

***CITY OF HERMOSA 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  
TRANSPORTATION DEVELOPMENT ACT  
ARTICLE 3 FUND  
FOR THE FISCAL YEARS ENDED  
JUNE 30, 2020 AND 2019***



**Metro<sup>®</sup>**



Simpson & Simpson, LLP  
Certified Public Accountants

**CITY OF HERMOSA 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 Hermosa 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), Measure M Local Return Fund (MMLRF), and Transportation Development Act Article 3 Fund (TDAA3F) (collectively, the Funds), of the City of Hermosa Beach, California (the City) as of and for the years ended June 30, 2020 and 2019, 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, MMLRF and TDAA3F of the City of Hermosa Beach, California, as of June 30, 2020 and 2019, 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 Hermosa Beach, California, as of June 30, 2020 and 2019, 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. 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 13, 2020, 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 &amp; Simpson".

Los Angeles, California  
December 13, 2020

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

	2020	2019
<b>ASSETS</b>		
Cash and investments	\$ 488,889	\$ 1,374,258
Interest receivable	367	980
Total assets	\$ 489,256	\$ 1,375,238
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ 81,671	\$ 1,152,406
Accrued wages	227	227
Total expenditures	81,898	1,152,633
 <b>Fund Balance</b>		
Restricted	407,358	222,605
Total fund balance	407,358	222,605
Total liabilities and fund balance	\$ 489,256	\$ 1,375,238

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

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

	2020	2019
<b>REVENUES</b>		
Proposition A	\$ 382,263	\$ 393,813
Interest income	24,960	46,125
Project generated revenue (Note 8)	3,667	5,418
Total revenues	410,890	445,356
 <b>EXPENDITURES</b>		
Various projects	226,137	1,585,345
Total expenditures	226,137	1,585,345
 Excess (deficiency) of revenues over expenditures	 184,753	 (1,139,989)
 Fund balance at beginning of year	 222,605	 1,362,594
 Fund balance at end of year	 \$ 407,358	 \$ 222,605

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



**CITY OF HERMOSA BEACH**  
**PROPOSITION A LOCAL RETURN FUND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES**  
**ACTUAL AND METRO APPROVED PROJECT BUDGET**  
**For the Fiscal Year Ended June 30, 2020**  
(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2019)

Project Code	Project Name	2020			2019 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
110-02	Commuter Express (LAX)	\$ 31,000	\$ 34,615	\$ (3,615)	\$ 38,078
110-03	Beach Cities Transit Line 109	-	-	-	6,460
130-01	Taxi Voucher Program	52,000	48,325	3,675	55,704
140-01	Recreation Transportation	28,500	28,314	186	32,961
140-02	Special Event Shuttle	15,750	15,750	-	16,500
140-03	After School Program Shuttle	22,800	22,800	-	27,825
150-01	Hermosa Beach Bus Stop Improvements	-	-	-	131,197
150-02	CIP 16-174 Street Improvements - Various Locations - At Bus Stops	-	-	-	274,892
150-04	Bus Stop Improvements (3414)	90,000	75,581	14,419	-
250-01	Bus Pass Subsidy	850	752	98	1,728
405-01	Fund Exchange (Note 10)	-	-	-	1,000,000
Total expenditures		\$ 240,900	\$ 226,137	\$ 14,763	\$ 1,585,345

See accompanying independent auditor's report.

**CITY OF HERMOSA BEACH**  
**PROPOSITION A LOCAL RETURN FUND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CAPITAL ASSETS**  
June 30, 2020

Date Acquired	Description	Balance 7/1/2019	Additions	Deletions	Balance 6/30/2020
6/20/2019	8 QPC Bus Benches	\$ 35,569	\$ -	\$ -	\$ 35,569
6/20/2019	1 Waste Container	2,495	-	-	2,495
	Total	\$ 38,064	\$ -	\$ -	\$ 38,064

See accompanying independent auditor's report.

