

***CITY OF REDONDO BEACH
ANNUAL FINANCIAL REPORT OF THE
TRANSIT SYSTEM FUND
AS OF AND FOR THE FISCAL YEARS ENDED
JUNE 30, 2023 AND 2022***



Metro[®]



Simpson & Simpson, LLP
Certified Public Accountants

CITY OF REDONDO BEACH
TRANSIT SYSTEM FUND

TABLE OF CONTENTS

FINANCIAL SECTION	PAGE
Independent Auditor's Report	1
Financial Statements:	
Statements of Net Position	4
Statements of Revenues, Expenses and Changes in Net Position	6
Statements of Cash Flows	8
Notes to Financial Statements	10
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	17
COMPLIANCE SECTION	
Independent Auditor's Report on Compliance and on Internal Control Over Compliance Required by the Guidelines	19
Schedule of Findings and Recommendations	22
SUPPLEMENTARY INFORMATION	
Exhibit I – 50% Expenditure Limitation Test and Maintenance of Effort Test	23
Exhibit II – Proposition A Discretionary Eligibility Test	25
Exhibit III – Schedule of Capital Assets	26
EXIT CONFERENCE	27

FINANCIAL SECTION



U.S. BANK TOWER
633 WEST 5TH STREET, SUITE 3320
LOS ANGELES, CA 90071
(213) 736-6664 TELEPHONE
(213) 736-6692 FAX
www.simpsonandsimpsoncpas.com

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

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, 2023 and 2022, 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, 2023 and 2022, 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 (GAAS) 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, 2023 and 2022, 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 GAAS and *Government 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 GAAS and *Government 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 December 29, 2023, 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 & Simpson". The signature is written in a cursive, flowing style.

Los Angeles, California
December 29, 2023

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

	2023	2022
ASSETS		
Current assets		
Restricted cash	\$ 282	\$ 312
Due from other governments (Note 9)	1,478,449	581,056
Accounts receivable	1,382	-
Total current assets	1,480,113	581,368
Noncurrent assets		
Capital assets, net (Note 3)	1,410,173	1,242,959
Total assets	2,890,286	1,824,327
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension and OPEB related items	407,363	1,113,969
Total deferred outflows of resources	407,363	1,113,969
LIABILITIES		
Current liabilities		
Accounts payable	673,103	624,394
Due to City	765,863	37,755
Accrued compensated absences, current	25,812	24,873
Accrued interest payable	4,451	-
Unearned revenues (Note 4)	1,494	3,581
Long-term debt - due within one year (Note 8)	31,094	32,159
Total current liabilities	1,501,817	722,762
Noncurrent liabilities		
Accrued compensated absences, noncurrent	77,427	74,614
Long-term debt - due in more than one year (Note 8)	1,040,504	1,076,123
Total pension liability (Note 5)	159,774	400,115
Total OPEB liability (Note 7)	94,322	78,304
Total noncurrent liabilities	1,372,027	1,629,156
Total liabilities	2,873,844	2,351,918
DEFERRED INFLOWS OF RESOURCES		
Deferred pension and OPEB related items	83,168	241,289
Total deferred inflows of resources	83,168	241,289

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

	2023	2022
NET POSITION		
Net investment in capital assets	\$ 1,410,173	\$ 1,242,959
Unrestricted	(1,069,536)	(897,870)
Total net position	\$ 340,637	\$ 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

