

***CITY OF HERMOSA BEACH
ANNUAL FINANCIAL REPORT OF THE
PROPOSITION A LOCAL RETURN FUND
PROPOSITION C LOCAL RETURN FUND
MEASURE R LOCAL RETURN FUND
TRANSPORTATION DEVELOPMENT ACT
ARTICLE 3 FUND***

***FOR THE FISCAL YEARS ENDED
JUNE 30, 2017 AND 2016***



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), and Transportation Development Act Article 3 (TDAA3F) Fund of the City of Hermosa Beach, California (City) as of and for the years ended June 30, 2017 and 2016, 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 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 and TDAA3F of the City of Hermosa Beach, California, as of and for the years ended June 30, 2017 and 2016, 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, and TDAA3F and do not purport to, and do not, present fairly the financial position of the City of Hermosa Beach, California, as of June 30, 2017 and 2016, and the changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hermosa Beach, California's PALRF, PCLRF, MRLRF, and TDAA3F Fund financial statements as a whole. The accompanying supplementary information as listed in the table of contents is presented for the 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 financial statements.

The supplementary 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects, in relation to the financial statements as a whole.



Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated October 30, 2017, on our consideration of the City of Hermosa Beach's internal control over 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 financial reporting and compliance and the results of that testing, not to provide an opinion on internal control over 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 financial reporting and compliance.

A handwritten signature in black ink that reads "Simpson & Simpson". The signature is written in a cursive, flowing style.

Los Angeles, California
October 30, 2017

CITY OF HERMOSA BEACH

PROPOSITION A LOCAL RETURN FUND

BALANCE SHEETS

JUNE 30

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and investments	\$ 1,182,691	\$ 990,410
Interest receivable	600	1,935
Unrealized gain (loss) on investment	(6,368)	7,290
Metro receivable	-	-
Total assets	<u>\$ 1,176,923</u>	<u>\$ 999,635</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 46,324	\$ 37,893
Accrued liabilities	3,207	14,158
Total liabilities	<u>49,531</u>	<u>52,051</u>
Fund Balance		
Restricted	<u>1,127,392</u>	<u>947,584</u>
Total fund balance	<u>1,127,392</u>	<u>947,584</u>
Total liabilities and fund balance	<u>\$ 1,176,923</u>	<u>\$ 999,635</u>

The accompanying notes are an integral part of 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

	<u>2017</u>	<u>2016</u>
REVENUES		
Proposition A	\$ 360,787	\$ 356,492
Investment income (discount)	(246)	16,610
Project generated revenues (Note 7)	6,206	7,080
Total revenues	<u>366,747</u>	<u>380,182</u>
EXPENDITURES		
Various projects	<u>186,939</u>	<u>176,528</u>
Total expenditures	<u>186,939</u>	<u>176,528</u>
Excess of revenues over expenditures	179,808	203,654
Fund balance at beginning of year	<u>947,584</u>	<u>743,930</u>
Fund balance at end of year	<u>\$ 1,127,392</u>	<u>\$ 947,584</u>

The accompanying notes are an integral part of 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, 2017

(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2016)

Project Code	Project Name	2017			2016 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
110-02	Commuter Express (LAX)	\$ 31,149	\$ 30,831	\$ 318	\$ 19,149
110-03	Beach Cities Transit Line 109	12,989	9,418	3,571	7,794
130-01	Taxi Voucher Program	76,000	67,417	8,583	73,890
140-01	Recreation Transportation	40,000	29,498	10,502	24,245
140-02	Special Event Shuttle	6,000	6,000	-	6,000
140-03	After School Program Shuttle	43,200	40,800	2,400	42,720
160-01	PCH/Aviation Beautification Project -Bus Related Improvements	274,892	-	274,892	-
250-01	Bus Pass Subsidy	3,300	2,975	325	2,730
	Total expenditures	<u>\$ 487,530</u>	<u>\$ 186,939</u>	<u>\$ 300,591</u>	<u>\$ 176,528</u>

See accompanying independent auditor's report.

