

***CITY OF MANHATTAN BEACH
ANNUAL FINANCIAL REPORT OF THE
PROPOSITION A LOCAL RETURN FUND
PROPOSITION C LOCAL RETURN FUND
MEASURE R LOCAL RETURN FUND
TRANSPORTATION DEVELOPMENT ACT
ARTICLE 3 FUND
FOR THE FISCAL YEARS ENDED
JUNE 30, 2018 AND 2017

AND MEASURE M LOCAL RETURN FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018***



Metro[®]



Simpson & Simpson, LLP
Certified Public Accountants

CITY OF MANHATTAN BEACH

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CITY OF MANHATTAN 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 Manhattan Beach, California and the
Los Angeles County Metropolitan Transportation Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the Proposition A Local Return Fund (PALRF), Proposition C Local Return Fund (PCLRF), Measure R Local Return Fund (MRLRF), and Transportation Development Act Article 3 Fund (TDAA3F) (collectively, the Funds), of the City of Manhattan Beach, California (the City) as of and for the years ended June 30, 2018 and 2017, and Measure M Local Return Fund (MMLRF) (the Fund) of the City of Manhattan Beach, California (the City) as of and for the year ended June 30, 2018, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about 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 City'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 City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the PALRF, PCLRF, MRLRF and TDAA3F of the City of Manhattan Beach, California, as of June 30, 2018 and 2017, and MMLRF of the City of Manhattan Beach, California, as of June 30, 2018, and the respective changes in their financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the PALRF, PCLRF, MRLRF, MMLRF and TDAA3F of the City and do not purport to, and do not, present fairly the financial position of the City of Manhattan 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 audits were conducted for the purpose of forming opinions on each of the Funds' financial statements as a whole. 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 Funds' 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 Funds' financial statements or to the Funds' 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 each of the Funds' financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated December 14, 2018, on our consideration of the City's internal control over the Funds' 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 Funds' financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over the Funds' 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 Funds' financial reporting and compliance.

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

Los Angeles, California
December 14, 2018

CITY OF MANHATTAN BEACH
PROPOSITION A LOCAL RETURN FUND
BALANCE SHEETS
June 30

	2018	2017
ASSETS		
Cash and investments	\$ 9,417	\$ 16,177
Other receivables	18,979	-
Prepaid item	2,432	-
Total assets	\$ 30,828	\$ 16,177
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 22,378	\$ 15,042
Accrued liabilities	8,450	1,135
Total liabilities	30,828	16,177
 Fund Balance		
Restricted	-	-
Total fund balance	-	-
Total liabilities and fund balance	\$ 30,828	\$ 16,177

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

CITY OF MANHATTAN BEACH
PROPOSITION A LOCAL RETURN FUND
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
For the Fiscal Years Ended June 30

	2018	2017
REVENUES		
Proposition A	\$ 658,404	\$ 652,580
Interest income	20	70
Project generated revenue (Note 8)	7,583	8,165
Proposition A Discretionary Incentive Grant (Note 9)	17,976	16,652
Revenue from sale of vehicles	-	503
Total revenues	683,983	677,970
EXPENDITURES		
Various projects	878,116	900,573
Total expenditures	878,116	900,573
Deficiency of revenues under expenditures	(194,133)	(222,603)
OTHER FINANCING SOURCES		
Transfer in from MRLRF	194,133	222,603
Total other financing sources	194,133	222,603
Excess of revenues and other financing sources over expenditures	-	-
Fund balance at beginning of year	-	-
Fund balance at end of year	\$ -	\$ -

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

CITY OF MANHATTAN BEACH
PROPOSITION A 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
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
110-01	Gateway to Los Angeles Ocean Express Shuttle Service	\$ 1	\$ -	\$ 1	\$ 20,000
110-02	Beach Cities Transit Fixed Route #109	8,900	8,655	245	16,733
130-01	Dial-A-Ride	793,689	816,989	(23,300)	796,384
140-01	Recreation Trips	57,222	47,098	10,124	53,461
180-01	Dial-A-Ride Lift Station	1	-	1	8,707
250-01	MTA Bus Subsidy	6,600	5,374	1,226	5,288
Total expenditures		\$ <u>866,413</u>	\$ <u>878,116</u>	\$ <u>(11,703)</u>	\$ <u>900,573</u>

See accompanying independent auditor's report.

