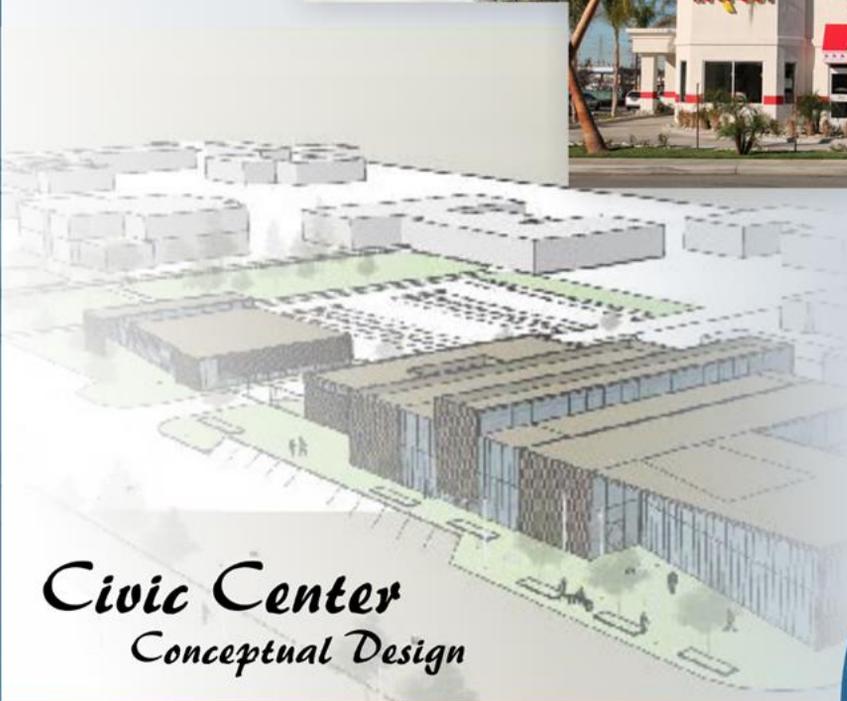


COMPREHENSIVE ANNUAL FINANCIAL REPORT

Year Ending June 30, 2016



*Civic Center
Conceptual Design*



California

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2016

CITY OF GARDENA, CALIFORNIA



PREPARED BY

THE ADMINISTRATIVE SERVICES DEPARTMENT

Clint Osorio
Chief Fiscal Officer

And

Raymond Beeman
Accounting/Finance Manager

* * * * *

City of Gardena
Comprehensive Annual Financial Report
For the Year Ended June 30, 2016

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June 30, 2016*



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CITY of GARDENA

1700 WEST 162nd STREET / GARDENA, CALIFORNIA 90247-3732 / PHONE (310) 217-9500
WEB SITE: www.cityofgardena.org

MARK E. HENDERSON, *Mayor Pro Tem*
TASHA CERDA, *Councilmember*
DAN MEDINA, *Councilmember*
TERRENCE TERAUCHI, *Councilmember*

MINA SEMENZA, *City Clerk*
J. INGRID TSUKIYAMA, *City Treasurer*
MITCHELL G. LANSDELL, *City Manager*
PETER L. WALLIN, *City Attorney*

December 1, 2016

Members of the City Council,
and Citizens of Gardena

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR 2015-2016
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, 2016 (FY 2015-16). 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, 2016, 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, 2016, 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, appropriately nicknamed “The Freeway City,” 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 with the adoption of the Fiscal Year 2012-2013 and 2013-2014 Budget, transitioned from what once were ten departments into four “Super-Departments”, consisting of 1) Elected and Administrative Offices, 2) Police, Streets and Development Services, 3) Recreation, Human Services, Parks and Facilities and 4) Transportation Department.

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 FY2015-16, the Normandie Casino, one of the two card clubs in Gardena, was sold and subsequently renamed Larry Flynt's Lucky Lady Casino. It is projected that the new club would 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 2015-2016, sales tax revenue was again 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 is beginning to sell at higher rates and the number of building permits being issued is increasing.

The City's unemployment rate fell from 11.0% in 2009 to 5.2% in 2016, which is the same unemployment rate average as Los Angeles County. The unemployment rate in the South Bay area decreased from 7.4% in 2009 to 4.6% in 2016. 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.

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.

Over the past twelve 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 37.9% 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.

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.

