

CITY OF REDONDO BEACH
ANNUAL FINANCIAL REPORT OF THE
TRANSIT SYSTEM FUND
FOR THE FISCAL YEARS ENDED
JUNE 30, 2017 AND 2016



Metro[®]



Simpson & Simpson, LLP
Certified Public Accountants

CITY OF REDONDO BEACH

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FINANCIAL SECTION



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
BRAINARD C. SIMPSON, CPA
MELBA W. SIMPSON, CPA

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, 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 Transit System Fund of the City of Redondo Beach, 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 Matters

As discussed in Note 6, 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, 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 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 December 11, 2017, 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 the 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 & Simpson".

Los Angeles, California
December 11, 2017

CITY OF REDONDO BEACH

TRANSIT SYSTEM FUND

STATEMENTS OF NET POSITION

June 30

ASSETS	2017	2016
Current assets		
Accounts receivable	\$ 63,233	\$ 5,226
Due from other governments	43,683	80,601
Total current assets	<u>106,916</u>	<u>85,827</u>
Noncurrent assets		
Net noncurrent assets (Note 2)	<u>1,449,139</u>	<u>1,558,161</u>
Total assets	<u>1,556,055</u>	<u>1,643,988</u>
Deferred outflows of resources	<u>210,568</u>	<u>58,251</u>
LIABILITIES		
Current liabilities		
Cash overdraft	466,233	741,588
Accounts payable	444,310	233,912
Unearned revenue (Note 3)	54,823	68,837
Accrued compensated absences	11,876	16,187
Total current liabilities	<u>977,242</u>	<u>1,060,524</u>
Noncurrent liabilities		
Accrued compensated absences	43,897	43,171
Net pension liability (Note 4)	729,135	572,282
Total noncurrent liabilities	<u>773,032</u>	<u>615,453</u>
Total liabilities	<u>1,750,274</u>	<u>1,675,977</u>
Deferred inflows of resources	<u>16,349</u>	<u>26,262</u>
Net Position		
Invested in capital assets	1,449,139	1,558,161
Unrestricted	<u>(1,449,139)</u>	<u>(1,558,161)</u>
Total net position	<u>\$ -</u>	<u>\$ -</u>

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

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Bus passes	\$ 93,030	\$ 93,460
Passenger fare	251,041	272,854
Miscellaneous revenue	<u>1,008</u>	<u>814</u>
Total operating revenues	<u>345,079</u>	<u>367,128</u>
OPERATING EXPENSES		
Personal services	674,535	587,385
Contractual services	2,090,824	2,081,133
Administration & General	751,694	791,410
Depreciation	<u>109,022</u>	<u>76,668</u>
Total operating expenses	<u>3,626,075</u>	<u>3,536,596</u>
Operating loss	<u>(3,280,996)</u>	<u>(3,169,468)</u>
NON-OPERATING REVENUES		
Proposition A 40% Discretionary	452,879	456,288
TDA Article 4 Allocation - Operating	703,281	688,291
Proposition C Discretionary - Foothill Mitigation	20,511	20,714
Proposition C Discretionary - Bus System Improvement Plan	3,926	3,855
Proposition C Discretionary - Municipal Operator Service Improvement Program (MOSIP)	137,050	137,022
Proposition C 5% Transit Security	25,361	23,085
State Transit Assistance	53,944	76,028
Measure R 20% Bus Operation	286,200	280,205
Proposition 1B - PTMISEA	<u>14,048</u>	<u>151,948</u>
Total non-operating revenues	<u>1,697,200</u>	<u>1,837,436</u>
Loss before contribution and operating transfers	<u>(1,583,796)</u>	<u>(1,332,032)</u>
Contributions from other local jurisdictions (Note 5)	155,312	109,458
Operating transfer in from other funds (Note 5)	<u>1,428,484</u>	<u>595,082</u>
Total contribution and operating transfers	<u>1,583,796</u>	<u>704,540</u>
Change in net position	-	(627,492)
Net position at beginning of year	<u>-</u>	<u>627,492</u>
Net position at end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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