CITY OF MANHATTAN BEACH
PROPOSITION A 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 MANHATTAN BEACH
PROPOSITION C LOCAL RETURN FUND
BALANCE SHEETS
June 30

	2018	2017
ASSETS		
Cash and investments	\$ 4,316,078	\$ 4,469,018
Due from other government agencies (Note 11)	754,854	659,781
Total assets	\$ 5,070,932	\$ 5,128,799
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 24,490	\$ 12,841
Accrued liabilities	-	26,334
Total liabilities	24,490	39,175
 Deferred inflows of resources		
Unavailable revenue (Note 11)	754,854	659,781
Total deferred inflows of resources	754,854	659,781
 Fund Balance		
Restricted - Sepulveda Blvd Bridge Widening Project (Note 10)	1,687,561	2,314,862
Restricted - others	2,604,027	2,114,981
Total fund balance	4,291,588	4,429,843
Total liabilities, deferred inflows of resources and fund balance	\$ 5,070,932	\$ 5,128,799

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

CITY OF MANHATTAN BEACH
PROPOSITION C LOCAL RETURN FUND
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
For the Fiscal Years Ended June 30

	2018	2017
REVENUES		
Proposition C	\$ 545,025	\$ 542,373
Interest income	72,802	52,074
Unrealized loss on investment	(46,994)	(38,461)
SAFETEA-LU Federal Grant	-	140,392
Measure R South Bay Highway Grant	22,840	-
Total revenues	593,673	696,378
EXPENDITURES		
Various projects funded by PCLRF	636,855	111,396
Various projects funded by other grants	95,073	200,219
Total expenditures	731,928	311,615
 (Deficiency) excess of revenues (under) over expenditures	 (138,255)	 384,763
 Fund balance at beginning of year	 4,429,843	 4,045,080
 Fund balance at end of year	 \$ <u>4,291,588</u>	 \$ <u>4,429,843</u>

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

CITY OF MANHATTAN BEACH
PROPOSITION C 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
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
450-07	Rosecrans Ave Utility Relocations and Street Widening	\$ -	\$ -	\$ -	6,734
450-08	Dual Left-Turns for Eastbound and Westbound	381,903	22,840	359,063	11,980
380-01	Capital Reserve for Sepulveda Blvd Bridge Widening Project	3,192,517	550,189	2,642,328	84,882
440-01	Marine Street Resurfacing	400,000	45,816	354,184	3,240
450-09	Sepulveda Intersection Improvements	990,000	-	990,000	4,560
480-01	Proposition C Administration	69,183	18,010	51,173	-
	Total expenditures funded by PCLRF	<u>\$ 5,033,603</u>	<u>\$ 636,855</u>	<u>\$ 4,396,748</u>	<u>\$ 111,396</u>
380-01	Dual Left-Turns for Eastbound and Westbound - Sepulveda LT Lane Grant		17,961		38,941
380-01	Capital Reserve for Sepulveda Blvd Bridge Widening Project - Measure R South Bay Highway Grant		<u>77,112</u>		<u>161,278</u>
	Total expenditures funded by other grants		<u>95,073</u>		<u>200,219</u>
	Total expenditures funded by PCLRF and other grants		<u>\$ 731,928</u>		<u>\$ 311,615</u>

See accompanying independent auditor's report.

CITY OF MANHATTAN BEACH
PROPOSITION C 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 MANHATTAN BEACH
MEASURE R LOCAL RETURN FUND
BALANCE SHEETS
June 30

	2018	2017
ASSETS		
Cash and investments	\$ 1,337,396	\$ 1,690,809
Total assets	\$ 1,337,396	\$ 1,690,809
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 1,820	\$ 23,970
Accrued liabilities	13,646	51,301
Total liabilities	15,466	75,271
 Fund Balance		
Restricted	1,321,930	1,615,538
Total fund balance	1,321,930	1,615,538
Total liabilities and fund balance	\$ 1,337,396	\$ 1,690,809

