



**Metro**<sup>TM</sup>

**City of Redondo Beach  
Annual Financial Report of its**

**Transit Enterprise Fund**

**As of and for the Year Ended June 30, 2015  
with Report of Independent Auditors**

An Independently Owned Member  
**McGLADREY ALLIANCE**



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

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**FINANCIAL SECTION**

## **Report of Independent Auditors**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Transit Enterprise Fund (the Fund) of the City of Redondo Beach, California (the City) which comprise the Fund's statement of net position as of June 30, 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

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

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

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinion.



### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Transit Enterprise Fund of the City of Redondo Beach, California, as of June 30, 2015 and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As more fully described in Note 8, the financial statements present only the Transit Enterprise Fund and do not purport to, and do not, present fairly the financial position of the City of Redondo Beach, California, as of June 30, 2015, and the changes in its financial position and its cash flows for the year 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.

### **Other Information**

Our audit was conducted for the purpose of forming an opinion on the Fund's financial statements as a whole. The supplementary information identified in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information identified in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the Fund's financial statements. Such information has been subjected to the auditing procedures applied in the audit of the Fund's financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the Fund's financial statements or to the Fund's 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 Fund's financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2016 on our consideration of the City's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Vazquez &amp; Company LLP".

Los Angeles, California  
March 28, 2016

**City of Redondo Beach  
Transit Enterprise Fund  
Statement of Net Position  
June 30, 2015**

<b>ASSETS</b>		
<b>Current assets</b>		
Cash and investments	\$	215,927
Due from other governmental agencies		3,805
Accounts receivable		8,492
	<b>Total current assets</b>	<u>228,224</u>
 <b>Noncurrent assets</b>		
Capital assets, net		<u>1,634,828</u>
	<b>Net capital assets</b>	<u>1,634,828</u>
	<b>Total assets</b>	<u>1,863,052</u>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension contribution made subsequent to measurement date		<u>38,966</u>
 <b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable		438,411
Unearned revenue		167,974
Accrued compensated absences		13,337
	<b>Total current liabilities</b>	<u>619,722</u>
 <b>Noncurrent liabilities</b>		
Accrued compensated absences		41,912
Net pension liability		476,298
	<b>Total noncurrent liabilities</b>	<u>518,210</u>
	<b>Total liabilities</b>	<u>1,137,932</u>
 <b>DEFERRED INFLOWS OF RESOURCES</b>		
Net difference between projected and actual earnings on pension plan		<u>136,595</u>
	<b>Total deferred inflows of resources</b>	<u>136,595</u>
 <b>NET POSITION</b>		
Net investment in capital assets		1,634,829
Unrestricted		(1,007,338)
	<b>Total net position \$</b>	<u><u>627,491</u></u>

*See notes to financial statements.*

**City of Redondo Beach  
Transit Enterprise Fund  
Statement of Revenues, Expenses and Changes in Net Position  
Year ended June 30, 2015**

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**Operating revenues**

Bus passes	\$	86,393
Passenger fare		274,125
Contributions from other local jurisdictions		59,286
Miscellaneous revenue		749
<b>Total operating revenues</b>		<u>420,553</u>

**Operating expenses**

Personnel services		384,580
Contractual services		2,243,732
Administrative and general		687,424
Depreciation		50,799
<b>Total operating expenses</b>		<u>3,366,535</u>

**Operating loss** (2,945,982)

**Nonoperating revenues**

Proposition A 40% discretionary		445,312
Proposition A discretionary incentive		53,579
Proposition A local return		1,165,243
TDA Article 4 allocation - operating		703,828
Proposition C discretionary - Foothill Mitigation		19,801
Proposition C discretionary - Bus System Improvement Plan		3,780
Proposition C discretionary - Municipal Operator Service Improvement Program (MOSIP)		131,901
Proposition C 5% transit security		23,777
State transit assistance		86,507
Measure R 20% bus operation		286,241
Proposition 1B - PTMISEA		217,194
Transfer from general fund		26,013
<b>Total nonoperating revenues</b>		<u>3,163,176</u>