**CITY OF HERMOSA BEACH**  
**PROPOSITION C LOCAL RETURN FUND**  
**BALANCE SHEETS**  
June 30

	2020	2019
<b>ASSETS</b>		
Cash and investments	\$ 1,067,543	\$ 720,711
Interest receivable	842	141
Total assets	\$ 1,068,385	\$ 720,852
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ 7,367	\$ 7,367
Accrued wages	1	1
Total liabilities	7,368	7,368
 <b>Fund Balance</b>		
Restricted*	1,061,017	713,484
Total fund balance	1,061,017	713,484
Total liabilities and fund balance	\$ 1,068,385	\$ 720,852

\* \$35,000 of the fund balance at end of year has lapsed. On September 16, 2020, as a result of the COVID-19 pandemic, the LACMTA Board of Directors granted a one-time, one-year extension for the use of the lapsed funds.

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

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

	2020	2019
<b>REVENUES</b>		
Proposition C	\$ 317,088	\$ 326,657
Interest income	30,445	39,322
Total revenues	347,533	365,979
 <b>EXPENDITURES</b>		
CIP 16-174 Street Improvements - Various Locations	-	799,333
Total expenditures	-	799,333
 Excess (deficiency) of revenues over expenditures	347,533	(433,354)
 Fund balance at beginning of year, as previously reported	713,484	1,169,353
 Prior period adjustment (Note 9)	-	(22,515)
 Fund balance at beginning of year, as restated	713,484	1,146,838
 Fund balance at end of year	\$ 1,061,017	\$ 713,484

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

**CITY OF HERMOSA BEACH**  
**PROPOSITION C LOCAL RETURN FUND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES**  
**ACTUAL AND METRO APPROVED PROJECT BUDGET**  
**For the Fiscal Year Ended June 30, 2020**  
(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2019)

Project Code	Project Name	2020			2019 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
150-03	CIP 102 - Bus Stops Improvements	\$ 1	\$ -	\$ 1	\$ -
270-04	CIP 101-Hermosa Avenue Greenwich Village Street Realignment	1	-	1	-
440-01	CIP 16-174 Street Improvements - Various Locations	-	-	-	799,333
	Total expenditures	\$ 2	\$ -	\$ 2	\$ 799,333

See accompanying independent auditor's report.

**CITY OF HERMOSA BEACH**  
**PROPOSITION C LOCAL RETURN FUND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CAPITAL ASSETS**  
June 30, 2020

Date Acquired	Description	Balance 7/1/2019	Additions	Deletions	Balance 6/30/2020
	None	\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See accompanying independent auditor's report.

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

	2020	2019
<b>ASSETS</b>		
Cash and investments	\$ 286,704	\$ 624,372
Interest receivable	225	707
Due from Measure R South Bay Highway Grant	10,000	10,000
Total assets	\$ 296,929	\$ 635,079
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ 17,904	\$ 247,583
Unearned revenue	-	15,597
Total liabilities	17,904	263,180
 <b>Fund Balance</b>		
Restricted	279,025	371,899
Total fund balance	279,025	371,899
Total liabilities and fund balance	\$ 296,929	\$ 635,079

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

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

	2020	2019
<b>REVENUES</b>		
Measure R	\$ 237,476	\$ 245,063
Interest income	17,439	24,403
Measure R South Bay Highway Grant	15,597	-
Total revenues	270,512	269,466
 <b>EXPENDITURES</b>		
Various projects	363,386	878,929
Total expenditures	363,386	878,929
 Deficiency of revenues over expenditures	(92,874)	(609,463)
 Fund balance at beginning of year	371,899	981,362
 Fund balance at end of year	\$ 279,025	\$ 371,899

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



**CITY OF HERMOSA BEACH**  
**MEASURE R LOCAL RETURN FUND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES**  
**ACTUAL AND METRO APPROVED PROJECT BUDGET**  
For the Fiscal Year Ended June 30, 2020  
(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2019)

Project Code	Project Name	2020		Variance Favorable (Unfavorable)	2019 Actual
		Metro Budget	Actual		
1.05	CIP 16-174 Street Improvements - Various Locations	\$ -	\$ -	\$ -	766,885
1.05	186- Street Improvements Various Locations	9,551	9,074	477	80,000
1.05	160- PCH Traffic Improvements	399,922	354,312	45,610	-
1.05	CIP 14-168 Bike Friendly Street Improvements	-	-	-	20,000
1.05	CIP 17-188 Strand Bikeway and Walkway Improvements at 35th St.	-	-	-	12,044
	Total expenditures	\$ 409,473	\$ 363,386	\$ 46,087	878,929

See accompanying independent auditor's report.

