



Honorable Mayor and Members of the Hermosa Beach City Council

FISCAL YEAR 2024–2025 ANNUAL COMPREHENSIVE FINANCIAL REPORT AND SINGLE AUDIT REPORT (INCLUDING INDEPENDENT AUDITOR REPORTS)

(Finance Manager Henry Chao)

Recommended Action:

Staff recommends the City Council receive and file the Fiscal Year (FY) 2024–2025 Annual Comprehensive Financial Report (ACFR) (**Attachment 1**) and the FY 2024–2025 Single Audit Report (**Attachment 2**), which includes the reports from Gruber and Lopez, Inc., the City’s independent auditors.

Executive Summary:

The purpose of this report is to present the City’s Annual Comprehensive Financial Report (ACFR) and Single Audit Report for fiscal year ending June 30, 2025.

The City received an unmodified (“clean”) opinion on the financial statements in the City’s ACFR. The unmodified opinion is the highest-level opinion the City can receive. The opinion asserts that the City complies with all Generally Accepted Accounting Principles (GAAP) and Government Accounting Standards Board (GASB) requirements.

The City’s ACFR also includes the Certificate of Achievement for Excellence in Financial Reporting award from the Government Finance Officers Association (GFOA) for the prior fiscal year ended June 30, 2024. The City has received the award from GFOA since 1990 in recognition of publishing a high quality ACFR. The FY 2024–2025 ACFR was submitted to GFOA with the expectation of receiving this award again.

The City also received an unmodified (“clean”) opinion on the Single Audit as well. The City was required for FY 2025 to complete an additional Single Audit due to expending more than \$750,000 in Federal awards.

ACFR Background:

Annually, the Administrative Services Department prepares and publishes the City’s ACFR following the completion of a financial audit performed by an independent, Certified Public Accountant (CPA) firm. The independent CPA firm is Gruber and Lopez, Inc.

The ACFR, previously known as the Comprehensive Annual Financial Report, is designed to assist the reader in properly understanding the City financial statements covering City activities from July 1, 2024, to June 30, 2025. This is accomplished by supplementing the financial statements with background on the City structure, the environment the City operates in, and the types of services the City of Hermosa Beach provides. It also provides an analysis concerning the City's financial and economic situation along with relevant multi-year economic and demographic information.

The basic structure and contents of an ACFR are set by authoritative accounting and financial standards. The Governmental Accounting Standards Board (GASB) sets the ACFR standards. Pursuant to GASB, the City's ACFR is divided into three sections: Introductory, Financial, and Statistical.

The Introductory section contains a Letter of Transmittal. This letter includes a brief overview of the City, economic outlook, financial planning, and relevant policies. The Introductory section also includes the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA) for the prior fiscal year ACFR.

The Financial section contains the independent CPA auditor's report, Management's Discussion & Analysis (MD&A), and the basic financial statements (including notes). The firm of Gruber and Lopez, Inc. issued an unmodified ("clean") opinion on the financial statements for the fiscal year ended June 30, 2025. This means that its examination, testing, and audit procedures allowed them to conclude that the financial statements present fairly, in all material respects, the financial position of the City. This is the best opinion that the City can receive from its auditors.

The MD&A provides an objective and easily readable analysis of the City's financial activities and results of operations. The MD&A also provides an analysis of general fund budgetary variations, condensed comparative information between the 2024 and 2025 fiscal years and a discussion of currently known facts, decisions or conditions of future significance.

The Statistical Section is the final section of the ACFR. This section presents operational, economic and historical City data that provides a context for assessing the City's economic condition. The data includes information on financial trends, revenue capacity, debt capacity, City demographic and departmental operating information.

Single Audit Background:

The Single Audit Act of 1984 established a standardized and uniform audit process for non-Federal entities that receive and expend Federal funds (grants) to administer various Government programs and initiatives. The type of audit created by the Single Audit Act is commonly referred to as a Single Audit.

The purpose of the Single Audit is to help ensure the accountability and integrity of Federal programs. This audit includes an audit of both the City's financial statements and compliance with Federal program requirements.

The City was required for Fiscal Year 2025 to have a Single Audit conducted since the City expended more than \$750,000 in Federal funds. The City expended \$842,470 of Federal Funds from a combination of Federal programs received from the Department of Housing and Urban Development (HUD), Department of Justice, Department of Treasury and the Department of Health and Human Services per the Single Audit Report **(Attachment 2)**.

This threshold increased from \$750,000 to \$1,000,000 for Fiscal Year 2026. If the City expends less than \$1,000,000 in Federal awards by the end of this Fiscal Year 2026, the City would be exempt from the Single Audit requirements. However, the City will make its accounting records available to the City auditors for review as required.

Fiscal Impact:

There is no fiscal impact associated with receiving and filing the ACFR and Single Audit.

At its March 24, 2026, meeting, City Council approved the revisions to estimated revenue, appropriations, budget transfers and fund balances presented at the FY 2025–26 Midyear Budget Review.

Staff previously recommended City Council approve a transfer \$317,833 of unspent funds from 2024-2025 actuals to the Insurance Fund to bring the fund to the \$3.0 million funding goal and transfer the estimated remaining \$2,239,276 unspent funds from FY 2024–2025 to support the development of the FY 2026–2027 budget.

At the end of 2024-2025 the City's audited FY 2024-2025 unspent funds in the General Fund was \$2,387,718 net of presented fair market value. Staff performed a transfer from the 2024–2025 General Fund unspent funds of \$317,833 to the Insurance Fund and assigned the remaining \$2,069,885 unspent funds from FY 2024–2025 to support the development of the upcoming FY 2026–2027 budget.

Attachments:

1. Fiscal Year 2024–2025 ACFR
2. Fiscal Year 2024–2025 Single Audit Report

Respectfully Submitted by: Henry Chao, Finance Manager

Concur: Charlotte Newkirk, Senior Finance Analyst

Noted for Fiscal Impact: Brandon Walker, Administrative Services Director

Approved: Steve Napolitano, City Manager