



**City of Hermosa Beach,  
California**

**Comprehensive  
Annual  
Financial  
Report**

**For the Year Ended June 30, 2017**



# **City of Hermosa Beach**

Hermosa Beach, California

## **Comprehensive Annual Financial Report**

*For the Fiscal Year Ended June 30, 2017*

Prepared by the  
Finance Department of Hermosa Beach



**City of Hermosa Beach**  
**Comprehensive Annual Financial Report**  
**For the Year Ended June 30, 2017**

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# City of Hermosa Beach

Civic Center, 1315 Valley Drive, Hermosa Beach, CA 90254-3885

December 28, 2017

Honorable Mayor and Members of the City Council and Citizens of Hermosa Beach, California:

## Introduction

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the City of Hermosa Beach for the fiscal year ended June 30, 2017. 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.

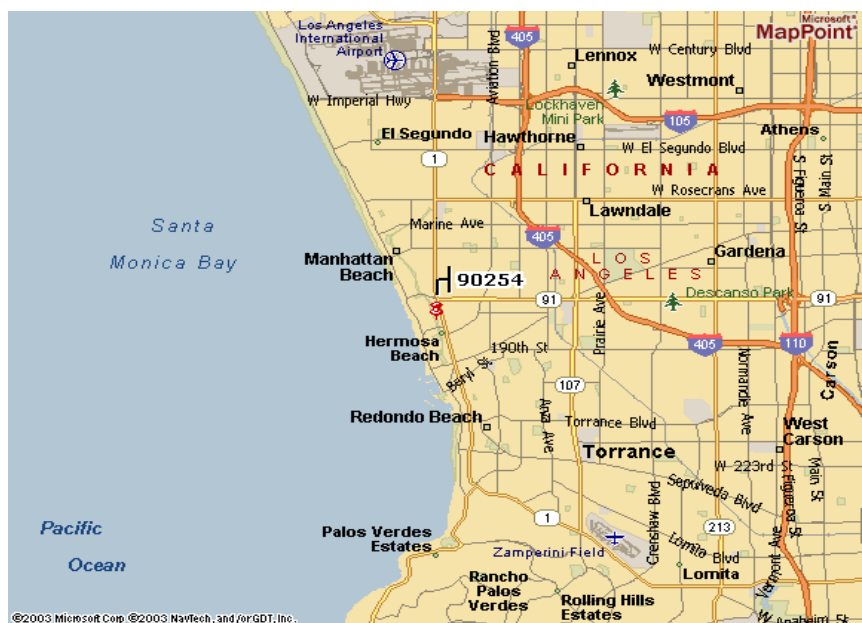
Management's representations concerning the finances of the City of Hermosa Beach are contained herein. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Hermosa Beach has established an internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Hermosa Beach's financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City of Hermosa Beach's framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

## Audit

The City of Hermosa Beach's financial statements have been audited by The Pun Group, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Hermosa Beach for the fiscal year ended June 30, 2017, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City of Hermosa Beach's financial statements for the fiscal year ended June 30, 2017, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

## Profile of the Government

The City of Hermosa Beach is a beachfront, bedroom community with a stable population, located four miles south of Los Angeles International Airport. The City occupies 1.4 square miles and serves a population of 19,616, according to the State's latest population estimate. However as a beach city, the City experiences a high visitor population and the associated costs. Due to this high visitor population, the City operates in many ways like a larger city. During the 2016-17 fiscal year, beach attendance ranged from a low of 71,550 in February 2017 to a high of



1,223,000 in July 2016, according to the Los Angeles County Fire Department, Lifeguard Division.

The City of Hermosa Beach, incorporated on January 14, 1907 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 five members of the City Council elected on a non-partisan basis at large for a four-year term. Council members serve four-year, staggered terms, with an election every two years. One member is chosen by fellow members to serve as Mayor for a period of nine months; one is chosen to serve as Mayor Pro Tem. The terms of office for those elected in November 2017 were extended by one year to accommodate the election date change from odd-numbered years to even-numbered years effective November 2022, as approved by the City Council.

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 offers a full range of municipal services, including police and fire protection, community development (planning and zoning), cultural, recreation and parks, maintenance and construction of public improvements, parking and animal control, and general administration. Financial information for the Lighting and Landscaping District, the Lower Pier Avenue Assessment District and the Myrtle Avenue, Loma Drive, Bayview Drive, and Beach Drive Utility Underground Districts are included in the City's financial statements as required by governmental accounting standards.

Summary information from the *May 2017 Profile of the City of Hermosa Beach*, produced in 2017 by the Southern California Association of Governments (SCAG), is shown below along with selected information from the U.S. Census. The SCAG report is produced every two years, with the next release in May 2019.

<b>SCAG PROFILE OF THE CITY OF HERMOSA BEACH</b>		
<b>Category</b>	<b>2016 STATISTICAL SUMMARY</b>	<b>2014 STATISTICAL SUMMARY</b>
	<b>Hermosa Beach</b>	<b>Hermosa Beach</b>
Median Age	39.5	38.6
Non-Hispanic White	79.0%	79.5%
Hispanic	8.6%	8.8%
Non-Hispanic Asian	6.1%	6.0%
Non-Hispanic Black	1.3%	1.2%
Non-Hispanic American Indian	0.1%	0.2%
Non-Hispanic All Other	4.9%	4.3%
Homeownership Rate	44.7%	44.7%
Average Household Size	2.1	2.1
Median Household Income	\$104,756	\$95,050
Mean Travel Time to Work	34 minutes	33.3 minutes

U.S. CENSUS BUREAU QUICK FACTS					
Category	Hermosa Beach	California	Category	Hermosa Beach	California
Persons under 5 years, 2010	5.1%	6.8%	Per capita money income in the past 12 months (2015 dollars), 2011-2015	\$78,918	\$30,318
Persons under 18 years, 2010	15.9%	25.0%	Persons below poverty level, 2011-2015	4.0%	14.3%
Persons 65 years and over, 2010	9.0%	11.4%	Median value of owner-occupied housing units, 2011-2015	\$1,086,200	\$385,500
Female persons, 2010	47.3%	50.3%	Housing units in multi-unit structures, 2012-2016	44.2%	54.3%
Bachelor's Degree or higher, persons age 25+, 2011-2015	71.0%	31.4%	High School graduate or higher, persons age 25+, 2011-2015	99.0%	81.8%

The U.S. Census Bureau Quick Facts are as of November 2017. Further data regarding the City may be found in the Statistical Section.

The annual budget serves as the foundation for the City of Hermosa Beach’s financial planning and control and is based on the Strategic Plan adopted by the City Council. All departments of the City of Hermosa Beach are required to submit requests for appropriation to the City Manager according to a budget calendar. The City Manager uses these requests as the starting point for developing a proposed budget, which is presented to the City Council for review by May 15. At least one public budget workshop is held prior to the required public hearing, with adoption required no later than June 30. If the City Council fails to adopt a budget by that date, the budget submitted by the City Manager, as amended by the City Council, if applicable, is the appropriated budget except for capital improvement outlays. The appropriated budget is prepared by fund and department (e.g., Police Department). The City Manager may make transfers of appropriations between departments within each fund; transfers of appropriations between funds, however, require the approval of the City Council. The City Council receives monthly revenue and expenditure reports during the year and a midyear budget review is conducted after the first six months of the fiscal year to ensure estimates are on target. Budget-to-actual comparisons are provided in this CAFR for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund and major governmental funds with appropriated annual budgets, this comparison is presented as Required Supplementary Information on pages 91-92. For non-major governmental funds with appropriated annual budgets, this comparison is presented as Supplementary Information, after the Notes to the Financial Statements.

**Factors Affecting Financial Condition**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Hermosa Beach operates.

**Local economy.** Hermosa Beach is a “bedroom community” as evidenced by a household count of +10,000 and an in-city business count of under 1,000 (excluding apartments and home occupations) Hermosa Beach had growth of 8.3% in secured and unsecured assessed valuation, as compared to 5.5% for Los Angeles County. The 8.3% growth was the 6th highest of 88 cities in Los Angeles County. Median home prices in Hermosa Beach as of June 2017 were \$2,025,000, compared to \$597,000 for Los Angeles County. The Hermosa Beach median home price for June 2016 was \$1,403,000, compared to \$561,000 for Los Angeles County. The average median home price for Hermosa Beach for fiscal year 2016-17 was \$1,830,667 and \$1,901,364 for fiscal year 2015-16. Home values adjacent to the beach increased for the seventh year in a row after declining 2009-2011.