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

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

	2018	2017
REVENUES		
Measure R	\$ 409,045	\$ 406,072
Interest income	27,083	20,916
Unrealized loss on investment	(17,140)	(14,411)
Total revenues	418,988	412,577
EXPENDITURES		
Various projects	518,463	168,821
Total expenditures	518,463	168,821
 (Deficiency) excess of revenues (under) over expenditures	 (99,475)	 243,756
OTHER FINANCING USES		
Transfer out to PALRF	(194,133)	(222,603)
 (Deficiency) excess of revenues (under) over expenditures and other financing uses	 (293,608)	 21,153
 Fund balance at beginning of year	 1,615,538	 1,594,385
 Fund balance at end of year	 \$ 1,321,930	 \$ 1,615,538

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

CITY OF MANHATTAN 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
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
1.20	Raised Median Construction	\$ 119,240	\$ 119,240	\$ -	\$ 16,290
2.29	Signalized Crosswalk	152,080	144,570	7,510	29,330
3.20	38th & Highland Improvements	115,809	16,893	98,916	79,151
1.05	Street Resurfacing: 1100 Block of 3rd St	310,270	184,852	125,418	39,730
1.05	Street Resurfacing: Liberty Village	795,680	44,822	750,858	4,320
1.10	Protected LT Lanes: MBB at Peck Ave	285,000	-	285,000	-
8.10	Fund Administration	25,311	8,086	17,225	-
	Total expenditures	<u>\$ 1,803,390</u>	<u>\$ 518,463</u>	<u>\$ 1,284,927</u>	<u>\$ 168,821</u>
	Transfer out to PALRF				
4.30	Fund DAR Services	\$ 216,848	\$ 194,133	\$ 22,715	\$ 222,603
	Total expenditures and transfer out to PALRF	<u>\$ 2,020,238</u>	<u>\$ 712,596</u>	<u>\$ 1,307,642</u>	<u>\$ 391,424</u>

See accompanying independent auditor's report.

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

Date <u>Acquired</u>	<u>Description</u>	Balance <u>7/1/2017</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>6/30/2018</u>
May 2013	Paratransit Bus 22 - Passenger CNG	\$ 140,931	\$ -	\$ -	\$ 140,931
Jul 2013	Braun Vista Ford 7 - Passenger Van	71,478	-	-	71,478
Oct 2013	Paratransit Bus 22 - Passenger CNG	112,760	-	-	112,760
Oct 2015	Turtletop Bus	68,955	-	-	68,955
	Total	<u>\$ 394,124</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 394,124</u>

See accompanying independent auditor's report.

CITY OF MANHATTAN BEACH
MEASURE M LOCAL RETURN FUND
BALANCE SHEET
June 30

		2018
ASSETS		
Cash and investments	\$	370,688
Total assets	\$	370,688
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$	-
Total liabilities		-
 Fund Balance		
Restricted		370,688
Total fund balance		370,688
Total liabilities and fund balance	\$	370,688

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

CITY OF MANHATTAN BEACH
MEASURE M LOCAL RETURN FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCE
For the Fiscal Years Ended June 30

	2018
REVENUES	
Measure M	\$ 370,688
Total revenues	370,688
 EXPENDITURES	
Various projects	-
Total expenditures	-
 Excess of revenues over expenditures	370,688
 Fund balance at beginning of year	-
 Fund balance at end of year	\$ 370,688

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

CITY OF MANHATTAN BEACH
MEASURE M LOCAL RETURN FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES
ACTUAL AND METRO APPROVED PROJECT BUDGET
For the Fiscal Year Ended June 30, 2018

Project Code	Project Name	2018		Variance Favorable (Unfavorable)
		Metro Budget	Actual	
1.20	31st & Laurel Intersection Improvement	\$ 245,000	\$ -	\$ 245,000
3.05	Rowell Ave. Sidewalk Connection (Curtis & 1st)	840,000	-	840,000
3.20	ADA Transition Plan with Public Right-of-Way	200,000	-	200,000
	Total expenditures	\$ <u>1,285,000</u>	\$ <u>-</u>	\$ <u>1,285,000</u>

See accompanying independent auditor's report.

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

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

See accompanying independent auditor's report.

