

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDING JUNE 30, 2017



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2017

CITY OF GARDENA, CALIFORNIA



PREPARED BY

THE ADMINISTRATIVE SERVICES DEPARTMENT

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Director of Administrative Services

And

Raymond Beeman
Accounting/Finance Manager

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Comprehensive Annual Financial Report
For the Year Ended June 30, 2017**

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CITY of GARDENA

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TASHA CERDA, Mayor
DAN MEDINA, Mayor Pro Tem
RODNEY TANAKA, Councilmember
MARK HENDERSON, Councilmember
ART KASKANIAN, Councilmember

MINA SEMENZA, City Clerk
J. INGRID TSUKIYAMA, City Treasurer
EDWARD MEDRANO, Acting City Manager
PETER L. WALLIN, City Attorney

December 4, 2017

Members of the City Council,
and Citizens of Gardena

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR 2016-2017
LETTER OF TRANSMITTAL**

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) of the City of Gardena (the City) for the fiscal year ended June 30, 2017 (FY 2016-17). The report is intended to update readers on the status of the City's financial position and results of operations for the past fiscal year.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. This CAFR has been prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America as promulgated by the Government Accounting Standards Board (GASB).

The report contains a citywide view of all governmental and business-type activities, as well as a focus on the financial position and operating results of the City's major funds.

The City's financial statements have been audited by The Pun Group LLP, an independent public accounting firm fully licensed and qualified to perform audits of the State and local governments within the State of California. The financial statements included in this CAFR represent all City funds.

The goal of the independent audit is to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2017, are free of material misstatement. The auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2017, were fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of the CAFR. Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

PROFILE OF THE GOVERNMENT

The City of Gardena is located just miles from the beautiful California coast, near the interchange of the Harbor, San Diego, and Gardena freeways, and just 13 miles south of the City of Los Angeles, in the South Bay Area. Gardena is a part of the Los Angeles-Long Beach-Glendale Metropolitan Statistical Area.

Gardena has the singular distinction of having within its borders both the first legal card club licensed in the State of California, granted in 1936, and the newest club in the state, which opened in 2000. At one time only five-card draw and lowball poker could be played. During the 1960s, Gardena was the only city in Los Angeles County to have legal gambling. In the mid-1980s, a tremendous Asian influence arrived with the introduction of a number of California games. A complete listing is contained in the City of Gardena Resolution No. 6140.

The City of Gardena, incorporated on September 11, 1930 as a general law city, operates under the Council-Manager form of government. Policy-making and legislative authority are vested in a governing council consisting of four members of the City Council and a Mayor elected on a non-partisan basis at-large for four-year terms, with an election every two years. The Council is responsible for, among other things, establishing policy, passing ordinances, adopting an annual budget, appointing members to various City Commissions and Boards and hiring the City Manager and City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments.

The City Organization transitioned from four "Super Departments" into six distinct departments consisting of 1) City Manager's Office, 2) Administrative Services, 3) General Services, 4) Recreation, Human Services, Parks and Facilities, 4) Police, and 5) GTRANS (Transportation).

Gardena offers a full range of municipal services, including police and code enforcement; recreation and human services; public works; streets and parks; planning and building services; engineering; transportation services (enterprise fund); and general administration. Fire services are contracted with Los Angeles County.

The Council is required to adopt an initial budget for the fiscal year no later than June 30 preceding the beginning of the fiscal year on July 1. This annual budget serves as the foundation for the City of Gardena's financial planning and control. The budget is prepared by fund, function (e.g. public safety), and department (e.g., police). Department heads may transfer resources within a department as they see fit.

LOCAL ECONOMIC CONDITIONS AND OUTLOOK

The City of Gardena is fortunate to have a stable and diverse economic base, which somewhat shields its economy from downturns in any specific category. Card club revenue is among the top five revenue sources for the City. Revenue from this source to local government is a unique and steady revenue stream which historically improves during an economic downturn. However, during the Great Recession, the City saw a decline in card club revenue, which has since rebounded to FY 2008-2009 levels. At the end of FY2016-17, the City has two card club casinos: Larry Flynt's Lucky Lady and Hustler Casinos. The newly reopened and rebranded Larry Flynt's Lucky Lady Casino (formerly The Normandie Casino), is projected to not only outperform the revenues from the old Normandie Casino, but would also revitalize and bring in additional economic gains to the City.