**Change in net position** 217,194

Net position, at beginning of year, as restated 410,297

Net position, at end of year \$ 627,491

*See notes to financial statements.*

**City of Redondo Beach  
Transit Enterprise Fund  
Statement of Cash Flows  
Year ended June 30, 2015**

<b>Cash flows from operating activities</b>	
Cash received from customers and users	\$ 436,373
Cash payments to suppliers for goods and services	(2,712,044)
Cash payments to employees for services	<u>(379,758)</u>
<b>Net cash used in operating activities</b>	<u>(2,655,429)</u>
<b>Cash flows from capital and related financing activities</b>	
Purchase of capital assets	<u>(258,682)</u>
<b>Net cash used in capital and related financing activities</b>	<u>(258,682)</u>
<b>Cash flows from noncapital financing activities</b>	
Transfers from Proposition A Local Return	1,165,243
Transfers from general fund	26,013
Subsidy from grants	<u>1,808,714</u>
<b>Net cash provided by noncapital financing activities</b>	<u>2,999,970</u>
<b>Cash flows from investing activities</b>	
Interest received	<u>742</u>
<b>Net increase in cash and investments</b>	86,601
Cash and investments, beginning of year	<u>129,326</u>
Cash and investments, end of year	<u>\$ 215,927</u>
<b>Reconciliation of operating loss to net cash used in operating activities</b>	
Operating loss	\$ (2,945,982)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	50,799
Actuarial pension expense	34,065
Pension contributions subsequent to measurement date	(38,966)
Changes in operating assets and liabilities:	
Decrease in accounts receivable	15,819
Increase in accounts payable	219,112
Increase in salaries and benefits payable	<u>9,724</u>
<b>Net cash used in operating activities</b>	<u>\$ (2,655,429)</u>

*See notes to financial statements.*



**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Fund Accounting**

The Transit Enterprise Fund of the City of Redondo Beach (the City) is an Enterprise Fund of the City created in 1976 by resolution of the City Council. The City reports all of its Enterprise Funds as major Proprietary Funds. On March 15, 2011, the City Council approved the reclassification of the Transit Fund from a Special Revenue Fund to an Enterprise Fund. The City's transit operations provide transportation services mainly to the Cities of Redondo Beach, Hermosa Beach, and Manhattan Beach. These operations constitute part of the overall financial reporting entity of the City and are accounted for as an Enterprise Fund consistent with governmental accounting principles generally accepted in the United States of America.

The Transit Enterprise Fund follows the Uniform System of Accounts and Records prescribed by the Federal Transportation Administration and the California State Controller.

**Implementation of New Accounting Pronouncements**

During the fiscal year ended June 30, 2015, the City adopted the following new Statements of the Governmental Accounting Standards Board (GASB):

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statements No. 27 and 50*. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures of pensions that are provided by local governmental employers through pension plans that are administered through trusts that meet certain conditions. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value periods of employee service.
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* – an amendment of GASB Statement No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014.

Refer to the City's Comprehensive Annual Financial Report (CAFR) for more details.

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded, regardless of the measurement focus applied. The accompanying financial statements are reported using the "economic resources measurement focus", and the "accrual basis of accounting." Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The City has adopted the provisions of GASB Statement No. 34 (Statement 34) of the Governmental Accounting Standards Board, "*Basic Financial Statements – and Management's Discussion and Analysis - For State and Local Governments*" as amended by GASB Nos. 63 and 65. Statement No. 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net position, a statement of revenues, expenses and changes in net position and a statement of cash flows. It requires the classification of net position into three components – net investment in capital assets, restricted; and unrestricted. These classifications are defined as follows:

- Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation.
- Restricted - This component of net position consists of external constraints placed on the use of net position imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted - This component of net position consists of net position that do not meet the definition of "restricted" or "net investment in capital assets".