CITY OF MANHATTAN BEACH
TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND
(PURSUANT TO PUBLIC UTILITIES CODE SECTION 99234)
BALANCE SHEETS
June 30

	2018	2017
ASSETS		
Cash and investments	\$ -	\$ -
Total assets	\$ -	\$ -
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ -	\$ -
Total liabilities	-	-
 Fund Balance		
Restricted	-	-
Total fund balance	-	-
Total liabilities and fund balance	\$ -	\$ -

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

CITY OF MANHATTAN BEACH
TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
For the Fiscal Years Ended June 30

	2018	2017
REVENUES		
TDA 3	\$ 46,701	\$ -
Total revenues	46,701	-
 EXPENDITURES		
ADA Compliant Ramps and Sidewalk Upgrades	46,701	-
Total expenditures	46,701	-
 Excess of revenues over expenditures	-	-
 Fund balance at beginning of year	-	-
 Fund balance at end of year	\$ -	\$ -

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

CITY OF MANHATTAN BEACH
TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF TRANSPORTATION DEVELOPMENT ACT
ALLOCATION FOR SPECIFIC PROJECTS
For the Fiscal Year Ended June 30, 2018

<u>Project Description</u>	<u>Program Year</u>	<u>Allocations</u>	<u>Expenditures</u>	<u>Unexpended Allocations</u>	<u>Project Status</u>
Local allocations					
ADA Compliant Ramps and Sidewalk Upgrades	2017-18	\$ <u>46,701</u>	\$ <u>46,701</u>	\$ -	Completed
	Total	\$ <u>46,701</u>	\$ <u>46,701</u>	-	
Fund balance at beginning of year				-	
Fund balance at end of year				\$ <u>-</u>	

See accompanying independent auditor's report.

CITY OF MANHATTAN 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 Proposition A Local Return Fund (PALRF), Proposition C Local Return Fund (PCLRF), Measure R Local Return Fund (MRLRF), Measure M Local Return Fund (MMLRF) and Transportation Development Act Article 3 Fund (TDAA3F) (collectively, the Funds) are accounted for in separate sets of self-balancing accounts that comprise their assets, liabilities, fund balance, revenues and expenditures.

PALRF and PCLRF represent 25% and 20%, respectively, of the ½ cent Proposition A and ½ cent Proposition C sales taxes which are distributed to the jurisdictions within Los Angeles County based on population and must be used exclusively for transportation related programs and projects.

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.

MMLRF is derived from 17% 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.

Transportation Development Act Article 3 Fund (TDAA3F) is a Special Revenue Fund that accounts for the City’s share of the Transportation Development Act Article 3 allocations which are legally restricted for specific purposes.

Basis of Accounting and Measurement Focus

PALRF, PCLRF, MRLRF, MMLRF and TDAA3F 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 presents 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.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 PALRF, PCLRF, MRLRF, MMLRF and TDAA3F 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 funds' 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.

Reclassification

Certain reclassifications have been made to fiscal year 2017 amounts in order to conform to the fiscal year 2018 presentation. Such reclassifications had no effect on the previously reported change in fund balance.

NOTE 2 – ANNUAL FINANCIAL STATEMENTS

The financial statements reflect only the financial position and results of operations of the PALRF, PCLRF, MRLRF, MMLRF and TDAA3F and their compliance with the Proposition A and Proposition C Local Return Program Guidelines, Measure R Local Return Program Guidelines, Measure M Local Return Program Guidelines and Transportation Development Act Article 3 and the Los Angeles County Metropolitan Transportation Authority Funding and Allocation Guidelines for Transportation Development Act Article 3 Bicycle and Pedestrian Funds.

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

NOTE 3 - PROPOSITION A AND PROPOSITION C LOCAL RETURN COMPLIANCE REQUIREMENTS

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

NOTE 4 – 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 5 – MEASURE M LOCAL RETURN COMPLIANCE REQUIREMENTS

On June 23, 2016, the Metro Board of Directors approved the Los Angeles County Traffic Improvement Plan Ordinance, known as Measure M. In accordance with Measure M Local Return Program Guidelines, funds received pursuant to these guidelines may only be used for Measure M Local Return approved programs. The first revenue allocation was received in the current period. See accompanying Compliance Matrix.

NOTE 6 – TRANSPORTATION DEVELOPMENT ACT COMPLIANCE REQUIREMENTS

In accordance with Public Utilities Code Section 99234, funds received pursuant to this Code's section may only be used for activities relating to pedestrians and bicycle facilities. See accompanying Compliance Matrix.

NOTE 7 – CASH AND INVESTMENTS

The PALRF, PCLRF, MRLRF, MMLRF and TDAA3F's cash 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 quarterly balances to the total of the pooled cash and investments.