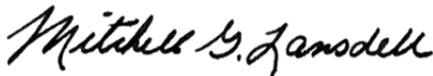
AWARDS and ACKNOWLEDGEMENTS

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 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,



Mitchell G. Lansdell
City Manager

Respectfully submitted,



Clint Osorio
Chief Fiscal Officer



Government Finance Officers Association

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

Presented to

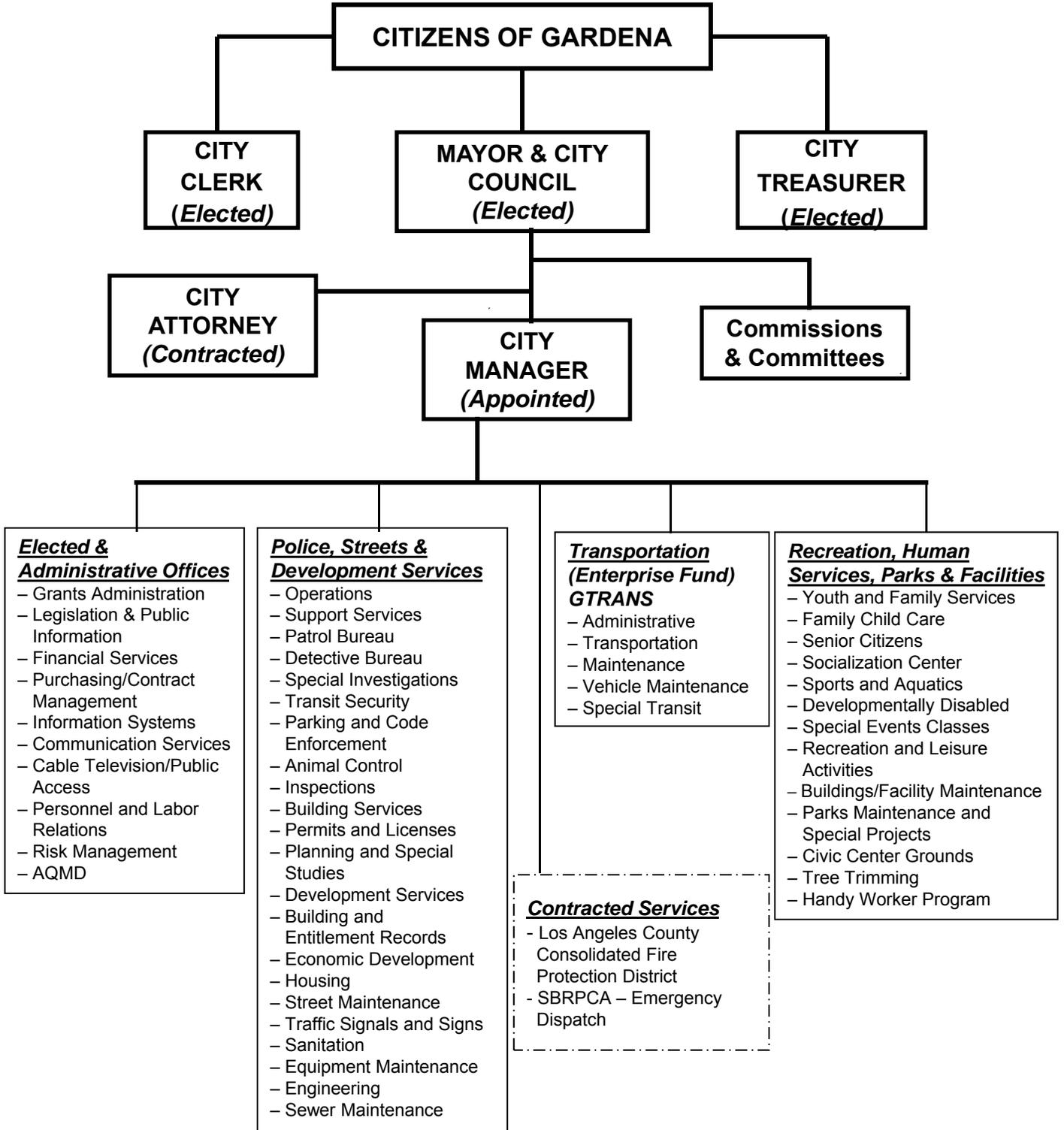
**City of Gardena
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