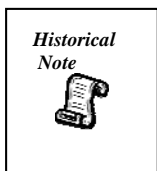
As a beach city, the three highest occupations continue to be management, sales, and administrative support, however residents enjoy access to a much more diverse employment base with the close proximity of all of the other cities in Los Angeles County. The unemployment rate in Hermosa Beach is 1.9%, compared with 4.6% for Los Angeles County, and 4.9% for California as of June 2017.

General Fund Secured property taxes increased 8% in 2016-17, consistent with growth in assessed values. Property adjacent to the beach continues to hold its value better and has grown faster as compared to property in the inland areas.

Sales tax receipts for 2016-17 are down 2.7% primarily due to a vacancy in grocery stores and a slight overall drop in the Eating/Drinking Places category.

Transient occupancy tax (the tax on hotel stays) grew 17.2% over 2015-16. Receipts of more than \$3.2 million are the highest level ever. The TOT tax rate increased from 10% to 12% on January 1, 2016 as a result of an initiative placed on the ballot by residents. Allowing for the rate increase, revenue would be 7% over the prior year. Average occupancy for 2016-17 was 82% for Hermosa Beach compared to last year’s rate of 80%. Hermosa Beach has eight hotels and one youth hostel, with rooms capacity ranging from 17 rooms to 96 rooms.

Utility user tax (UUT) revenue was down 4% last year but is still the fourth highest source of tax revenue at \$2.3 million. The largest sources of the decrease were water, overall phone service and electric.



*Since the City was successful in obtaining voter approval (72%) for adoption of a modern UUT ordinance in November 2007, revenue is protected as technology changes occur. The ballot measure was intended to be revenue-neutral, in that the video and telecom rate was reduced from 6% to 5.5% to offset any new revenue received from new technology in those areas. The UUT as a source of revenue has been very reliable.*

**Accounting Changes.** In 2014-15 the City implemented Government Accounting Standards Board (GASB) Statement No 68, Accounting and Financial Reporting for Pensions and Statement No 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Net pension liabilities of \$45,082,010 were recorded in 2016-17 and the unrestricted net position was reduced accordingly. The change in accounting standards impacted the government-wide financial statement, notes, and required supplemental information only.

GASB Statements which are effective for 2016-17 have little to no effect on the City’s financial statements but are mentioned here for compliance purposes. In 2016-17 the City implemented GASB Statement No 77, Tax Abatement Disclosure, which had no impact on the City’s financial statements, as the City did not have any tax abatements to report. The City also implemented two pension related statements, GASB 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans, and GASB No 82, Pension Issues. GASB 78 applies to multiple employer plans that are not state or local government pension plans, so this statement did not impact the City’s financial statements. GASB 82 provided clarification on the presentation of required supplementary information and did not have a significant impact on the City’s financial statements. GASB Statement No 80, Blending Requirements for Certain Component Units, also effective for the June 30, 2017 financial statements, adds criterion regarding the blending of not-for-profit corporations in which the primary government is the sole corporate member. This change had no impact the City’s Financial statements. For more information see Note 1, Section P- Accounting Changes.

**National/State Economy.** As of November 2017, the Legislative Analyst’s Office estimates that the state would have \$19.3 billion in total reserves at the end of 2018-19. They indicate that the state has made significant progress in preparing for the next recession and that under a moderate recession scenario, the state has enough reserves to cover its deficits until 2021-22, assuming the Legislature makes no additional budget commitments. Of course, there are many recent variables, namely the widespread fires in California in December and potential impacts of federal legislation regarding taxes and other issues that could easily impact California’s fiscal outlook.

Beacon Economics reports in their Fall 2017 forecast that the nation’s economic growth is continuing in the same general pattern it has been following for much of the past-recession period. They indicate that the hand-wringing about the length of the current economic expansion (in its ninth year) is a red herring and that other than an unforeseen policy twist, the new analysis does not identify anything on the horizon that could significantly alter the positive growth forecast in the near term.

**California Public Employees Retirement System (CalPERS).** The preliminary CalPERS investment return as of June 2017 was 11.2% and the funded status of the overall CalPERS fund increased by 3% from the previous year.

In 2014-15, CalPERS Board adopted a funding risk mitigation policy to incrementally lower the discount rate (assumed rate of return) in years of good investment returns. The risk mitigation policy was subsequently suspended until the 6/30/18 valuation.

The policy is implemented gradually (by a minimum of .05 percentage points to a maximum of .25 percentage points when investment returns outperform the existing discount rate of 7.5% by at least four percentage points). The policy is intended to offset increased employer contribution rates that would otherwise increase when the discount rate is lowered and help pay down CalPERS unfunded liability.

On December 20, 2016, the CalPERS Board approved a change in the discount rate from 7.5% to 7% over three years. This action does not impact rates until 2018-19. This change is expected to increase employer rates 1% to 3% for miscellaneous plans and 2% to 5% for safety plans. Additionally employers will see an increase in their current unfunded liability payments. Our independent actuary indicates however, that the change for the first year will have minimal impact, which is good news. The City’s miscellaneous and safety plans have side funds (which are liabilities that existed in 2003 when CalPERS “pooled” the City’s plans with other cities of similar size) that are paying off from 18-19 to 20-21 and will help mitigate the rate increases.

The City created a Retirement Stabilization Fund in 2003-04 to plan for anticipated rate increases. This amount now appears as part of the “committed” balance in the General Fund in the amount of \$1,000,000. When the updated Financial Plan is presented in February 2018, recommendations will be made to further enhance stability in our retirement plan funding.

**Long-term financial planning.** The City has adopted comprehensive financial policies addressing a range of items including accounting and reporting, internal controls, budget, revenue, debt service and investments. The policies are published in the budget and reviewed annually.

The City Council’s adopted financial policies relating to long-term financial planning for specific funds are as follows:

Insurance Fund—Goal of \$3,000,000 in net assets for aberrations in claims reserves and catastrophic losses.

Equipment Replacement Fund—Goal of net assets equal to the accumulated amount calculated for all equipment, based on replacement cost and useful life of equipment.

Contingency—Goal equal to 16% of the General Fund appropriations for economic uncertainties, unforeseen emergencies.

Compensated Absences—Goal equal to 25% funding for accrued liabilities for employee vacation, sick and compensatory time.

The City also has a financial policy of transferring funds unspent in the General Fund at year-end to the Insurance Fund, Equipment Replacement Fund, Capital Improvement Fund and to add to Contingency Funds as needed. The City Council makes changes as necessary to the year-end transfer, depending on the equity in the funds or based on other needs.

The transfer for 2016-17 was \$414,736 to the Insurance Fund, per Council direction at Midyear Budget Review. This amount is less than in previous years, primarily due to the need to record accrued leave hours payable to Fire employees when Fire services are transferred to Los Angeles County. Even though the transfer occurs in December 2017, the amounts must be recorded in 2016-17. This amount of \$806,472 reduced the transfer at year end.

Funds were transferred to the Insurance Fund since net position in that fund has decreased as a result of payments made in the settlement of the MacPherson Oil lawsuit. A summary of those transactions follows. See Note 14 to the Financial Statements for more information.

In 2012-13 the City Council set aside \$2.5 million of unrestricted net position in the Insurance Internal Service Fund, in addition to \$3.5 million recorded as a liability, for the costs of the MacPherson Oil lawsuit settlement and proposed new oil project which are discussed in detail in the Notes to the Basic Financial Statements (Note 14). After the March 3, 2015 election when residents voted not to lift the ban on oil drilling, the City used the previously set aside \$6 million to pay E & B Natural Resources a portion of the \$17.5 settlement agreement. The remaining \$11.5 million was recorded as a liability at year end in the Insurance Fund and immediately paid off in August 2015 after lease revenue bonds were issued. E&B contended that interest on the \$17.5 million commenced to run in March 2012, when the settlement agreement was executed; the City disagreed. In March 2017 the parties settled the dispute for \$1.5 million and the settlement permanently terminated E & B's existing drilling and mineral rights with the City.

Historically as part of the budget process, a five year financial forecast is developed and presented with the Preliminary Budget and Five-Year Capital Improvement Program. The Fiscal Health Model is used as part of the forecast to present scenarios depicting the city's ability to fund each scenario.

Since the development of a long term financial plan that links infrastructure and facilities, and addresses debt policies was shown in the in 2015 Strategic Plan as a Top Priority, a draft financial plan was created with decision points and presented to the City Council with the 2016-17 Preliminary Budget and Five-Year Capital Improvement Program. The financial plan is intended to incorporate analysis, forecasting, strategies and policies into one document that provides guidelines and goals for the financial management of the City. Since the City Council was facing the decision of how to best provide fire services for Hermosa Beach based on the recognition that staffing and resources were insufficient to meet mandates and the demands of modern fire services, the financial plan was put on hold pending that decision. On April 25, 2017, the City Council voted unanimously to contract with the Los Angeles County Consolidated Fire District, effective December 30, 2017, in order to obtain a higher, more sustainable level of service. The financial plan will be updated and presented to City Council again with the Midyear Budget Review in February 2018.