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

NOTE 8 – PROJECT GENERATED REVENUE - PALRF

Project generated revenue under PALRF for the years ended June 30, 2018 and 2017 consisted of the following:

	2018	2017
Dial-A-Ride fares	\$ 6,413	\$ 6,831
Bus pass sales	1,170	1,334
Total	\$ 7,583	\$ 8,165

NOTE 9 – PROPOSITION A DISCRETIONARY INCENTIVE GRANT

The Proposition A Discretionary Incentive Grant for the years ended June 30, 2018 and 2017 of \$17,976 and \$16,652, respectively, represents additional funds received from Metro for participating in the Voluntary National Transit Database (NTD) Program. The Proposition A Discretionary Incentive Grant was recorded under PALRF.

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

NOTE 10 – CAPITAL RESERVE

In June 20, 2007, Metro and the City entered into capital reserve agreements to establish a capital reserve account (Account) for the Sepulveda Boulevard Bridge Widening projects. The original period of performance for the agreement is from June 20, 2007 to June 30, 2013. This was extended to June 30, 2019 with an approved capital reserve amount of \$3,416,320.

The Account will be funded with the Proposition C Local Return Funds allocated to the City. For the years ended June 30, 2018 and 2017, the capital reserve amount for the PCLRF is as follows:

Net capital reserve at 6/30/2016	\$	2,420,630
Reimbursement from SAFETEA-LU Grant		140,392
Capital expenditures during the year		<u>(246,160)</u>
Capital reserve at 6/30/2017		2,314,862
Total City and pending grant reimbursements		<u>1,101,458</u>
Total City commitment		3,416,320
Less: agreed commitment		<u>3,416,320</u>
Adjustment to reserve		-
Add: capital reserve at 6/30/2017		<u>2,314,862</u>
Net capital reserve at 6/30/2017		2,314,862
Capital expenditures during the year		<u>(627,301)</u>
Capital reserve at 6/30/2018		1,687,561
Total City and pending grant reimbursements		<u>1,728,759</u>
Total City commitment		3,416,320
Less: agreed commitment		<u>3,416,320</u>
Adjustment to reserve		-
Add: capital reserve at 6/30/2018		<u>1,687,561</u>
Net capital reserve at 6/30/2018	\$	<u><u>1,687,561</u></u>

NOTE 11 – DUE FROM OTHER GOVERNMENTS - PCLRF

The due from other governments balance as of June 30, 2018 and 2017 consisted of the following:

		<u>2018</u>		<u>2017</u>
Measure R South Bay Highway Grant	\$	347,714	\$	270,602
Rosecrans Project Grant		350,238		350,238
Sepulveda LT Lane Grant		<u>56,902</u>		<u>38,941</u>
Total due from other governments	\$	<u><u>754,854</u></u>	\$	<u><u>659,781</u></u>

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

NOTE 12 – TRANSPORTATION DEVELOPMENT ACT FUND REVENUE ALLOCATION

The revenue allocation for the years ended June 30, 2018 and 2017 consisted of the following:

	2018	2017
FY 2016-17 allocation	\$ 23,705	\$ -
FY 2017-18 allocation	22,996	-
Total payment requested	\$ 46,701	\$ -

NOTE 13 – TRANSPORTATION DEVELOPMENT ACT FUNDS RESERVED

In accordance with TDA Article 3 (SB821) Guidelines, funds not spent during the fiscal year have been placed on reserve in the Local Transportation Fund (LTF) account with the County Auditor-Controller to be drawn down whenever the funds become eligible for a specific project and an approved drawdown request is received by Metro. As of June 30, 2018, and 2017, the City has funds on reserve as follows:

	2018	2017
FY 2016-17 allocation	\$ -	\$ 23,705
FY 2017-18 allocation	-	-
Available reserve balance	\$ -	\$ 23,705

NOTE 14 – SUBSEQUENT EVENTS

The City has evaluated events or transactions that occurred subsequent to June 30, 2018 through December 14, 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.



SIMPSON & SIMPSON
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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 Manhattan 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 Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund, Measure M Local Return Fund, and Transportation Development Act Article 3 Fund (collectively, the Funds) of the City of Manhattan 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 December 14, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the Funds’ 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 Funds’ 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 Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund, Measure M Local Return Fund and Transportation Development Act Article 3 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 black ink that reads "Simpson & Simpson".

