

*CITY OF LONG BEACH
ANNUAL FINANCIAL REPORT OF THE
MEASURE R LOCAL RETURN FUND
FOR THE FISCAL YEARS ENDED
JUNE 30, 2018 AND 2017*



Metro[®]



Simpson & Simpson, LLP
Certified Public Accountants

CITY OF LONG BEACH
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FINANCIAL SECTION



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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure R Local Return Fund (MRLRF) (the Fund) of the City of Long Beach, California (the City) as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the MRLRF of the City of Long Beach, California, as of June 30, 2018 and 2017 and the changes in their financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the MRLRF of the City and do not purport to, and do not, present fairly the financial position of the City of Long Beach, California, as of June 30, 2018 and 2017, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Fund's financial statements. 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.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the Fund's financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 the Fund's financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated October 11, 2018, 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 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 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 cursive script that reads "Simpson & Simpson".

Los Angeles, California
October 11, 2018

CITY OF LONG BEACH
MEASURE R LOCAL RETURN FUND
BALANCE SHEETS
June 30

	2018	2017 as restated
ASSETS		
Cash and investments	\$ 3,513,218	\$ 5,066,316
Total assets	\$ 3,513,218	\$ 5,066,316
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 1,568,205	\$ 1,472,472
Due to other funds	13,958	21,852
Total liabilities	1,582,163	1,494,324
 Fund Balance		
Restricted	1,931,055	3,571,992
Total fund balance	1,931,055	3,571,992
Total liabilities and fund balance	\$ 3,513,218	\$ 5,066,316

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

CITY OF LONG BEACH
MEASURE R LOCAL RETURN FUND
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
For the Fiscal Years Ended June 30

	2018	2017
		as restated
REVENUES		
Measure R	\$ 5,620,011	\$ 5,368,179
Interest income	38,393	26,788
Total revenues	5,658,404	5,394,967
EXPENDITURES		
Various projects	7,299,341	4,789,773
Total expenditures	7,299,341	4,789,773
(Deficiency) excess of revenues (under) over expenditures	(1,640,937)	605,194
Fund balance at beginning of year, as restated	3,571,992	2,966,798
Fund balance at end of year	\$ 1,931,055	\$ 3,571,992

The accompanying notes are an integral part of the financial statements

CITY OF LONG BEACH
MEASURE R LOCAL RETURN FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES
ACTUAL AND METRO APPROVED PROJECT BUDGET
For the Fiscal Year Ended June 30, 2018
(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2017)

Project Code	Project Name	2018			2017 Actual as restated
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
1.05	Rehabilitation of Various Local Streets Citywide	\$ 4,900,000	\$ 6,076,282	\$ (1,176,282)	\$ 4,235,307
3.05	Construction of Bicycle Facilities	1,000,000	1,142,301	(142,301)	438,509
8.10	Fund Administration (20% cap)	1,000,000	80,758	919,242	115,957
	Total expenditures	\$ 6,900,000	\$ 7,299,341	\$ (399,341)	\$ 4,789,773

See accompanying independent auditor's report.

CITY OF LONG BEACH
MEASURE R LOCAL RETURN FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
 June 30, 2018

Date Acquired	Description	Balance 7/1/2017	Additions	Deletions	Balance 6/30/2018
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See accompanying independent auditor's report.

CITY OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The operations of the Measure R Local Return Fund (MRLRF) are accounted for in a separate set of self-balancing accounts that comprise their assets, liabilities, fund balance, revenues and expenditures.

MRLRF is derived from 15% of a county-wide ½ cent sales tax which is distributed to the jurisdictions within Los Angeles County based on a per capita basis and must be used exclusively for transportation purposes.

Basis of Accounting and Measurement Focus

MRLRF are accounted for using the modified accrual basis of accounting whereby revenues are recognized when they become both measurable and available to finance expenditures of the current period and expenditures are generally recognized when the related fund liabilities are incurred.

Special Revenue Funds are reported on spending or “financial flow” measurement focus. This means that generally only current assets, current liabilities and deferred inflows and outflows of resources are included on their balance sheets. Statement of revenue, expenditures and changes in fund balance for Special Revenue Funds generally present increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Budgets and Budgetary Accounting

The budgeted amounts presented in this report for comparison to the actual amounts are presented in accordance with accounting principles generally accepted in the United States of America.

Fair Value Measurement

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.

Refer to City’s 2018 Comprehensive Annual Financial Report for detailed disclosures regarding the City’s investments policy and fair value measurement.

CITY OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2018 and 2017
(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Reporting

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes the fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources reported in governmental funds.

The MRLRF report the following fund balance classification as of June 30, 2018:

- Restricted – Amounts that are constrained for specific purpose, which are externally imposed by providers, such as creditors, or amounts constrained due to constitutional provisions or enabling legislation. The uses of the fund’s remaining fund balances are restricted for projects approved by Los Angeles County Metropolitan Transportation Authority (Metro).

Information regarding the fund balance reporting policy adopted by the City is described in Note 1 to the City’s Comprehensive Annual Financial Report.