Primary capital projects coming up, (other than street and sewer improvements, which occur every year) are the Citywide Park Master Plan, Storm Water/Urban Runoff Diversion Project, ADA Improvements, Downtown Strategic Plan Implementation, Restroom Improvements (Clark Field, South Park, Pier, Fort Lots-of-Fun, and Seaview Parkette), South Park Phase II, and projects to enhance energy efficiency.

**Cash management policies and practices.** Temporarily idle cash was invested during the year in obligations of the U.S. Treasury, corporate notes, certificates of deposit, the State Treasurer's investment pool and the Los Angeles County pool. The average maturity was 59 months, with an average weighted yield on investments of 1.9%. Investment income includes changes in the fair value of investments. Changes in fair value during the current year, however, do not necessarily represent trends that will continue nor do such amounts necessarily become realized, since the City intends to hold the investments to maturity.

**Risk management.** The City is self-insured up to \$250,000 for liability claims. Excess coverage up to \$20 million is obtained through the Independent Cities Risk Management Authority (ICRMA), a joint powers authority consisting of medium-sized California municipalities. The cost of the insurance depends on both the loss experience of member cities and the loss experience of the City.

The City purchases workers' compensation coverage through a self-insured program available through ICRMA. The City maintains a \$500,000 self-insured retention limit and participates in a self-insured risk sharing pool through the ICRMA, with excess coverage through Safety National Casualty Co., providing a shared limit of coverage up to a maximum of \$200 million.

Claims defense and settlement are coordinated by third party administrators for both liability and worker's compensation, with oversight by the Human Resources Manager.

Additional information on the City's risk management activity can be found in Note 8 of the notes to the financial statements.

**Pension and other post-employment benefits.** The City provides pension benefits to safety and non-safety employees through the California Public Employees Retirement System (CalPERS). CalPERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The City was successful in negotiating two tier rates for new employees in all bargaining units beginning in 2011-12. With the State's pension reform implemented 1/1/13, the City now has three tiers. As of June 30, 2017, the City has twenty-three (23) active Tier 2 employees and fifty-nine (59) active employees in Tier 3. The City has paid employee contributions as a negotiated benefit for many years however in 2012-13 the City negotiated for employees to begin paying the entire share of the employee contribution over three years with an offsetting increase in salaries, which was achieved by 2014-15. All of these changes will reduce pension costs over time. City employer contributions are actuarially determined on an annual basis.

The City also provides post-employment health care benefits for certain retirees. As of the end of the current fiscal year, there were 60 retirees receiving these benefits.

The City established a trust with an outside party to administer these funds in July 2007. The City is contributing the annual required contribution for all employees as determined by an actuarial study in the manner as is done for retirement contributions to CalPERS.

Additional information on the City of Hermosa Beach's pension arrangements and other post-employment benefits can be found in Notes 9 and 10 in the Notes to the Basic Financial Statements.

#### **Awards and Acknowledgements**

The Government Finance Officers Association (GFOA) awarded a 2016 Certificate of Achievement for Excellence in Financial Reporting to the City of Hermosa Beach for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2016. This was the twenty-seventh consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a report must be published that satisfies both GAAP and applicable legal requirements.

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

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Department. We would also like to express our appreciation to the City Manager and all of the departments, including the City Clerk and City Treasurer, and to our auditors, The Pun Group, LLP, for their assistance and support in preparation of the report. Credit also must be given to the Mayor and the City Council for their continuing support for maintaining the highest standards of professionalism in the management of the City of Hermosa Beach's finances.

Respectfully submitted,



Viki Copeland  
Finance Director



Government Finance Officers Association

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

Presented to

**City of Hermosa Beach  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2016**

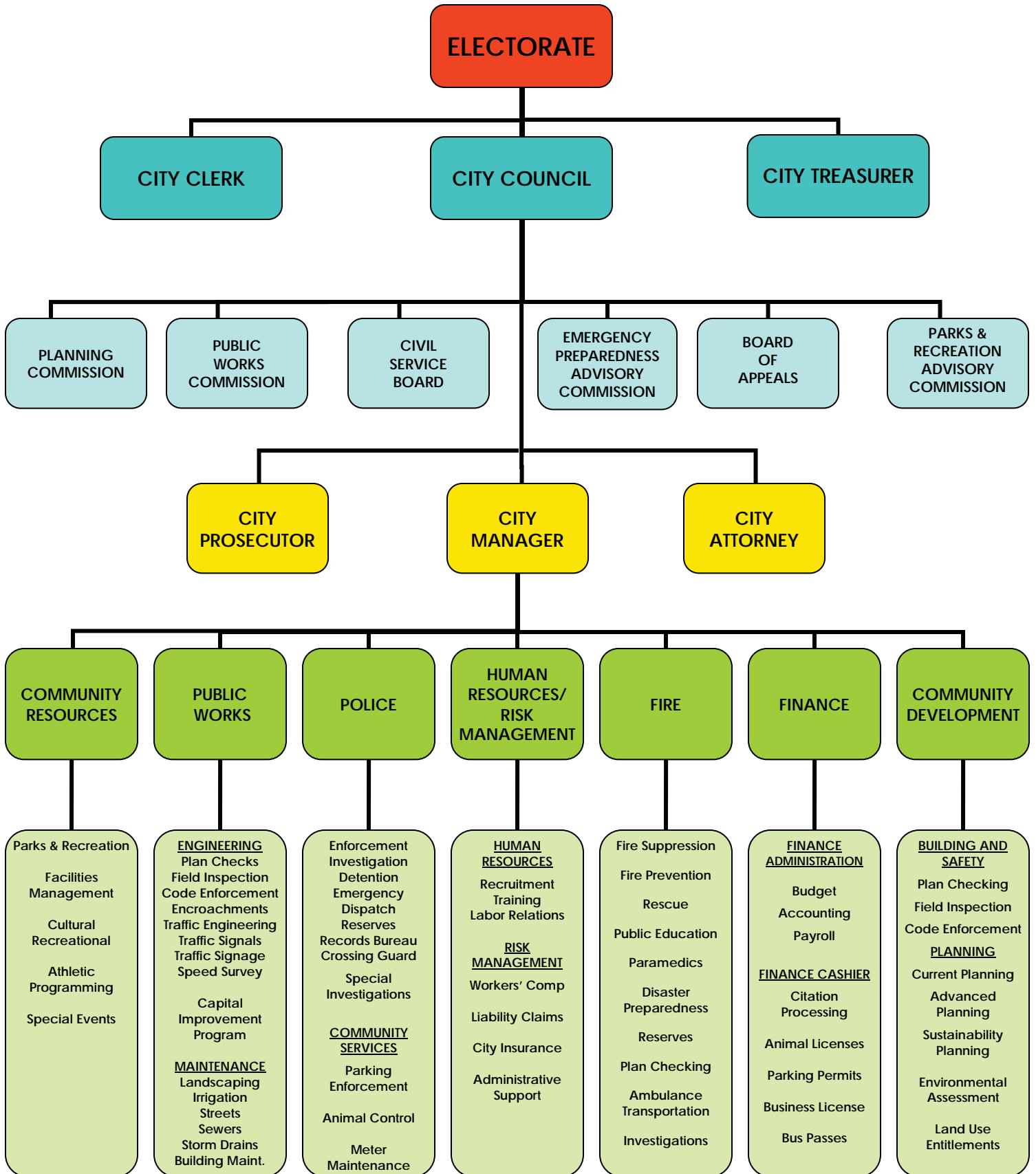
*Christopher P. Morill*

Executive Director/CEO





# CITY OF HERMOSA BEACH ORGANIZATIONAL CHART



PRINCIPAL OFFICIALS OF THE CITY OF HERMOSA BEACH, CALIFORNIA

June 30, 2017

Elected and Administrative Officials

City Council

Justin Massey  
Jeff Duclos  
Stacey Armato  
Hany Fangary  
Carolyn Petty

Mayor  
Mayor Pro Tempore  
Councilmember  
Councilmember  
Councilmember

Other Elected Officials

Karen Nowicki  
Elaine Doerfling

City Treasurer  
City Clerk

Administrative Officials

Sergio Gonzalez  
Ken Robertson

Kelly Orta

Viki Copeland  
Pete Bonano  
Vanessa Godinez

Sharon Papa  
Lucho Rodriguez

City Manager  
Community Development  
Director  
Community Resources  
Manager  
Finance Director  
Fire Chief  
Personnel Director/Risk  
Manager  
Police Chief  
Interim Public Works  
Director



## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council  
of the City of Hermosa Beach  
Hermosa Beach, California

### **Report on Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Hermosa Beach, California (the "City"), as of and for the year ended June 30, 2017, 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 Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2017, 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.