**CITY OF HERMOSA BEACH**  
**MEASURE R LOCAL RETURN FUND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CAPITAL ASSETS**  
 June 30, 2020

<u>Date</u> <u>Acquired</u>	<u>Description</u>	<u>Balance</u> <u>7/1/2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/2020</u>
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See accompanying independent auditor's report.

**CITY OF HERMOSA BEACH**  
**MEASURE M LOCAL RETURN FUND**  
**BALANCE SHEETS**  
June 30

	2020	2019
<b>ASSETS</b>		
Cash and investments	\$ 188,759	\$ 30,183
Interest receivable	151	216
Total assets	\$ 188,910	\$ 30,399
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ 110,776	\$ 7,351
Total liabilities	110,776	7,351
 <b>Fund Balance</b>		
Restricted	78,134	23,048
Total fund balance	78,134	23,048
Total liabilities and fund balance	\$ 188,910	\$ 30,399

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

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

	2020	2019
<b>REVENUES</b>		
Measure M	\$ 267,089	\$ 276,232
Interest income	3,545	4,815
Total revenues	270,634	281,047
 <b>EXPENDITURES</b>		
Various projects	215,548	467,875
Total expenditures	215,548	467,875
 Excess (deficiency) of revenues over expenditures	55,086	(186,828)
 Fund balance at beginning of year	23,048	209,876
 Fund balance at end of year	\$ 78,134	\$ 23,048

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

**CITY OF HERMOSA BEACH**  
**MEASURE M LOCAL RETURN FUND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES**  
**ACTUAL AND METRO APPROVED PROJECT BUDGET**  
**For the Fiscal Year Ended June 30, 2020**  
(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2019)

Project Code	Project Name	2020			2019 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
1.05	CIP 16-174 Street Improvements - Various Locations	\$ -	\$ -	\$ -	282,875
1.05	CIP 17-186 Street Improvements - Various Locations	-	-	-	185,000
1.05	Street Improvements Various Locations	306,231	215,548	90,683	-
	Total expenditures	\$ <u>306,231</u>	\$ <u>215,548</u>	\$ <u>90,683</u>	\$ <u>467,875</u>

See accompanying independent auditor's report.

**CITY OF HERMOSA BEACH**  
**MEASURE M LOCAL RETURN FUND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CAPITAL ASSETS**  
 June 30, 2020

<u>Date Acquired</u>	<u>Description</u>	<u>Balance 7/1/2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2020</u>
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See accompanying independent auditor's report.

**CITY OF HERMOSA BEACH**  
**TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND**  
**BALANCE SHEETS**  
June 30

	2020	2019
<b>ASSETS</b>		
Due from Metro*	\$ 10,000	\$ -
Total assets	\$ 10,000	\$ -
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ -	\$ -
Total liabilities	-	-
 <b>Fund Balance</b>		
Restricted*	10,000	-
Total fund balance	10,000	-
Total liabilities and fund balance	\$ 10,000	\$ -

\* Since the unspent fund balance of \$10,000 is a receivable from Metro as of June 30, 2020, the City is not required to return the ending fund balance to Metro to be placed on reserve for the City.

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

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

	2020	2019
<b>REVENUES</b>		
TDA 3	\$ 32,150	\$ -
Total revenues	32,150	-
 <b>EXPENDITURES</b>		
Drinking Fountains along Greenbelt Walk Path	22,150	-
Total expenditures	22,150	-
 Excess of revenue over expenditures	10,000	-
 Fund balance at beginning of year	-	-
 Fund balance at end of year*	\$ 10,000	\$ -

\* Since the unspent fund balance of \$10,000 is a receivable from Metro as of June 30, 2020, the City is not required to return the ending fund balance to Metro to be placed on reserve for the City.