CITY OF HERMOSA BEACH

PROPOSITION A LOCAL RETURN FUND

**SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS**

June 30, 2017

<u>Date Acquired</u>	<u>Description</u>	<u>Balance 7/1/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2017</u>
	None	\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See accompanying independent auditor's report.

CITY OF HERMOSA BEACH

PROPOSITION C LOCAL RETURN FUND

BALANCE SHEETS

JUNE 30

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and investments	\$ 1,270,842	\$ 1,035,432
Interest receivable	<u>740</u>	<u>17,655</u>
Total assets	<u>\$ 1,271,582</u>	<u>\$ 1,053,087</u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ <u>-</u>	\$ <u>7,721</u>
Total liabilities	<u>-</u>	<u>7,721</u>
 Fund Balance		
Restricted	<u>1,271,582</u>	<u>1,045,366</u>
Total fund balance	<u>1,271,582</u>	<u>1,045,366</u>
Total liabilities and fund balance	<u>\$ 1,271,582</u>	<u>\$ 1,053,087</u>

The accompanying notes are an integral part of 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>2017</u>	<u>2016</u>
REVENUES		
Proposition C	\$ 299,114	\$ 295,316
Interest income	14,050	13,679
Unrealized (loss) gain on investments	<u>(14,558)</u>	<u>7,063</u>
Total revenues	<u>298,606</u>	<u>316,058</u>
EXPENDITURES		
Various projects	<u>72,390</u>	<u>35,218</u>
Total expenditures	<u>72,390</u>	<u>35,218</u>
Excess of revenues over expenditures	226,216	280,840
Fund balance at beginning of year	<u>1,045,366</u>	<u>764,526</u>
Fund balance at end of year	<u><u>\$ 1,271,582</u></u>	<u><u>\$ 1,045,366</u></u>

The accompanying notes are an integral part of 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, 2017

(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2016)

Project Code	Project Name	2017			2016 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
160-01	PCH/Aviation Beautification Project Bus Related Improvements	\$ 248,041	\$ -	\$ 248,041	\$ 15,860
470-03	PMS Update	80,520	-	80,520	19,358
470-04	Pavement Management System Update	92,296	72,390	19,906	-
	Total expenditures	\$ 420,857	\$ 72,390	\$ 348,467	\$ 35,218

See accompanying independent auditor's report.

CITY OF HERMOSA BEACH
PROPOSITION C LOCAL RETURN FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS

June 30, 2017

<u>Date Acquired</u>	<u>Description</u>	<u>Balance 7/1/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2017</u>
	None	\$ -	\$ -	\$ -	\$ -
	Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying independent auditor's report.

CITY OF HERMOSA BEACH

MEASURE R LOCAL RETURN FUND

BALANCE SHEETS

JUNE 30

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and investments	\$ 735,844	\$ 557,253
Investment income receivable	(4,757)	3,746
Interest receivable	389	1,316
Due from other funding sources	<u>3,332</u>	<u>-</u>
Total assets	<u>\$ 734,808</u>	<u>\$ 562,315</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	<u>\$ 188</u>	<u>\$ 12,730</u>
Total liabilities	<u>188</u>	<u>12,730</u>
Fund Balance		
Restricted	<u>734,620</u>	<u>549,585</u>
Total fund balance	<u>734,620</u>	<u>549,585</u>
Total liabilities and fund balance	<u>\$ 734,808</u>	<u>\$ 562,315</u>

The accompanying notes are an integral part of 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