### **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 Schedule-General Fund, Budgetary Comparison Schedule-Sewer Special Revenue Fund, Schedule of Proportionate Share of the Net Pension Liability and Related Ratios, Schedule of Contributions, and the Schedules of Funding Progress-Other Postemployment Benefits on pages 7 to 18 and 91 to 96, 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 Nonmajor Fund Financial Statements and the Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual, 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 Nonmajor Fund Financial Statements and the Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual 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 Nonmajor Fund Financial Statements and the Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual 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.

To the Honorable Mayor and Members of the City Council  
of the City of Hermosa Beach  
Hermosa Beach, California  
Page 3

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2017, 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.

*The PwC Group, LLP*

Santa Ana, California  
December 28, 2017

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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 Honorable Mayor and Members of the City Council  
of the City of Hermosa Beach  
Hermosa Beach, 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, each major fund, and the aggregate remaining fund information of the City of Hermosa Beach, California (the "City"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon December 28, 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 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 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*.

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To the Honorable Mayor and Members of the City Council  
of the City of Hermosa Beach  
Hermosa Beach, California  
Page 2

**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.

*The PwC Group, LLP*

Santa Ana, California  
December 28, 2017



## Management's Discussion and Analysis

As management of the City of Hermosa Beach, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Hermosa Beach for the fiscal year ended June 30, 2017. 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 on pages v - xi of this report.

### Financial Highlights

- Beginning with the fiscal year ended June 30, 2015, the City implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions which requires the City to include its net pension liability in the government-wide financial statements for the first time. Similar to the City's long-term debt, the net pension liability is payable over an extended time horizon and does not represent a claim on current financial resources. For more information on the implementation of GASB 68, please refer to Note 9 in the Notes to the Basic Financial Statements.
- The assets and deferred outflows of resources of the City of Hermosa Beach exceeded its liabilities and deferred inflows of resources at the close of the last fiscal year by \$58,390,922 (net position). Excluding the \$45,082,010 net pension liability, \$31,794,952 represents unrestricted net position and may be used to meet the government's ongoing obligations.
- The City's net position increased by \$6,458,104.
- As of June 30, 2017, the City of Hermosa Beach's governmental funds reported combined ending fund balances of \$28,358,360, an increase of \$3,382,904 in comparison with the prior year. This increase is primarily due to a 2.4% increase in revenue and a decrease of expenditures over prior year of 3.3% resulting from capital improvement projects being on hold while work on the sewer, storm drain, and pavement management plans were completed.
- At the end of the current fiscal year, the City of Hermosa Beach's governmental fund balances of \$28,358,360 are comprised of non-spendable funds; \$73,783, restricted; \$5,260,908, committed; \$1,994,908, and assigned; \$21,029,061, to indicate that funds are not available for new spending. Although funds are shown in the committed or assigned category, the City Council still does have discretion over the use of these funds and may change the committed or assigned use. Under that scenario, approximately 81.2%, or \$23,023,669 of the \$28,358,360 in funds could be redirected at the discretion of the City Council. See Note 11 on page 82.
- After the City Council approved a transfer of \$414,736 from the General Fund into the Insurance Fund, the committed and assigned fund balance in the General Fund was \$9,437,703 or 27% of total General Fund expenditures.
- The City resolved its dispute with E&B Natural Resources with the payment of \$1.5 million from the Insurance fund in 2016-17, in return for a complete termination of all disputes raise in the February 18, 2016 formal claim against the City. See Note 14 on page 86 for more information.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Hermosa Beach's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide

financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

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

The **Statement of Net Position** presents information on all of the City of Hermosa Beach's assets plus deferred outflows of resources ("DOR") and liabilities plus deferred inflows of resources ("DIR"), with the difference between the assets plus DOR and liabilities plus DIR 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 of Hermosa Beach is improving or deteriorating.

The **Statement of Activities** presents information showing how the government's net positions changed during the most recent fiscal year. All changes in net positions 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 in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused, vacation leave).

The governmental activities of the City of Hermosa Beach include legislative and legal, general government, public safety, public works, community development, and culture and recreation.

The government-wide financial statements include not only the City of Hermosa Beach itself, but also the Lighting and Landscaping District, the Lower Pier Avenue Assessment District and the Myrtle Avenue, Loma Drive, Bayview Drive and Beach Drive Utility Underground Districts. Although these entities are legally separate, they function for all practical purposes as part of the City, and therefore have been included as an integral part of the primary government.

The Government-Wide Financial Statements can be found on pages 22-25 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 of Hermosa Beach, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary 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 evaluating 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 of Hermosa Beach maintains twenty-six 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 balance for the funds below, which are considered to be a major fund:

**General Fund  
Sewer Special Revenue Fund  
Capital Improvement Capital Projects Fund**

Major funds are governmental or enterprise funds whose revenues, expenditures/expenses, assets and DOR or liabilities and DIR are at least 10% of corresponding totals for all governmental or enterprise funds and at least 5% of the corresponding total for all governmental and enterprise funds combined.

Data from the other twenty-three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in the Supplementary Information section in this report.

The City of Hermosa Beach adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund and Sewer Special Revenue Fund in the Required Supplementary Information section to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 31-34 of this report.

**Proprietary funds.** The City of Hermosa Beach maintains one type of proprietary fund.

**Internal service funds** are used to accumulate and allocate costs internally among the City of Hermosa Beach's various functions. The City of Hermosa Beach uses internal service funds to account for its fleet of vehicles, information systems and equipment, and risk management/insurance activities. Because these services predominantly benefit governmental rather than business-type functions, they have been included within **governmental activities** in the government-wide financial statements.

Internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 37-39 of this report

**Fiduciary funds** are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Hermosa Beach's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Funds of the Lower Pier Avenue, Myrtle Avenue, Loma Drive, Bayview Drive, and Beach Drive Undergrounding Districts are held as fiduciary funds.

The fiduciary fund financial statements can be found on page 43 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to 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 49-88 of this report.

**Required supplementary information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Hermosa Beach's major funds. Required supplementary information can be found on pages 91-96 of this report.

**Other supplementary information.** The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information. Other supplementary information can be found on pages 99-146 of this report.

## **Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As of June 30, 2017, total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$58,390,922. Without the net pension liability, the net position would be \$103,472,932.

The City implemented GASB 68, Accounting and Financial Reporting for Pensions for the June 30, 2015 financial statements. The statement implements changes to accounting and reporting; it does not apply to the way pension is funded.

While the City is now required to show the net pension liability in the government-wide statements, according to the Governmental Finance Officers Association (GFOA) the underlying factual situation has not changed. Standard and Poor's (the rating agency who rated the City's bonds) indicated that the new standards will lead to more conservative liability estimates and provide some additional disclosure. They will continue to focus on commitment to funding, investment performance, trend analysis, affordability, and maintaining plan sustainability. The Annual Required Contribution (ARC) for pension will continue to be reported as the Actuarially Determined Contribution. Standard and Poor's believes this is an easily recognizable and understandable measure for governments. They currently estimate with what frequency governments fully fund their ARC (which Hermosa Beach does 100% of the time).

The major components of GASB 68 that affect the Statement of Net Position for Government-wide are:

- **Deferred Outflows of Resources-** Includes the deferred pension contribution, which is equal to the total amount of the 2016-17 contributions. The contributions are deferred to 2017-18 because the net pension liability balance is one year in arrears. Also includes the difference between expected and actual experience, the difference between projected and actual investment earnings and the difference between the employer contributions and the employer's proportionate share of contributions.
- **Net Pension Liabilities (recorded in Long-Term Liabilities)-** Represents the actuarially valued liabilities for the Police, Fire, and Miscellaneous Plans as of June 30, 2016.
- **Deferred Inflows of Resources-** Includes changes in assumptions, the difference between the expected and actual earnings on investments (amortized on a straight-line basis over five years), changes in employer's proportion, and differences between employer contributions and the employer's proportionate share of contributions.

