>®</sup>**



Simpson & Simpson, LLP  
Certified Public Accountants

***CITY OF PALMDALE***  
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*FINANCIAL SECTION*

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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the Proposition A Local Return Fund (PALRF), Proposition C Local Return Fund (PCLRF), Measure R Local Return Fund (MRLRF), Transportation Development Act Article 3 Fund (TDAA3F) and Transportation Development Act Article 8 Fund (TDAA8F) of the City of Palmdale, California (City) as of and for the years ended June 30, 2017, and 2016, and the related notes to the financial statements, as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion 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 of material misstatement.

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

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





***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the PALRF, PCLRF, MRLRF, TDAA3F, and TDAA8F of the City of Palmdale, California, as of June 30, 2017, and 2016, and the respective changes in their 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, TDAA3F, and TDAA8F and do not purport to, and do not, present fairly the financial position of the City of Palmdale, California, as of June 30, 2017 and 2016, and the changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Supplementary Information***

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

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

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

In accordance with *Government Auditing Standards*, we have issued our report dated November 17, 2017, on our consideration of the City of Palmdale's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, 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 cursive script that reads "Simpson &amp; Simpson".

Los Angeles, California  
November 17, 2017

**CITY OF PALMDALE**

**PROPOSITION A LOCAL RETURN FUND**

**BALANCE SHEETS**

**JUNE 30**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and investments	\$ 4,724,062	\$ 4,459,790
Interest receivable	12,255	8,137
Total assets	<u>\$ 4,736,317</u>	<u>\$ 4,467,927</u>
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ 4,248	\$ 18,092
Due to general fund	-	39,006
Wages payable	1,251	2,382
Total liabilities	<u>5,499</u>	<u>59,480</u>
 <b>Fund Balance</b>		
Restricted	<u>4,730,817</u>	<u>4,408,447</u>
Total fund balance	<u>4,730,817</u>	<u>4,408,447</u>
 Total liabilities and fund balance	 <u>\$ 4,736,317</u>	 <u>\$ 4,467,927</u>

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

**CITY OF PALMDALE**

**PROPOSITION A LOCAL RETURN FUND**

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

For the Fiscal Years Ended June 30

	<u>2017</u>	<u>2016</u>
<b>REVENUES</b>		
Proposition A	\$ 2,864,999	\$ 2,809,648
Interest income	47,287	39,000
Unrealized (loss) gain	<u>(50,597)</u>	<u>10,583</u>
Total revenues	<u>2,861,689</u>	<u>2,859,231</u>
<b>EXPENDITURES</b>		
Various projects	<u>2,539,319</u>	<u>2,744,021</u>
Total expenditures	<u>2,539,319</u>	<u>2,744,021</u>
Excess of revenues over expenditures	322,370	115,210
Fund balance at beginning of year	<u>4,408,447</u>	<u>4,293,237</u>
Fund balance at end of year	<u><u>\$ 4,730,817</u></u>	<u><u>\$ 4,408,447</u></u>

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

**CITY OF PALMDALE**

PROPOSITION A LOCAL RETURN FUND

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES

ACTUAL AND METRO APPROVED PROJECT BUDGET

For the Fiscal Year Ended June 30, 2017

(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2016)

Project Code	Project Name	2017			2016 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
110-01	AVTA (City Contribution to O&M)	\$ 2,162,040	\$ 2,024,727	\$ 137,313	\$ 1,904,885
140-01	Recreational Transit Services	-	-	-	17,434
230-04	Park and Ride Security	83,150	65,508	17,642	60,838
230-05	PTC Security Cameras	1	-	1	95,474
270-01	HSR Station Planning	1	-	1	11,181
270-02	Multimodal Transit Facility Study	5,100	5,077	23	-
270-15	North County ITS Forum	600,000	435,823	164,177	599,009
310-20	Palmdale Transportation Center Wayfinding Signage	17,000	8,184	8,816	55,200
	Total expenditures	\$ 2,867,292	\$ 2,539,319	\$ 327,973	\$ 2,744,021

Note: Of the total FY 2017 actual expenditures above, \$2,090,235 were transferred to the City's General Fund and were spent on approved Proposition A projects as listed above.

See accompanying independent auditor's report.



