

CITY OF REDONDO BEACH

ANNUAL FINANCIAL REPORT OF THE

TRANSIT SYSTEM FUND

FOR THE FISCAL YEARS ENDED

JUNE 30, 2021 AND 2020



Metro[®]



Simpson & Simpson, LLP
Certified Public Accountants

CITY OF REDONDO BEACH

TABLE OF CONTENTS

FINANCIAL SECTION	PAGE
Independent Auditor's Report	1
Financial Statements:	
Statements of Net Position	4
Statements of Revenues, Expenditures and Changes in Net Position	5
Statements of Cash Flows	7
Notes to Financial Statements	9
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 <i>Government Auditing Standards</i>	15
COMPLIANCE SECTION	
Independent Auditor's Report on Compliance	17
Schedule of Findings and Recommendations	19
SUPPLEMENTARY INFORMATION	
Exhibit I – 50% Expenditure Limitation Test and Maintenance of Effort Test	20
Exhibit II – Proposition A Discretionary Eligibility Test	22
Exhibit III – Schedule of Capital Assets	23
EXIT CONFERENCE	24

FINANCIAL SECTION



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Independent Auditor's Report

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 System Fund of the City of Redondo Beach, California (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 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 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.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Transit System Fund of the City of Redondo Beach, California, as of June 30, 2021 and 2020, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Basis of Presentation

As discussed in Note 2, the financial statements present only the Transit System 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, 2021 and 2020, the changes in its financial position, or, where applicable its cash flows 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 an opinion on the Transit System Fund's financial statements. The accompanying 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the Transit System Fund's 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 Transit System Fund's financial statements or to the Transit System 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 Transit System 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 December 16, 2021, on our consideration of the City's internal controls over the Transit System Fund's 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 Transit System Fund's 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 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.

Simpson & Simpson

Los Angeles, California
December 16, 2021

CITY OF REDONDO BEACH
TRANSIT SYSTEM FUND
STATEMENTS OF NET POSITION
JUNE 30

	2021	2020
ASSETS		
Current assets		
Cash and investments	\$ 240,306	\$ -
Due from other governments	111,673	327,743
Total current assets	351,979	327,743
Noncurrent assets		
Capital assets, net (Note 3)	1,380,466	1,495,620
Total assets	1,732,445	1,823,363
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension and OPEB related items	168,996	156,275
LIABILITIES		
Current liabilities		
Accounts payable	553,179	265,012
Due to City	-	537,226
Accrued compensated absences	26,673	9,773
Unearned revenues (Note 4)	20,871	20,555
Total current liabilities	600,723	832,566
Noncurrent liabilities		
Accrued compensated absences	80,016	49,821
Net pension liability (Note 5)	1,064,635	944,314
Net OPEB liability (Note 7)	120,499	110,240
Total noncurrent liabilities	1,265,150	1,104,375
Total liabilities	1,865,873	1,936,941
DEFERRED INFLOWS OF RESOURCES		
Deferred pension and OPEB related items	35,568	42,697
Total deferred inflows of resources	35,568	42,697
NET POSITION		
Net investment in capital assets	1,380,466	1,495,620
Unrestricted	(1,380,466)	(1,495,620)
Total net position	\$ -	\$ -

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

CITY OF REDONDO BEACH
TRANSIT SYSTEM FUND
STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
For the Fiscal Years Ended June 30

	2021	2020
OPERATING REVENUES		
Bus passes	\$ -	\$ 70,008
Passenger fare	-	180,750
Miscellaneous revenue	29	667
Total operating revenues	29	251,425
OPERATING EXPENSES		
Personnel services	761,597	593,754
Contractual services	2,993,106	2,609,288
Administration and general	302,262	435,257
Internal service charges	230,205	213,663
Depreciation expense	153,569	123,922
Total operating expenses	4,440,739	3,975,884
Operating loss	(4,440,710)	(3,724,459)
NON-OPERATING REVENUES		
Proposition A 40% Discretionary	515,622	615,135
Proposition A Discretionary Incentive	2,503	14,952
TDA Article 4 Allocation - Operating	663,012	805,958
Proposition C Discretionary - Foothill Mitigation	22,362	30,436
Proposition C Discretionary - Bus System Improvement Plan	4,105	4,198
Proposition C Discretionary - Municipal Operator Service Improvement Program (MOSIP)	148,556	152,143
Proposition C 5% Transit Security	23,969	31,052
State Transit Assistance	192,748	263,841
Measure R 20% Bus Operations	253,710	333,172
Measure R Regional Clean Fuel Bus	8,858	17,715
Measure M 20% Bus Operations	250,144	344,609
Proposition 1B - PTMISEA	-	137,456
State of Good Repair Program	7,569	372
CARES Act Grant	734,892	171,786
Total non-operating revenues	2,828,050	2,922,825
Loss before contribution and operating transfers	(1,612,660)	(801,634)

