

*CITY OF REDONDO BEACH*

*ANNUAL FINANCIAL REPORT OF THE*

*TRANSIT SYSTEM FUND*

*FOR THE FISCAL YEARS ENDED*

*JUNE 30, 2019 AND 2018*



**Metro<sup>®</sup>**



Simpson & Simpson, LLP  
Certified Public Accountants

***CITY OF REDONDO BEACH***

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*FINANCIAL SECTION*

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## Independent Auditor's Report

To the Honorable Members of the City Council of the  
City of 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, 2019 and 2018, 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 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, 2019 and 2018, 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, 2019 and 2018, 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 11, 2019, 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 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 Transit System Fund'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.

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

Los Angeles, California  
December 11, 2019

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

	2019	2018
<b>ASSETS</b>		
Current assets		
Accounts receivable	\$ 8,070	\$ 27,055
Due from other governments	134,268	53,058
Total current assets	142,338	80,113
Noncurrent assets		
Capital assets, net (Note 3)	1,395,760	1,446,508
Total assets	1,538,098	1,526,621
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred pension and OPEB related items	161,181	217,120
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	293,961	524,434
Due to City	146,212	218,694
Accrued compensated absences	9,459	10,372
Total current liabilities	449,632	753,500
Noncurrent liabilities		
Accrued compensated absences	46,888	36,872
Net pension liability (Note 5)	891,460	941,420
Net OPEB liability (Note 7)	123,468	68,865
Total noncurrent liabilities	1,061,816	1,047,157
Total liabilities	1,511,448	1,800,657
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred pension and OPEB related items	32,851	14,596
Unearned revenues (Note 4)	154,980	63,240
Total deferred inflows of resources	187,831	77,836
<b>NET POSITION</b>		
Net investment in capital assets	1,395,760	1,446,508
Unrestricted	(1,395,760)	(1,581,260)
Total net position	\$ -	\$ (134,752)

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

	2019	2018
<b>OPERATING REVENUES</b>		
Bus passes	\$ 338,835	\$ 90,196
Passenger fare	-	246,766
Miscellaneous revenue	786	820
<b>Total operating revenues</b>	339,621	337,782
 <b>OPERATING EXPENSES</b>		
Personnel services	645,725	622,729
Contractual services	2,442,575	2,379,415
Administration and general	578,135	550,313
Internal service charges	238,639	205,845
Depreciation expense	99,580	85,706
<b>Total operating expenses</b>	4,004,654	3,844,008
<b>Operating loss</b>	(3,665,033)	(3,506,226)
 <b>NON-OPERATING REVENUES</b>		
Proposition A 40% Discretionary	483,442	460,800
TDA Article 4 Allocation - Operating	747,604	698,276
Proposition C Discretionary - Foothill Mitigation	26,805	20,419
Proposition C Discretionary - Bus System Improvement Plan	4,105	3,995
Proposition C Discretionary - Municipal Operator Service Improvement Program (MOSIP)	146,412	140,043
Proposition C 5% Transit Security	28,182	26,272
State Transit Assistance	191,871	116,022
Measure R 20% Bus Operations	303,832	283,225
Measure R Regional Clean Fuel Bus	9,718	70,000
Measure M 20% Bus Operations	306,753	269,744
Proposition 1B - PTMISEA	-	17,447
State of Good Repair Program	4,557	-
<b>Total non-operating revenues</b>	2,253,281	2,106,243
<b>Loss before contribution and operating transfers</b>	(1,411,752)	(1,399,983)
 Contributions from other local jurisdictions (Note 6)	55,241	104,990
Operating transfer in from other funds (Note 6)	1,491,263	1,216,366
<b>Total contribution and operating transfers</b>	1,546,504	1,321,356
Change in net position	134,752	(78,627)
<b>Net position at beginning of year, as previously reported</b>	(134,752)	-
Change in accounting principle as a result of GASB 75 (Note 8)	-	(56,125)
<b>Net position at beginning of year, as restated</b>	(134,752)	(56,125)
<b>Net position at end of year</b>	\$ -	\$ (134,752)