Although sales tax had always been the City's number one revenue source, fiscal years 2009-2010 and 2010-2011 revenue from this source fell below card club revenue. In FY 2016-2017, sales tax revenue continues to be our number one revenue source. Having no major shopping mall or auto mall in the City has, in fact, been a plus during the Great Recession since the City's revenue is more diverse and not dependent upon sales by any particular industry. The real estate market has shown improvement throughout the South Bay area of Los Angeles. In Gardena, new housing continues to sell at higher rates and the number of building permits being issued continues to increase.

The City's unemployment rate fell from 11.0% in 2009 to 4.3% in 2017, which is 0.1% lower than the unemployment rate average of Los Angeles County which is 4.4%. The unemployment rate in the South Bay area decreased from 7.4% in 2009 to 3.4% in 2017. Professional and business services are the largest sector of employment in the area and have held up better than manufacturing. Nearby cities of El Segundo and Redondo Beach have a high concentration of aerospace and high-tech sector companies. Given the global geopolitical situation, demand for such goods should continue to stay stable for several years. The region's second largest employment sector, manufacturing, still struggles as construction remains stagnant and outsourcing and overseas production continue to impact the American manufacturing markets.

With the National Football League's approval to grant the relocation of the Rams and the Chargers to the City of Los Angeles (Inglewood) and plans to build a new stadium in the City of Inglewood for both teams, brings the potential for revenue growth for the City of Gardena. The stadium site is approximately 4 miles from the City of Gardena and home games from both teams, as well as the planned Super Bowl in 2022 to be held in Inglewood is expected to bring in additional sales tax, card club, and Transient Occupancy Tax revenues.

Gardena First! is a marketing outreach program to educate the public on how money spent within the City not only helps businesses to stay open and create new jobs for Gardena residents but also ensures that sales tax dollars stay in Gardena and strengthen the local community. Staff is also engaged in additional strategic marketing sessions which will enhance the City's identity. The team of staff will eventually form an Economic Development Strategic Plan which will be a combined effort between City staff, professional external advisors, and feedback from the community. The City also has a newly combined Gardena Economic Development Committee (EDC)-Gardena Business Advisory Council (G-BAC) on Economic Development.

Over the past thirteen years, the City's cooperative elected and administrative leadership has implemented policies and programs that have strengthened the City's fiscal stability. The City has a Standard & Poor's "A+" rating on its 2006 Refunding Certificates of Participation (COPs) Series A, and C. In 2015, the City refunded its 2006 Refunding Certificates of Participation (COPs) Series B, with a Taxable Lease Revenue Refunding Bond, which was issued at an "A +" rating. In 2016, the City received a double notch rating increase by Moody's Investor Service, increasing the 2006 Series A and C Certificates of Participation and the 2007 Series A bonds to A1 from A3. In comparison, the City was near bankruptcy prior to the consolidation and refinancing of its debt in 2006. The S&P "A+" rating and the Moody's "A1" rating is reflective of a stable fiscal outlook and the expectation that Gardena will continue to maintain balanced operational costs with adequate fiscal reserves.

LONG-TERM FINANCIAL PLANNING AND MAJOR INITIATIVES

Unrestricted Fund Balance (the total of the committed, assigned, and unassigned components of fund balance) in the general fund at year-end was 44.1% of total general fund expenditures. This amount was above the policy guidelines set by the Council for budgetary and planning purposes (approximately 25%).