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

CITY OF REDONDO BEACH
TRANSIT SYSTEM FUND
STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION (CONTINUED)
For the Fiscal Years Ended June 30

	2021	2020
NON-OPERATING REVENUES (CONTINUED)		
Contributions from other local jurisdictions (Note 6)	800	400
Operating transfer in from other funds (Note 6)	1,612,295	801,234
Operating transfer out to other funds	(435)	-
Total contribution and operating transfers	1,612,660	801,634
Change in net position	-	-
 Net position at beginning of year	 -	 -
Net position at end of year	\$ -	\$ -

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

CITY OF REDONDO BEACH
TRANSIT SYSTEM FUND
STATEMENTS OF CASH FLOWS
For the Fiscal Years Ended June 30

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and users	\$ 345	\$ (68,405)
Cash payments to suppliers for goods and services	(3,227,147)	(3,300,385)
Cash payments to employees for services	(614,031)	(522,901)
Net cash used in operating activities	(3,840,833)	(3,891,691)
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(38,415)	(223,782)
Net cash used in capital and related financing activities	(38,415)	(223,782)
 CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfer from Proposition A Local Return	1,607,735	801,234
Transfer from General Fund	4,560	-
Transfer out to other funds	(435)	
Repayment of due from other funds	(537,226)	391,014
Cash received from other governments	3,044,920	2,923,225
Net cash provided by non-capital financing activities	4,119,554	4,115,473
 Change in cash and investments	240,306	-
 Cash and investments, beginning of year	-	-
 Cash and investments, end of year	\$ 240,306	\$ -

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

CITY OF REDONDO BEACH
TRANSIT SYSTEM FUND
STATEMENTS OF CASH FLOWS (CONTINUED)
For the Fiscal Years Ended June 30

	2021	2020
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (4,440,710)	\$ (3,724,459)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	153,569	123,922
Changes in operating assets and liabilities:		
Decrease in accounts receivable	-	8,070
Increase (decrease) in deferred outflow pension and OPEB related items	(12,721)	4,906
Increase (decrease) in accounts payable	288,167	(28,949)
Decrease in due from other governments	-	(193,475)
Increase (decrease) in unearned revenue	316	(134,425)
Increase in net pension liability	120,321	52,854
Increase (decrease) in OPEB liability	10,259	(13,228)
Increase (decrease) in deferred inflow pension and OPEB related items	(7,129)	9,846
Increase in compensated absences	47,095	3,247
Net cash used in operating activities	\$ (3,840,833)	\$ (3,891,691)

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

CITY OF REDONDO BEACH
TRANSIT SYSTEM FUND
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2021 and 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

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

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 adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 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".

CITY OF REDONDO BEACH
TRANSIT SYSTEM FUND
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2021 and 2020
(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 Investment 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 Annual Comprehensive Financial Report (ACFR).

Capital Assets

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

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

CITY OF REDONDO BEACH
TRANSIT SYSTEM FUND
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2021 and 2020
(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Outflows and Inflows of Resources

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

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.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

NOTE 2 – ANNUAL FINANCIAL STATEMENTS

The financial statements present only the Transit System Fund and do not purport to, and do not present fairly the financial position of the City as of June 30, 2021 and 2020, the changes in its financial position, or, where applicable its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CITY OF REDONDO BEACH
TRANSIT SYSTEM FUND
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2021 and 2020
(Continued)

NOTE 3 – CAPITAL ASSETS, NET

Capital assets at June 30, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Vehicles	\$ 3,477,241	\$ 3,438,826
Less: accumulated depreciation	<u>(2,096,775)</u>	<u>(1,943,206)</u>
Capital assets, net	<u>\$ 1,380,466</u>	<u>\$ 1,495,620</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 4 – UNEARNED REVENUES

Unearned revenues at June 30, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Interest allocable to Prop 1B Funds	\$ 3,306	\$ 3,256
Total Proposition 1B Funds	<u>3,306</u>	<u>3,256</u>
California Governor’s Office of Emergency Services (CGOES):		
FY 2015-16 allocation	9,624	9,478
FY 2016-17 allocation	<u>7,706</u>	<u>7,589</u>
Total allocable to CGOES	<u>17,330</u>	<u>17,067</u>
Low Carbon Transit Operation Program FY2015-16 Allocation	<u>235</u>	<u>232</u>
Total Low Carbon Transit Operation Program	<u>235</u>	<u>232</u>
Total unearned revenues	<u>\$ 20,871</u>	<u>\$ 20,555</u>

CITY OF REDONDO BEACH
TRANSIT SYSTEM FUND
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2021 and 2020
(Continued)

NOTE 5 – PENSION PLAN

The Transit System 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 \$1,064,635 and \$944,314 as of June 30, 2021 and 2020, respectively.