	<u>2017</u>	<u>2016</u>
REVENUES		
Measure R	\$ 224,502	\$ 230,969
Investment(discount) income	(8,443)	3,791
Interest income	7,873	6,708
Measure R South Bay Highway Project	3,332	-
Total revenues	<u>227,264</u>	<u>241,468</u>
EXPENDITURES		
Various projects	<u>42,229</u>	<u>453,663</u>
Total expenditures	<u>42,229</u>	<u>453,663</u>
Excess (deficiency) of revenues over expenditures	185,035	(212,195)
Fund balance at beginning of year	<u>549,585</u>	<u>761,780</u>
Fund balance at end of year	<u>\$ 734,620</u>	<u>\$ 549,585</u>

The accompanying notes are an integral part of 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, 2017
(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2016)

Project Code	Project Name	2017			2016 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
01-005	CIP 12-160 PCH Traffic Improvements	\$ -	\$ -	\$ -	\$ 4,457
01-006	CIP 14-128 Street Improvements - Various Locations	-	-	-	276,534
01-007	CIP 15-129 Street Improvements - Various Locations	-	-	-	128,628
01-008	CIP 16-174 Street Improvements- Various Locations	250,000	-	250,000	-
	CIP 12-143 PCH Aviation Mobility Project	-	42,229 *	(42,229)	44,044
	Total expenditures	<u>\$ 250,000</u>	<u>\$ 42,229</u>	<u>\$ 207,771</u>	<u>\$ 453,663</u>

* The expenditures related to this project were funded by funding agreement #MOU.MR312.05, which is a separate funding agreement from the MRLRF allocation for FY 16/17.

See accompanying independent auditor's report.

CITY OF HERMOSA BEACH
MEASURE R LOCAL RETURN FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS

June 30, 2017

<u>Date Acquired</u>	<u>Description</u>	<u>Balance 7/1/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2017</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
(PURSUANT TO PUBLIC UTILITIES CODE SECTION 99234)**

BALANCE SHEETS

JUNE 30

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and investments	\$ -	\$ 41,517
Interest receivable	-	52
Unrealized Gain/Losses	-	16
Total assets	<u>\$ -</u>	<u>\$ 41,585</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Due to LACMTA - TDA Article 3 Reserve Account	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>
Fund Balance		
Reserved	-	41,585
Total fund balance	<u>-</u>	<u>41,585</u>
Total liabilities and fund balance	<u>\$ -</u>	<u>\$ 41,585</u>

The accompanying notes are an integral part of 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

	<u>2017</u>	<u>2016</u>
REVENUES		
TDA 3 (Note 8)	\$ -	\$ 41,517
Interest income	-	68
Total revenues	<u>-</u>	<u>41,585</u>
EXPENDITURES		
PCH Bus Stop Improvements	<u>41,585</u>	<u>-</u>
Total expenditures	<u>41,585</u>	<u>-</u>
Excess of revenues over expenditures	(41,585)	41,585
Fund balance at beginning of year	<u>41,585</u>	<u>-</u>
Fund balance at end of year	\$ <u><u>-</u></u>	\$ <u><u>41,585</u></u>

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

CITY OF HERMOSA BEACH

TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND

SCHEDULE OF TRANSPORTATION DEVELOPMENT ACT

For the Fiscal Year Ended June 30, 2017

<u>Project Description</u>	<u>Program Year</u>	<u>Allocations</u>	<u>Expenditures</u>	<u>Unexpended Allocations</u>	<u>Project Status</u>
Local allocations					
Construction/Maintenance	2016-17	\$ -	\$ 41,585	\$ (41,585)	On-going
	Total	\$ -	\$ 41,585	(41,585)	
Unexpended interest accumulated to date				-	
Fund balance at beginning of year				-	
LACMTA - TDA Article 3 Reserve				41,585	
Account Fund balance at end of year				\$ -	

See accompanying independent auditor's report.

CITY OF HERMOSA BEACH

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2017 and 2016

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) 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.

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

Basis of Accounting and Measurement focus

PALRF, PCLRF, MRLRF, and TDAA3F are accounted for using the modified accrual basis of accounting whereby revenues are recognized when they become both measurable and available to finance expenditures of the current period and expenditures are generally recognized when the related fund liabilities are incurred.