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

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers and users	\$ 369,136	\$ 373,960
Cash payments to suppliers for goods and services	(3,435,219)	(2,986,584)
Cash payments to employees for services	(612,388)	(483,403)
Net cash used in operating activities	(3,678,471)	(3,096,027)
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(48,832)	(83,075)
Net cash used in capital and related financing activities	(48,832)	(83,075)
 <b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Transfer from Proposition A Local Return	1,481,763	1,216,366
Transfer from General Fund	9,500	-
Repayment of due from other funds	(72,482)	(247,539)
Cash received from other governments	2,308,522	2,210,275
Net cash provided by non-capital financing activities	3,727,303	3,179,102
 <b>Change in cash and investments</b>	-	-
 <b>Cash and investments, beginning of year</b>	-	-
 <b>Cash and investments, end of year</b>	\$ -	\$ -

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

	2019	2018
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES</b>		
Operating loss	\$ (3,665,033)	\$ (3,506,226)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Change in accounting principle as a result of GASB 75	-	(56,125)
Depreciation	99,580	85,706
Changes in operating assets and liabilities:		
Decrease in accounts receivable	18,985	36,178
Decrease in deferred outflow pension related items	73,438	5,470
Increase in deferred outflow OPEB related items	(17,499)	(12,022)
(Decrease) increase in accounts payable	(230,473)	80,124
Decrease in due from other governments	(81,210)	-
Increase in unearned revenue	91,740	-
(Decrease) increase in net pension liability	(49,960)	212,285
Increase in OPEB liability	54,603	68,865
Increase (decrease) in deferred inflow pension related items	11,216	(14,018)
Increase in deferred inflow OPEB related items	7,039	12,265
Increase (decrease) in compensated absences	9,103	(8,529)
Net cash used in operating activities	\$ (3,678,471)	\$ (3,096,027)

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, 2019 and 2018

**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, 2019 and 2018  
(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 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 year

**CITY OF REDONDO BEACH**  
TRANSIT SYSTEM FUND  
NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Years Ended June 30, 2019 and 2018  
(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, 2019 and 2018, 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, 2019 and 2018  
(Continued)

**NOTE 3 – CAPITAL ASSETS, NET**

Capital assets at June 30, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Vehicles	\$ 3,215,044	\$ 3,166,212
Less: accumulated depreciation	<u>(1,819,284)</u>	<u>(1,719,704)</u>
Capital assets, net	<u>\$ 1,395,760</u>	<u>\$ 1,446,508</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, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Proposition 1B Public Transportation Modernization, Improvement, and Service Enhancement (PTMISEA):		
FY 2010-15 allocation	\$ 123,346	\$ -
Interest allocable to Prop 1B Funds	<u>14,701</u>	<u>12,921</u>
Total Proposition 1B Funds	<u>138,047</u>	<u>12,921</u>
California Governor's Office of Emergency Services (CGOES):		
FY 2015-16 allocation	9,279	9,153
FY 2016-17 allocation	<u>7,427</u>	<u>7,323</u>
Total allocable to CGOES	<u>16,706</u>	<u>16,476</u>
Low Carbon Transit Operation Program FY2015-16 Allocation	<u>227</u>	<u>24,125</u>
Total Low Carbon Transit Operation Program	<u>227</u>	<u>24,125</u>
Measure R Regional Clean Fuel Bus	-	9,718
Total unearned revenues	<u>\$ 154,980</u>	<u>\$ 63,240</u>

**CITY OF REDONDO BEACH**  
**TRANSIT SYSTEM FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Years Ended June 30, 2019 and 2018  
(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 \$891,460 and \$941,420 as of June 30, 2019 and 2018, 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 CAFR.

**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, 2019 and 2018, total contributions received were \$55,241 and \$104,990, 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, 2019, the City transferred \$1,481,763 from the Proposition A Local Return Fund and \$9,500 from the General Fund. During the fiscal year ended June 30, 2018, the City transferred \$1,216,336 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, 2019 and 2018  
(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 \$123,468 as of June 30, 2019 and \$68,865 as of June 30, 2018.

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 CAFR.

**NOTE 8 - PRIOR YEAR RESTATEMENT**

As discussed in Note 1, the City implemented GASB Statement No. 75 effective July 1, 2017. GASB Statement No. 75, among other provisions, amended prior guidance with respect to the reporting of OPEB and established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expenses. The City's net OPEB liability was not previously recorded on the statement of net position. GASB Statement No. 75 requires that accounting changes adopted to conform to the provision of the Statement be applied retroactively by restating financial statements. Accordingly, the beginning net position has been restated as follows:

	2018
Beginning net position, as previously reported	\$ -
Change in accounting principle as a result of GASB 75	(56,125)
Beginning net position, as restated	\$ (56,125)

**NOTE 9 – SUBSEQUENT EVENTS**

The City has evaluated subsequent events through December 11, 2019, 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.