<b>Net Position</b>		
<b>June 30, 2017</b>		
<b>(dollars in thousands)</b>		
	<b>Governmental Activities</b>	
	<b>2017</b>	<b>2016</b>
Current and Other Assets	\$ 48,318	\$ 44,392
Noncurrent Assets	66,980	67,205
<b>Total Assets</b>	<b>115,298</b>	<b>111,597</b>
Deferred Outflows of Resources	15,084	5,142
Current Liabilities	7,475	6,089
Noncurrent Liabilities:		
Net Pension Liability	45,082	37,833
Long-term Liabilities- Other	16,823	17,167
<b>Total Liabilities</b>	<b>69,380</b>	<b>61,089</b>
Deferred Inflows of Resources	2,611	3,717
<b>Net Position:</b>	<b>58,391</b>	<b>51,933</b>
Invested in Capital Assets	66,417	66,934
Restricted	5,261	3,769
Unrestricted	(13,287)	(18,770)
<b>Total Net Position</b>	<b>\$ 58,391</b>	<b>\$ 51,933</b>

The largest portion of the City of Hermosa Beach’s net position, \$66,417,072, reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment). The City of Hermosa Beach uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

A portion of the City of Hermosa Beach’s net position \$5,108,607 represents resources that are subject to external restrictions on how they may be used.

Compliance with GASB 68 and 71 requires that the City’s net pension liability be recorded on the Statement of Net Position, which reduces unrestricted net position and creates a negative unrestricted net position or deficit of (\$13,287,058). Excluding the \$45,082,010 net pension liability, \$31,794,952 is available to meet the City’s ongoing obligations to residents.

At June 30, 2017, the City is able to report positive balances in all categories of net position for the government as a whole except for unrestricted due to the implementation of GASB 68 and the inclusion of the net pension liability, which will likely remain a long-term liability for several decades. The following is the condensed Statement of Activities and Changes in Net Position for the fiscal years ending June 30, 2017 and June 30, 2016.

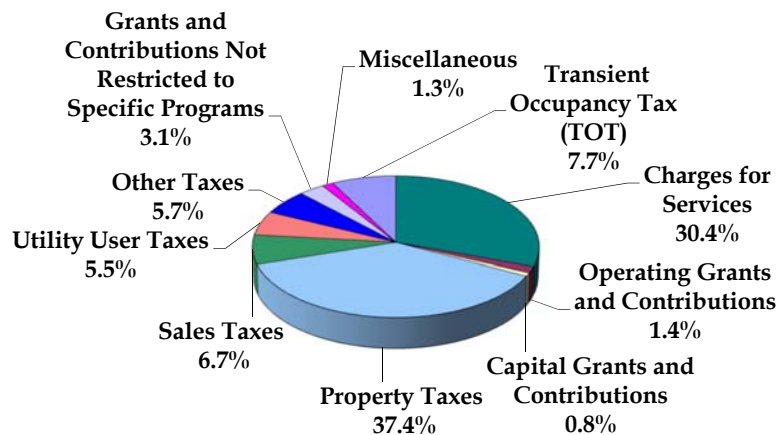
**Governmental Activities.** Governmental activities increased the City of Hermosa Beach’s net position by \$6,458,104. Significant elements of this change are as follows:

<b>Changes in Net Positions</b>		
<b>June 30, 2017</b>		
<b>(dollars in thousands)</b>		
	<b>Governmental Activities</b>	
	<b>2017</b>	<b>2016</b>
Revenues:		
Program Revenues:		
Charges For Services	\$ 12,807	\$ 13,062
Operating Grants and Contributions	602	756
Capital Grants and Contributions	328	203
General Revenues:		
Property Taxes	15,714	15,317
Other Taxes	10,747	10,423
Grants and Contributions Not		
Restricted to Specific Programs	1,305	1,369
Other	565	723
<b>Total Revenues</b>	<b>42,068</b>	<b>41,853</b>
Expenses:		
Legislative and Legal	2,044	2,083
General Government	3,599	2,411
Public Safety	18,912	19,937
Community Development	1,787	1,316
Culture and Recreation	1,311	1,098
Public Works	7,957	9,128
<b>Total Expenses</b>	<b>35,610</b>	<b>35,973</b>
Increase (Decrease) in Net Position	6,458	5,880
Net Position	\$ 51,933	\$ 46,053
Net Position - Ending	\$ 58,391	\$ 51,933

### Revenue for Governmental Activities

- Charges for services decreased by \$254,833 or 2% primarily due a decrease in plan check fees and the implementation of a sewer service charge rebate (which was retroactive to 2015-16).
- After the recording of unavailable revenues of \$623,075, property tax revenue increased \$396,636 or 2.6%. Property values at the beach continue to increase at a faster pace than other areas.
- Sales Tax revenue decreased by \$79,505 or 2.7%. Sales Tax is down due to a grocery store vacancy and a slight decline in the Eating/Drinking Places category.
- Transient Occupancy Tax (TOT) revenue increased \$474,582 or 17.2%. The TOT tax rate increased from 10% to 12% on January 1, 2016 as a result of an initiative place on the ballot by residents. Without the rate increase, revenue would be estimated to be 7% over prior year. Reported occupancy rates for were up 2%, from 80% for 2015-16 to 82% in 2016-17.
- Utility User Tax was down by \$86,800 or 3.6% and revenue from other taxes not listed separately was up \$323,403 or 3.1%.

## Revenue by Source - Government Activities



Revenues:	2017	2016
Property Taxes	\$ 15,714,094	\$ 15,317,458
Charges for Services	12,807,452	13,062,285
Transient Occupancy Tax (TOT)	3,237,026	2,762,444
Sales Taxes	2,816,289	2,895,794
Other Taxes	2,391,325	2,376,199
Utility Users Taxes	2,302,024	2,388,824
Grants & Contributions not Restricted to Specific Programs	1,304,880	1,369,042
Operating Grants & Contributions	601,816	755,650
Miscellaneous	564,798	267,849
Capital Grants & Contributions	327,534	203,033
Investment Earnings	-	455,234
<b>Total Revenues</b>	<b>\$ 42,067,238</b>	<b>\$ 41,853,812</b>

### Expenses for Governmental Activities

Expenses for Governmental Activities decreased by 1%

Legislative and Legal expenses decreased by 1.9%.

General Government expenses increased by \$1,187,352 or 49.2%. The increase is due to the GASB 68 recording of the department's share of the pension obligation adjustment for the difference between the City actual contributed and what CalPERS calculated to be the City's proportionate share of contributions (due to participating in a cost-sharing multiple-employer plan). See Note 9 for further information. Without this adjustment, the general government expenses would have been \$297,336 higher than prior year, primarily due to increased personnel costs related to the addition of an Environmental Analyst and the salary increases/reclassification of positions related to the implementation of the class and compensation study. Contract services costs also increased due to recruitment services for the City Manager's position and the use of a labor negotiator for the City's contract negotiations with the seven bargaining groups.

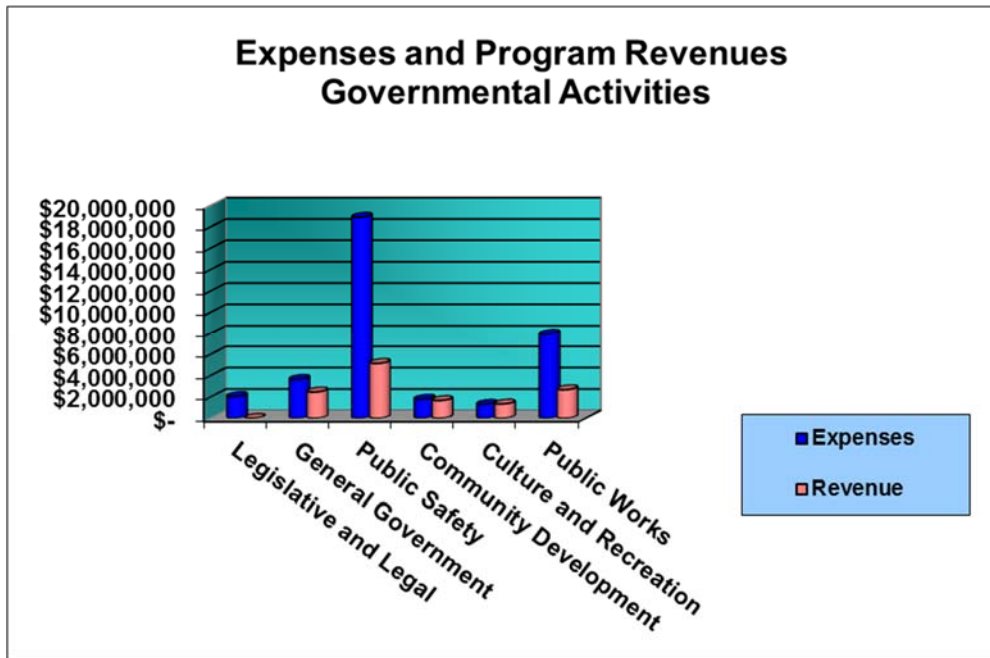
Public Safety expenses decreased by \$1,025,239 or 5.1%. The decrease is due to the GASB 68 recording of the department's share of the pension obligation adjustment noted above under general government. See Note 9 for further information. Without this adjustment, the public safety expenses would have been \$1,389,498 higher than prior year, primarily due to increases in personnel costs. In 2016-17, the City transitioned from a part-time interim Fire Chief to a full-time Fire Chief and the Emergency Manager was made a full-time permanent position. A shared full-time permanent Code Enforcement Officer/Fire Inspector position was also added. The Fire Department had increased contract services costs related to updating the emergency operations and hazard mitigation plans and medical director services. Additionally, in April 2017, the decision was made for the City to transfer its Fire Services to Los Angeles County. All accrued leave hours of \$806,472 for the City's sworn Fire Department personnel will be payable in 2017-18, therefore the City recognized the cost as a current liability and recorded the related expense in 2016-17. Retirement costs increased due to the positions noted above and the CalPERS contribution rate increased from 56.87% to 63.75% for Fire Tier 1 and 83.82% to 89.16% for Police Tier 1. Community Services had increased personnel costs due to staff being on light duty due to injuries and increased contract services cost due to the move to Mobile Data Computers (MDCs).