	<u>2017</u>	<u>2016</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Cash received from customers and users	\$ 273,058	\$ 54,061
Cash payments to suppliers for goods and services	(2,313,994)	(3,209,960)
Cash payments to employees for services	<u>(1,001,623)</u>	<u>(483,990)</u>
Net cash used in operating activities	<u>(3,042,559)</u>	<u>(3,639,889)</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases and construction of capital assets, net	<u>-</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>-</u>	<u>-</u>
CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfers from Proposition A Local Return	1,419,389	595,082
Transfers from general fund	9,095	-
Repayment of due from other funds	-	741,588
Cash received from other governments	<u>1,614,075</u>	<u>2,087,292</u>
Net cash provided by non-capital financing activities	<u>3,042,559</u>	<u>3,423,962</u>
Cash flows from investing activities		
Interest received	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and investments	<u>-</u>	<u>(215,927)</u>
Cash and investments, beginning of year	<u>-</u>	<u>215,927</u>
Cash and investments, end of year	\$ <u>-</u>	\$ <u>-</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Net operating loss	\$ (3,280,996)	\$ (3,169,468)
Adjustments to reconcile change in fund equity to net cash provided by operating activities:		
Depreciation	109,022	76,668
Changes in operating assets and liabilities:		
Actuarial pension expense	-	25,191
Increase (decrease) net pension liabilities	156,853	(58,824)
(Increase) decrease in accounts receivable	(58,007)	3,265
(Increase) deferred outflow of resources	(152,317)	-
Increase (decrease) in accounts payable	210,398	(204,499)
Increase (decrease) in unearned revenue	(14,014)	(316,331)
Increase (decrease) in salaries and benefits payable	(3,585)	4,109
Increase (decrease) in deferred inflows of resources	<u>(9,913)</u>	<u>-</u>
Net cash used in operating activities	\$ <u>(3,042,559)</u>	\$ <u>(3,639,889)</u>

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

CITY OF REDONDO BEACH

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

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 Fund 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 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".

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

CITY OF REDONDO BEACH

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 investment 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 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 pooled 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 the 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 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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Outflows and Deferred 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.

Reclassification

Certain financial statement items for the fiscal year ended June 30, 2016, have been re-classified to conform with the current year presentation. Re-classifications had no effect on the fund balance at June 30, 2016.

NOTE 2- CAPITAL ASSETS

Capital assets at June 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Vehicles	\$ 3,495,842	\$ 3,495,842
Less: Accumulated depreciation	<u>(2,046,703)</u>	<u>(1,937,681)</u>
Capital Assest, net	<u>\$ 1,449,139</u>	<u>\$ 1,558,161</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.

CITY OF REDONDO BEACH

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

NOTE 3- UNEARNED REVENUES

Unearned Revenues at June 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Proposition 1B Public Transportation Modernization, Improvement, and Service Enhancement (PTMISEA):		
FY 2010-11 allocation	\$ 11,083	\$ 11,083
Interest allocable to Prop 1B Funds	<u>14,599</u>	<u>14,352</u>
Total Proposition 1B Funds	25,682	25,435
California Governor's Office of Emergency Services (CGOES):		
FY 2013-14 allocation	-	9,135
FY 2014-15 allocation	<u>4,356</u>	<u>9,135</u>
Total allocable to CGOES	4,356	18,270
Low Carbon Transit Operation Program FY 2015-16 Allocation	<u>24,785</u>	<u>25,132</u>
Total Unearned Revenue	<u>\$ 54,823</u>	<u>\$ 68,837</u>

NOTE 4- 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.

CITY OF REDONDO BEACH

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

NOTE 4- PENSION PLAN (continued)

As a result of implementing GASB Statement No. 68, the Fund reported net pension liability of \$729,135 and \$572,282 as of June 30, 2017 and 2016, respectively.

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

NOTE 5- OTHER CONTRIBUTIONS FROM 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, 2017 and 2016, total contributions received were \$155,312 and \$109,458, 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, 2016, the City transferred \$595,082 from the Proposition A Local Return Fund. During the fiscal year ended June 30, 2017, the City transferred \$1,419,389 from the Proposition A Local Return Fund and \$9,095, from the City's General Fund.

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, 2017 and 2016, approximately 137 and 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 the fiscal years ended June 30, 2017 and 2016, the City contributed \$1,354,006 and \$1,339,268, respectively, to the plan.

CITY OF REDONDO BEACH

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

NOTE 6- OTHER POST EMPLOYMENT BENEFITS (OPEB) (continued)

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.

No separate post-employment benefit obligation is calculated for the Transit System 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- ANNUAL FINANCIAL STATEMENTS

The financial statements present only the Transit System Fund and do not, purport to, and do not, present fairly the City's financial position as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

NOTE 8- SUBSEQUENT EVENTS

The City has evaluated subsequent events through December 11, 2017, 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.