Los Angeles, California
December 14, 2018

COMPLIANCE SECTION



SIMPSON & SIMPSON

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Independent Auditor's Report On Compliance

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

Report on Compliance

We have audited the compliance of the City of Manhattan Beach, California (the City) with the Proposition A and Proposition C Local Return Guidelines, Measure R Local Return Guidelines, Measure M Local Return Guidelines, Transportation Development Act Article 3, and the Los Angeles County Metropolitan Transportation Authority's Funding and Allocation Guidelines for the Transportation Development Act Article 3 Bicycle and Pedestrian Funds (collectively, the 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 Proposition A Local Return Program, Proposition C Local Return Program, Measure R Local Return Program, Measure M Local Return Program, and Transportation Development Act Article 3 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 Each Local Return Program and Transportation Development Act Article 3

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



Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Guidelines and which is described in the accompanying Schedule of Findings and Recommendations as Finding No. 2018-001. Our opinion on each local return program and Transportation Development Act Article 3 program is not modified with respect to this matter.

The City's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Recommendations. The City's response was not subjected to the auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on the response.

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
December 14, 2018

CITY OF MANHATTAN 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. Proposition A and Proposition C Local Return Funds						
1.	Uses the State Controller's Uniform System of Accounts and Records.	X			None	
2.	Timely use of funds.	X			None	
3.	Funds expended were approved and have not been substituted for property tax.	X			None	
4.	Expenditures that exceeded 25% of approved project budget have approved amended Project Description Form (Form A).	X			None	
5.	Administrative expenses are within the 20% cap of the total annual Local Return Expenditures.	X			None	
6.	All on-going and carryover projects were reported in Form B.	X			None	
7.	Annual Project Summary Report (Form B) was submitted on time.	X			None	
8.	Annual Expenditure Report (Form C) was submitted on time.	X			None	
9.	Cash or cash equivalents are maintained.	X			None	
10.	Accounting procedures, record keeping and documentation are adequate.		X		\$20,346	See Finding No. 2018-001 on the Schedule of Findings and Recommendations.
11.	Pavement Management System (PMS) is in place and being used for Street Maintenance or Improvement Projects Expenditures.	X			None	
12.	Local Return Account is credited for reimbursable expenditures.	X			None	
13.	Self-Certification was completed and submitted for Intelligent Transportation Systems projects or elements.	X			None	
14.	Assurances and Understandings form was on file.	X			None	
15.	Recreational transit form was submitted on time.	X			None	

CITY OF MANHATTAN BEACH
COMPLIANCE MATRIX
Year Ended June 30, 2018
(Continued)

Compliance Requirement		In Compliance			Questioned Costs	If no, provide details and management response.
		Yes	No	N/A		
B. Measure R Local Return Fund						
1.	Funds were expended for transportation purposes	X			None	
2.	Fund 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 was 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	There were no fund exchanges in FY 2017/18.
12.	A separate account was established for capital reserve funds and capital reserve was approved by Metro.			X	None	There was no capital reserve in FY2017/18.
13.	Recreational transit form was submitted on time.			X	None	There was no recreational transit in FY 2017/18.

CITY OF MANHATTAN BEACH
COMPLIANCE MATRIX
Year Ended June 30, 2018
(Continued)

Compliance Requirement		In Compliance			Questioned Costs	If no, provide details and management response.
		Yes	No	N/A		
C. Measure M Local Return Fund						
1.	Funds were expended for transportation purposes.			X	None	There were no expenditures in FY 2017/18.
2.	Funds were used to augment, not supplant existing local revenues being used for transportation purposes unless there is a fund shortfall.			X	None	There were no expenditures in FY 2017/18.
3.	Signed Assurances and Understandings was on file.	X			None	
4.	Separate Measure M Local Return Account was established.	X			None	
5.	Revenue received including allocations, project generated revenues and interest income was properly credited to the Measure M Local Return Account			X	None	There were no expenditures in FY 2017/18.
6.	Funds were expended with Metro's approval.			X	None	There were no expenditures in FY 2017/18.
7.	Expenditure Plan (Form One) was submitted on time.			X	None	There were no expenditures in FY 2017/18.
8.	Expenditure Report (Form Two) was submitted on time.			X	None	There were no expenditures in FY 2017/18.
9.	Timely use of funds.	X			None	
10.	Administrative expenses are within the 20% cap.			X	None	There were no expenditures in FY 2017/18.
11.	Fund exchanges were approved by Metro.			X	None	There were no expenditures in FY 2017/18.
12.	A separate account was established for capital reserve funds and capital reserve was approved by Metro.			X	None	There were no expenditures in FY 2017/18.
13.	Recreational transit form was submitted timely.			X	None	There were no expenditures in FY 2017/18.