	2023	2022
OPERATING REVENUES		
Bus passes	\$ 165,151	\$ 255
Miscellaneous revenue	44	23
Total operating revenues	165,195	278
OPERATING EXPENSES		
Personnel services	1,019,648	154,291
Contractual services	3,423,795	3,310,313
Administration and general	885,059	503,047
Internal service charges	312,048	299,918
Depreciation expense	152,179	137,507
Total operating expenses	5,792,729	4,405,076
Operating loss	(5,627,534)	(4,404,798)
NON-OPERATING REVENUES (EXPENSES)		
Proposition A 40% Discretionary	518,670	521,104
Proposition A Discretionary Incentive	-	834
TDA Article 4 Allocation - Operating	1,028,033	822,863
Proposition C Discretionary - Foothill Mitigation	34,947	26,786
Proposition C Discretionary - Bus System Improvement Plan	4,325	4,187
Proposition C Discretionary - Municipal Operator Service Improvement Program (MOSIP)	149,565	150,368
Proposition C 5% Transit Security	35,996	31,568
State Transit Assistance	205,877	122,414
Measure R 20% Bus Operations	412,867	330,590
Measure M 20% Bus Operations	412,219	329,464
Proposition 1B - Transit Security	-	83,548
Proposition 1B – Transit Modernization	2,145	-
State of Good Repair Program	7,656	1,781
Federal grants	1,330,794	828,048
Gain on sale of capital assets	1,241	-
Interest expense	(31,568)	(21,543)
Bond issuance cost	-	(6,173)
Total non-operating revenues	4,112,767	3,225,839
Loss before contribution and operating transfers	(1,514,767)	(1,178,959)

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

	2023	2022
CONTRIBUTION AND OPERATING TRANSFERS		
Contributions from other local jurisdictions (Note 6)	\$ -	\$ 12,003
Operating transfer in from other funds (Note 6)	1,574,907	1,512,155
Operating transfer out to other funds	<u>(64,592)</u>	<u>(110)</u>
Total contribution and operating transfers	<u>1,510,315</u>	<u>1,524,048</u>
 Change in net position	 (4,452)	 345,089
 Net position at beginning of year	 <u>345,089</u>	 <u>-</u>
 Net position at end of year	 <u>\$ 340,637</u>	 <u>\$ 345,089</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

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and users	\$ 165,195	\$ 278
Cash payments to suppliers for goods and services	(4,572,193)	(4,042,063)
Cash payments to employees for services	(691,734)	(1,607,460)
Net cash used in operating activities	(5,098,732)	(5,649,245)
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(319,393)	-
Proceeds from the sale of capital assets	1,241	-
Net cash used in capital and related financing activities	(318,152)	-
 CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfer in from other funds	1,574,907	1,512,155
Received from other funds	-	37,755
Principal paid on non-capital debt	(36,684)	-
Proceeds from non-capital debt issued	-	1,102,109
Interest paid on non-capital debt	(27,117)	(21,543)
Transfer out to other funds	(64,592)	(110)
Cash received from other governments	3,970,340	2,816,640
Net cash provided by non-capital financing activities	5,416,854	5,447,006
 Change in cash and cash equivalents	(30)	(239,994)
 Cash and cash equivalents, beginning of year	312	240,306
 Cash and equivalents, end of year	\$ 282	\$ 312

Noncash investing, capital and financing activities:

During fiscal years 2023 and 2022, 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

	2023	2022
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (5,627,534)	\$ (4,404,798)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	152,179	137,507
Changes in operating assets and liabilities:		
Decrease (increase) in deferred outflow pension and OPEB related items	706,606	(944,973)
Increase in accounts payable	48,709	71,215
Decrease in net pension liability	(240,341)	(664,520)
Increase (decrease) in OPEB liability	16,018	(42,195)
(Decrease) increase in deferred inflow pension and OPEB related items	(158,121)	205,721
Increase (decrease) in compensated absences	3,752	(7,202)
Net cash used in operating activities	\$ (5,098,732)	\$ (5,649,245)

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, 2023 and 2022

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, 2023 and 2022
(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 Government Accounting Standard Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, which became effective for the fiscal year ended June 30, 2016, the City categorizes its fair value measurement within the fair value hierarchy that is based on the valuation inputs used to measure the fair value of the investment. Level 1 inputs are quoted prices in active markets for identical investments; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Accordingly, the City reports its investment at fair value and recognizes unrealized gain (loss) on investments.

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.

Refer to the City's 2023 Annual Comprehensive Financial Report (ACFR) for detailed disclosures regarding the City's investment policy and fair value measurement.

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:

CITY OF REDONDO BEACH
TRANSIT SYSTEM FUND
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2023 and 2022
(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (continued)

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

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.

Reclassification

Certain reclassifications have been made to fiscal year 2022 amounts in order to conform to the fiscal year 2023 presentation. Such reclassifications had no effect on the previously reported change in net position.

