

***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, 2021 AND 2020***



Metro[®]



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, 2021 and 2020, 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 from 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, 2021 and 2020, 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, 2021 and 2020, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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, 2021, 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 solely 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 the effectiveness of the City's 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 13, 2021

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

	2021	2020
ASSETS		
Cash and investments	\$ 782,646	\$ 488,889
Investment income receivable	561	367
Total assets	\$ 783,207	\$ 489,256
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 38,449	\$ 81,671
Accrued wages	227	227
Total expenditures	38,676	81,898
 Fund Balance		
Restricted	744,531	407,358
Total fund balance	744,531	407,358
Total liabilities and fund balance	\$ 783,207	\$ 489,256

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

	2021	2020
REVENUES		
Proposition A	\$ 399,324	\$ 382,263
Investment income	94	24,960
Project generated revenue (Note 8)	941	3,667
Total revenues	400,359	410,890
 EXPENDITURES		
Various projects	63,186	226,137
Total expenditures	63,186	226,137
 Excess of revenues over expenditures	337,173	184,753
 Fund balance at beginning of year	407,358	222,605
 Fund balance at end of year	\$ 744,531	\$ 407,358

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, 2021
(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2020)

Project Code	Project Name	2021			2020 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
105	Commuter Express Program	\$ 39,500	\$ 33,645	\$ 5,855	\$ 34,615
130	Special Events Shuttle	-	-	-	15,750
130	After School Program Shuttle	12,000	12,200	(200)	22,800
135	Bus Pass Subsidy	25	24	1	752
135	Dial-a-Taxi Program	19,000	17,317	1,683	-
130-01	Taxi Voucher Program	-	-	-	48,325
140-01	Recreation Transportation	-	-	-	28,314
150-04	Bus Stop Improvements (3414)	-	-	-	75,581
	Total expenditures	\$ 70,525	\$ 63,186	\$ 7,339	\$ 226,137

See accompanying independent auditor's report.

CITY OF HERMOSA BEACH
PROPOSITION A LOCAL RETURN FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
June 30, 2021

Date Acquired	Description	Balance 7/1/2020	Additions	Deletions	Balance 6/30/2021
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

	2021	2020
ASSETS		
Cash and investments	\$ 1,399,784	\$ 1,067,543
Investment income receivable	1,024	842
Total assets	\$ 1,400,808	\$ 1,068,385
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accrued wages	\$ -	\$ 1
Retention payable	7,367	7,367
Total liabilities	7,367	7,368
 Fund Balance		
Restricted - capital reserve - Bus Stop Improvements (Note 9)	900,000	-
Restricted	493,441	1,061,017
Total fund balance	1,393,441	1,061,017
Total liabilities and fund balance	\$ 1,400,808	\$ 1,068,385

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

	<u>2021</u>	<u>2020</u>
REVENUES		
Proposition C	\$ 331,225	\$ 317,088
Investment income	1,199	30,445
Total revenues	<u>332,424</u>	<u>347,533</u>
 EXPENDITURES		
Various projects	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>
 Excess of revenues over expenditures	 332,424	 347,533
 Fund balance at beginning of year	 <u>1,061,017</u>	 <u>713,484</u>
 Fund balance at end of year	 <u>\$ 1,393,441</u>	 <u>\$ 1,061,017</u>

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, 2021
(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2020)

Project Code	Project Name	2021			2020 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
205	Capital Reserve - Bus Stop Improvements (Note 9)	\$ 900,000	\$ -	\$ 900,000	\$ -
281	Bus Stop Improvements	90,000	-	90,000	-
720	Hermosa Ave Greenwich Village Street Realignment	10,000	-	10,000	-
740	Pedestrian Crossing Safety Improvements	350,000	-	350,000	-
	Total expenditures	<u>\$ 1,350,000</u>	<u>\$ -</u>	<u>\$ 1,350,000</u>	<u>\$ -</u>

See accompanying independent auditor's report.

CITY OF HERMOSA BEACH
PROPOSITION C LOCAL RETURN FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
 June 30, 2021

Date Acquired	Description	Balance 7/1/2020	Additions	Deletions	Balance 6/30/2021
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See accompanying independent auditor's report.

