

***CITY OF REDONDO BEACH  
ANNUAL FINANCIAL REPORT OF THE  
TRANSIT SYSTEM FUND  
AS OF AND FOR THE FISCAL YEARS ENDED  
JUNE 30, 2022 AND 2021***



Simpson & Simpson, LLP  
Certified Public Accountants

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

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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

### *Opinions*

We have audited the accompanying financial statements of the Transit System Fund (the Fund) of the City of Redondo Beach, California (the City) as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund of the City, as of June 30, 2022 and 2021, and the changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinions*

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Emphasis of Matter*

As discussed in Note 2, the financial statements present only the Fund of the City, and do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2022 and 2021, the changes in its financial position, 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.

### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.



The CPA. Never Underestimate The Value.™



### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Supplementary Information***

Our audits were conducted for the purpose of forming opinions on the Fund's financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information 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. The 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 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 November 17, 2022, on our consideration of the City's internal control over the 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 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 the Fund's 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 the Fund's 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 28, 2022

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

	2022	2021
<b>ASSETS</b>		
Current assets		
Cash and investments	\$ -	\$ 240,306
Restricted cash with fiscal agent	312	-
Due from other governments	581,056	111,673
Total current assets	581,368	351,979
Noncurrent assets		
Capital assets, net (Note 3)	1,242,959	1,380,466
Total assets	1,824,327	1,732,445
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred pension and OPEB related items	1,113,969	168,996
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	624,394	553,179
Due to other funds	37,755	-
Accrued compensated absences, current	24,873	26,673
Unearned revenues (Note 4)	3,581	20,871
Long-term debt - due within one year (Note 8)	32,159	-
Total current liabilities	722,762	600,723
Noncurrent liabilities		
Accrued compensated absences, noncurrent	74,614	80,016
Long-term debt - due in more than one year (Note 8)	1,076,123	-
Net pension liability (Note 5)	400,115	1,064,635
Net OPEB liability (Note 7)	78,304	120,499
Total noncurrent liabilities	1,629,156	1,265,150
Total liabilities	2,351,918	1,865,873
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred pension and OPEB related items	241,289	35,568
Total deferred inflows of resources	241,289	35,568

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

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

	2022	2021
<b>NET POSITION</b>		
Net investment in capital assets	\$ 1,242,959	\$ 1,380,466
Unrestricted	(897,870)	(1,380,466)
<b>Total net position</b>	\$ 345,089	\$ -

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

	2022	2021
<b>OPERATING REVENUES</b>		
Bus passes	\$ 255	\$ -
Miscellaneous revenue	23	29
<b>Total operating revenues</b>	278	29
 <b>OPERATING EXPENSES</b>		
Personnel services	154,291	761,597
Contractual services	3,310,313	2,993,106
Administration and general	503,047	302,262
Internal service charges	299,918	230,205
Depreciation expense	137,507	153,569
<b>Total operating expenses</b>	4,405,076	4,440,739
<b>Operating loss</b>	(4,404,798)	(4,440,710)
 <b>NON-OPERATING REVENUES (EXPENSES)</b>		
Proposition A 40% Discretionary	521,104	515,622
Proposition A Discretionary Incentive	834	2,503
TDA Article 4 Allocation - Operating	822,863	663,012
Proposition C Discretionary - Foothill Mitigation	26,786	22,362
Proposition C Discretionary - Bus System Improvement Plan	4,187	4,105
Proposition C Discretionary - Municipal Operator Service Improvement Program (MOSIP)	150,368	148,556
Proposition C 5% Transit Security	31,568	23,969
State Transit Assistance	122,414	192,748
Measure R 20% Bus Operations	330,590	253,710
Measure R Regional Clean Fuel Bus	-	8,858
Measure M 20% Bus Operations	329,464	250,144
Proposition 1B - Transit Security	83,548	-
State of Good Repair Program	1,781	7,569
CARES Act Grant	828,048	734,892
Interest expense	(21,543)	-
Bond issuance cost	(6,173)	-
<b>Total non-operating revenues</b>	3,225,839	2,828,050
<b>Loss before contribution and operating transfers</b>	(1,178,959)	(1,612,660)