When both restricted and unrestricted resources are available for use, the Fund uses restricted resources, then any unrestricted resources.

**Operating and Nonoperating Revenues and Expenses**

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Cash and Investments**

The City pools its available cash for investment purposes. The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturity of three months or less from the date of acquisition. Cash and cash equivalents are combined with investments and displayed as Cash and Investments.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The City participates in an investment pool managed by the State of California, titled Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset Backed Securities are subject to market risk as to change in interest rates.

Interest income earned on pooled cash and investments is allocated monthly to the various funds based on monthly cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

Further information regarding the City's cash and investments may be found in the City's CAFR.

**Capital Assets**

Capital assets are recorded at cost. The provision for depreciation is determined using the straight-line method with no allowance for salvage values.

The estimated useful lives used in computing the provision for depreciation of buses and other vehicles is 5 to 10 years.

**Deferred Outflows and Inflows of Resources**

Pursuant to GASB Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and No. 65, *Items Previously Reported as Assets and Liabilities*, the City recognizes deferred outflows and inflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period.

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenue Recognition**

Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

**NOTE 2      CAPITAL ASSETS**

Capital assets at June 30, 2015 consisted of the following:

Vehicles	\$ 3,495,842
Less accumulated depreciation	<u>(1,861,014)</u>
Capital assets, net	<u>\$ 1,634,828</u>

The carrying amounts of assets are reviewed at each fiscal year-end date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

**NOTE 3      UNEARNED REVENUES**

Unearned revenues as of June 30, 2015 consisted of the following:

Proposition 1B Public Transportation	
Modernization, Improvement and	
Service Enhancement (PTMISEA)	
- FY2010-11 Allocation	\$ 11,083
- FY2007-08 Allocation	39,529
- FY2008-09 Allocation	51,438
- FY2009-10 Allocation	54,218
Interest allocable to Proposition 1B Funds	<u>11,706</u>
Total \$	<u><u>167,974</u></u>

Restricted funding received is recorded as unearned revenues until the funds are spent. Accordingly, amounts are recorded as capital contributions or revenues as they are utilized for the purpose granted.

**NOTE 4            PROPOSITION A DISCRETIONARY INCENTIVE GRANT**

The Proposition A Discretionary Incentive Grant amounting to \$53,579 for the year ended June 30, 2015 was additional funds from Los Angeles County Metropolitan Transit Authority (LACMTA) for the Redondo Beach Community Paratransit program.

The Proposition A Discretionary Incentive Grants was recorded under the Transit Enterprise Fund.

**NOTE 5            PENSION PLAN**

The Transit Enterprise Fund, as part of the City of Redondo Beach, contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer defined benefit pension plans. CalPERS provide service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 5 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans operate under the provisions of the California Public Employees' Retirement Law (PERL), the California Public Employees' Pension Reform Act of 2013 (PEPRA), and the regulations, procedures and policies adopted by the CalPERS Board of Administration. The Plan's authority to establish and amend the benefit terms are set by PERL and PEPRA, and may be amended by the California state legislature and in some cases require approval by the CalPERS Board.

As a result of implementing GASB Statement No. 68, the Fund reported net pension liability of \$476,298 as of June 30, 2015.

Further information concerning the City's pension plans, and corresponding assumptions, assets and liabilities can be found in the City's CAFR.

**NOTE 6      OTHER POST EMPLOYMENT BENEFITS (OPEB)**

*Plan Descriptions and Eligibility.* In addition to the pension benefits described above, the City provides certain health insurance benefits, in accordance with memorandums of understanding, to retired employees through the California Employers' Retiree Benefit Trust (CERBT) Fund, which is an agent multiple employer plan administered by CalPERS. The City provides medical insurance for all employees who retire with a minimum of 20 years of full-time public agency service. The City shall pay the single retiree medical premium rate, for qualified retirees, for a medical insurance plan in which the retiree is enrolled from among those medical plans provided by the City. These contributions of the City for such medical premiums shall cease on the date the retiree becomes eligible to enroll in the Federal Medicare program and/or any Medicare supplemental plans. At June 30, 2015, approximately 194 City employees are eligible to receive post-employment benefits.