*CITY OF PALMDALE*

PROPOSITION A LOCAL RETURN FUND

SUPPLEMENTARY INFORMATION  
SCHEDULE OF CAPITAL ASSETS

June 30, 2017

<u>Date Acquired</u>	<u>Description</u>	<u>Balance 7/1/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2017</u>
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See accompanying independent auditor's report.

**CITY OF PALMDALE**

**PROPOSITION C LOCAL RETURN FUND**

**BALANCE SHEETS**

**JUNE 30**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and investments	\$ 6,195,411	\$ 4,334,081
Due from LACMTA	3,713,768	3,651,326
Interest receivable	16,070	7,977
Other receivable	-	69,005
Total assets	<u>\$ 9,925,249</u>	<u>\$ 8,062,389</u>
 <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ 1,074,157	\$ 1,023,218
Retention payable	850,187	392,947
Wages payable	274	347
Total liabilities	<u>1,924,618</u>	<u>1,416,512</u>
 <b>Deferred Inflow of Resources</b>		
Unavailable revenue (Note 7)	\$ 3,331,562	\$ 3,651,326
Total deferred inflow of resources	<u>3,331,562</u>	<u>3,651,326</u>
 <b>Fund Balance</b>		
Restricted	<u>4,669,069</u>	<u>2,994,551</u>
Total fund balance	<u>4,669,069</u>	<u>2,994,551</u>
Total liabilities, deferred inflow of resources and fund balance	<u>\$ 9,925,249</u>	<u>\$ 8,062,389</u>

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

**CITY OF PALMDALE**

**PROPOSITION C LOCAL RETURN FUND**

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

For the Fiscal Years Ended June 30

	<u>2017</u>	<u>2016</u>
<b>REVENUES</b>		
Proposition C	\$ 2,347,874	\$ 2,301,289
Proposition C 25% Call for Projects Grant	4,858,366	1,682,752
Interest income	52,697	41,441
Unrealized (loss) gain	<u>(65,933)</u>	<u>10,568</u>
Total revenues	<u>7,193,004</u>	<u>4,036,050</u>
<b>EXPENDITURES</b>		
Various projects funded by PCLRF	979,884	1,012,271
Various projects funded by Call for Projects Grant (Note 7)	<u>4,538,602</u>	<u>5,248,067</u>
Total expenditures	<u>5,518,486</u>	<u>6,260,338</u>
Excess (deficiency) of revenues over expenditures	1,674,518	(2,224,288)
Fund balance at beginning of year	<u>2,994,551</u>	<u>5,218,839</u>
Fund balance at end of year	<u>\$ 4,669,069</u>	<u>\$ 2,994,551</u>

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

**CITY OF PALMDALE**

**PROPOSITION C LOCAL RETURN FUND**

**SUPPLEMENTARY INFORMATION  
SCHEDULE OF EXPENDITURES  
ACTUAL AND METRO APPROVED PROJECT BUDGET**

For the Fiscal Year Ended June 30, 2017  
(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2016)

Project Code	Project Name	2017			2016 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
110-01	AVTA (City Contribution to O&M)	\$ 300,000	\$ 250,000	\$ 50,000	\$ 241,954
270-15	North County ITS Forum	2,835,950	-	2,835,950	-
310-13	Facility Lease Payment	651,660	651,638	22	653,900
440-05	Pavement Management Program	170,000	78,246	91,754	116,417
	Total Expenditures	<u>\$ 3,957,610</u>	<u>\$ 979,884</u>	<u>\$ 2,977,726</u>	<u>\$ 1,012,271</u>

Note: Of the total FY 2017 actual expenditures above, \$901,638 were transferred to the City's General Fund and were spent on approved Proposition C projects as listed above.

See accompanying independent auditor's report.

*CITY OF PALMDALE*

PROPOSITION C LOCAL RETURN FUND

SUPPLEMENTARY INFORMATION  
SCHEDULE OF CAPITAL ASSETS

June 30, 2017

<u>Date Acquired</u>	<u>Description</u>	<u>Balance 7/1/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2017</u>
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See accompanying independent auditor's report.