Further information concerning the City's pension plans, and corresponding assumptions, assets, liabilities, deferred inflows and outflows of resources can be found in the City's ACFR.

NOTE 6 – CONTRIBUTIONS FROM OTHER LOCAL JURISDICTIONS AND OPERATING TRANSFER IN FROM OTHER FUNDS

The City has a joint agreement with the City of Manhattan Beach, the City of Hermosa Beach, and the City of El Segundo for the operations of the Beach Cities Transit fixed route operations, which services all four cities. The City of Redondo Beach carries out the daily operations of the Beach Cities Transit fixed route operations, and the other cities reimburse the City of Redondo Beach for their portions of the operating cost. During the fiscal years ended June 30, 2021 and 2020, total contributions received were \$800 and \$400, respectively.

The Transit System Fund operates as a funding shortfall each fiscal year; as such, they use local funds to subsidize the deficiency in operating revenue. During the fiscal year ended June 30, 2021, the City transferred \$1,607,735 from the Proposition A Local Return Fund and \$4,560 from the General Fund. During the fiscal year ended June 30, 2020, the City transferred \$801,234 from the Proposition A Local Return Fund.

CITY OF REDONDO BEACH
TRANSIT SYSTEM FUND
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2021 and 2020
(Continued)

NOTE 7 – OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (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 employees in accordance with agreements reached with various bargaining groups. 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.

As a result of implementing GASB Statement No. 75 effective July 1, 2017, the Fund reported net OPEB liability of \$120,499 as of June 30, 2021 and \$110,240 as of June 30, 2020.

Further information concerning the City's OPEB plans, and corresponding assumptions, assets, liabilities, deferred inflows and outflows of resources can be found in the City's ACFR.

NOTE 8 – 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 Fund's financial statement.

NOTE 9 – SUBSEQUENT EVENTS

The City has evaluated subsequent events through December 16, 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
BRAINARD C. SIMPSON, CPA
MELBA W. SIMPSON, CPA

**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 Redondo Beach, California and the
Los Angeles County Metropolitan Transit Authority

We have audited the financial statements of the Transit System Fund of the City of Redondo Beach, California (the City), as of and for the year ended June 30, 2021, and have issued our report thereon dated December 16, 2021. 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.

Internal Control over Financial Reporting

In planning and performing our audit of the Transit System Fund’s 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 opinion on the Transit System 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 System Fund financial statements are free of 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 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 & Simpson".

Los Angeles, California
December 16, 2021

COMPLIANCE SECTION



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Independent Auditor's Report on Compliance

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

Report on Compliance

We have audited the compliance of the City of Redondo Beach, California's (the City) with the Transportation Development Act, Proposition A 40% Discretionary and Proposition C 40% Discretionary Programs Memorandum of Understandings, Proposition 1B, Proposition 1B Security Program Agreement (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 the Transit System Fund occurred. An audit includes examining, on a test basis, evidence about 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 City's compliance with the Guidelines.

Opinion on the Transit System Fund

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



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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 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 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 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 & Simpson".

Los Angeles, California
December 16, 2021

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

CITY OF REDONDO BEACH
TRANSIT SYSTEM FUND
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2021

No findings were noted.

CITY OF REDONDO BEACH
TRANSIT SYSTEM FUND
EXHIBIT I
50% EXPENDITURE LIMITATION TEST AND MAINTENANCE OF EFFORT TEST
June 30, 2021

50% EXPENDITURE LIMITATION TEST

1 Total operating cost before depreciation	\$ 4,287,170*
2 Total depreciation	153,569
3 Total capital requirements	-
4 Total debt service requirements	-
5 Total (Lines 1-4)	<u>\$ 4,440,739</u>
6 Less: Federal grants received	734,892
7 Less: State Transit Assistance Fund received	<u>192,748</u>
8 Total (Lines 6 & 7)	<u>927,640</u>
9 Net (Line 5 minus Line 8)	<u>\$ 3,513,099</u>
10 Total permissible Local Transportation Fund (LTF) under Article 4 (50% of Line 9)	<u>\$ 1,756,550</u>
11 LTF expended	<u>\$ 663,012</u>
12 Excess LTF expended (Amount of Line 11 in excess of Line 10)	<u>\$ -</u>

* Amount includes only expenses from the Fixed Route operations and excludes the Dial-A-Ride project. TDA Article 4 allocation did not exceed 50% expenditure limitation.