*Funding Policy.* The required contribution of the City is based on a percentage of PERSable payroll. For fiscal year 2015, the City contributed \$1,383,504 to the plan.

*Annual OPEB Cost and Net OPEB Obligation.* The City's annual Other Postemployment Benefit (OPEB) cost (expense) is calculated based on the Annual Required Contribution (ARC) of the Employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excesses) over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB Obligation to the Plan:

Total Annual required contribution	\$	1,383,504
Interest on net OPEB obligation		-
Adjustment to annual required contribution		-
Annual OPEB cost (expense)		1,383,504
Contribution made		(1,383,504)
Increase in net OPEB obligation		-
Net OPEB obligation – beginning of year		-
Net OPEB obligation – end of year	\$	-

No separate post-employment benefit obligation is calculated for the Transit Enterprise Fund; accordingly, no obligation is presented herein. Please refer to the City's Comprehensive Annual Financial Report (CAFR) for more information on the City's OPEB obligation.

**NOTE 7      PRIOR YEAR RESTATEMENTS**

As discussed in Note 1, the City implemented GASB Statements 68 and 71 effective July 1, 2014. GASB Statements 68 and 71, among other provisions, amended prior guidance with respect to the reporting of pensions, and established standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, the City's net pension liability was not previously recorded on the statement of net position. GASB 68 requires that accounting changes adopted to conform to the provisions of the Statement be applied retroactively by restating financial statements. In addition, a restatement totaling \$27,378 was needed to correct the beginning net position.

Accordingly, beginning net position on the Statement of Activities has been restated as follows:

Beginning net position, as previously reported	\$	1,016,504
Restatement due to implementation of GASB 68		(578,829)
Restatement due to correction of error		(27,378)
		410,297
	\$	410,297

**NOTE 8      ANNUAL FINANCIAL STATEMENTS**

The financial statements present only the Transit Enterprise Fund and do not, purport to, and do not, present fairly the City's financial position as of June 30, 2015, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**NOTE 9      SUBSEQUENT EVENTS**

The City has evaluated subsequent events through March 28, 2016, the date the financial statements were available to be issued, and concluded no events have occurred that require disclosure in or adjustments to the financial statements.

**Report of Independent Auditors on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Transit Enterprise Fund (the Fund) of the City of Redondo Beach, California (the City) as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated March 28, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the Fund's 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 opinion on the Fund's 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 Transit Enterprise Fund financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our 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 results of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

**Los Angeles, California**  
**March 28, 2016**

## COMPLIANCE SECTION

## Report of Independent Auditors on Compliance

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

### Report on Compliance

We have audited the compliance of the City of Redondo Beach, California's (the City) compliance with the Transportation Development Act, Proposition A 40% Discretionary and Proposition C 40% Discretionary Program Memorandum of Understanding (MOU) and guidelines, and Proposition 1B Guidelines (collectively referred to as the Guidelines) for the year ended June 30, 2015.

### Management's Responsibility

Management is responsible for the City's compliance with the Guidelines.

### Auditors' Responsibility

Our responsibility is to express an opinion on the City's compliance based on our audit. We conducted our audit of compliance in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the Guidelines. Those standards and the Guidelines require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the Transit Enterprise Fund occurred. An audit includes examining, on a test basis, evidence about the City's compliance with the Guidelines 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. Our audit does not provide a legal determination on the City's compliance with the Guidelines.

### Opinion

In our opinion, the City of Redondo Beach, California complied, in all material respects, with the compliance requirements of the Guidelines for the year ended June 30, 2015.