**CITY OF PALMDALE**

**MEASURE R LOCAL RETURN FUND**

**BALANCE SHEETS**

**JUNE 30**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and investments	\$ 5,347,291	\$ 6,811,923
Accounts receivable	3,267,818	2,165,720
Interest receivable	<u>13,871</u>	<u>12,539</u>
Total assets	<u>\$ 8,628,980</u>	<u>\$ 8,990,182</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ 617,929	\$ 798,279
Wages payable	<u>2,124</u>	<u>2,888</u>
Total liabilities	<u>620,053</u>	<u>801,167</u>
<b>Deferred Inflow of Resources</b>		
Unavailable revenue (Note 7)	<u>3,090,743</u>	<u>1,943,316</u>
Total deferred inflow of resources	<u>3,090,743</u>	<u>1,943,316</u>
<b>Fund Balance</b>		
Restricted	<u>4,918,184</u>	<u>6,245,699</u>
Total fund balance	<u>4,918,184</u>	<u>6,245,699</u>
Total liabilities, deferred inflow of resources and fund balance	<u>\$ 8,628,980</u>	<u>\$ 8,990,182</u>

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

**CITY OF PALMDALE**

**MEASURE R LOCAL RETURN FUND**

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

For the Fiscal Years Ended June 30

	<u>2017</u>	<u>2016</u>
<b>REVENUES</b>		
Measure R	\$ 1,782,762	\$ 1,748,954
Measure R Highway Program Grant	2,115,358	1,438,403
Interest income	60,607	62,053
Unrealized (loss) gain	<u>(57,573)</u>	<u>16,268</u>
Total revenues	<u>3,901,154</u>	<u>3,265,678</u>
 <b>EXPENDITURES</b>		
Expenditures funded by MRLRF	1,965,884	816,221
Expenditures funded by Measure R Highway Program Grant (Note 7)	<u>3,262,785</u>	<u>3,315,710</u>
Total expenditures	<u>5,228,669</u>	<u>4,131,931</u>
 Deficiency of revenues over expenditures	(1,327,515)	(866,253)
 Fund balance at beginning of year	<u>6,245,699</u>	<u>7,111,952</u>
 Fund balance at end of year	<u>\$ 4,918,184</u>	<u>\$ 6,245,699</u>

The accompanying notes are an integral part of the financial statements

**CITY OF PALMDALE**

MEASURE R LOCAL RETURN FUND

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES

ACTUAL AND METRO APPROVED PROJECT BUDGET

For the Fiscal Year Ended June 30, 2017

(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2016)

Project Code	Project Name	2017			2016 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
1.20	HSIP Roundabout S8 & 40th E	\$ -	\$ 2,400	\$ (2,400)	\$ -
1.20	Road safety improvements	-	(36,537)	36,537	287,000
1.30	Ave S Widen 30th Street East to 47th Street East	-	1,883,613	(1,883,613)	483,349
1.30	RVB Widen - GAP closure	125,000	96,400	28,600	45,871
2.03	Traffic Signal - Repairs and Maintenance	-	-	-	1
2.03	Ave R and 55th Street	-	20,008	(20,008)	-
	Total Expenditures	<u>\$ 125,000</u>	<u>\$ 1,965,884</u>	<u>\$ (1,840,884)</u>	<u>\$ 816,221</u>

See accompanying independent auditor's report.



**CITY OF PALMDALE**

**MEASURE R LOCAL RETURN FUND**

**SUPPLEMENTARY INFORMATION  
SCHEDULE OF CAPITAL ASSETS**

June 30, 2017

<u>Date Acquired</u>	<u>Description</u>	<u>Balance 7/1/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2017</u>
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See accompanying independent auditor's report.

**CITY OF PALMDALE**

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

**BALANCE SHEETS**

**JUNE 30**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and investment	\$ 21,102	\$ 104,722
Interest receivable	55	191
Total assets	\$ <u>21,157</u>	\$ <u>104,913</u>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ -	\$ 13,546
Wages payable	-	916
Total liabilities	<u>-</u>	<u>14,462</u>
<b>Fund Balance</b>		
Restricted	<u>21,157</u>	<u>90,451</u>
Total fund balance	<u>21,157</u>	<u>90,451</u>
Total liabilities and fund balance	\$ <u>21,157</u>	\$ <u>104,913</u>