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

	2022	2021
<b>CONTRIBUTION AND OPERATING TRANSFERS</b>		
Contributions from other local jurisdictions (Note 6)	\$ 12,003	\$ 800
Operating transfer in from other funds (Note 6)	1,512,155	1,612,295
Operating transfer out to other funds	(110)	(435)
<b>Total contribution and operating transfers</b>	<b>1,524,048</b>	<b>1,612,660</b>
 <b>Change in net position</b>	 345,089	 -
 <b>Net position at beginning of year</b>	 -	 -
 <b>Net position at end of year</b>	 \$ 345,089	 \$ -

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

	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers and users	\$ 278	\$ 345
Cash payments to suppliers for goods and services	(4,042,063)	(3,227,147)
Cash payments to employees for services	(1,607,460)	(614,031)
Net cash used in operating activities	(5,649,245)	(3,840,833)
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	-	(38,415)
Net cash used in capital and related financing activities	-	(38,415)
 <b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Transfer in from other funds	1,512,155	1,607,735
Proceeds from non-capital debt issued	1,102,109	-
Interest paid on non-capital debt	(21,543)	-
Transfer from General Fund	-	4,560
Transfer out to other funds	(110)	(435)
Repayment of due from other funds	-	(537,226)
Cash received from other governments	2,816,640	3,044,920
Net cash provided by non-capital financing activities	5,409,251	4,119,554
 <b>Change in cash and cash equivalents</b>	(239,994)	240,306
 <b>Cash and cash equivalents, beginning of year</b>	240,306	-
 <b>Cash and equivalents, end of year</b>	\$ 312	\$ 240,306

Noncash investing, capital and financing activities:

During fiscal years 2022 and 2021, there were no significant noncash investing, capital, or financing activities.

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

	2022	2021
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES</b>		
Operating loss	\$ (4,404,798)	\$ (4,440,710)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	137,507	153,569
Changes in operating assets and liabilities:		
Decrease in deferred outflow pension and OPEB related items	(944,973)	(12,721)
Increase in accounts payable	71,215	288,167
Increase in unearned revenue	-	316
(Decrease) increase in net pension liability	(664,520)	120,321
(Decrease) increase in OPEB liability	(42,195)	10,259
Increase (decrease) in deferred inflow pension and OPEB related items	205,721	(7,129)
(Decrease) increase in compensated absences	(7,202)	47,095
Net cash used in operating activities	\$ (5,649,245)	\$ (3,840,833)

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, 2022 and 2021

**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.

All transactions of the Transit System Fund are included in the reporting entity of the City and are recorded in a separate fund of the City. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording resources, related liabilities, obligations, reserves and equities, segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

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, 2022 and 2021  
(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 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. The estimated useful lives used in computing the provision for depreciation of capital assets are as follows:

Buildings and building improvements	30 to 40 years
Buses, other vehicles, and machinery	5 to 10 years
Equipment, furniture and fixtures	5 to 7 years

**CITY OF REDONDO BEACH**  
TRANSIT SYSTEM FUND  
NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Years Ended June 30, 2022 and 2021  
(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, 2022 and 2021, 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, 2022 and 2021  
(Continued)

**NOTE 3 – CAPITAL ASSETS, NET**

Capital assets at June 30, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Vehicles	\$ 3,477,241	\$ 3,477,241
Less: accumulated depreciation	<u>(2,234,282)</u>	<u>(2,096,775)</u>
Capital assets, net	<u>\$ 1,242,959</u>	<u>\$ 1,380,466</u>

Further information can be found in the Schedule of Capital Assets (Exhibit III).