## Report on Internal Control over Compliance

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

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

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

Los Angeles, California  
March 28, 2016

**City of Redondo Beach  
Transit Enterprise Fund  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2015**

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None noted.

**SUPPLEMENTAL INFORMATION**

**City of Redondo Beach  
Transit Enterprise Fund  
Exhibit I**

**50% Expenditure Limitation Test and Maintenance of Effort Test  
Year ended June 30, 2015**

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<b><u>50% Expenditure Limitation Test</u></b> <sup>(1)</sup>	
1 Total operating costs before depreciation	\$ 2,988,736
2 Total depreciation	50,799
3 Total capital requirements	-
4 Total debt service requirements	-
5 Total (Lines 1, 2, 3 & 4)	<u>3,039,535</u>
6 Less: Federal grants expended	-
7 Less: State Transit Assistance Fund received	<u>86,507</u>
8 Total (Lines 6 & 7)	<u>86,507</u>
9 Total (Line 5 less line 8)	<u>\$ 2,953,028</u>
10 Total permissible Local Transportation Fund under Article 4 (50% of Line 9)	<u>\$ 1,476,514</u>
11 TDA Article 4 Allocation	<u>\$ 703,828</u>
12 Excess TDA Article 4 Allocation	<u>\$ -</u>

<sup>(1)</sup> Amount includes only expenses from the Fixed Route operations and excludes the Dial-A-Ride project.

The TDA article 4 allocation did not exceed the 50% expenditure limitation.

**Maintenance of Effort Test**

Total Operating Budget	\$ 4,253,188
Total Local Return funds received	\$ 1,165,243
5% of Total Operating Budget	<sup>(2)</sup> \$ 212,659
25% of Total Local Return Funds Received	<sup>(2)</sup> \$ 291,311

<sup>(2)</sup> According to the discretionary guidelines, a local contribution of 5% of the fiscal year's operating budget, or 25% of the fiscal year's local return funds received by the City, whichever is less, is required in meeting the maintenance of effort.

During the fiscal year 2015, the City made a local contribution of \$1,165,243 from its Proposition A Local Return Fund to the Transit Fund. Since the amount of local contribution exceeded the minimum requirement of \$212,659, the City is in compliance with the maintenance of effort test.

*See report of independent auditors.*

**City of Redondo Beach**  
**Transit Enterprise Fund**  
**Exhibit II**  
**Proposition A Discretionary Eligibility Test**  
**Year ended June 30, 2015**

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1. TDA Article 4 funds	\$ 703,828
2. State Transit Assistance (STA) funds	86,507
3. Farebox revenues and others	360,518
4. Local subsidies	<u>1,165,243</u>
5. Total operating revenues (Lines 1, 2, 3 & 4)	2,316,096
6. Less: Operating costs, before depreciation	<u>3,315,736</u>
7. Eligible transit operator subsidy (Line 5 less line 6)	(999,640)
8. Proposition A Discretionary allocation	<u>445,312</u>
9. Excess Proposition A Discretionary	\$ <u><u>(554,328)</u></u> <sup>(a)</sup>

<sup>(a)</sup> Under the Proposition A Discretionary Guideline, unexpended funds must be returned to Metro within sixty (60) days following the completion of the financial and compliance audit. There was no excess Proposition A Discretionary fund as of June 30, 2015.

*See report of independent auditors.*



**City of Redondo Beach**  
**Transit Enterprise Fund**  
**Exhibit III**  
**Schedule of Capital Assets**  
**Year ended June 30, 2015**

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<u>Description</u>	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2015</u>
Vehicles	\$ 3,237,160	\$ 258,682	\$ -	\$ 3,495,842
Total capital assets	\$ <u>3,237,160</u>	\$ <u>258,682</u>	\$ <u>-</u>	3,495,842
Less accumulated depreciation				<u>(1,861,014)</u>
Capital assets, net				\$ <u><u>1,634,828</u></u>

*See report of independent auditors.*



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