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

**CITY OF PALMDALE**

**TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND**

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

For the Fiscal Years Ended June 30

	<u>2017</u>	<u>2016</u>
<b>REVENUES</b>		
TDA 3	\$ -	\$ 99,170
Interest income	170	662
Unrealized gain	-	251
Total revenues	<u>170</u>	<u>100,083</u>
<b>EXPENDITURES</b>		
Construction/Maintenance	<u>69,464</u>	<u>193,139</u>
Total expenditures	<u>69,464</u>	<u>193,139</u>
Deficiency of revenues over expenditures	(69,294)	(93,056)
Fund balance at beginning of year	<u>90,451</u>	<u>183,507</u>
Fund balance at end of year	<u>\$ 21,157</u>	<u>\$ 90,451</u>

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

**CITY OF PALMDALE**

TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND  
SUPPLEMENTARY INFORMATION

SCHEDULE OF TRANSPORTATION DEVELOPMENT ACT  
ALLOCATION FOR SPECIFIC PROJECTS

For the Fiscal Year Ended June 30, 2017

<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>					
Ave S Widen	2017	\$ -	\$ 69,464	\$ (69,464)	Ongoing
Total		<u>\$ -</u>	<u>\$ 69,464</u>	(69,464)	
Unexpended interest accumulated to date				170	
Fund balance at beginning of year				<u>90,451</u>	
Fund balance at end of year				<u>\$ 21,157</u> *	

\* The fund balance of \$21,157 was encumbered as of June 30, 2017.

See accompanying independent auditor's report.

**CITY OF PALMDALE**

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

**BALANCE SHEETS  
JUNE 30**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and investment	\$ 1,270,970	\$ 269,848
Accounts receivable	-	487,724
Interest receivable	<u>3,296</u>	<u>496</u>
Total assets	<u>\$ 1,274,266</u>	<u>\$ 758,068</u>
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ <u>-</u>	\$ <u>-</u>
Total liabilities	<u>-</u>	<u>-</u>
 <b>Fund Balance</b>		
Reserved	<u>1,274,266</u>	<u>758,068</u>
Total fund balance	<u>1,274,266</u>	<u>758,068</u>
 Total liabilities and fund balance	 <u>\$ 1,274,266</u>	 <u>\$ 758,068</u>

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

**CITY OF PALMDALE**

**TRANSPORTATION DEVELOPMENT ACT ARTICLE 8 FUND**

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

For the Fiscal Years Ended June 30

	<u>2017</u>	<u>2016</u>
<b>REVENUES</b>		
TDA 8	\$ 6,137,530	\$ 5,852,688
Interest income	11,033	2,153
Unrealized (loss) gain	<u>(13,420)</u>	<u>463</u>
Total revenues	<u>6,135,143</u>	<u>5,855,304</u>
 <b>EXPENDITURES</b>		
Various expenditures	<u>5,618,945</u>	<u>5,637,671</u>
Total expenditures	<u>5,618,945</u>	<u>5,637,671</u>
 Excess of revenues over expenditures	516,198	217,633
 Fund balance at beginning of year	<u>758,068</u>	<u>540,435</u>
 Fund balance at end of year	<u>\$ 1,274,266</u>	<u>\$ 758,068</u>

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

**CITY OF PALMDALE**

TRANSPORTATION DEVELOPMENT ACT ARTICLE 8 FUND  
SUPPLEMENTARY INFORMATION

SCHEDULE OF TRANSPORTATION DEVELOPMENT ACT  
ALLOCATION FOR SPECIFIC PROJECTS

For the Fiscal Year Ended June 30, 2017

<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>					
Traffic Engineering & Street Maintenance	2017	\$ 6,137,530	\$ 5,618,945	\$ 518,585	Ongoing
Total		<u>\$ 6,137,530</u>	<u>\$ 5,618,945</u>	518,585	
Investment loss accumulated to date				(2,387)	
Fund balance at beginning of year				<u>758,068</u>	
Fund balance at end of year				<u>\$ 1,274,266</u>	*

\* The fund balance of \$1,274,266 was encumbered as of June 30, 2017.

See accompanying independent auditor's report.

## ***CITY OF PALMDALE***

### **NOTES TO FINANCIAL STATEMENTS For the Fiscal Years Ended June 30, 2017 and 2016**

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### *Fund Accounting*

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

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

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

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

##### *Basis of Accounting and Measurement Focus*

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

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

##### *Budgets and Budgetary Accounting*

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



**CITY OF PALMDALE**

**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Years Ended June 30, 2017 and 2016  
(Continued)

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

*Fair Value Measurement*

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

Refer to the City's 2017 Comprehensive Annual Financial Report for detailed disclosures regarding the City's investments policy and fair value measurements.