CITY OF GARDENA ORGANIZATION CHART



OFFICIALS OF THE CITY OF GARDENA, CALIFORNIA

FISCAL YEAR 2015 – 2016

CITY OF GARDENA

CITY COUNCIL

Vacant, Mayor

Mark E. Henderson, *Mayor Pro Tem*

Tasha Cerda, *Councilmember*

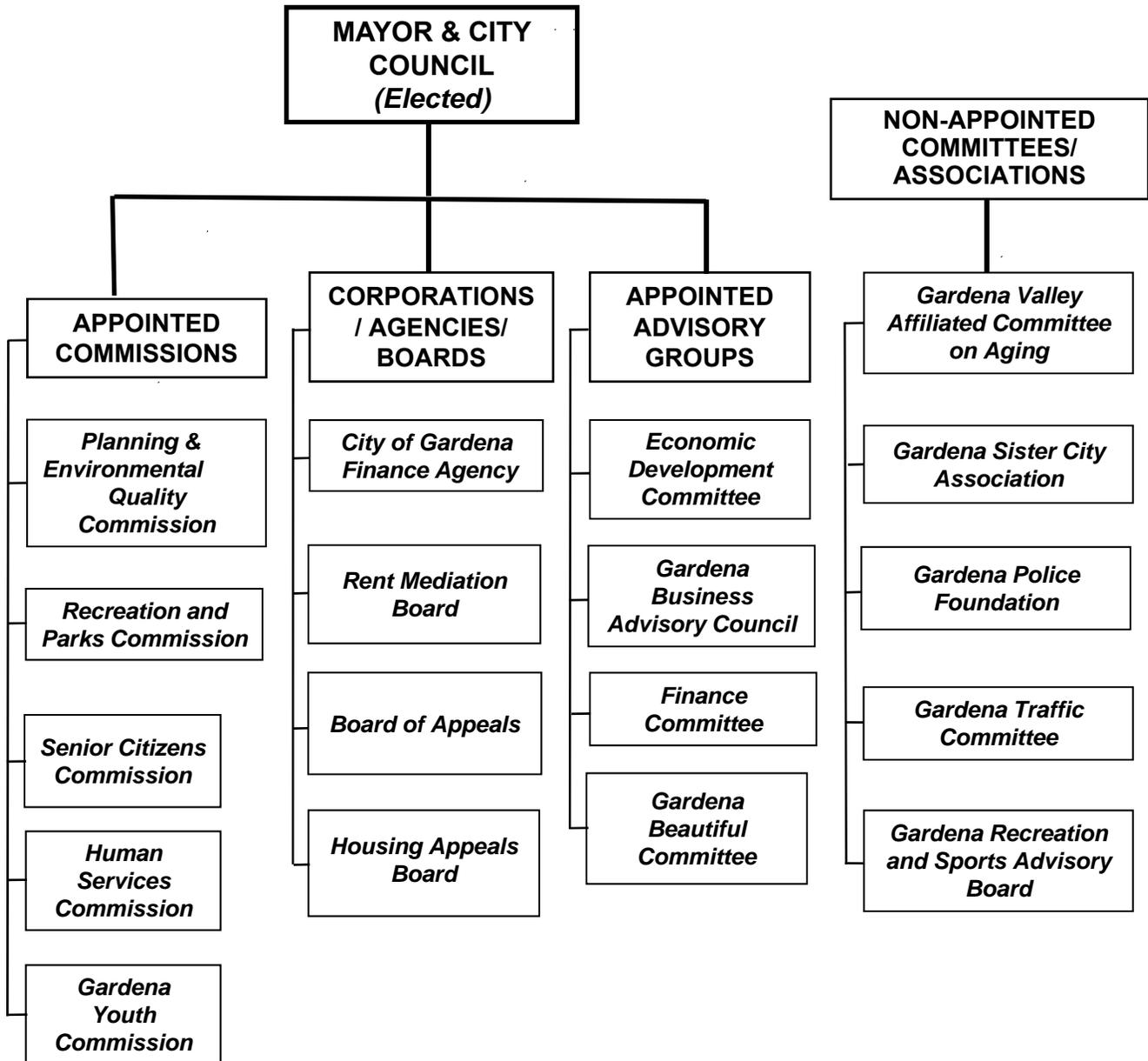
Dan Medina, *Councilmember*

Terrence Terauchi, *Councilmember*

Administration Officials and Department Heads

City Manager.....	Mitchell G. Lansdell
Chief Fiscal Officer.....	Clint Osorio
City Treasurer	J. Ingrid Tsukiyama
City Clerk.....	Mina-Semenza
City Attorney.....	Peter L. Wallin
Chief of Police	Edward Medrano
Community Development Director.....	Mitchell G. Lansdell
Public Works Director	Edward Medrano
Recreation and Human Services Director.....	Kelly J. Fujio
Transportation Director.....	Ernie Crespo
Assistant Fire Chief – LA County Fire District.....	Scott Hale

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



Comprehensive Annual Financial Report
June 30, 2016



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INDEPENDENT AUDITORS' REPORT

To the Members of the City Council
of the City of Gardena
Gardena, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gardena, California (the "City"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic 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 audit. We conducted our audit 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 City'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 City'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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2016, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Net Pension Liability