The City Council adopted the first Five-Year Plan in 2002 to implement a strategy to pull the City out of financial debt and looming bankruptcy. Establishing a Mission and Vision Statement united elected leadership, employees and employee labor groups to cut expenditures to within available revenues, preserve jobs, and maintain service levels. By 2007, the City had regained both Moody's and Standard & Poor's credit ratings, launched a new state-of-the-art transit facility, held the first Jazz Festival, upgraded the City Council Chambers, initiated District Policing and progressed in many areas of public service and workforce excellence. In 2010, the City began adopting a rolling 5-year plan in order to keep moving forward on a consistent and continuous improvement plan. In 2015, the City refunded the 2006 Certificate of Participation, Series B, which resulted in \$2,360,051 in debt service payment savings. In 2016, the City adopted a new Five Year Strategic Plan, which provides a roadmap of the City's Mission, Vision, Values; as well as the Strategic Plan Goals, Objectives, and Strategies from 2016 to 2021. In 2017, the City reaffirmed its commitment to the Five Year Strategic Plan and reported Year One accomplishments which highlighted that the City is ahead of schedule to meet all of the goals of the Five Year Strategic Plan.

The City will maintain a safe community environment by implementing Building Development Safety and Security Standards, as well as continue street and sidewalk improvements citywide, procure and install a bus stop security lighting system, replace the transportation department's communications system, and deploy body-worn cameras for police officers.

The City will sustain economic development by marketing City-owned properties for sale/development, establish expedited developer plan approval processes, establish an expedited plan check process to reduce time and cost for developers, and acquire new grants for additional funding of economic development efforts, and to identify and provide tools/incentives that will increase business expansion along the Rosecrans Corridor.

The City's long term financial planning focuses on the Capital Improvement Plan, which is produced as part of the annual budget. The plan primarily addresses maintenance, repair and upgrading of facilities and infrastructure, particularly streets, parks, and sewers. The City is currently reviewing proposals in response to a Request for Proposal to build a new Public Safety and Community Center in order to handle the increasing demands of a growing and developing community.

RELEVANT FINANCIAL POLICIES

The City has adopted a set of financial policies. During the current year, the City updated GASB Statement No. 54, titled "Fund Balance Policy for the General Fund." This policy provides the users of the financial statements greater information about the availability of reported fund balance and the City's commitment of financial resources. Note 14, of the Notes to Basic Financial Statements, presents more detailed information about the five categories of fund balance - non-spendable, restricted, committed, assigned and unassigned fund balance.

AWARDS and ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Gardena for its CAFR for the fiscal year ended June 30, 2016. This was the thirtieth first consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable program requirements.

A Certificate of Achievement for Excellence in Financial Reporting is valid for a period of one year only. However, we believe that our current CAFR continues to meet the Certificate of Achievement for Excellence in Financial Reporting Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report could not have been accomplished without the collaborative assistance of the Department Heads and staff in all City departments. First and foremost, we want to recognize the dedicated employees of the Administrative Services Division. Their professional expertise and unassuming commitment to excellence is constantly manifested in the quality of the City's financial records and reporting. Appreciation is also expressed to the audit staff of The Pun Group, LLP, for their advice and assistance in the preparation of this report. Finally, we would like to thank the members of the City Council for their support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