NOTE 2 – ANNUAL FINANCIAL STATEMENTS

The financial statements reflect only the financial position and results of operations of the MRLRF and its compliance with the Measure R Local Return Program Guidelines.

NOTE 3 – MEASURE R LOCAL RETURN COMPLIANCE REQUIREMENTS

In accordance with Measure R Local Return Program Guidelines, funds received pursuant to these guidelines may only be used for Measure R Local Return approved programs. See accompanying Compliance Matrix.

NOTE 4 – CASH AND INVESTMENTS

The MRLRF’s cash and investment balances were pooled with various other City funds for deposit and investment purposes. The share of each fund in the pooled cash and investments account was separately maintained and interest income was apportioned to the participating funds based on the relationship of their average balances to the total of the pooled cash and investments.

CITY OF LONG BEACH
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2018 and 2017
(Continued)

NOTE 5 – RESTATEMENT OF MRLRF’S 2017 FINANCIAL STATEMENTS

The 2017 financial statements of MRLRF were restated to report for adjustments mainly for the Project Code 1.05, Rehabilitation of Various Local Streets Citywide, due to over accrual of expenditures in fiscal year ended June 30, 2017.

	Accounts Payable	Expenditures	Fund Balance
Balance, as previously reported	\$ 1,567,994	\$ 4,885,295	\$ 3,476,470
Adjustment	(95,522)	(95,522)	95,522
Balance, as restated	\$ 1,472,472	\$ 4,789,773	\$ 3,571,992

NOTE 6 – SUBSEQUENT EVENTS

The City has evaluated events or transactions that occurred subsequent to June 30, 2018 through October 11, 2018, 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.



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

To the Honorable Members of the City Council of the
City of Long 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 Measure R Local Return Fund (the Fund) of the City of Long Beach, California (the City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated October 11, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the Fund’s financial statements, we considered the City’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the Fund’s financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's Measure R Local Return Fund financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an 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
October 11, 2018

COMPLIANCE SECTION



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Independent Auditor's Report on Compliance

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

Report on Compliance

We have audited the compliance of the City of Long Beach, California (the City) with the Measure R Local Return Guidelines for the year ended June 30, 2018.

Management's Responsibility

Management is responsible for the City's compliance with the Guidelines.

Auditor's Responsibility

Our responsibility is to express an opinion on the City's compliance based on our audit. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Guidelines referred to in the preceding paragraph. Those standards and the Guidelines require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on Measure R Local Return Program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with the Guidelines. However, our audit does not provide a legal determination of the City's compliance with the Guidelines.

Opinion on Measure R Local Return Fund

In our opinion, the City complied, in all material respects, with the compliance requirements of the Guidelines for the year ended June 30, 2018.



Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the Guidelines referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance under the Guidelines will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with the Guidelines that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that we consider to be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guidelines. Accordingly, this report is not suitable for any other purpose.

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

Los Angeles, California
October 11, 2018

CITY OF LONG BEACH
COMPLIANCE MATRIX
Year Ended June 30, 2018

Compliance Requirement		In Compliance			Questioned Costs	If no, provide details and management response.
		Yes	No	N/A		
A. Measure R Local Return Fund						
1.	Funds were expended for transportation purposes.	X			None	
2.	Funds were used to augment, not supplant, existing local revenues being used for transportation purposes unless there is a funding shortfall.	X			None	
3.	Signed Assurances and Understandings on file.	X			None	
4.	Separate Measure R Local Return Account was established.	X			None	
5.	Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure R Local Return Account.	X			None	
6.	Funds were expended with Metro's approval.	X			None	
7.	Expenditure Plan (Form One) was submitted on time.	X			None	
8.	Expenditure Report (Form Two) was submitted on time.	X			None	
9.	Timely use of funds.	X			None	
10.	Administrative expenditures are within the 20% cap.	X			None	
11.	Fund exchanges were approved by Metro.			X	None	
12.	A separate account was established for Capital reserve funds and Capital reserve was approved by Metro.	X			None	
13.	Recreational transit form was submitted on time.			X	None	

CITY OF LONG BEACH
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2018

No findings were noted.

EXIT CONFERENCE

CITY OF LONG BEACH
MEASURE R LOCAL RETURN FUND
EXIT CONFERENCE
June 30, 2018

An exit conference was held on November 6, 2018 with the City of Long Beach. Those in attendance were:

Simpson & Simpson Representative:

Yung Dang, Auditor
Oliver Rafols, Staff Auditor
Patrick Zhang, Staff Auditor

City's Representative:

Lilia Hom, Senior Accountant

Matters Discussed:

Results of the audit disclosed no significant control deficiencies or non-compliance issues 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:

Lilia Hom, Senior Accountant

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

RE: CITY OF LONG BEACH ANNUAL FINANCIAL REPORT OF THE MEASURE R LOCAL
RETURN FUND FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

I have received the annual financial report of the Measure R Local Return Fund for the years ended June 30, 2018 and 2017 for the City of Long Beach and agree with the contents of the report except as indicated below:

(Attach additional pages if necessary)

Very truly yours,

Name

Title

Date