As discussed in Note 2A, the unrestricted net position is a deficit in the amount of \$(81,982,431), which includes \$(60,913,888) reported under Governmental Activities and \$(21,068,543) reported under Business-Type Activities. It is mainly due to the net pension liability as discussed in Note 10. Aggregate net pension liabilities for Governmental Activities and Business-Type Activities are in the amounts of \$57,423,973 and \$12,394,309, respectively. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Schedules, Schedule of Changes in Net Pension Liabilities and Related Ratios – CalPERS Miscellaneous Plan, Schedule of Proportionate Share of Net Pension Liabilities and Related Ratios – CalPERS Safety Plan, Schedules of Contributions, and Schedule of Funding Progress - OPEB on pages 7 through 16 and 95 through 102 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Introductory Section, Combining and Individual Fund Financial Statements and Budgetary Comparison Schedules, and Statistical Section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining and Individual Fund Financial Statements and Budgetary Comparison Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining and Individual Fund Financial Statements and Budgetary Comparison Schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2016 on our consideration of the City'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, and not to provide an opinion on the 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 "The PwC Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California
December 1, 2016

*Comprehensive Annual Financial Report
June 30, 2016*



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**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***

Independent Auditors' Report

To the Members of the City Council
of the City of Gardena
Gardena, California

We have audited, in accordance with the 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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gardena, California (the "City"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 1, 2016.

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 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.

To the Members of the City Council
of the City of Gardena
Gardena, California
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 results of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "The PwC Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California
December 1, 2016

City of Gardena

Management's Discussion and Analysis

As management of the City of Gardena (City), California, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the introductory section of this report, as well as with the City's financial statements, which follow this discussion.

Financial Highlights

- ◆ The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the 2015-2016 fiscal year by \$22,220,007 (net position).
- ◆ The City's total net position decreased \$1,895,175. Net position of governmental activities increased \$6,599,018 while net position of business type activities decreased \$8,494,193 due primarily to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions and the sale of the Van Ness Avenue property transferred back from GTrans (formerly known as Gardena Municipal Bus Line) to the City. The Net Pension Liabilities were included within the government-wide financial statements for both governmental and business-type financial reporting. At close of 2015-2016 fiscal year, the City's Net Pension Liabilities were \$57,423,973 and \$12,394,309 for governmental and business-type activities respectively.
- ◆ At the close of the 2015-2016 fiscal year, the City's governmental funds reported combined fund balances of \$36,351,460, an increase of \$4,306,633 in comparison to the prior year. General Fund increased by \$5,108,351. The increase is primarily due to the \$4,990,156 in proceeds received from the sale of the Van Ness Avenue property.
- ◆ At the end of the 2015-2016 fiscal year, the unrestricted fund balance (the total of the committed, assigned, and unassigned components of fund balance) for the General Fund was \$20,516,053 or approximately 37.9% of total General Fund expenditures.
- ◆ The City's total outstanding long-term debt decreased by \$429,248 during the 2015-2016 fiscal year. The decrease is primarily attributable to the net effect of the annual debt payments made on the 2006 Refunding Certificate of Participation Bonds, the City paying off its Capital lease and adding a new loan for Southern California Edison On-Bill Financing.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

City of Gardena Management's Discussion and Analysis (Continued)

The *statement of net position* presents financial information about all of the City's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, community development, and recreation and human services. The business-type activities of the City include GTrans and the City's Sewer Maintenance Program.

The government-wide financial statements can be found on pages 21-23 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains seventeen (17) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the economic development grants fund, and the debt service fund, which are considered to be major funds. Data from the other nine (9) governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

City of Gardena Management's Discussion and Analysis (Continued)

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The governmental fund financial statements can be found on pages 28-34 of this report.

Proprietary Funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its transit operation and for its sewer maintenance. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for the management of its retained risks which includes liability insurance, workers' compensation, and health insurance. Because all of these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the transit operation and for the sewer maintenance, both of which are considered to be major funds of the City. Conversely, internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds are provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

The proprietary fund financial statements can be found on pages 39-42 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are *not* reported in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City maintains one type of fiduciary fund. The *Agency fund* reports resources held by the City in a custodial capacity for individuals, private organizations and other governments.

The fiduciary fund financial statements can be found on page 45 of this report.

Notes to the Financial Statements. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 47-91 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's funding its obligation to provide pension and OPEB benefits to its employees. Required supplementary information can be found on pages 95-102 of this report.

The combining statements, referred to earlier in connection with nonmajor governmental funds and internal service funds, are presented immediately following the required supplementary information on pensions and OPEB. Combining and individual fund statements and schedules can be found on pages 105-131 of this report.

City of Gardena
Management's Discussion and Analysis (Continued)

Government-wide Overall Financial Analysis

As noted earlier, net position, over time, may serve as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$22,220,007 at the close of the 2015-2016 fiscal year.