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, 2023 and 2022, 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, 2023 and 2022
(Continued)

NOTE 3 – CAPITAL ASSETS, NET

Capital assets at June 30, 2023 and 2022 consisted of the following:

	2023	2022
Vehicles	\$ 3,574,864	\$ 3,477,241
Less: accumulated depreciation	(2,164,691)	(2,234,282)
Capital assets, net	\$ 1,410,173	\$ 1,242,959

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

NOTE 4 – UNEARNED REVENUES

Unearned revenues at June 30, 2023 and 2022 consisted of the following:

	2023	2022
Interest allocable to Prop 1B Funds	\$ 1,252	\$ 3,343
Total Proposition 1B Funds	1,252	3,343
Low Carbon Transit Operation Program FY2015-16 Allocation	242	235
Total Low Carbon Transit Operation Program	242	235
Total unearned revenues	\$ 1,494	\$ 3,581

CITY OF REDONDO BEACH
TRANSIT SYSTEM FUND
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2023 and 2022
(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 \$159,774 and \$400,115 as of June 30, 2023 and 2022, 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, 2023 and 2022, total contributions received were \$0 and \$12,003, respectively.

The Transit System Fund operates as a funding shortfall each fiscal year; as such, they use local return funds to subsidize the deficiency in operating revenue. During the fiscal year ended June 30, 2023, the City transferred \$1,510,726 from the Proposition A Local Return Fund and \$64,181 from other funds. During the fiscal year ended June 30, 2022, the City transferred \$1,512,155 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, 2023 and 2022
(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 \$94,322 as of June 30, 2023 and \$78,304 as of June 30, 2022.

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 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. During the fiscal years ended June 30, 2023 and 2022, the outstanding balances of the Bonds were \$1,071,598 and \$1,108,282, respectively, and interest expenses allocated to the Transit System Fund totaled \$31,568 and \$21,543, respectively. Further information concerning the City's pension obligation bonds can be found in the City's ACFR.

CITY OF REDONDO BEACH
TRANSIT SYSTEM FUND
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2023 and 2022
(Continued)

NOTE 9 – DUE FROM OTHER GOVERNMENTS

Amounts due from other governments as of June 30, 2023 and 2022 are as follows:

		2023		2022
Los Angeles County	\$	88,530	\$	68,571
State Transit Assistance Fund		59,125		98,461
Federal Transit Administration		1,330,794		414,024
Total	\$	1,478,449	\$	581,056

NOTE 10 – SUBSEQUENT EVENTS

The City has evaluated events or transactions that occurred subsequent to June 30, 2023 through December 29, 2023, the date the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined no subsequent matters require disclosure or adjustment to the accompanying financial statements.



U.S. BANK TOWER
633 WEST 5TH STREET, SUITE 3320
LOS ANGELES, CA 90071
(213) 736-6664 TELEPHONE
(213) 736-6692 FAX
www.simpsonandsimpsoncpas.com

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 29, 2023.

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.



The CPA. Never Underestimate The Value.™



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 cursive script that reads "Simpson & Simpson".

Los Angeles, California
December 29, 2023

COMPLIANCE SECTION



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS
FOUNDING PARTNERS
BRAINARD C. SIMPSON, CPA
MELBA W. SIMPSON, CPA

U.S. BANK TOWER
633 WEST 5TH STREET, SUITE 3320
LOS ANGELES, CA 90071
(213) 736-6664 TELEPHONE
(213) 736-6692 FAX
www.simpsonandsimpsoncpas.com

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

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, 2023.

In our opinion, the City of Redondo Beach, California complied, in all material respects, with the compliance requirements of the Guidelines for the year ended June 30, 2023.

Basis for Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), 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 with the Guidelines. 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.



The CPA. Never Underestimate The Value.™



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 GAAS, *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 Guidelines as a whole.

In performing an audit in accordance with GAAS, *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 black ink that reads "Simpson & Simpson".