**NOTE 4 – UNEARNED REVENUES**

Unearned revenues at June 30, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Interest allocable to Prop 1B Funds	\$ <u>3,343</u>	\$ <u>3,306</u>
Total Proposition 1B Funds	<u>3,343</u>	<u>3,306</u>
California Governor’s Office of Emergency Services (CGOES):		
FY 2015-16 allocation	<u>-</u>	<u>9,624</u>
FY 2016-17 allocation	<u>-</u>	<u>7,706</u>
Total allocable to CGOES	<u>-</u>	<u>17,330</u>
Low Carbon Transit Operation Program FY2015-16 Allocation	<u>235</u>	<u>235</u>
Total Low Carbon Transit Operation Program	<u>235</u>	<u>235</u>
Total unearned revenues	<u>\$ 3,581</u>	<u>\$ 20,871</u>

**CITY OF REDONDO BEACH**  
TRANSIT SYSTEM FUND  
NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Years Ended June 30, 2022 and 2021  
(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 \$400,115 and \$1,064,635 as of June 30, 2022 and 2021, 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 2022, total contributions received were \$12,003 and \$800, 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, 2022, the City transferred \$1,512,045 from the Proposition A Local Return Fund and \$110 from the General Fund. 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.

**CITY OF REDONDO BEACH**  
TRANSIT SYSTEM FUND  
NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Years Ended June 30, 2022 and 2021  
(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 \$78,304 as of June 30, 2022 and \$120,499 as of June 30, 2021.

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 – LONG-TERM DEBT (PENSION OBLIGATION BONDS ISSUANCE)**

The City authorized the issuance of pension obligation bonds, "\$226,180,000 Redondo Beach Community Financing Authority Lease Revenue Bonds, Series 2021A (Federally Taxable)" maturing on May 1, 2049 pursuant to an indenture dated as of July 1, 2021. Proceeds of the Bonds were used to fund the City's unfunded accrued liability (UAL) of the pension plan provided through the California Public Employees' Retirement System (CalPERS) and pay costs of issuance of the Bonds. The City allocated the Bonds and its related expenses to the Transit System Fund based on the amount of UAL paid to CalPERS by the Transit System Fund. Accordingly, \$1,108,282 of the outstanding balance of Bonds, \$6,173 of bond issuance cost and \$21,543 of interest expense were allocated to the Transit System Fund for the fiscal year ended June 30, 2022. Further information concerning the City's pension obligation bonds can be found in the City's ACFR.

**NOTE 9 – 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, 2022 Fund's financial statement.

***CITY OF REDONDO BEACH***  
TRANSIT SYSTEM FUND  
NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Years Ended June 30, 2022 and 2021  
(Continued)

**NOTE 10 – SUBSEQUENT EVENTS**

The City has evaluated subsequent events through December 28, 2022, 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.



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## 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, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Transit System Fund (the Fund) of the City of Redondo Beach, California (the City), as of and for the year ended June 30, 2022, and the related notes to the financial statements and have issued our report thereon dated December 28, 2022.

#### **Report on 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) as a basis for designing 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 or significant deficiencies may exist that were not identified.



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## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City Fund's 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 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 black ink that reads "Simpson &amp; Simpson". The signature is written in a cursive, flowing style.

Los Angeles, California  
December 28, 2022

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*COMPLIANCE SECTION*

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MELBA W. SIMPSON, CPA

**Independent Auditor's Report On Compliance and On Internal Control Over Compliance  
Required by the Guidelines**

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**

*Opinion on Transit System Program*

We have audited the compliance of the City of Redondo Beach, California (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, 2022.

In our opinion, the City complied, in all material respects, with the compliance requirements of the Guidelines for the year ended June 30, 2022.

*Basis for Opinion on Transit System Program*

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. Our responsibilities under those standards and the Guidelines are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the Transit System Program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

*Responsibilities of Management for Compliance*

Management is responsible for the City's compliance with the Guidelines and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statues, regulations, rules, and provisions of contracts or program agreements applicable to the City's Transit System Program.



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### *Auditor's Responsibilities for the Audit of Compliance*

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Guidelines will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of the Transit System Program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Guidelines, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Guidelines, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.



## Report on 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 with the Guidelines 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 with 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 requirements 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 28, 2022

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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, 2022

No findings were noted.