Community Development costs increase by \$470,999 or 35.8%. The decrease is primarily due to the GASB 68 recording of the department's share of the pension obligation adjustment noted above under general government. Without this adjustment, Community Development costs would have been up \$107,651 due to the addition of a full-time permanent Code Enforcement Officer and shared full-time permanent Code Enforcement Officer/Fire Inspector position.

Culture and Recreation expenses increased by \$213,238 or 19.4%. The increase is due to the GASB 68 recording of the department's share of the pension obligation adjustment noted above under general government. Without this adjustment, the culture and recreation expenses would have been \$189,226 higher than prior year due to personnel costs related to the Community Resources Manager and Youth Programs Coordinator positions being hired half way through the 2015-16 fiscal year and higher contract services expenditures related to the use of the Park/Recreation Facility Fund for improvements for the Clark Building and Community Center, and the after school program shuttle expenditures being reflected as a culture and recreation related expense rather than with general government.

Public Works expenses decreased \$1,171,357 or -12.8%. The decrease is primarily due to adjustments to capital assets in the prior year and GASB 68 entries. Without these adjustments, the difference would be a slight decrease of \$155,237, primarily due to lower contract services expenditures in the Sewer Fund. Expenditures in 2015-16 were higher due to consulting costs related to the sewer service charge and senior rebate and work done to clean and video inspect the sewers.





### Financial Analysis of the Government's Funds

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

**Governmental funds.** The focus of the City of Hermosa Beach's governmental funds is to provide information on near-term inflows, outflows, and balances of spending resources. Such information is useful in assessing the City of Hermosa Beach's financing requirements. These funds are accounted for by using the modified accrual basis of accounting. Types of governmental funds reported by the City include the General Fund, Special Revenue funds, and Capital Projects funds.

As of the end of the current fiscal year, the City of Hermosa Beach's governmental funds reported combined ending fund balances of \$28,358,360, an increase of \$3,382,904, in comparison with the prior fiscal year. See Note 11 for more information. The total fund balances of the governmental funds consist of the following:

- Non-spendable fund balance of \$73,783 represents prepaid items.
- Restricted fund balance of \$5,260,908 which have restrictions imposed by external parties or enabling legislation. Funds in this category include Lighting District Funds, Proposition A and C Transportation Funds, Asset Forfeiture Funds, Supplemental Law Enforcement Funds (COPS), and Storm Drain Funds.
- Committed fund balance of \$1,994,608 which have reserves for capital outlay and future renovations.
- Assigned fund balance of \$21,029,061 which includes the amounts to be used for specific purposes of the City, but do not meet the criteria to be classified as restricted or committed. Funds in this category include Contingency funds ("rainy day" funds), Retirement Stabilization funds, Compensated Absences funds, Capital Projects, Capital Improvements, and Sewer funds.

The General fund, Sewer Special Revenue Fund, and Capital Improvement Capital Projects Fund qualified as major funds under the GASB Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*, reporting criteria.

The General Fund balance increased in 2016-17 by \$884,510. This increase is due to additional 2016-17 Transient Occupancy Tax (TOT) funds set aside for fire services (facility and equipment conversion costs), and an increase in amounts reappropriated for capital improvement projects and one-time expenditures that were budgeted, but not expended in 2016-17.

Overall General Fund revenue increased by 2.0%. The increase is a result of the following: additional property tax revenue of 7.5%; additional other tax revenue of 4.4%, a decrease in licenses and permits of 12.9%; a decrease in miscellaneous revenue of 72.1%; a decrease in intergovernmental revenues of 28.3%; an increase in use of money and property of 11.0%; and fines and forfeitures decrease of 7.8%.

General Fund expenditures show an increase of 2.3%. The increase is primarily due to Public Safety, Community Development, and General Government for the aforementioned reasons.

### **General Fund Budgetary Highlights**

The final amended budget for revenue other than transfers is 0.5% more than the original budget. Actual revenue was lower than the final budget by \$406,554 or 0.9% for the following reasons:

- Tax revenue collections were .3% over budget primarily due to conservative estimates for property tax and transient occupancy tax.
- Licenses and Permits were 16.6% under budget due to the unpredictability of estimates for building permits and a reduction in taxicab franchise fees due to a decrease in the number of cabs required per franchise.
- Fines and Forfeitures were down 9.6% due to staffing shortages and a decrease in municipal court fines. Court cases have decreased as a result of an increased use of diversion programs.
- Current Service Charges were up 3.9% primarily due to increased enrollment for recreation classes and programs.

The final amended budget for appropriations other than Transfers Out is more than the original budget by 2.9%. The increase was primarily due to funds carried forward/reappropriated from 16-17 for ongoing capital improvement projects.

Actual expenditures other than Transfers Out were less than the final appropriations by 4.3% largely due to capital improvement projects not completed in 2016-17.

### **Capital Asset and Debt Administration**

**Capital assets.** The City of Hermosa Beach's net investment in capital assets for its governmental as of June 30, 2017, amounts to \$66,417,072 (net of accumulated depreciation). This investment in capital assets includes land, buildings and structures, improvements, machinery and equipment, park facilities, roads, highways, and monuments. The total decrease in the City of Hermosa Beach's investment in capital assets for the 2016-17 fiscal year was less than 1%.

Major capital asset events during the fiscal year included the following:

## **Governmental Activities**

- Work on the master plans for sewer, storm drain, and pavement management.
- Citywide Energy Conservation upgrades of \$106,306.
- Community Center Photovoltaic installation (completed at the beginning of 2017-18).
- Purchase of 9 vehicles including 2 electric motorcycles.
- Hermosa Avenue ADA curb ramps of \$99,426.
- Installation of playground equipment at South Park of \$187,799.

Additional information on the City of Hermosa Beach's capital assets can be found in Note 6 on page 66 of this report.

## **Insurance Fund**

As previously stated, the City had a \$1.5 million settlement agreement with E&B Natural Resources, resolving the dispute on interest and terminating the 1992 lease and any other related permits, entitlements or approvals for oil drilling. See Note 14 for more information on the oil litigation.

## **Economic Factors and Next Year's Budgets and Rates**

- On April 25, 2017, the City Council voted to contract fire services in Hermosa Beach with the Los Angeles County Consolidated Fire District. The 2017-18 Budget includes the cost of six (6) months of the existing Fire Department expenditures and six (6) months of expenditures with the County, with \$754,850 committed in the General Fund to cover future Fire Department facility and equipment conversion costs. The 2017-18 Budget also includes the following:
  - \$5,680,332 is committed for Contingency in the General Fund, which is 16% of operating expenditures and in line with our financial policy and the Council goal for a "Financially Sound City Government".
  - \$787,390 is transferred from the General Fund for the 2015 Lease Revenue Bonds debt service.
  - \$12.5 million of Capital Improvement Projects are funded, which includes \$6.1 in new funding.
- The City's 5-Year Forecast for 2018-2023 projects retirement costs to increase 9% on average for the first year of due to change in actuarial assumptions and then declines 19% due to the Police Side fund payoff. The side funds were created by CalPERS for any unfunded liability that existed when the city was pooled with other cities in 2003. Years 3, 4, and 5 shows increases of 1%, 8%, and 7% respectively due to CalPERS lowering their discount rate (which increases employer rates).
- Healthcare benefits are assumed to increase 14% for medical. The actual rates are typically lower than the assumed increase.