*Fund Balance Reporting*

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

The PALRF, PCLRF, MRLRF, TDAA3F, and TDAA8F report the following fund balance classification as of June 30, 2017:

- Restricted – Amounts that are constrained for specific purposes, which are externally imposed by providers, such as creditors, or amounts constrained due to constitutional provisions or enabling legislation. The use of the Funds' remaining fund balances are restricted for projects approved by LACMTA.

Information regarding the fund balance reporting policy adopted by the City is described in Note 1 to the City's Comprehensive Annual Financial Report.

**NOTE 2 – ANNUAL FINANCIAL STATEMENTS**

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

**CITY OF PALMDALE**

**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Years Ended June 30, 2017 and 2016  
(Continued)

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

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

**NOTE 4 – MEASURE R LOCAL RETURN COMPLIANCE REQUIREMENTS**

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

**NOTE 5 – TRANSPORTATION DEVELOPMENT ACT COMPLIANCE REQUIREMENTS**

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

**NOTE 6 – CASH AND INVESTMENTS**

The PALRF, PCLRF, MRLRF, TDAA3F, and TDAA8F cash balances were pooled with various other City funds for deposit and investment purposes. The share of each fund in the pooled cash account was separately maintained and interest income was apportioned to the participating funds based on the relationship of their average quarterly balances to the total of the pooled cash and investments.

**NOTE 7 – DEFERRED INFLOW OF RESOURCES – PCLRF & MRLRF**

The City recognizes revenue when the payments for services rendered become measurable and available. In fiscal year ended June 30, 2017, the City recorded deferred inflow of resources when the availability of the funds was not available within the revenue recognition period of 60 days.

The issuance of Governmental Accounting Standards Board No. 65, Items Previously Reported as Assets and Liabilities, established accounting and financial reporting standards that reclassify certain liabilities as deferred inflows of resources. A deferred inflow of resources is defined as those resources that are not available for spending in the current period. Since the reimbursements from other funds were not available for spending PCLRF & MRLRF in fiscal year ended June 30, 2017, the amount was reported as deferred inflows of resources.

**CITY OF PALMDALE**

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Years Ended June 30, 2017 and 2016  
(Continued)

**NOTE 7 – DEFERRED INFLOW OF RESOURCES – PCLRF & MRLRF (Continued)**

As of June 30, 2017, and 2016, the deferred inflow of resources was \$3,331,562 and 3,651,326, respectively, from the Proposition C 25% Call for Projects Grant.

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

MOU Number	Project Name	Expenditure Amount
F1300	North County Traffic Forum ITS Expansion	\$ 385,824
F3107	Avenue S Widening Phase II	3,979,119
F7121	Rancho Vista Boulevard Widening	173,659
	Total Expenditures	\$ <u>4,538,602</u>

As of June 30, 2017, and 2016, the deferred inflow of resources was \$3,090,743 and \$1,943,316, respectively, from the Measure R Highway Grant.

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

MOU Number	Project Name	Expenditure Amount
MR460064	Rancho Vista Grade Blvd Grade Separation	\$ 828,006
MR330.09	State Route 138 (Palmdale Blvd) Between 5th St. East and 10Th St. East	416,024
MR330.09	State Route 138 (SR-14) 10th St. West Interchange	186,226
MR330.08	State Route 138 (SR-14) Southbound Off- Ram at Palmdale Blvd. and Interchange Improvement	312,009
MR330.10	Stat Route 138 ( SR-14) Widening Rancho Vista Blvd. to Palmdale Blvd	1,512,703
MR330.11	SR-138 Avenue N Overcrossing	7,817
	Total Expenditures	\$ <u>3,262,785</u>

**CITY OF PALMDALE**

**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Years Ended June 30, 2017 and 2016  
(Continued)

**NOTE 8 – TRANSPORTATION DEVELOPMENT ACT 3 FUND REVENUE ALLOCATION**

The revenue allocation for the years ended June 30, 2017 and 2016 consisted of the following:

	2017	2016
FY 2013-14 allocation	\$ -	\$ 46,767
FY 2014-15 allocation	-	52,403
Total payment requested	\$ -	\$ 99,170

**NOTE 9 – TRANSPORTATION DEVELOPMENT ACT 3 FUNDS RESERVED**

In accordance with TDA Article 3 (SB821) Guidelines, funds not spent during the fiscal year have been placed on reserve in the Local Transportation Fund (LTF) account with the County Auditor-Controller to be drawn down whenever the funds become eligible for a specific project and an approved drawdown request is received by Metro. As of June 30, 2017, and 2016, the City has funds on reserve as follows:

	2017	2016
FY 2014-15 allocation	\$ 49,569	\$ 49,569
FY 2015-16 allocation	99,169	99,169
FY 2016-17 allocation	104,017	-
Available reserve balance	\$ 252,755	\$ 148,738

**NOTE 10 – SUBSEQUENT EVENTS**

The City has evaluated events or transactions that occurred subsequent to June 30, 2017 through November 17, 2017, the date the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined no subsequent matters require disclosure or adjustment to the accompanying financial statements.



SIMPSON & SIMPSON  
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 Palmdale, California and the  
Los Angeles County Metropolitan Transit Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Proposition A Local Return Fund (PALRF), Proposition C Local Return Fund (PCLRF), Measure R Local Return Fund (MRLRF), Transportation Development Act Article 3 Fund (TDAA3F), and Transportation Development Act Article 8 Fund (TDAA8F) of the City of Palmdale, California (City), as of and for the years ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated November 17, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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





### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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

A handwritten signature in black ink that reads "Simpson &amp; Simpson".

Los Angeles, California  
November 17, 2017

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*COMPLIANCE SECTION*

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SIMPSON & SIMPSON  
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## Independent Auditor's Report On Compliance

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

### Report on Compliance

We have audited the compliance of the City of Palmdale, California (City) with the Proposition A and Proposition C Local Return Guidelines, Measure R Local Return Guidelines, Transportation Development Act Article 3, and the Los Angeles County Metropolitan Transportation Authority's Funding and Allocation Guidelines for the Transportation Development Act Article 3 Bicycle and Pedestrian Funds (Guidelines) and Transportation Development Act Article 8 Funds (Guidelines) for the year ended June 30, 2017.

### *Management's Responsibility*

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

### *Auditor's Responsibility*

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Guidelines referred to in the preceding paragraph. Those standards and the Guidelines require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a local return program and the Transportation Development Act Article 3 Fund (TDAA3F), and Transportation Development Act Article 8 Fund (TDAA8F) occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

In our opinion, the City of Palmdale complied, in all material respects, with the compliance requirements referred to above that apply to Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund, Transportation Development Act Article 3 (TDAA3F), and Transportation Development Act Article 8 (TDAA8F) Fund for the year ended June 30, 2017.





### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Guidelines and which are described in the accompanying Schedule of Findings and Recommendations as Finding No. 2017-001. Our opinion on each local return program is 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 response.

### **Report on Internal Control Over Compliance**

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

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

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

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

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

Los Angeles, California  
November 17, 2017

**CITY OF PALMDALE**  
**COMPLIANCE MATRIX**  
Year Ended June 30, 2017

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

**CITY OF PALMDALE**  
**COMPLIANCE MATRIX**  
Year Ended June 30, 2017  
(Continued)

Compliance Requirement	In Compliance		Questioned Costs	If no, provide details and management response.	
	Yes	No			
<b>B. Measure R Local Return Fund</b>					
1.	Timely use of funds.	X		None	
2.	Expenditures were approved before being incurred.		X	None	See Finding #2017-001 on the summary of findings
3.	Funds were used on approved projects only and expenditures were supported and allowable per Guidelines.	X		None	
4.	Fund were not substituted for property tax.	X		None	
5.	Administrative expenses were within the 20% cap.	X		None	
6.	Expenditure Plan (Form One) was submitted on time.	X		None	
7.	Expenditure Report (Form Two) was submitted on time.	X		None	
8.	Cash or cash equivalents were maintained.	X		None	
9.	Accounting procedures, record keeping and documentation were adequate.	X		None	
10.	Revenues received including allocations, project generated revenues, and interest income were properly credited to the Measure R account.	X		None	
11.	Funds were not used to supplant existing local revenues being used for transportation purpose.	X		None	