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

	2021	2020
ASSETS		
Cash and investments	\$ 535,502	\$ 286,704
Investment income receivable	335	225
Due from Measure R South Bay Highway Grant	10,000	10,000
Total assets	\$ 545,837	\$ 296,929
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE		
Liabilities		
Retention payable	\$ 17,904	\$ 17,904
Total liabilities	17,904	17,904
 Deferred inflows of resources		
Unavailable revenue - Measure R South Bay Highway Grant (Note 10)	10,000	-
Total deferred inflows of resources	10,000	-
 Fund Balance		
Restricted	517,933	279,025
Total fund balance	517,933	279,025
Total liabilities, deferred inflows of resources and fund balance	\$ 545,837	\$ 296,929

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

	2021	2020
REVENUES		
Measure R	\$ 248,763	\$ 237,476
Investment income	145	17,439
Measure R South Bay Highway Grant	-	15,597
Total revenues	248,908	270,512
 EXPENDITURES		
Various projects	-	363,386
Total expenditures	-	363,386
 Excess (deficiency) of revenues over expenditures	248,908	(92,874)
 Fund balance at beginning of year, as previously reported	279,025	371,899
 Prior period adjustment (Note 10)	(10,000)	-
 Fund balance at beginning of year, as restated	269,025	371,899
 Fund balance at end of year	\$ 517,933	\$ 279,025

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, 2021
(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2020)

Project Code	Project Name	2021			2020 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
705	186- Street Improvement Various Locations	\$ 532,477	\$ -	\$ 532,477	\$ 9,074
715	PCH Mobility Improvement Project	243,662	-	243,662	-
715	160- PCH Traffic Improvements	243,662	-	243,662	354,312
815	CIP 188 Strand Bikeway and Walkway Improvements at 35th Street	10,000	-	10,000	-
815	CIP 193 Pedestrian Crossing Safety Improvements	100,000	-	100,000	-
Total expenditures		\$ <u>1,129,801</u>	\$ <u>-</u>	\$ <u>1,129,801</u>	<u>363,386</u>

See accompanying independent auditor's report.

CITY OF HERMOSA BEACH
MEASURE R LOCAL RETURN FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
 June 30, 2021

Date Acquired	Description	Balance 7/1/2020	Additions	Deletions	Balance 6/30/2021
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See accompanying independent auditor's report.

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

	2021	2020
ASSETS		
Cash and investments	\$ 358,930	\$ 188,759
Investment income receivable	265	151
Total assets	\$ 359,195	\$ 188,910
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ -	\$ 110,776
Total liabilities	-	110,776
 Fund Balance		
Restricted	359,195	78,134
Total fund balance	359,195	78,134
Total liabilities and fund balance	\$ 359,195	\$ 188,910

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

	2021	2020
REVENUES		
Measure M	\$ 281,857	\$ 267,089
Investment income (loss)	(796)	3,545
Total revenues	281,061	270,634
 EXPENDITURES		
Various projects	-	215,548
Total expenditures	-	215,548
 Excess of revenues over expenditures	281,061	55,086
 Fund balance at beginning of year	78,134	23,048
 Fund balance at end of year	\$ 359,195	\$ 78,134

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, 2021
(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2020)

Project Code	Project Name	2021			2020 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
705	CIP 186 Street Improvements - Various Locations	\$ 401,577	\$ -	\$ 401,577	-
705	Street Improvement Various Locations	401,577	-	401,577	215,548
715	CIP 191 Annual Street Improvements	50,000	-	50,000	-
	Total expenditures	\$ 853,154	\$ -	\$ 853,154	\$ 215,548

See accompanying independent auditor's report.

CITY OF HERMOSA BEACH
MEASURE M LOCAL RETURN FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
 June 30, 2021

<u>Date Acquired</u>	<u>Description</u>	<u>Balance 7/1/2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2021</u>
None		\$ -	\$ -	\$ -	\$ -
	Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying independent auditor's report.