CITY OF MANHATTAN BEACH
COMPLIANCE MATRIX
Year Ended June 30, 2018
(Continued)

Compliance Requirement		In Compliance			Questioned Costs	If no, provide details and management response.
		Yes	No	N/A		
D. Transportation Development Act Article 3 Fund						
1.	Timely use of funds.	X			None	
2.	Expenditures were incurred for activities relating to pedestrian and bicycle facilities and amenities.	X			None	

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

PALRF: Finding No. 2018-001

Compliance Requirement	According to Proposition A and Proposition C Local Return Guidelines, Section II, “A proposed expenditure of funds shall be deemed to be for public transit purposes to the extent that it can reasonably be expected to sustain or improve the quality and safety of and/or access to public transit services by the general public or those requiring special public transit assistance” and Section V, “It is the jurisdictions responsibility to maintain proper accounting records and documentation to facilitate the performance of the audit prescribed in these guidelines.”
Condition	To support the propriety of expenditures being charged to Proposition A Local Return Fund (PALRF), all expenditures should be based on actual amounts incurred and supported by properly executed invoice, purchase order, contract, or other official documentation evidencing in proper detail the nature of the charges. Our review of expenditures charged to the Dial-A-Ride Project funded by PALRF identified that auto liability insurance related to Dial-A-Ride in the amount of \$65,400 was allocated to PALRF based on budget, when the actual cost is \$45,054 which resulted in overcharging of \$20,346.
Cause	The City was not aware that charging budgeted amounts to PALRF is not allowed.
Effect	The City overcharged PALRF for liability insurance by \$20,346.
Recommendation	We recommend that the City reimburse its PALRF by \$20,346. In addition, we recommend that the City ensure all expenditures charge to PALRF are based on actual amounts.
Management’s Response	<p>The Prop A Fund incurred a deficit of \$194,133 in FY2017-2018. The deficit was relieved by the Measure R Fund through a transfer. Included in the deficit was a budgeted billing versus actual for liability of \$20,346. We understand that MTA requires actual costs be charged. Therefore, the Measure R fund will be reimbursed \$20,346 from City funds in FY2018-2019.</p> <p>The City will begin to true-up the budget versus actuals in liability insurance at year-end starting in FY2018-2019.</p>

EXIT CONFERENCE

CITY OF MANHATTAN BEACH
PROPOSITION A, PROPOSITION C, MEASURE R, MEASURE M LOCAL RETURN FUNDS AND
TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND
EXIT CONFERENCE
June 30, 2018

An exit conference was held on December 14, 2018 with the City of Manhattan Beach. Those in attendance were:

Simpson & Simpson Representative:

Mark Frishwasser, Senior Auditor

City's Representative:

Henry Mitzner, Controller
Julie Bondarchuk, Senior Accountant
Libby Bretthauer, Financial Analyst

Matters Discussed:

Results of the audit disclosed no significant control deficiencies and one (1) 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:

Henry Mitzner, Controller
Julie Bondarchuk, Senior Accountant
Libby Bretthauer, Financial Analyst

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

RE: CITY OF MANHATTAN BEACH ANNUAL FINANCIAL REPORT OF THE PROPOSITION A LOCAL RETURN FUND, PROPOSITION C LOCAL RETURN FUND, MEASURE R LOCAL RETURN FUND, MEASURE M LOCAL RETURN FUND AND TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

I have received the annual financial report of the Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund, Measure M Local Return Fund and Transportation Development Act Article 3 Fund for the fiscal years ended June 30, 2018 and 2017 for the City of Manhattan Beach and agree with the contents of the report except as indicated below:

(Attach additional pages if necessary)

Very truly yours,

Name

Title

Date