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

To the Honorable Members of the City Council of the  
City of 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, 2019, and have issued our report thereon dated December 11, 2019. 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) to determine the 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.



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### **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 &amp; Simpson".

Los Angeles, California  
December 11, 2019

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*COMPLIANCE SECTION*

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

To the Honorable Members of the City Council of the  
City of 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, 2019.

### *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, 2019.



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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 &amp; Simpson".

Los Angeles, California  
December 11, 2019

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***SCHEDULE OF FINDINGS AND RECOMMENDATIONS***

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***CITY OF REDONDO BEACH***  
TRANSIT SYSTEM FUND  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
June 30, 2019

No findings were noted.

**CITY OF REDONDO BEACH**  
**TRANSIT SYSTEM FUND**  
**EXHIBIT I**

**50% EXPENDITURE LIMITATION TEST AND MAINTENANCE OF EFFORT TEST**  
**June 30, 2019**

**50% EXPENDITURE LIMITATION TEST\***

1 Total operating cost before depreciation	\$	3,536,997
2 Total depreciation		99,580
3 Total capital requirements		-
4 Total debt service requirements		-
5 Total (Lines 1-4)	\$	<u>3,636,577</u>
6 Less: Federal grants received		-
7 Less: State Transit Assistance Fund received		<u>191,871</u>
8 Total (Lines 6 & 7)		191,871
9 Net (Line 5 minus Line 8)	\$	<u>3,444,706</u>
10 Total permissible Local Transportation Fund (LTF) under Article 4 (50% of Line 9)	\$	<u>1,722,353</u>
11 LTF expended	\$	<u>747,604</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	\$	4,701,747
Total local return funds received	\$	1,481,763
5% of total operating budget	\$	235,087 **
25% of total local return funds received	\$	370,441 **

\*\*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, 2019, the City made a local contribution of \$1,481,763 from its Proposition A Local Return Fund to the Transit System Fund. Since the amount of the local contribution exceeded the minimum requirement of \$235,087, the City is in compliance with the maintenance of effort test.

See accompanying independent auditor's report.



**CITY OF REDONDO BEACH**  
**TRANSIT SYSTEM FUND**  
**EXHIBIT II**  
**PROPOSITION A DISCRETIONARY ELIGIBILITY TEST**  
**June 30, 2019**

**PROPOSITION A DISCRETIONARY ELIGIBILITY TEST**

1	TDA Article 4 Allocation	\$	747,604
2	State Transit Assistance Fund		191,871
3	Farebox revenues		338,835
4	Local subsidies		1,481,763
5	Total operating revenues (Lines 1-4)		<u>2,760,073</u>
6	Less: operating cost before depreciation		<u>3,905,074</u>
7	Eligible transit operator subsidy (Line 5 less Line 6)		(1,145,001)
8	Proposition A Discretionary Grant allocation		<u>483,442</u>
9	Excess Proposition A Discretionary Grant received		<u><u>(661,559)</u></u> (a)

(a) 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, 2019.

See accompanying independent auditor's report.

**CITY OF REDONDO BEACH**  
**TRANSIT SYSTEM FUND**  
**EXHIBIT III**  
**SCHEDULE OF CAPITAL ASSETS**  
June 30, 2019

<u>Description</u>	<u>Balance</u> <u>July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>July 1, 2019</u>
Vehicles	\$ 3,166,212	\$ 48,832	\$ -	\$ 3,215,044
Total capital assets	\$ <u>3,166,212</u>	\$ <u>48,832</u>	\$ <u>-</u>	-
Less accumulated depreciation				<u>1,819,284</u>
Capital assets, net				\$ <u>1,395,760</u>

See accompanying independent auditor's report.

**CITY OF REDONDO BEACH**  
**TRANSIT SYSTEM FUND**  
**EXIT CONFERENCE**  
June 30, 2019

An exit conference was held on December 11, 2019 with the City of Redondo Beach. Those in attendance were:

***Simpson & Simpson Representative:***

Austine Cho, Audit Senior

***City's Representatives:***

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

***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 5<sup>th</sup> 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, 2019 AND 2018.

I have received the annual financial report of the Transit System Fund for the years ended June 30, 2019 and 2018 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,

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Name

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Title

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Date