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

	2021	2020
ASSETS		
Cash and investments	\$ 10,000	\$ -
Due from Metro	-	10,000
Total assets	\$ 10,000	\$ 10,000
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ -	\$ -
Total liabilities	-	-
 Fund Balance		
Restricted	10,000	10,000
Total fund balance	10,000	10,000
Total liabilities and fund balance	\$ 10,000	\$ 10,000

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

	2021	2020
REVENUES		
TDA 3	\$ -	\$ 32,150
Total revenues	-	32,150
 EXPENDITURES		
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	10,000	-
 Fund balance at end of year	\$ 10,000	\$ 10,000

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, 2021

<u>Project Description</u>	<u>Program Year</u>	<u>Allocations</u>	<u>Expenditures</u>	<u>Unexpended Allocations</u>	<u>Project Status</u>
Local allocations					
None		\$ -	\$ -	\$ -	
	Total	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	
Fund balance at beginning of year				<u>10,000</u>	
Fund balance at end of year				<u>\$ 10,000</u>	

See accompanying independent auditor's report.

CITY OF HERMOSA BEACH
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2021 and 2020

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, 2021 and 2020
(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 2021 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, 2021:

- 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 2020 amounts in order to conform to the fiscal year 2021 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 HERMOSA BEACH
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2021 and 2020
(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, 2021 and 2020 consisted of the following:

	2021		2020
Dial-A-Taxi program	\$ 930		\$ 3,350
Bus pass subsidy	11		317
Total	\$ 941		\$ 3,667

CITY OF HERMOSA BEACH
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2021 and 2020
(Continued)

NOTE 9 – CAPITAL RESERVE

In June 2021, Metro and the City entered into capital reserve agreements to establish a capital reserve account (Account) for the Bus Stop Improvement Project. The Account will be funded with the Proposition C Local Return Fund of \$900,000. All interest shall be accrued and placed in the Account for exclusive use of the Project. With exception granted by Metro in writing to extend the terms, unexpended funds will be automatically lapsed in five (5) years. The City intends to use the funds for the Project on or before June 30, 2026 and will submit annual program reports for the use of funds from the Account.

NOTE 10 – PRIOR PERIOD ADJUSTMENT – MRLRF

MRLRF

MRLRF’s fund balance as of July 1, 2020 has been restated from \$279,025 to \$269,025 for the correction of overstatement of prior year Measure R South Bay Highway Grant revenue of \$10,000. On April 5, 2012, Metro and City of Hermosa Beach entered in a Funding Agreement for Plans, Specifications and Estimates (PS&E), Right-of-Way, and Construction of Pacific Coast Highway (SR-1/PCH) Improvements from Anita Street to Artesia Boulevard Project, Metro Project ID# MR312.05 and FTIP# LA0G846. This project is eligible for funding under Line 33, I-405, I-110, I-105, and SR-91 Ramp and Interchange Improvements (South Bay), of the Measure R Expenditure Plan.

NOTE 11 – TRANSPORTATION DEVELOPMENT ACT FUNDS RESERVED

The revenue allocation for the years ended June 30, 2021 and 2020 consisted of the following:

	2021	2020
FY 2016-17 allocation	\$ -	\$ 1,201
FY 2017-18 allocation	-	12,908
FY 2018-19 allocation	-	13,309
FY 2019-20 allocation	-	4,732
Total payment requested	\$ -	\$ 32,150

CITY OF HERMOSA BEACH
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2021 and 2020
(Continued)

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, 2021, and 2020, the City has funds on reserve as follows:

		2021		2020
FY 2019-20 allocation	\$	-	\$	9,506
FY 2020-21 allocation		11,078		-
Available reserve balance	\$	11,078	\$	9,506

NOTE 13 – IMPACT OF CORONAVIRUS

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the United States.

It is unknown how long these conditions will last and what the complete financial effect will be to businesses and other affected organizations, including local governmental entities. However, the City's Management believes that the financial impact, if any, will not materially affect the June 30, 2021 Funds' financial statement.

NOTE 14 – SUBSEQUENT EVENTS

The City has evaluated events or transactions that occurred subsequent tot June 30, 2021 through December 13, 2021, 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 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, 2021, and the related notes to the financial statements, and have issued our report thereon dated December 13, 2021.

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) as a basis for designing 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Los Angeles, California
December 13, 2021

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 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, 2021.

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, 2021.