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



**CITY OF HERMOSA 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, 2020

<u>Project Description</u>	<u>Program Year</u>	<u>Allocations</u>	<u>Expenditures</u>	<u>Unexpended Allocations</u>	<u>Project Status</u>
<b>Local allocations</b>					
Drinking Fountains along Greenbelt Walk Path	2019-20	\$ 22,150	\$ 22,150	\$ -	Completed
Wayfinding Signage for Summer Streets	2019-20	<u>10,000</u>	<u>-</u>	<u>10,000</u>	Ongoing
	Total	<u>\$ 22,150</u>	<u>\$ 22,150</u>	<u>10,000</u>	
Unexpended interest accumulated to date				-	
Fund balance at beginning of year				-	
Fund balance at end of year*				<u>\$ 10,000</u>	

\* Since the unspent fund balance of \$10,000 is a receivable from Metro as of June 30, 2020, the City is not required to return the ending fund balance to Metro to be placed on reserve for the City.

See accompanying independent auditor's report.

**CITY OF HERMOSA BEACH**  
NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Years Ended June 30, 2020 and 2019

**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.

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 the 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. The statement of revenues, 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 HERMOSA BEACH**  
NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Years Ended June 30, 2020 and 2019  
(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 2020 Comprehensive Annual Financial Report for detailed disclosures regarding the City's investment 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 classifications as of June 30, 2020:

- 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.

**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 HERMOSA BEACH**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Years Ended June 30, 2020 and 2019  
(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. 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 and investment balances were pooled with various other City funds for deposit and investment purposes. The share of each fund in the pooled cash 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.

**NOTE 8 – PROJECT GENERATED REVENUE – PALRF**

Project generated revenue for the year ended June 30, 2020 and 2019 consisted of the following:

	2020		2019
Dial-A-Taxi program	\$ 3,350		\$ 4,740
Bus pass subsidy	317		678
Total	\$ 3,667		\$ 5,418

**CITY OF HERMOSA BEACH**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Years Ended June 30, 2020 and 2019  
(Continued)

**NOTE 9 – PRIOR PERIOD ADJUSTMENT – PCLRF**

PCLRF

PCLRF’s fund balance as of July 1, 2018 has been restated from \$1,169,353 to \$1,146,838 for the correction of an overstatement of revenue of \$15,147 and an understatement of prior year expenditures of \$7,368, which had not been previously accrued.

**NOTE 10 – PROPOSITION A LOCAL RETURN FUND EXCHANGE**

During fiscal year 2019, City of Hermosa Beach entered into a fund exchange agreement with City of West Hollywood to provide excess Proposition A funds in the amount of \$1 million to City of West Hollywood in exchange for unrestricted General funds in the amount of \$700,000, an exchange rate of \$.70 on the \$1.00.

**NOTE 11 – TRANSPORTATION DEVELOPMENT ACT FUNDS RESERVED**

The revenue allocation for the years ended June 30, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
FY 2016-17 allocation	\$ 1,201	\$ -
FY 2017-18 allocation	12,908	-
FY 2018-19 allocation	13,309	-
FY 2019-20 allocation	<u>4,732</u>	-
Total payment requested	<u>\$ 32,150</u>	<u>\$ -</u>

**NOTE 12 – 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, 2020, and 2019, the City has funds on reserve as follows:

	<u>2020</u>	<u>2019</u>
FY 2016-17 allocation	\$ -	\$ 1,201
FY 2017-18 allocation	-	12,908
FY 2018-19 allocation	-	13,309
FY 2019-20 allocation	<u>9,506</u>	-
Available reserve balance	<u>\$ 9,506</u>	<u>\$ 27,418</u>

**CITY OF HERMOSA BEACH**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Years Ended June 30, 2020 and 2019  
(Continued)

**NOTE 13 – SUBSEQUENT EVENTS**

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries. To date, it is unknown how long these conditions will last and what the complete financial effect will be to businesses and other affected organizations, including local governmental entities.

The City has evaluated events or transactions that occurred subsequent to June 30, 2020 through December 13, 2020, 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 Hermosa 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 Hermosa Beach, California (the City), as of and for the year ended June 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated December 13, 2020.