Special Revenue funds are reported on spending or "financial flow" measurement focus. This means that generally only current assets, current liabilities and deferred inflows and outflows of resources are included on their balance sheets. Statement of revenue, expenditures and changes in fund balance for Special Revenue Funds generally present increase (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, 2017 and 2016
(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurement

In accordance with 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 2017 Comprehensive Annual Financial Report for detailed disclosures regarding the City's investments policy and fair value measurement.

Fund Balance Reporting

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

The PALRF, PCLRF, MRLRF, and TDAA3F report the following fund balance classification as of June 30, 2017 and 2016:

- 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 use of the funds' remaining fund balance are restricted for projects approved by LACMTA

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

Reclassification

Certain fiscal year 2016 items have been reclassified to conform with the 2017 financial statement presentation. The reclassifications had no effect on the changes in nets asset.

CITY OF HERMOSA BEACH

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2017 and 2016
(Continued)

NOTE 2 – ANNUAL FINANCIAL STATEMENTS

The financial statements reflect only the financial position and results of operations of the PALRF, PCLRF, MRLRF, and TDAA3F and their compliance with the Proposition A and Proposition C Local Return Program Guidelines, Measure R 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.

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.

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.

NOTE 5 – 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.

NOTE 6 – CASH AND INVESTMENTS

The PALRF, PCLRF, MRLRF, and TDAA3F cash 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.

CITY OF HERMOSA BEACH

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2017 and 2016
(Continued)

NOTE 7 PROJECT GENERATED REVENUE

Project generated revenue under PALRF for the years ended June 30, 2017 and 2016 consisted of the following:

	2017		2016
Dial-A-Taxi program	\$ 5,124	\$	6,121
Bus pass subsidy	1,082		959
Total project generated revenue	\$ 6,206	\$	7,080

NOTE 8 TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND REVENUE

ALLOCATION

The revenue allocation for the years ended June 30, 2017 and 2016 consisted of the following:

	2017		2016
FY2011/12 allocation	\$ -	\$	9,462
FY2012/13 allocation	-		13,956
FY2013/14 allocation	-		15,935
FY 2014/15 allocation	-		2,164
Total payment requested	\$ -	\$	41,517

NOTE 9 TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 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 LACMTA. As of June 30, 2017, and 2016, the City has funds on reserve as follows:

	2017		2016
FY 2014/15 allocation	\$ 10,819	\$	10,819
FY 2015/16 allocation	12,598		12,598
FY 2016/17 allocation	13,113		-
Available reserve balance	\$ 36,530	\$	23,417

CITY OF HERMOSA BEACH

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2017 and 2016
(Continued)

NOTE 10- OTHER FUNDING SOURCES- MRLRF

Measure R Highway Grant projects and expenditure amounts are as follows:

<u>MOU Number</u>	<u>Project Name</u>	<u>Expenditure Amount</u>
MR312.05	South Bay Measure R Funding Agreement: Project F-45 Pacific Coast Highway (SR-1/PCH) Improvements Between Anita Street and Artesia Blvd.	\$ 42,229

<u>FY 16-17 Grant Activity</u>	<u>Expenditure Amount</u>
FY 14/15- South Bay Measure R Highway Grant Revenue	\$ 190,000
Less: FY 14/15 South Bay Measure R Highway Grant Expenditures	-
FY 14/15 South Bay Measure R Highway Grant Fund Balance	<hr/> 190,000
Add: FY 15/16 South Bay Measure R Highway Grant Revenue	-
Less: FY 15/16 South Bay Measure R Highway Grant Expenditures	<hr/> (44,000)
FY 15/16 South Bay Measure R Highway Grant Fund Balance	146,000
Add: FY 16/17 South Bay Measure R Highway Grant Revenue	3,332
Less: FY 16/17 South Bay Measure R Highway Grant Expenditures	<hr/> (42,229)
FY 16/17 South Bay Measure R Highway Grant Fund Balance	<hr/> <hr/> \$ 107,103