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. 2021-001. Our opinion on each local return 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 13, 2021

CITY OF HERMOSA BEACH
COMPLIANCE MATRIX
Year Ended June 30, 2021
(Continued)

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 or has established a separate Proposition A and Proposition C Local Transit Assistance Account for Local Return purposes.	X			None	
2.	Revenues received including allocations, project generated revenues and interest income was properly credited to the Proposition A and/or Proposition C Local Return Account.	X			None	
3.	Funds were expended with Metro's approval and were not substituted for property tax.	X			None	
4.	Timely use of funds.	X			None	
5.	Administrative expenses are within the 20% cap.			X	None	There were no administrative expenditures in FY 2020/21.
6.	Expenditures that exceeded 25% of approved project budget have approved amended Project Description Form (Form A) or electronic equivalent.			X	None	There were no expenditures that exceeded 25% of approved project budget.
7.	Annual Project Update Report (Form B) or electronic equivalent was submitted on time.	X			None	
8.	Annual Expenditure Report (Form C) or electronic equivalent was submitted on time.	X			None	
9.	Pavement Management System (PMS) is in place and being used for Street Maintenance or Improvement Projects Expenditures.	X			None	
10.	Local Return Account is credited for reimbursable expenditures.			X	None	There were no reimbursable expenditures in FY 2020/21.
11.	Where Proposition A funds were given, loaned or exchanged by one jurisdiction to another, the receiving jurisdiction has credited its Local Return Account with the funds received.			X	None	There were no fund exchanges in FY 2020/21.

CITY OF HERMOSA BEACH
COMPLIANCE MATRIX
Year Ended June 30, 2021
(Continued)

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						
12.	Self-Certification was completed and submitted for Intelligent Transportation Systems projects and elements.			X	None	There were no Intelligent Transportation System projects or elements in FY 2020/21.
13.	A separate account was established for Capital reserve funds, Capital reserve was approved by Metro and current status is reported in the Annual Project Update (Form B) or electronic equivalent.	X			None	
14.	Recreational transit form was submitted on time.			X	None	There were no recreational transit projects in FY 2020/21.
15.	Fund exchanges (trades, loans, or gifts) were approved by Metro.			X	None	There were no fund exchanges in FY 2020/21.
16.	Proposition C Local Return Funds were used to augment, not supplant existing local revenues	X			None	
17.	All on-going and carryover projects were reported on Form B or electronic equivalent.	X			None	
18.	Cash or cash equivalents are maintained.	X			None	
19.	Accounting procedures, record keeping and documentation are adequate.	X			None	

CITY OF HERMOSA BEACH
COMPLIANCE MATRIX
Year Ended June 30, 2021
(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.	Separate Measure R Local Return Account was established.	X			None	
3.	Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure R Local Return Account.	X			None	
4.	Funds were expended with Metro's approval.	X			None	
5.	Funds were not substituted for property tax and are in compliance with the Maintenance of Effort.	X			None	
6.	Timely use of funds.	X			None	
7.	Administrative expenses are within the 20% cap.			X	None	There were no administrative expenditures in FY 2020/21.
8.	Expenditure Plan (Form One or electronic equivalent) was submitted on time.	X			None	
9.	Annual Expenditure Report (Form Two or electronic equivalent) was submitted on time.	X			None	
10.	Where funds expended were reimbursable by other grants or fund sources, the reimbursement was credited to the Local Return Account upon receipt of the reimbursement.			X	None	There were no reimbursable expenditures in FY 2020/21.
11.	Where Measure R funds were given, loaned or exchanged by one jurisdiction to another, the receiving jurisdiction has credited its Local Return Account with the funds received.			X	None	There were no fund exchanges in FY 2020/21.
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 or capital reserve in FY 2020/21.

CITY OF HERMOSA BEACH
COMPLIANCE MATRIX
Year Ended June 30, 2021
(Continued)

Compliance Requirement		In Compliance			Questioned Costs	If no, provide details and management response.
		Yes	No	N/A		
B. Measure R Local Return Fund						
13.	Funds were used to augment, not supplant existing local revenues being used for transportation purposes unless there is a fund shortfall.	X			None	
14.	Recreational transit form was submitted on time.			X	None	There were no recreational transit projects in FY 2020/21.
15.	Fund exchanges were approved by Metro.			X	None	There were no fund exchanges in FY 2020/21.
16.	Accounting procedures, record keeping and documentation are adequate.	X			None	