## **Revenue Trends and Assumptions**

The 2017-18 Budget demonstrates continued strength in the local economy and a balanced budget, with added personnel, replacement of nine (9) vehicles, a City-wide document imaging project, a City-wide Urban Forest Assessment and Tree Replacement Program, e-chalking software to improve efficiency and reduce injuries in the issuance of parking citations, and funding for \$12.5 million in capital improvement projects, which includes funding for street improvements, a park master plan, restroom improvements, storm water/urban runoff diversion project, and projects to enhance energy efficiency. Added personnel include one Community Service Officer. The budget also added one (1) full time temporary position, Public Works Inspector, and one (1) part-time temporary position, Public Works Intern. Funds were set aside for labor negotiations for all seven bargaining units; three year MOUs for all groups have since been ratified.

Hermosa Beach continues to have ongoing revenues exceed ongoing expenses. Revenue growth of 4% is anticipated in the 2017-18 Budget. Property tax is estimated to increase by 5.7%. Sales tax, transient occupancy tax, and utility user's tax are all estimated to continue at the 2016-17 level. Licenses and Permits reflect an increase of 30% due to building permit activity. Fines and Forfeitures reflect an increase of 4% due to the increase of enforcement hours and the anticipation of full staffing.

## **Requests for Information**

This financial report is designed to provide a general overview of the City of Hermosa Beach's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, 1315 Valley Drive, Hermosa Beach, CA 90254.

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# **BASIC FINANCIAL STATEMENTS**

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# **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**City of Hermosa Beach**  
**Statement of Net Position**  
**June 30, 2017**

	Primary Government
	Governmental Activities
<b>ASSETS</b>	
Current assets:	
Cash and investments	\$ 43,922,367
Accounts receivable	3,031,617
Property taxes receivable, net	623,075
Reimbursable grants receivable	183,570
Interest receivable on investments	18,026
Other receivables	78
Other assets	539,584
Total current assets	48,318,317
Noncurrent assets:	
Net other postemployment benefit assets	562,893
Capital assets:	
Nondepreciable	25,223,801
Depreciable, net	41,193,271
Total capital assets, net	66,417,072
Total noncurrent assets	66,979,965
<b>Total assets</b>	<b>115,298,282</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension related deferred outflows of resources	15,084,318



**City of Hermosa Beach**  
**Statement of Net Position (Continued)**  
**June 30, 2017**

	Primary Government
	Governmental Activities
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable and accrued liabilities	2,165,110
Accrued wages and benefits payable	1,438,617
Refundable deposits	337,634
Unearned revenue	50,401
Workers' compensation claims payable - due within one year	749,469
General liability claims payable - due within one year	502,887
Compensated absences - due within one year	1,786,445
Long-term debt - due within one year	445,380
Total current liabilities	7,475,943
Noncurrent liabilities:	
Workers' compensation claims payable - due in more than one year	4,161,340
General liability claims payable - due in more than one year	644,879
Compensated absences - due in more than one year	1,007,992
Long-term debt	11,008,280
Aggregate net pension liability	45,082,010
Total noncurrent liabilities	61,904,501
<b>Total liabilities</b>	<b>69,380,444</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension related deferred inflows of resources	2,611,234
<b>Total deferred inflows of resources</b>	<b>2,611,234</b>
<b>NET POSITION</b>	
Investment in capital assets	66,417,072
Restricted for:	
Capital projects	765,096
Street and sewer purposes	186,341
Transportation purposes	3,133,594
Public works	107,536
Public safety	500,577
Culture and recreation	122,764
Undergrounding districts	445,000
Total restricted	5,260,908
Unrestricted (Deficit)	(13,287,058)
<b>Total net position</b>	<b>\$ 58,390,922</b>

**City of Hermosa Beach**  
**Statement of Activities**  
**For the Year Ended June 30, 2017**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Total Program Revenues</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	
<b>Primary government:</b>					
<b>Governmental activities:</b>					
Legislative and legal	\$ 2,043,740	\$ -	\$ -	\$ -	\$ -
General government	3,598,512	2,433,987	25,286	-	2,459,273
Public safety	18,911,734	4,993,104	140,347	8,150	5,141,601
Community development	1,787,364	1,664,132	-	-	1,664,132
Culture and recreation	1,310,740	1,341,455	-	-	1,341,455
Public works	7,957,044	2,374,774	436,183	319,384	3,130,341
Total governmental activities	<u>\$ 35,609,134</u>	<u>\$ 12,807,452</u>	<u>\$ 601,816</u>	<u>\$ 327,534</u>	<u>\$ 13,736,802</u>

**City of Hermosa Beach**  
**Statement of Activities (Continued)**  
**For the Year Ended June 30, 2017**

<b>Functions/Programs</b>	Net (Expense) Revenue and Changes in Net Position
<b>Primary government:</b>	
<b>Governmental activities:</b>	
Legislative and legal	\$ (2,043,740)
General government	(1,139,239)
Public safety	(13,770,133)
Community development	(123,232)
Culture and recreation	30,715
Public works	(4,826,703)
Total governmental activities	<u>(21,872,332)</u>
<b>General Revenues:</b>	
Taxes:	
Property taxes	15,714,094
Sales taxes	2,816,289
Real property transfer tax	345,603
Franchise fees	720,338
Transient occupancy tax	3,237,026
Business license	1,098,421
Utility users tax	2,302,024
½ cent sales tax for public safety	218,092
Other taxes	8,871
Total taxes	<u>26,460,758</u>
Grants and contributions not restricted to specific programs	1,304,880
Miscellaneous	564,798
<b>Total general revenues</b>	<u>28,330,436</u>
<b>Change in net position</b>	6,458,104
<b>Net position - beginning of year</b>	<u>51,932,818</u>
<b>Net position - end of year</b>	<u><u>\$ 58,390,922</u></u>

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# FUND FINANCIAL STATEMENTS

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*Governmental Fund Financial Statements*

*Proprietary Fund Financial Statements*

*Fiduciary Fund Financial Statements*

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# GOVERNMENTAL FUND FINANCIAL STATEMENTS

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The Governmental Funds of the City are outlined below:

**General Fund** - The General Fund accounts for all revenues and expenditures used to finance the traditional services associated with a municipal government which are not accounted for in the other funds. In Hermosa Beach, these services include general government, safety, community development, culture and recreation and public works.

**Sewer Special Revenue Fund** - This fund is used to account for funds derived from a portion of the 6% utility user tax and miscellaneous services charges. Funds are spent on the Sewer/Storm Drain Department and capital sewer projects.

**Capital Improvement Capital Projects Fund** - Funds set aside for capital improvement projects.

**Nonmajor Governmental Funds** - Nonmajor Governmental Funds is the aggregate of all the nonmajor governmental funds.

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**City of Hermosa Beach**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2017**

	Major Funds				Total
	General	Sewer Special Revenue Fund	Capital Improvements Capital Projects Fund	Nonmajor Governmental Funds	
<b>ASSETS</b>					
Cash and investments	\$ 11,755,786	\$ 5,188,850	\$ 7,567,607	\$ 5,865,874	\$ 30,378,117
Accounts receivable	2,429,024	222,649	-	351,815	3,003,488
Property taxes receivable, net	604,619	10,458	-	7,998	623,075
Reimbursable grants receivable	-	-	-	183,570	183,570
Interest receivable on investments	10,987	1,937	1,886	3,216	18,026
Other receivables	-	-	78	-	78
Other assets	408,437	-	-	7,083	415,520
Due from other funds	170,068	-	-	-	170,068
<b>Total assets</b>	<b>\$ 15,378,921</b>	<b>\$ 5,423,894</b>	<b>\$ 7,569,571</b>	<b>\$ 6,419,556</b>	<b>\$ 34,791,942</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities	\$ 1,592,420	\$ 17,928	\$ 31,846	\$ 423,969	\$ 2,066,163
Accrued wages and benefits payable	1,394,194	7,364	-	20,546	1,422,104
Refundable deposits	337,634	-	-	-	337,634
Unearned revenues	50,401	-	-	-	50,401
Due to other funds	-	-	-	170,068	170,068
Compensated absences, due within one year	1,737,101	12,753	-	14,283	1,764,137
<b>Total liabilities</b>	<b>5,111,750</b>	<b>38,045</b>	<b>31,846</b>	<b>628,866</b>	<b>5,810,507</b>
<b>Deferred Inflows of Resources:</b>					
Unavailable Revenues	604,619	10,458	-	7,998	623,075
<b>Total deferred inflows of resources</b>	<b>604,619</b>	<b>10,458</b>	<b>-</b>	<b>7,998</b>	<b>623,075</b>
<b>Fund Balances:</b>					
Nonspendable	66,700	-	-	7,083	73,783
Restricted	158,149	-	-	5,102,759	5,260,908
Committed	1,115,600	209,860	-	669,148	1,994,608
Assigned	8,322,103	5,165,531	7,537,725	3,702	21,029,061
<b>Total fund balances</b>	<b>9,662,552</b>	<b>5,375,391</b>	<b>7,537,725</b>	<b>5,782,692</b>	<b>28,358,360</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 15,378,921</b>	<b>\$ 5,423,894</b>	<b>\$ 7,569,571</b>	<b>\$ 6,419,556</b>	<b>\$ 34,791,942</b>