NOTE 11- SUBSEQUENT EVENTS

The City has evaluated events or transactions that occurred subsequent to June 30, 2017 through October 30, 2017, 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
CERTIFIED PUBLIC ACCOUNTANTS

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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 (PALRF), Proposition C Local Return Fund (PCLRF), Measure R Local Return Fund (MRLRF), and Transportation Development Act Article 3 (TDAA3F) Fund of the City of Hermosa Beach, California (City), as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated October 30, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the 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 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 City's local return funds and TDAA3F 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 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 audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in black ink that reads "Simpson & Simpson". The signature is written in a cursive, flowing style.

Los Angeles, California
October 30, 2017

COMPLIANCE SECTION



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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 (City) with the Proposition A and Proposition C Local Return Guidelines, Measure R 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 (Guidelines) for the year ended June 30, 2017.

Management’s Responsibility

Management is responsible for the City’s compliance with those 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 a local return program and the transportation development act article 3 occurred. An audit includes examining, on a test basis, evidence about 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. Our audit does not provide a legal determination of City’s compliance with those requirements.

Opinion on Each Local Return Program and Transportation Development Act Article 3

In our opinion, the City of Hermosa Beach compiled, in all material respects, with the compliance requirements referred to above that apply to Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund, and Transportation Development Act Article 3 (TDAA3F) Fund for the year ended June 30, 2017.





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. 2017-001. Our opinion on each local return program is not modified with respect to this matter.

The City's responses to the noncompliance findings 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 of Hermosa Beach is responsible for establishing and maintaining effective internal control over compliance with the Requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the Requirements that could have a direct and material effect on the Local Return programs and the TDAA3F to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Requirements, but not for the purpose of expressing 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 under the Requirements 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 Requirements 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 Requirements 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 might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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

A handwritten signature in black ink that reads "Simpson & Simpson". The signature is written in a cursive, flowing style.

Los Angeles, California
October 30, 2017

CITY OF HERMOSA BEACH
COMPLIANCE MATRIX
Year Ended June 30, 2017

	Compliance Requirement	In Compliance		Questioned Costs	If no, provide details and management response.
		Yes	No		
A. Proposition A and Proposition C Local Return Funds					
1.	Timely use of funds.		X	\$ 16,951.00	See Finding 2017-001 on the Schedule of Findings and Reccomendations.
2.	Expenditures were approved before being incurred.	X		None	
3.	Funds were used on approved projects only and expenditures were supported and allowable per Guidelines.	X		None	
4.	Expenditures did not exceed 25% of Metro's approved budget.	X		None	
5.	Administrative expenses were within the 20% cap.	X		None	
6.	All on-going and carryover projects were reported in Form B.	X		None	
7.	Annual Project Summary Report (Form B) was submitted on time.	X		None	
8.	Annual Expenditure Report (Form C) was submitted on time.	X		None	
9.	Cash or cash equivalents were maintained.	X		None	
10.	Accounting procedures, record keeping and documentation were adequate.	X		None	
11.	Revenues received including allocations, project generated revenues and interest income was properly credited to the Proposition A and C Local Return Account.	X		None	

CITY OF HERMOSA BEACH
COMPLIANCE MATRIX
Year Ended June 30, 2017
(Continued)