Edward Medrano
Acting City Manager

Respectfully submitted,



Clint Osorio
Director of Administrative Services



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

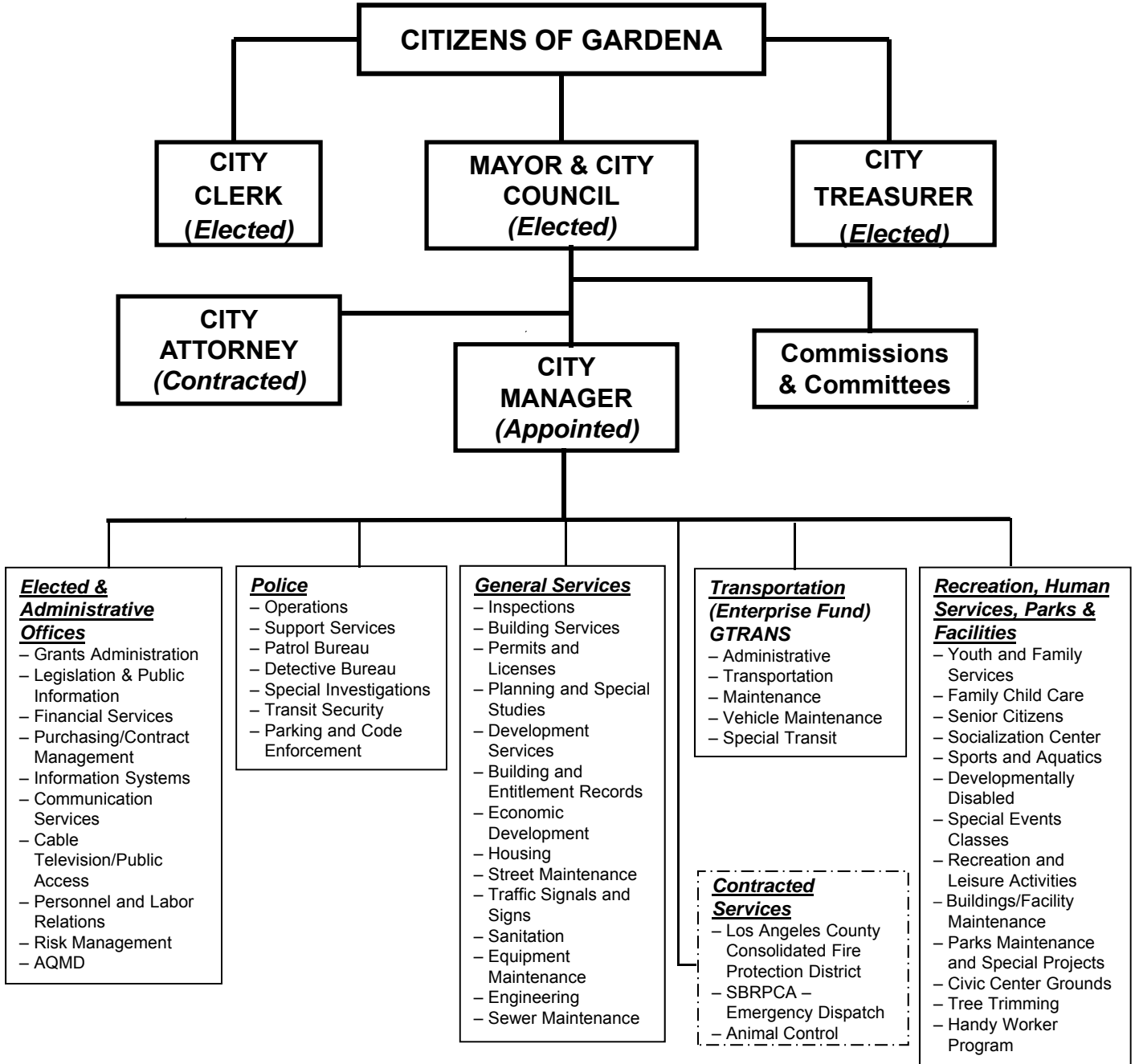
**City of Gardena
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