**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 &amp; Simpson".

Los Angeles, California  
December 13, 2020



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*COMPLIANCE SECTION*

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SIMPSON & SIMPSON

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## **Independent Auditor's Report On Compliance**

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

### **Report on Compliance**

We have audited the compliance of the City of Hermosa 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, 2020.

### ***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, 2020.



### *Other Matters*

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Guidelines and which are described in the accompanying Schedule of Findings and Recommendations as Finding Nos. 2020-001 and 2020-002. Our opinion is not modified with respect to this matter.

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

### **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 &amp; Simpson".

Los Angeles, California  
December 13, 2020

**CITY OF HERMOSA BEACH**  
**COMPLIANCE MATRIX**  
Year Ended June 30, 2020

Compliance Requirement		In Compliance			Questioned Costs	If no, provide details and management response.
		Yes	No	N/A		
<b>A. Proposition A and Proposition C Local Return Funds</b>						
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	There were no expenditures that exceeded 25% of approved project budget.
5.	Administrative expenses are within the 20% cap of the total annual Local Return Expenditures.			X	None	There were no administrative expenses in FY 2019/20.
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			None	
11.	Pavement Management System (PMS) is in place and being used for Street Maintenance or Improvement Projects Expenditures.			X	None	There were no Street Maintenance or Improvement Projects Expenditures in FY 2019/20.
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	There were no Intelligent Transportation System projects or elements in FY 2019/20.
14.	Assurances and Understandings form was on file.	X			None	
15.	Recreational transit form was submitted on time.	X			None	

**CITY OF HERMOSA BEACH**  
**COMPLIANCE MATRIX**  
Year Ended June 30, 2020  
(Continued)

Compliance Requirement		In Compliance			Questioned Costs	If no, provide details and management response.
		Yes	No	N/A		
<b>B. Measure R Local Return Fund</b>						
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	See Finding No. 2020-001 on the Schedule of Findings and Recommendations.
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	There were no administrative expenditures in FY 2019/20.
11.	Fund exchanges were approved by Metro.			X	None	There were no fund exchanges in FY 2019/20.
12.	A separate account was established for capital reserve funds and capital reserve was approved by Metro.			X	None	There were no capital reserve funds in FY 2019/20.
13.	Recreational transit form was submitted on time.			X	None	There was no recreational transit in FY 2019/20.

**CITY OF HERMOSA BEACH**  
**COMPLIANCE MATRIX**  
Year Ended June 30, 2020  
(Continued)

Compliance Requirement		In Compliance			Questioned Costs	If no, provide details and management response.
		Yes	No	N/A		
<b>C. Measure M Local Return Fund</b>						
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 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	
6.	Funds were expended with Metro's approval.	X			None	
7.	Expenditure Plan (Form One) was submitted on time.		X		None	See Finding No. 2020-002 on the Schedule of Findings and Recommendations.
8.	Expenditure Report (Form Two) was submitted on time.	X			None	
9.	Timely use of funds.	X			None	
10.	Administrative expenses are within the 20% cap.			X	None	There were no administrative expenditures in FY 2019/20.
11.	Fund exchanges were approved by Metro.			X	None	There were no fund exchanges in FY 2019/20.
12.	A separate account was established for capital reserve funds and capital reserve was approved by Metro.			X	None	There were no capital reserve funds in FY 2019/20.
13.	Recreational transit form was submitted timely.			X	None	There was no recreational transit in FY 2019/20.