CITY OF GARDENA NET POSITION

	Governmental Activities		Business-type Activities		TOTAL	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 58,993,618	\$ 53,099,656	\$ 6,534,799	\$ 9,364,358	\$ 65,528,417	\$ 62,464,014
Capital assets	48,626,788	47,688,476	62,151,750	67,684,810	110,778,538	115,373,286
Total Assets:	107,620,406	100,788,132	68,686,549	77,049,168	176,306,955	177,837,300
Deferred Outflow of Resources	8,238,715	5,576,065	1,163,588	1,014,203	9,402,303	6,590,268
Current liabilities	13,567,666	14,895,664	8,295,146	8,486,473	21,862,812	23,382,137
Non-current liabilities	115,156,520	104,297,392	18,903,444	15,993,457	134,059,964	120,290,849
Total Liabilities:	128,724,186	119,193,056	27,198,590	24,479,930	155,922,776	143,672,986
Deferred Inflows of Resources	5,998,135	12,633,359	1,568,340	4,006,041	7,566,475	16,639,400
Net Investment in Capital						
Assets	27,897,717	26,430,711	62,151,750	67,684,810	90,049,467	94,115,521
Restricted	14,152,971	15,638,534	-	-	14,152,971	15,638,534
Unrestricted	(60,913,888)	(67,531,463)	(21,068,543)	(18,107,410)	(81,982,431)	(85,638,873)
Total Net Position:	\$ (18,863,200)	\$ (25,462,218)	\$ 41,083,207	\$ 49,577,400	\$ 22,220,007	\$ 24,115,182

By far, the largest portion of the City's net position reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (Unrestricted) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$(81,982,431) is unrestricted and if positive may be used to meet the government's ongoing obligations to its citizens and creditors which include the net OPEB and Pension obligation.

At the end of the 2015-2016 fiscal year, the City is able to report positive balances in all reported categories of net position with the exception of unrestricted, both for the government as a whole, as well as for its separate governmental and business-type activities. The negative in unrestricted net position is a result of 1) GASB 68, which resulted in a significant increase in Pension obligations and 2) The continual increase in net OPEB obligations related to GASB 45, both of these items lead to substantial increases in non-current liabilities.

City of Gardena

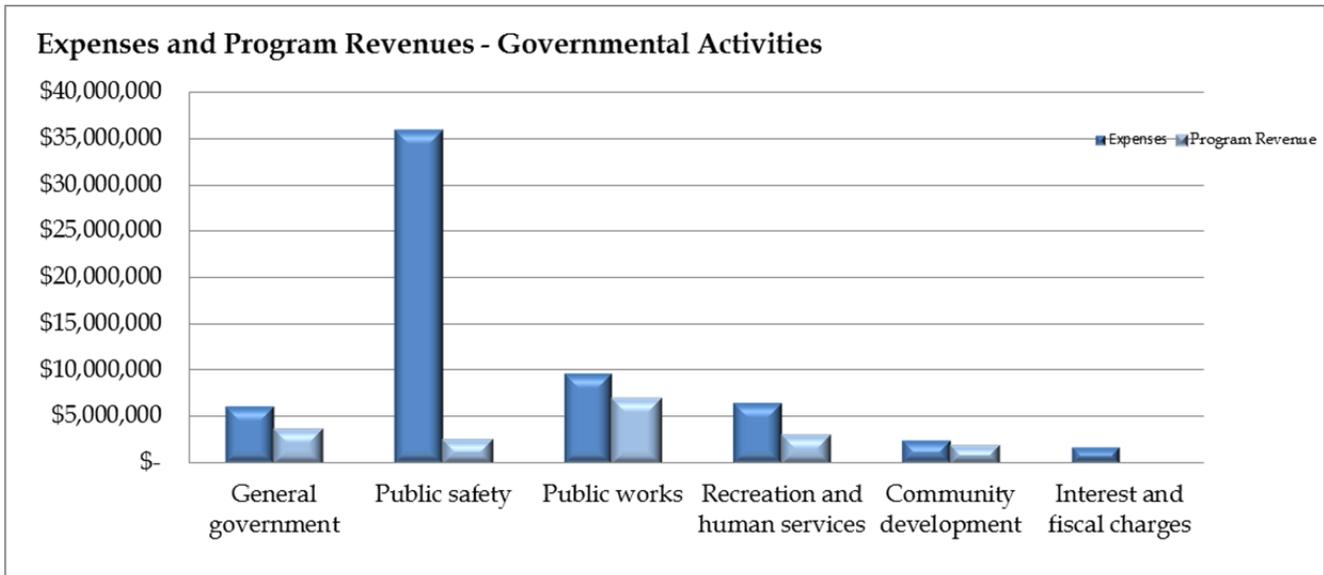
Management's Discussion and Analysis (Continued)

The City's overall net position decreased \$1,895,175 from the prior fiscal year. The reasons for this overall decrease are discussed in the below sections for governmental activities and business-type activities.