Los Angeles, California
December 29, 2023

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

CITY OF REDONDO BEACH
TRANSIT SYSTEM FUND
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2023

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, 2023

50% EXPENDITURE LIMITATION TEST:

1	Total operating cost before depreciation	\$	5,127,250	(a)
2	Total depreciation		152,179	
3	Total capital requirements		-	
4	Total debt service requirements		-	
5	Total (Lines 1-4)		<u>5,279,429</u>	
6	Less: Federal grants received		1,330,794	(b)
7	Less: State Transit Assistance Fund received		<u>205,877</u>	
8	Total (Lines 6 & 7)		<u>1,536,671</u>	
9	Net (Line 5 minus Line 8)	\$	<u>3,742,758</u>	
10	Total permissible Local Transportation Fund (LTF) under Article 4 (50% of Line 9)	\$	<u>1,871,379</u>	
11	TDA Article 4 allocation	\$	<u>1,028,033</u>	
12	Excess LTF expended (Amount of Line 11 in excess of Line 10)	\$	<u>-</u>	(c)

(a) Amount includes only expenses from the Fixed Route operations and excludes the Dial-A-Ride project of \$513,300. TDA Article 4 allocation did not exceed 50% expenditure limitation.

(b) Federal grants include American Rescue Plan Act funds.

(c) 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, 2023.

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, 2023

(Continued)

MAINTENANCE OF EFFORT TEST:

Total operating budget	\$	6,693,049
Total local funds received	\$	743,503 (a)
5% of total operating budget	\$	334,652 (b)
25% of total local return funds received	\$	185,876 (c)

(a) Total local funds received include the following:

Total local funds received	Amount
Proposition A 40% Discretionary	\$ 518,670
Proposition C Discretionary - Foothill Mitigation	34,947
Proposition C Discretionary - Bus System Improvement Plan	4,325
Proposition C Discretionary – MOSIP	149,565
Proposition C 5% Transit Security	35,996
Total	\$ 743,503

(b) 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.

(c) During the fiscal year ended June 30, 2023, the City made a local contribution of \$1,510,726 from its Proposition A Local Return Fund to the Transit System Fund. Since the amount of the local contribution exceeded the minimum requirement of \$185,876, 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
For the Fiscal Year Ended June 30, 2023

PROPOSITION A DISCRETIONARY ELIGIBILITY TEST:

1	TDA Article 4 Allocation	\$	1,028,033
2	State Transit Assistance Fund		205,877
3	Farebox revenues		165,151 (a)
4	Local subsidies		<u>2,560,645 (b)</u>
5	Total operating revenues (Lines 1-4)		3,959,706
6	Less: operating cost before depreciation		<u>5,640,550</u>
7	Eligible transit operator subsidy (Line 5 less Line 6)		1,680,844
8	Proposition A Discretionary Grant allocation	\$	<u>518,670</u>
9	Excess Proposition A Discretionary Grant received	\$	<u><u>(1,162,174) (c)</u></u>

(a) This excludes miscellaneous revenue.

(b) Local subsidies include the following:

<u>Local subsidies (Line 4)</u>	<u>Amount</u>
Proposition A Local Return	\$ 1,510,726
Proposition C Discretionary - Foothill Mitigation	34,947
Proposition C Discretionary - Bus System Improvement Plan	4,325
Proposition C Discretionary – MOSIP	149,565
Proposition C 5% Transit Security	35,996
Measure R 20% Bus Operations	412,867
Measure M 20% Bus Operations	<u>412,219</u>
Total	\$ <u><u>2,560,645</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, 2023.

See accompanying independent auditor’s report

CITY OF REDONDO BEACH
TRANSIT SYSTEM FUND
EXHIBIT III
SCHEDULE OF CAPITAL ASSETS
June 30, 2023

Description	Balance July 1, 2022	Additions	Deletions	Balance July 1, 2023
Vehicles	\$ 3,477,241	\$ 319,393	\$ 221,770	\$ 3,574,864
Total capital assets	\$ <u>3,477,241</u>	\$ <u>319,393</u>	\$ <u>221,770</u>	<u>3,574,864</u>
Less accumulated depreciation				<u>(2,164,691)</u>
Capital assets, net				\$ <u>1,410,173</u>

See accompanying independent auditor's report

CITY OF REDONDO BEACH
TRANSIT SYSTEM FUND
EXIT CONFERENCE
June 30, 2023

An exit conference was held on January 11, 2024 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 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, 2023 AND 2022.

I have received the annual financial report of the Transit System Fund for the years ended June 30, 2023 and 2022 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