**CITY OF PALMDALE**  
**COMPLIANCE MATRIX**  
Year Ended June 30, 2017  
(Continued)

Compliance Requirement	In Compliance		Questioned Costs	If no, provide details and management response.
	Yes	No		
<b>C. 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
<b>D. Transportation Development Act Article 8 Fund</b>				
1.	Timely use of funds.	X		None
2.	Expenditures were incurred for transit, paratransit, and local streets and roads.	X		None

**CITY OF PALMDALE**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
 June 30, 2017  
 (Continued)

**MRLRF: Finding No. 2017-001**

<b>Finding</b>	<b>Entity</b>
<b>Compliance Requirement</b>	According to Measure R Local Return Guidelines, Section B (II.1), “Form One provides a listing of projects funded with Measure R Local Return Funds along with estimated expenditures for the year” and “LACMTA will provide Local Return Funds to a capital project or program sponsor who submits the required expenditure plan containing the following: (1) The estimated total cost for each project and/or program activity.
<b>Condition</b>	<p>During the fiscal year ended June 30, 2017, the City expended \$1,906,021 prior to LACMTA approval. The funds were expended on eligible Measure R Local Return projects, but the City did not include these projects on its Expenditure Plan (Form 1) as required by the guidelines. Expenditures incurred prior to LACMTA approval during the fiscal year are as follows:</p> <ul style="list-style-type: none"> <li>a) Project Code 1.20, HSIP Roundabout S8 &amp; 40<sup>th</sup> East in the amount of \$2,400 (new project)</li> <li>b) Project Code 2.03, Ave R and 55<sup>th</sup> Street in the amount of \$20,008 (new project)</li> <li>c) Project Code 1.30, Ave S Widen 30<sup>th</sup> St. East in the amount of \$1,883,613 (on-going capital project)</li> </ul> <p>However, on October 27, 2017, the city obtained subsequent approval for these expenditures from LACMTA.</p>
<b>Cause</b>	Management was not aware that on-going projects that were approved in prior fiscal years need to be included on the Annual Expenditure Plan (Form 1) each fiscal year.
<b>Effect</b>	Because the City did not include these project cost on their Annual Expenditure Plan (Form 1), the City did not comply with Measure R Local Return Fund guidelines and did not obtain proper approval for the project expenditures.
<b>Recommendation</b>	We recommend that the City implement a process to ensure that all “new and on-going” projects are properly included on the Annual Expenditure Plan (Form 1) to obtain approval for all proposed expenditures, as per the Measure R Local Return Fund guidelines.
<b>Management’s Response</b>	The City has procedures in place to ensure that we update the forms submitted to LACMTA and obtain approval for all project expenditures when the City Council approves the final budget in early June. However, during the current fiscal year, there was a timing difference between the Form 1 submittal date and when the projects were approved by City Council; as a result, they were not included on the form. This was a one-time incident that will not occur going forward.
<b>Finding Corrected During the Audit</b>	On October 27, 2017, the City obtained subsequent approval for the expenditures from the LACMTA program manager.

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***EXIT CONFERENCE***

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***CITY OF PALMDALE***

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

June 30, 2017

An exit conference was held on December 14, 2017, with the City of Palmdale. Those in attendance were:

***Simpson & Simpson Representative:***

Muhammad Riaz, Staff Auditor

***City's Representative:***

Joyce Workman, Financial Analyst

***Matters Discussed:***

Results of the audit, one finding was noted

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

Joyce Workman, Financial Analyst

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

RE: CITY OF PALMDALE ANNUAL FINANCIAL REPORT OF THE PROPOSITION A LOCAL RETURN FUND, PROPOSITION C LOCAL RETURN FUND, MEASURE R LOCAL RETURN FUND, TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND, AND TRANSPORTATION DEVELOPMENT ACT ARTICLE 8 FUND FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016.

I have received the annual financial report of the Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund, Transportation Development Act Article 3 Fund, and Transportation Development Act Article 8 Fund for the years ended June 30, 2017 and 2016 for the City of Palmdale and agree with the contents of the report except s indicated below:

(Attach additional pages if necessary)

Very truly yours,

\_\_\_\_\_  
Name

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date