Governmental Activities. During the 2015-2016 fiscal year, net position for governmental activities increased \$6,599,018 from the prior fiscal year for an ending balance of \$(18,863,200). The increase in the overall net position of governmental activities is primarily related to 1) Increase of \$3,020,603 in Transfers in; which was GTrans (formerly known as Gardena Municipal Bus Line) transferring back to the City the Van Ness Avenue property and 2) The sale of the Van Ness Avenue property, which resulted in the City realizing a gain of \$1,877,151. Revenues and Expenses for the governmental activities increased by a net of \$35,541 or less than 1% compared to prior year; primarily as a result of the Rosecrans Avenue Street Improvement project being primarily completed and funded in the prior year.

	Governmental Activities		Business -type Activities		TOTAL	
	2016	2015	2016	2015	2016	2015
Revenues:						
<i>Program Revenues:</i>						
Charges for services	\$ 9,488,211	\$ 8,372,236	\$ 3,358,772	\$ 4,073,287	\$ 12,846,983	\$ 12,445,523
Operating grants and contributions	2,067,123	2,963,405	16,905,476	17,353,740	18,972,599	20,317,145
Capital grants and contributions	1,918,489	7,167,801	1,850,968	832,350	3,769,457	8,000,151
<i>General Revenues:</i>						
Property taxes	6,729,849	6,402,520	-	-	6,729,849	6,402,520
Sales and other taxes	39,492,953	38,086,097	-	-	39,492,953	38,086,097
Investment income and miscellaneous	3,066,198	3,578,169	69,115	28,566	3,135,313	3,606,735
Gain on sale of assets	1,877,151	-	-	-	1,877,151	-
Total Revenues:	64,639,974	66,570,228	22,184,331	22,287,943	86,824,305	88,858,171
Expenses:						
General government	5,730,664	6,239,825	-	-	5,730,664	6,239,825
Public safety	36,304,203	35,912,110	-	-	36,304,203	35,912,110
Public works	8,545,467	9,846,657	-	-	8,545,467	9,846,657
Recreation and human services	6,777,838	6,677,536	-	-	6,777,838	6,677,536
Community development	2,538,835	2,675,341	-	-	2,538,835	2,675,341
Interest and fiscal charges	1,365,398	1,805,649	-	-	1,365,398	1,805,649
Enterprise operations	-	-	27,457,075	27,664,213	27,457,075	27,664,213
Total Expenses:	61,262,405	63,157,118	27,457,075	27,664,213	88,719,480	90,821,331
Increase (decrease) in Net Position before other revenues and transfers	3,377,569	3,413,110	(5,272,744)	(5,376,270)	(1,895,175)	(1,963,160)
Transfers	3,221,449	200,846	(3,221,449)	(200,846)	-	-
Change in Net Position	6,599,018	3,613,956	(8,494,193)	(5,577,116)	(1,895,175)	(1,963,160)
Net assets - beginning of year	(25,462,218)	(29,076,174)	49,577,400	55,154,516	24,115,182	26,078,342
Net position - end of year	\$ (18,863,200)	\$ (25,462,218)	\$ 41,083,207	\$ 49,577,400	\$ 22,220,007	\$ 24,115,182

City of Gardena Management's Discussion and Analysis (Continued)



Business-type Activities. The City's *business-type activities* decreased the net position by \$8,494,193 or 17.1% for the fiscal year ended June 30, 2016. Business-type activities revenue decreased by \$103,612 or 0.5% compared to the prior year for a total \$22,184,331 in revenues at year-end. In comparison to the prior fiscal year, the charges for services decreased by \$714,515 or 17.5%, due, in part, to a reduction in ridership, which decreased by \$603,877 or 19.1% compared to prior year. Operating grants and contributions decreased by \$448,264 or 2.6% compared to the prior fiscal year, primarily due to the recognition of additional revenue in fiscal year 2014-2015 for OPEB. Capital grants and contributions increased by \$1,018,618 or 122.4% due to the purchase of (2) electric buses in fiscal year 2015-2016, which cost approximately \$700,000 each. Investment income and miscellaneous increased \$40,549 or 141.9% compared to the prior year due to an increase in interest rates. Expenses for operations increased by \$207,138 or 0.7% compared to prior year. Transfer out expenses increased by \$3,020,603, which was the result of GTrans transferring back to the City the Van Ness Avenue property.

Financial Analysis of Governmental Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's *governmental funds* is to provide information about near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, an unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City's Council.

On June 30, 2016, the City's governmental funds reported combined fund balances of \$36,351,460 an increase of \$4,306,633 or 13.4% in comparison with the prior year. Approximately 0.49% of this amount \$179,191 constitutes an *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *nonspendable*, *restricted*, *committed*, or assigned to indicate that it is: 1) not in spendable form \$189,819; 2) restricted for particular purposes \$11,890,243; 3) committed for particular purposes \$21,318,521; or 4) assigned for particular purposes \$2,773,686.