Compliance Requirement		In Compliance		Questioned Costs	If no, provide details and management response.
		Yes	No		
B. Measure R Local Return Fund					
1.	Timely use of funds.	x		None	
2.	Expenditures were approved before being incurred.	X		None	
3.	Funds were used on approved projects only and expenditures were supported and allowable per Guidelines.	X		None	
4.	Fund were not substituted for property tax	X		None	
5.	Administrative expenses are within the 20% cap.	X		None	
6.	Form One (Expenditure Plan) was submitted on time.	X		None	
7.	Expenditure Report (Form Two) was submitted on time.	X		None	
8.	Cash or cash equivalents were maintained.	X		None	
9.	Accounting procedures, record keeping and documentation were adequate.	X		None	
10.	Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure R Local Return Account.	X		None	
11.	Funds were not used to supplant existing local revenue being used for transportation purpose	X		None	

CITY OF HERMOSA BEACH
COMPLIANCE MATRIX
 Year Ended June 30, 2017
 (Continued)

Compliance Requirement	In Compliance		Questioned Costs	If no, provide details and management response.
	Yes	No		
C. Transportation Development Act Article 3 Fund				
1.	Timely use of funds.	x		
2.	Expenditures were incurred for activities relating to pedestrian and bicycle facilities and amenities.	x		

CITY OF HERMOSA BEACH

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

June 30, 2017

PALRF: Finding No. 2017-001

Compliance Requirement	According to Proposition A Local Return and the LACMTA Guidelines, “Funds must be expended within three years of the last day of the fiscal year in which funds were originally allocated. Therefore, by method of calculation, each jurisdiction has the fiscal year of allocation plus three years to expend Proposition A and/or Proposition C funds. Lapsed funds will be returned to LACMTA for reallocation to jurisdictions for discretionary programs of countywide significance.
Condition	During fiscal year 2017, the City did not incur enough expenditures to fully deplete the remaining funds included in the City’s beginning fund balance from fiscal year 2013-14 local return allocation. As such, the remaining balance of \$16,951 for the fiscal year 2013-14 allocation was subject to lapse as of June 30, 2017. However, on November 22, 2017, LACMTA granted the City an extension on the usage of lapsed funds until June 30, 2018.
Cause	The funds were not expended within the 3-year time frame as required by the Guidelines.
Effect	The City is still holding funds that are required to be submitted back to LACMTA for reallocation.
Recommendation	We recommend that the City develop internal control procedures to track the composition of the fund balance based on each fiscal year’s allocation and spending to ensure all funds are spent within the required 3-year time frame to avoid future lapse of funds. We also recommend that the City return the \$16,951 of lapsed funds to LACMTA.
Managements Response	The City acknowledges that the necessary expenditures were not incurred nor encumbered by June 30, 2017, due to several projects being under budget. The PCH/Aviation Beautification Project is on hold and the Recreation Transportation Project had fewer trips outside of LA County as compared to previous years. The timely use of funds has been discussed with project managers and expenditures for all projects as a whole will be reviewed more closely throughout the year to ensure that funds are

CITY OF HERMOSA BEACH

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2017

	redirected with LACMTA approval to avoid lapse.
Finding Corrected During the Audit	The city obtained an extension on their lapsed funds on November 22, 2017. The funds must be expended by June 30, 2018.

EXIT CONFERENCE

CITY OF HERMOSA BEACH

**PROPOSITION A, PROPOSITION C, MEASURE R LOCAL RETURN FUNDS, AND
TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND
EXIT CONFERENCE**

June 30, 2017

An exit conference was held by telephone on November 1, 2017 with the City of Hermosa Beach. Those in attendance were:

Simpson & Simpson Representative:

Joseph Simpson- Audit Manager
Muhammad Riaz- Staff Auditor

City's Representative:

Charlotte Newkirk-Accounting Manager
Viki Copeland- Finance Director

Matters Discussed:

Results of the audit disclosed one (1) instance of non-compliance with LACMTA's Guidelines.

A copy of this report was forwarded to the following City representative for their comments prior to the issuance of the final report:

Charlotte Newkirk-Accounting Manager
Viki Copeland- Finance Director

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, AND TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

I have received the annual financial report of the Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund, and Transportation Development Act Article 3 Fund for the years ended June 30, 2017 and 2016 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