CITY OF GARDENA ORGANIZATION CHART



OFFICIALS OF THE CITY OF GARDENA, CALIFORNIA

FISCAL YEAR 2016 – 2017

CITY OF GARDENA

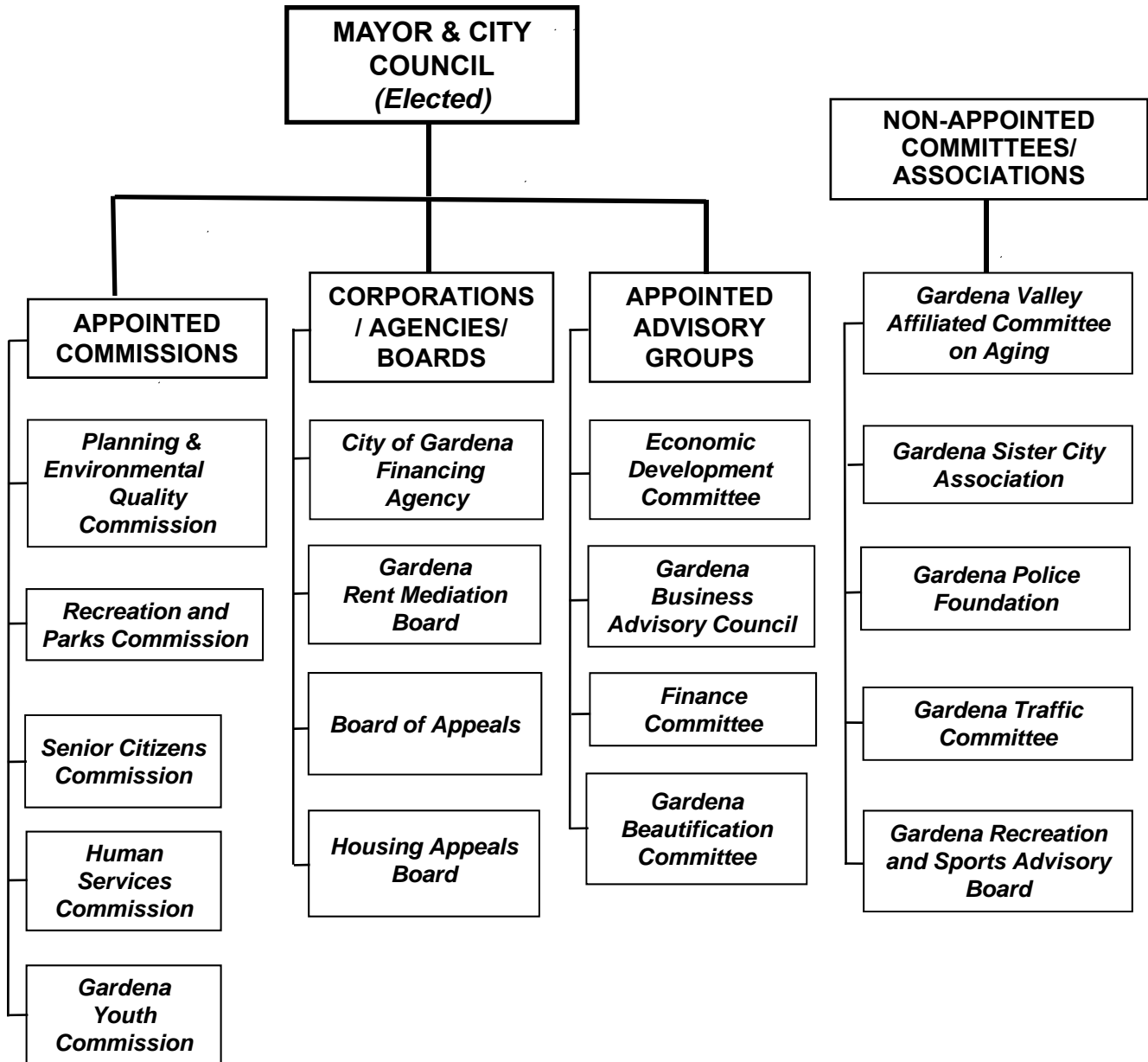
CITY COUNCIL

Tasha Cerda, Mayor
Dan Medina, *Mayor Pro Tem*
Mark E. Henderson, *Councilmember*
Art Kaskanian, *Councilmember*
Rodney G. Tanaka, *Councilmember*

Administration Officials and Department Heads

Acting City Manager.....	Edward Medrano
Director of Administrative Services	Clint Osorio
City Treasurer	J. Ingrid Tsukiyama
City Clerk.....	Mina-Semenza
City Attorney.....	Peter L. Wallin
Chief of Police	Edward Medrano
General Services Director	Joseph Cruz
Director of Recreation and Human Services	Kelly J. Fujio
Transportation Director.....	Ernie Crespo
Assistant Fire Chief – LA County Fire District.....	Scott Hale

**CITY OF GARDENA
COMMISSIONS, CORPORATIONS, BOARDS, COMMITTEES, ETC.**



City of Gardena

Comprehensive Annual Financial Report June 30, 2017



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