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 (City), as of and for the year ended June 30, 2017, and have issued our report thereon dated December 11, 2017. 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 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 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 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 instance of noncompliance or other matters that is 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 11, 2017

COMPLIANCE SECTION



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
BRAINARD C. SIMPSON, CPA
MELBA W. SIMPSON, CPA

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 (City) with the Transportation Development Act, Proposition A 40% Discretionary and Proposition C 40% Discretionary program Memorandum of Understandings (MOU), Proposition 1B, Proposition 1B Security program agreement, and 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 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. Our audit does not provide a legal determination of City's compliance with those requirements.

Opinion on the Transit System Fund

In our opinion, the City of Redondo Beach complied, in all material respects, with the compliance requirements referred to above that apply to the Transit System Fund for the year ended June 30, 2017.



Report on Internal Control Over Compliance

Management of the City of Redondo Beach 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 Transit System Fund 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.

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

Los Angeles, California
December 11, 2017

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

CITY OF REDONDO BEACH

TRANSIT SYSTEM FUND

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

June 30, 2017

No findings were noted.

SUPPLEMENTARY INFORMATION

CITY OF REDONDO BEACH

TRANSIT SYSTEM FUND

EXHIBIT I

50% EXPENDITURE LIMITATION TEST AND MAINTENANCE OF EFFORT TEST

For the Fiscal Year Ended June 30, 2017

50% EXPENDITURE LIMITATION TEST **

1	Total operating cost before depreciation	\$	3,186,624
2	Total depreciation		109,022
3	Total capital requirements		-
4	Total debt service requirements		-
5	Total (Lines 1,2,3, & 4)		<u>3,295,646</u>
6	Less: Federal Grants Received		-
7	Less: State Transit Assistance Fund (STAF) Received		<u>53,944</u>
8	Total (Lines 6 & 7)		<u>53,944</u>
9	Net (Line 5 less Line 8)	\$	<u>3,241,702</u>
10	Total permissible Local Transportation Fund under Article 4 (50% of Line 9)	\$	<u>1,620,851</u>
11	LTF Article 4 Allocated	\$	<u>703,281</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

The Article 4 allocation did not exceed the 50% expenditure limitation

MAINTENANCE OF EFFORT TEST

Total operating budget	\$	4,291,302
Total local return funds received	\$	1,428,484
5% of total operating budget	\$	214,565
25% of total local return funds received	\$	357,121

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, 2017, the City made a local contribution of \$1,428,484 from its Proposition A Local Return Fund to the Transit System Fund. Since the amount of the local contribution exceeded \$214,565, the City is in compliance with the maintenance of effort guidelines.

CITY OF REDONDO BEACH

TRANSIT SYSTEM FUND

EXHIBIT II

PROPOSITION A DISCRETIONARY ELIGIBILITY TEST

For the Fiscal Year Ended June 30, 2017

PROPOSITION A DISCRETIONARY ELIGIBILITY TEST

1	Transportation Development Act Article 4 Funds	\$	703,281
2	State Transit Assistance Funds		53,944
3	Farebox revenues		344,073
4	Local subsidies		<u>1,428,484</u>
5	Total operating revenues (Lines 1, 2, 3, & 4)		2,529,782
6	Less: operating cost, before depreciation		<u>3,517,053</u>
7	Eligible transit operator subsidy (Line 5 less 6)		(987,271)
8	Proposition A Discretionary Grant Allocation		<u>452,879</u>
9	Excess Proposition A Discretionary received	\$	<u><u>(534,392)</u></u> (a)

(a) Under the Proposition A Discretionary Guidelines, unexpended funds must be returned to LACMTA within sixty (60) days following the completion of the financial and compliance audit. There were no unexpended funds as of June 30, 2017.

CITY OF REDONDO BEACH
TRANSIT SYSTEM FUND
EXHIBIT III
Schedule of Capital Assets
For the Year Ended June 30, 2017

Description	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Vehicles	\$ 3,495,842	\$ -	\$ -	\$ 3,495,842
Total Capital Assets	\$ <u>3,495,842</u>	\$ <u>-</u>	\$ <u>-</u>	3,495,842
Less accumulated depreciation				<u>(2,046,703)</u>
Capital assets, net				<u>\$ 1,449,139</u>

CITY OF REDONDO BEACH

TRANSIT SYSTEM FUND

EXIT CONFERENCE

JUNE 30, 2017

An exit conference was held on December 11, 2017, with the City of Redondo Beach. Those in attendance were:

Simpson & Simpson Representative:

Joseph W. Simpson II, Audit Supervisor

City's Representative:

Doug Kaku- Financial Grants Administrator

Joyce Rooney- Transit Operations and Facilities Manager

Matters Discussed:

Results of the audit disclosed one instance of non-compliance

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, 2017 AND 2016.

I have received the annual financial report of the Transit System Fund for the years ended June 30, 2017 and 2016 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