CITY OF HERMOSA BEACH
COMPLIANCE MATRIX
Year Ended June 30, 2021
(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	
2.	Separate Measure M Local Return Account was established.	X			None	
3.	Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure M Local Return Account.	X			None	
4.	Funds were expended with Metro's approval.	X			None	
5.	Funds were not substituted for property tax and are in compliance with the Maintenance of Effort.	X			None	
6.	Timely use of funds.	X			None	
7.	Administrative expenses are within the 20% cap.			X	None	There were no administrative expenditures in FY 2020/21.
8.	Expenditure Plan (Form M-One or electronic equivalent) was submitted on time.	X			None	
9.	Expenditure Report (Form M-Two or electronic equivalent) was submitted on time.	X			None	
10.	Where funds expended were reimbursable by other grants or fund sources, the reimbursement was credited to the Local Return Account upon receipt of the reimbursement.			X	None	There were no reimbursable expenditures in FY 2020/21.
11.	Where Measure M funds were given, loaned or exchanged by one jurisdiction to another, the receiving jurisdiction has credited its Local Return Account with the funds received.			X	None	There were no fund exchanges in FY 2020/21.
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 or capital reserve in FY 2020/21.

CITY OF HERMOSA BEACH
COMPLIANCE MATRIX
Year Ended June 30, 2021
(Continued)

Compliance Requirement		In Compliance			Questioned Costs	If no, provide details and management response.
		Yes	No	N/A		
C. Measure M Local Return Fund						
13.	Funds were used to augment, not supplant existing local revenues being used for transportation purposes unless there is a fund shortfall.	X			None	
14.	Recreational transit form was submitted on time.			X	None	There were no recreational transit projects in FY 2020/21.
15.	Fund exchanges (trades, loans, or gifts) were approved by Metro.			X	None	There were no fund exchanges in FY 2020/21.
16.	Accounting procedures, record keeping and documentation are adequate.	X			None	

CITY OF HERMOSA BEACH
COMPLIANCE MATRIX
Year Ended June 30, 2021
(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	See Finding No. 2021-001 on the Schedule of Findings and Recommendations.
2.	Expenditures were incurred for activities relating to pedestrian and bicycle facilities and amenities.			X	None	There were no expenditures in FY 2020/21.

CITY OF HERMOSA BEACH
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2021

TDAA3F: Finding No. 2021-001

Compliance Reference	According to the Los Angeles County Metropolitan Transportation Authority Transportation Development Act Article 3 Bicycle and Pedestrian Funds, Funding and Allocation Guidelines: “Agencies may only draw down the funds that they can spend during the fiscal year in which they were allocated. Agencies are not allowed to have a fund balance at the end of the fiscal year. Any funds drawn down and that remain unspent after the end of the fiscal year must be returned to Metro to be placed on reserve for the city under the fiscal year in which they were originally allocated. Agencies must also fully spend any interest accumulated by these funds by the end of the fiscal year in which the funds were allocated.”
Condition	As of June 30, 2021, the City had unspent TDA 3 ending fund balance of \$10,000. The remaining funds were not encumbered or placed on a reserve account with Metro as required by the Guidelines. However, the City received an extension approval from Metro on December 15, 2021, to spend the remaining funds until June 30, 2022.
Cause	This was an oversight on the part of the City.
Effect	Because these funds were not expended within the required timeline per the TDA Article 3 Guidelines and had not been returned to Metro to be placed on reserve, the City did not comply with the TDA Article 3 Guidelines.
Recommendation	We recommend that the City implement internal control procedures to track the TDA Article 3 reserve balance to ensure that all TDA Article 3 funds are claimed and expended within the required timeline per the TDA Article 3 Guidelines.
Management’s Response	The City’s was looking into initiating the development of the Wayfinding Signage for Summer Streets project in fiscal year 2021. However, the project was on hold due to the pandemic. The City has reached out to Metro on December 14, 2021, for an extension.
Corrected During the Audit	The City was granted an extension by Metro to expend the remaining funds until June 30, 2022, on December 15, 2021. No follow-up is required.

EXIT CONFERENCE

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, 2021

An exit conference was held on December 29, 2021 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 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:

Charlotte Newkirk, Accounting Manager

Simpson & Simpson, LLP
633 West 5th 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, 2021 AND 2020

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, 2021 and 2020 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,

Name

Title

Date