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***SUPPLEMENTARY INFORMATION***

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**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, 2022

**50% EXPENDITURE LIMITATION TEST**

1 Total operating cost before depreciation	\$	3,766,926 *
2 Total depreciation		137,507
3 Total capital requirements		-
4 Total debt service requirements		-
5 Total (Lines 1-4)	\$	<u>3,904,433</u>
6 Less: Federal grants received		828,048
7 Less: State Transit Assistance Fund received		122,414
8 Total (Lines 6 & 7)		<u>950,462</u>
9 Net (Line 5 minus Line 8)	\$	<u>2,953,971</u>
10 Total permissible Local Transportation Fund (LTF) under Article 4 (50% of Line 9)	\$	<u>1,476,986</u>
11 TDA Article 4 allocation	\$	<u>822,863</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	\$	6,913,380
Total local funds received	\$	734,847 **
5% of total operating budget	\$	345,669 ***
25% of total local return funds received	\$	183,712 ***

\*\*Total local funds received include the following:

<u>Total local funds received</u>	<u>Amount</u>
Proposition A 40% Discretionary	\$ 521,104
Proposition A Discretionary Incentive	834
Proposition C Discretionary - Foothill Mitigation	26,786
Proposition C Discretionary - Bus System Improvement Plan	4,187
Proposition C Discretionary – MOSIP	150,368
Proposition C 5% Transit Security	31,568
<b>Total</b>	<u>\$ 734,847</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  
For the Fiscal Year Ended June 30, 2022  
(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, 2022, the City made a local contribution of \$1,512,045 from its Proposition A Local Return Fund to the Transit System Fund. Since the amount of the local contribution exceeded the minimum requirement of \$183,712, 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**  
For the Fiscal Year Ended June 30, 2022

**PROPOSITION A DISCRETIONARY ELIGIBILITY TEST**

1	TDA Article 4 Allocation	\$	822,863
2	State Transit Assistance Fund		122,414
3	Farebox revenues		255
4	Local subsidies		<u>2,385,842 (a)</u>
5	Total operating revenues (Lines 1-4)		3,331,374
6	Less: operating cost before depreciation		<u>4,267,569</u>
7	Eligible transit operator subsidy (Line 5 less Line 6)		936,195
8	Proposition A Discretionary Grant allocation		<u>521,104</u>
9	Excess Proposition A Discretionary Grant received	\$	<u><u>(415,091) (b)</u></u>

(a) Local subsidies include the following:

<u>Local subsidies (Line 4)</u>	<u>Amount</u>
Proposition A Discretionary Incentive	\$ 834
Proposition A Local Return	1,512,045
Proposition C Discretionary - Foothill Mitigation	26,786
Proposition C Discretionary - Bus System Improvement Plan	4,187
Proposition C Discretionary – MOSIP	150,368
Proposition C 5% Transit Security	31,568
Measure R 20% Bus Operations	330,590
Measure M 20% Bus Operations	<u>329,464</u>
<b>Total</b>	<u><u>\$ 2,385,842</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, 2022.

See accompanying independent auditor’s report

**CITY OF REDONDO BEACH**  
**TRANSIT SYSTEM FUND**  
**EXHIBIT III**  
**SCHEDULE OF CAPITAL ASSETS**  
June 30, 2022

Description	Balance July 1, 2021	Additions	Deletions	Balance July 1, 2022
Vehicles	\$ 3,477,241	\$ -	\$ -	\$ 3,477,241
Total capital assets	<u>\$ 3,477,241</u>	<u>\$ -</u>	<u>\$ -</u>	
Less accumulated depreciation				<u>(2,234,282)</u>
Capital assets, net				<u>\$ 1,242,959</u>

See accompanying independent auditor's report

**CITY OF REDONDO BEACH**  
**TRANSIT SYSTEM FUND**  
**EXIT CONFERENCE**  
June 30, 2022

An exit conference was held on January 12, 2023 with the City of Redondo Beach. Those in attendance were:

***Simpson & Simpson Representative:***

Austine Cho, Audit Manager

***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, 2022 AND 2021.

I have received the annual financial report of the Transit System Fund for the years ended June 30, 2022 and 2021 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