City of Gardena Management's Discussion and Analysis (Continued)

The general fund is the chief operating fund of the City. At the end of the 2015-2016 fiscal year, the unassigned fund balance of the general fund was \$200,000, while the total fund balance increased to \$20,869,988. As a measure of the general fund's liquidity, it may be useful to compare both the unassigned fund balance and the total fund balance to total general fund expenditures. Unassigned fund balance represents approximately 0.37% of total general fund expenditures, while total fund balance represents approximately 38.6% of that same amount.

The fund balance of the City's general fund increased by \$5,108,351 during the 2015-2016 fiscal year. This was primarily related to 1) \$4,990,156 in proceeds received from the sale of the Van Ness property and 2) An improving economy, which the Cities diverse revenue base is directly able to benefit from. The Top 5 Revenue generators, which make up 71% of the General Fund Original Budget for Fiscal Year 2015-2016, was up \$1,246,671 overall compared to the prior year with Sales tax revenue up by \$1,261,850 (a result of the Triple-Flip being paid out during the fiscal year), Card Club Revenue down (\$460,348) a result of the forced sale of the Normandie Casino, Property Taxed increased by \$292,027, Utility Users Tax was down (\$122,966) and Motor Vehicle In-Lieu up by \$276,108.

The economic development grants fund, a major fund, had an increase of \$826,512 in fund balance during the fiscal year primarily due to the receipt of \$840,000 in Park-In Lieu Funds related to the KB Homes development project, which resulted in a fund balance during the fiscal year of \$3,907,821.

The debt service fund, a major fund, had a decrease of \$(286,334) in fund balance during the fiscal year, due to debt service payments made during the year, to bring the year-end fund balance to \$2,679,363. During the year the City paid off its Capital Lease obligation with Fleetwood leasing for the acquisition of devices for police vehicles.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of GTrans at the end of the fiscal year was \$(14,554,108) and for sewer maintenance was \$320,373. The total decrease in net position for both funds was \$6,952,694 and \$498,212 respectively. GTrans decrease in net position is predominantly due to the Transfer of the Van Ness Avenue property from GTrans back to the City, increases in depreciation expenses and the increase in Other Post-Employment benefits expenses.

General Fund Budgetary Highlights

The final amended budget for revenue is \$5,631,757 or 10.9% more than the original budget. On March 8, 2016, The City Council passed Resolution No. 6216, which amended the original revenue budget for fiscal year 2015-2016 increasing the anticipated revenue by \$5,631,757, this was based on the City's mid-year review and to better reflect the anticipated year-end results for a number of City programs. Actual revenue was higher than the final amended budget by 5.8% or \$2,945,933 as a result of the improved economy which led to the increase in the taxes, and license and permits. Tax revenue had the largest increase of \$1,352,928, this was a result of the sales tax triple-flip in the amount of \$1,378,107 being paid out in the fiscal year. The next largest increase was License and permits, which increased by \$520,704, as a result of the improved economy and thriving development within the City.

City of Gardena Management's Discussion and Analysis (Continued)

The final amended budget for expenditures is \$49,644,985 or 0.3% more than the original budget. On March 8, 2016, The City Council passed Resolution No. 6216, which amended the original expenditure budget for fiscal year 2015-2016 increasing the anticipated expenditures by \$125,000, this was to add a budgeted amount for the Gardena Juvenile Justice and Intervention Program. Actual expenditures were higher than the final amended budget by 8.9% or \$4,414,499, primarily related to the City recognizing the \$3,092,748 in Capital Outlay expenditure when it received back the Van Ness Avenue property from GTrans (formerly known as Gardena Municipal Bus Line). A detailed budgetary comparison schedule for the year ended June 30, 2016, is presented as required supplementary information following the notes to the financial statements.

Capital Assets and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2016, amounts to \$110,778,538 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, roads, and highways. The total decrease in capital assets compared to prior year was \$4,594,748 or 4.0% primarily due to the sale of the Van Ness Avenue property, which decreased the business-type activities value for land by \$3,092,748.