**CITY OF HERMOSA BEACH**  
**COMPLIANCE MATRIX**  
 Year Ended June 30, 2020  
 (Continued)

Compliance Requirement		In Compliance			Questioned Costs	If no, provide details and management response.
		Yes	No	N/A		
<b>D. Transportation Development Act Article 3 Fund</b>						
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 HERMOSA BEACH**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
June 30, 2020

**MRLRF: Finding No. 2020-001**

<b>Compliance Requirement</b>	According to Measure R Local Return Guidelines, Section B (II. 1), Expenditure Plan (Form One): "Jurisdictions shall submit to LACMTA an Expenditure Plan, annually, on or before August 1st of each fiscal year."
<b>Condition</b>	The City did not meet the August 1, 2019 deadline for submission of the Form One. However, the City submitted the Form One on June 25, 2020.
<b>Cause</b>	It was due to employee turnover. The staff who was responsible for submission of budget forms was unexpectedly out on leave and as a result, the submission of the budget form was overlooked.
<b>Effect</b>	The City did not comply with the Measure R Local Return Guidelines.
<b>Recommendation</b>	We recommend that the City establish procedures to ensure that the Form One (Expenditure Plan) is properly prepared and submitted before the due date of August 1st so that the City's expenditures of Measure R Local Return Funds will be in accordance with LACMTA's approval and the guidelines. Furthermore, we recommend the City retain a confirmation of receipt by LACMTA to indicate the form was submitted in a timely manner.
<b>Management's Response</b>	The employee who was responsible for submission of the budget forms was suddenly out on leave for an extended period of time and the rest of the staff was unaware of that the budget forms had not been submitted. Going forward, the City will ensure approvals of expenditures are received from LACMTA prior to expending funds as well as the timely filing of all required forms.
<b>Finding Corrected During the Audit</b>	The City subsequently submitted the Form One on June 25, 2020. No follow-up is required.



**CITY OF HERMOSA BEACH**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
 June 30, 2020  
 (Continued)

**MMLRF: Finding No. 2020-002**

<b>Compliance Requirement</b>	According to Measure M Local Return Guidelines, Section XXV Administrative: Reporting Requirements - Expenditure Plan (Form M-One), "To maintain legal eligibility and meet Measure M LR program compliance requirements, Jurisdictions shall submit to Metro an Expenditure Plan (Form M-One), annually, by August 1 of each year."
<b>Condition</b>	The City did not meet the August 1, 2019 deadline for submission of the Form M-One. However, the City submitted the Form M-One on June 25, 2020.
<b>Cause</b>	It was due to employee turnover. The staff who was responsible for submission of budget forms was unexpectedly out on leave and as a result, the submission of the budget form was overlooked.
<b>Effect</b>	The City did not comply with the Measure M Local Return Guidelines.
<b>Recommendation</b>	We recommend that the City establish procedures to ensure that the Form M-One (Expenditure Plan) is properly prepared and submitted before the due date of August 1st so that the City's expenditures of Measure M Local Return Funds will be in accordance with LACMTA's approval and the guidelines. Furthermore, we recommend the City retain a confirmation of receipt by LACMTA to indicate the form was submitted in a timely manner.
<b>Management's Response</b>	The employee who was responsible for submission of the budget forms was suddenly out on leave for an extended period of time and the rest of the staff was unaware of that the budget forms had not been submitted. Going forward, the City will ensure approvals of expenditures are received from LACMTA prior to expending funds as well as the timely filing of all required forms.
<b>Finding Corrected During the Audit</b>	The City subsequently submitted the Form M-One on June 25, 2020. No follow-up is required.

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***EXIT CONFERENCE***

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**CITY OF HERMOSA BEACH**  
PROPOSITION A, PROPOSITION C, MEASURE R, MEASURE M LOCAL RETURN FUNDS AND  
TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND  
EXIT CONFERENCE  
June 30, 2020

An exit conference was held on December 24, 2020 with the City of Hermosa Beach. Those in attendance were:

***Simpson & Simpson Representative:***

May Yi, Audit Senior

***City's Representatives:***

Charlotte Newkirk, Accounting Manager

***Matters Discussed:***

Results of the audit disclosed no significant control deficiencies and two (2) 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:

Charlotte Newkirk, Accounting Manager

Simpson & Simpson, LLP  
633 West 5<sup>th</sup> Street, Suite 3320  
Los Angeles, CA 90071

RE: CITY OF HERMOSA 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, 2020 AND 2019

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 years ended June 30, 2020 and 2019 for the City of Hermosa Beach and agree with the contents of the report except as indicated below:

(Attach additional pages if necessary)

Very truly yours,

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Name

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Title

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Date