MAINTENANCE OF EFFORT TEST

Total operating budget	\$ 5,567,667
Total local funds received	\$ 717,117 **
5% of total operating budget	\$ 278,383 ***
25% of total local return funds received	\$ 179,279 ***

**Total local funds received include the following:

<u>Total local funds received</u>	<u>Amount</u>
Proposition A 40% Discretionary	\$ 515,622
Proposition A Discretionary Incentive	2,503
Proposition C Discretionary - Foothill Mitigation	22,362
Proposition C Discretionary - Bus System Improvement Plan	4,105
Proposition C Discretionary – MOSIP	148,556
Proposition C 5% Transit Security	<u>23,969</u>
Total	<u>\$ 717,117</u>

See accompanying independent auditor's report.

CITY OF REDONDO BEACH

TRANSIT SYSTEM FUND

EXHIBIT I

50% EXPENDITURE LIMITATION TEST AND MAINTENANCE OF EFFORT TEST

June 30, 2021

(Continued)

50% EXPENDITURE LIMITATION TEST (continued)

***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 ended June 30, 2021, the City made a local contribution of \$1,607,735 from its Proposition A Local Return Fund to the Transit System Fund. Since the amount of the local contribution exceeded the minimum requirement of \$179,279, the City is in compliance with the maintenance of effort test.

CITY OF REDONDO BEACH
TRANSIT SYSTEM FUND
EXHIBIT II
PROPOSITION A DISCRETIONARY ELIGIBILITY TEST
June 30, 2021

PROPOSITION A DISCRETIONARY ELIGIBILITY TEST

1	TDA Article 4 Allocation	\$	663,012
2	State Transit Assistance Fund		192,748
3	Farebox revenues		-
4	Local subsidies		<u>2,322,742</u> (a)
5	Total operating revenues (Lines 1-4)		3,178,502
6	Less: operating cost before depreciation		<u>4,287,170</u>
7	Eligible transit operator subsidy (Line 5 less Line 6)		(1,108,668)
8	Proposition A Discretionary Grant allocation		<u>515,622</u>
9	Excess Proposition A Discretionary Grant received		<u><u>(593,046)</u></u> (b)

(a) Local subsidies include the following:

<u>Local subsidies (Line 4)</u>	<u>Amount</u>
Proposition A Discretionary Incentive	\$ 2,503
Proposition A Local Return	1,607,735
Proposition C Discretionary - Foothill Mitigation	22,362
Proposition C Discretionary - Bus System Improvement Plan	4,105
Proposition C Discretionary – MOSIP	148,556
Proposition C 5% Transit Security	23,969
Measure R 20% Bus Operations	253,710
Measure R Regional Clean Fuel Bus	8,858
Measure M 20% Bus Operations	250,144
Contributions from local jurisdictions	<u>800</u>
Total	<u><u>\$ 2,322,742</u></u>

(b) Under the Proposition A Discretionary Guidelines, unexpended funds must be returned to Metro within sixty (60) days following the completion of the financial and compliance audit. There were no unexpended funds as of June 30, 2021.

See accompanying independent auditor’s report.

CITY OF REDONDO BEACH
TRANSIT SYSTEM FUND
EXHIBIT III
SCHEDULE OF CAPITAL ASSETS
June 30, 2021

Description	Balance July 1, 2020	Additions	Deletions	Balance July 1, 2021
Vehicles	\$ 3,438,826	\$ 38,415	\$ -	\$ 3,477,241
Total capital assets	\$ <u>3,438,826</u>	\$ <u>38,415</u>	\$ <u>-</u>	-
Less accumulated depreciation				<u>2,096,775</u>
Capital assets, net				\$ <u>1,380,466</u>

See accompanying independent auditor's report.

CITY OF REDONDO BEACH
TRANSIT SYSTEM FUND
EXIT CONFERENCE
June 30, 2021

An exit conference was held on December 22, 2021 with the City of Redondo Beach. Those in attendance were:

Simpson & Simpson Representative:

Austine Cho, Audit Manager
Terry Bian, Audit Senior

City's Representatives:

Doug Kaku - Financial Grants Administrator

Matters Discussed:

Results of the audit disclosed no significant control deficiencies and non-compliance issue 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:

Doug Kaku - Financial Grants Administrator
Joyce Rooney - Transit Operations and Facilities Manager

Simpson & Simpson, LLP
633 West 5th Street, Suite 3320
Los Angeles, CA 90071

RE: CITY OF REDONDO BEACH ANNUAL FINANCIAL REPORT OF THE TRANSIT SYSTEM
FUND FOR THE FISCAL YEARS ENDED JUNE 30, 2021 AND 2020.

I have received the annual financial report of the Transit System Fund for the years ended June 30, 2021 and 2020 for the City of Redondo Beach and agree with the contents of the report except as indicated below:

(Attach additional pages if necessary)

Very truly yours,

Name

Title

Date