CITY OF GARDENA'S CAPITAL ASSETS (Net of depreciation)

	Governmental Activities		Business -type Activities		TOTAL	
	2016	2015	2016	2015	2016	2015
Non-depreciable assets:						
Land	\$ 6,541,402	\$ 6,541,402	\$ 12,956,405	\$ 16,049,153	\$ 19,497,807	\$ 22,590,555
Monuments	46,151	46,151	-	-	46,151	46,151
Construction in progress	2,105,300	4,696,834	180,034	91,925	2,285,334	4,788,759
Total Non-depreciable assets	8,692,853	11,284,387	13,136,439	16,141,078	21,829,292	27,425,465
Capital assets, being depreciated:						
Building/structures and improvements	8,090,495	8,885,306	32,221,618	33,245,891	40,312,113	42,131,197
Buses	-	-	12,384,433	13,882,692	12,384,433	13,882,692
Machinery and equipment	3,741,007	3,413,582	3,636,399	3,618,041	7,377,406	7,031,623
Furniture and fixtures	-	-	14,857	5,415	14,857	5,415
Infrastructure	-	-	758,004	791,693	758,004	791,693
Street lights network	516,957	560,037	-	-	516,957	560,037
Traffic lights network	2,852,116	3,283,476	-	-	2,852,116	3,283,476
Roadway network	24,733,360	20,261,688	-	-	24,733,360	20,261,688
Total depreciable assets (net)	39,933,935	36,404,089	49,015,311	51,543,732	88,949,246	87,947,821
Total capital assets	48,626,788	47,688,476	62,151,750	67,684,810	110,778,538	115,373,286

Major capital asset events during the 2015-2016 fiscal year included the following:

- ◆ Completion of the Gardena Blvd Street Improvement Project.
- ◆ Completion of the National Guard Armory Site Improvement Project

Additional information on the City's capital assets can be found in Note 7 on pages 69-70 of this report.

Long-term Debt. At the end of the 2015-2016 fiscal year, the City had total bonded debt outstanding of \$22,534,523. The City paid off its Capital Lease in the fiscal year, acquired a new interest free loan with Southern California Edison and continued to maintain its loan payable.

City of Gardena
Management's Discussion and Analysis (Continued)

CITY OF GARDENA'S OUTSTANDING DEBT

	Governmental Activities		TOTAL	
	2016	2015	2016	2015
Refunding Revenue Bonds	\$ 11,040,000	\$ 11,125,000	\$ 11,040,000	\$ 11,125,000
Certificates of Participation	11,770,000	12,370,000	11,770,000	12,370,000
- Bond discount	(275,477)	(289,361)	(275,477)	(289,361)
SCE On-Bill Financing Loan	124,548	-	124,548	-
Loan Payable	3,114,763	2,930,317	3,114,763	2,930,317
Capital Leases	-	67,126	-	67,126
	25,773,834	26,203,082	25,773,834	26,203,082

The City maintains an "A+" rating from Standard & Poor's and an "A3" rating with Moody's for its general obligation debt as of June 30, 2016.

Additional information about the City's long-term debt can be found in Note 8 on pages 71-75 of this report.

Economic Factors and Next Year's Budget and Rates

The economy of the City is based around the needs of its citizens, with over 71% of the City's General Fund operating revenues coming from its Top 5 revenue sources, which include: 1) Sales and Use Tax, 2) Card Club Gross Revenue Fees, 3) Property Taxes, 4) Utility Users Tax and 5) Vehicle License Fees.

The City's budget (2016-2017) projections take into account the historical trends and current economic factors and consultant recommendations. An increase in General Fund operating revenues of approximately \$3.9 million or 7.7% compared to the original adopted budget for 2015-2016 is anticipated with the amount projected to be \$54,608,861. For fiscal year 2016-2017, sales tax revenue is estimated to have an increase of \$725,329 or 6.9% compared to the 2015-2016 adopted budget. Card Club Gross Revenue Fees are estimated to remain flat, with no change in projections from the adopted budget from 2015-2016, this projection is based on the Normandie Casino being sold to new ownership in July 2016 and that new ownership, which plans to renovate the casino needing time to generate a stable revenue base. Property tax revenue is estimated at \$6.6 million, which represents an increase of \$730,206 or 6.9% from the 2015-2016 adopted budget, due to continuing improvement of real estate market projections for the upcoming years. Utility user tax projections are anticipated to increase by \$350,000 or 6.5% from the 2015-2016 adopted budget. Vehicle License fees are estimated at \$5.2 million an increase of \$315,000 or 6.4% from the 2015-2016 adopted budget. General Fund operating expenditures have been projected at \$54,590,861, an increase of \$3.9 million or 7.7% compared to the 2015-2016 adopted budget. The budget reflects adjustments to retirement costs based on the increase in CalPERS contribution rates for 2016-2017, which are 21.1% for miscellaneous employees, 3.5% of this rate is being paid by the employees; and 66.2% for safety employees, 4.5% of this rate is being paid by the employees. It is estimated that the General Fund will have a fund balance of approximately \$20.9 million at the end of fiscal year 2016-2017.

City of Gardena
Management's Discussion and Analysis (Continued)

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's and to show the city's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administrative Services Division, 1700 W. 162nd Street, Gardena, CA 90247.

BASIC FINANCIAL STATEMENTS

CITY OF GARDENA

*Comprehensive Annual Financial Report
For the Year Ended June 30, 2016*



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