**City of Hermosa Beach**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Government-Wide Statement of Net Position**  
**June 30, 2017**

<b>Total Fund Balances - Total Governmental Funds</b>	\$	28,358,360
Amounts reported for governmental activities in the Statement of Net Position were reported differently because:		
Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet.		
Nondepreciable, net of Internal Service Fund of \$181,182	\$	25,042,619
Depreciable, net of Internal Service Fund of \$3,306,314		37,886,957
Total capital assets		62,929,576
Net other postemployment benefit assets are not available to pay for current period expenditures and therefore, are not reported in the governmental funds.		
		562,893
Internal Service Funds were used by management to charge the costs of certain activities, such as insurance and equipment replacement to individual funds. The assets and liabilities of the Internal Service Funds were included in the governmental activities in the Government-Wide Statement of Net Position.		
Insurance Fund	\$	1,562,582
Equipment Replacement Fund		9,425,014
Total Internal Service Funds		10,987,596
Revenues in the Government-wide Statement of Activities that do not provide current financial resources and are not reported as revenue in the governmental funds.		
		623,075
Long-term liabilities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the Statement of Net Position:		
Lease revenue bonds and premium		(11,453,660)
Compensated absences, net of \$22,308 reported in Internal Service fund and \$1,764,137 reported in accrued payroll		(1,007,992)
Total		(12,461,652)
Deferred amounts relates to pension not available for current expenditures and are not reported in the governmental fund financial statements:		
Pension related deferred outflows of resources		15,084,318
Pension related deferred outflows of resources		(2,611,234)
Net pension liability is not due and payable in the current period and therefore is not reported in the governmental funds.		
		(45,082,010)
<b>Net Position of Governmental Activities</b>	<b>\$</b>	<b>58,390,922</b>

**City of Hermosa Beach**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2017**

	Major Funds				Total
	General	Sewer Special Revenue Fund	Capital Improvements Capital Projects Fund	Nonmajor Governmental Funds	
<b>REVENUES:</b>					
Property taxes	\$15,753,082	\$ -	\$ -	\$ 455,926	\$ 16,209,008
Other taxes	10,737,793	-	-	1,013,726	11,751,519
Licenses and permits	967,956	-	-	-	967,956
Fines and forfeitures	2,070,599	-	-	51,736	2,122,335
Use of money and property	718,239	-	-	328,845	1,047,084
Intergovernmental	116,176	47,378	-	867,637	1,031,191
Charges for services	6,969,683	1,110,295	-	332,344	8,412,322
Miscellaneous	126,818	-	2,621	410,582	540,021
Interest earned on investments	-	-	4,960	1,215	6,175
<b>Total revenues</b>	<b>37,460,346</b>	<b>1,157,673</b>	<b>7,581</b>	<b>3,462,011</b>	<b>42,087,611</b>
<b>EXPENDITURES:</b>					
Current:					
Legislative and legal	1,448,509	-	-	-	1,448,509
General government	3,640,396	-	2,500	79,763	3,722,659
Public safety	21,287,623	-	-	105,014	21,392,637
Community development	1,832,234	-	-	36,784	1,869,018
Culture and recreation	1,282,637	-	15,526	97,752	1,395,915
Public works	4,869,805	340,199	-	896,644	6,106,648
Capital outlay	565,588	154,223	181,065	743,377	1,644,253
Debt service:					
Principal	-	-	-	335,000	335,000
Interest and fiscal charges	-	-	-	375,332	375,332
<b>Total expenditures</b>	<b>34,926,792</b>	<b>494,422</b>	<b>199,091</b>	<b>2,669,666</b>	<b>38,289,971</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>2,533,554</b>	<b>663,251</b>	<b>(191,510)</b>	<b>792,345</b>	<b>3,797,640</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in	353,853	-	-	1,588,161	1,942,014
Transfers out	(2,002,897)	-	-	(353,853)	(2,356,750)
<b>Total other financing sources (uses)</b>	<b>(1,649,044)</b>	<b>-</b>	<b>-</b>	<b>1,234,308</b>	<b>(414,736)</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>884,510</b>	<b>663,251</b>	<b>(191,510)</b>	<b>2,026,653</b>	<b>3,382,904</b>
<b>FUND BALANCES:</b>					
Beginning of year	8,778,042	4,712,140	7,729,235	3,756,039	24,975,456
End of year	<u>\$ 9,662,552</u>	<u>\$ 5,375,391</u>	<u>\$ 7,537,725</u>	<u>\$ 5,782,692</u>	<u>\$ 28,358,360</u>

**City of Hermosa Beach**  
**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes**  
**in Fund Balances to the Government-Wide Statement of Activities**  
**For the Year Ended June 30, 2017**

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<b>Net Change in Fund Balances - Total Governmental Funds</b>	<u>\$ 3,382,904</u>
Governmental activities in the Statement of Activities were reported differently because:	
Governmental Funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The amount of capital assets recorded in the current period is listed below.	
Total capital outlay (net of \$366,593 reported in internal service fund)	1,748,839
The net effect on disposal of capital assets.	(141,862)
Depreciation expense of capital assets is reported in the Government-Wide Statement of Activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds except for the Internal Service Fund amounts listed below.	
Total depreciation reported in Government-Wide Statement of Activities	(2,456,831)
Less: depreciation reported in Internal Service Funds	<u>420,531</u>
Total	(2,036,300)
Earned but unavailable revenues reported in the governmental funds balance sheet as deferred inflows of resources should be recognized in the government-wide statement of activities as revenue regardless of availability.	(38,988)
Certain pension expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	3,798,454
Changes in net other postemployment benefit assets reported in the Statement of Activities do not use current financial resources and, therefore, are not reported as an expenditures in governmental funds.	292,072
Compensated absences were reported in the Government-Wide Statement of Activities, but they did not require the use of current financial resources. Therefore, compensated absences were not reported as expenditures in the governmental funds.	353,492
The issuance of long-term debt provides current financial resources to governmental funds. However, the repayment reduces long-term liabilities in the governmental activities statement of net position.	335,000
Amortization of premium does not use current financial resources and therefore not reported as expenditure in the governmental funds.	10,380
Internal Service Funds are used by management to charge the costs of certain activities, such as insurance and equipment replacement, to individual funds. The net revenue of the Internal Service Funds is reported in governmental activities.	<u>(1,245,887)</u>
<b>Change in Net Position of Governmental Activities</b>	<u><u>\$ 6,458,104</u></u>

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# PROPRIETARY FUND FINANCIAL STATEMENTS

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*Internal Service Funds* - To account for the costs associated with the City's insurance and for funding equipment replacement.

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**City of Hermosa Beach**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2017**

	Governmental Activities
	Internal Service Funds
<b>ASSETS</b>	
Current assets:	
Cash and investments	\$ 13,544,250
Accounts receivable	28,129
Other assets	124,064
Total current assets	13,696,443
Noncurrent assets:	
Nondepreciable capital assets	181,182
Depreciable capital assets, net of accumulated depreciation	3,306,314
Total noncurrent assets	3,487,496
<b>Total assets</b>	17,183,939
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	98,947
Accrued wages and benefits payable	16,513
Workers' compensation claims payable - due within one year	749,469
General liability claims payable - due within one year	502,887
Compensated absences due within one year	22,308
Total current liabilities	1,390,124
Long-term liabilities:	
Workers' compensation claims payable - due in more than one year	4,161,340
General liability claims payable - due in more than one year	644,879
Total long-term liabilities	4,806,219
<b>Total liabilities</b>	6,196,343
<b>NET POSITION</b>	
Investment in capital assets	3,487,496
Unrestricted	7,500,100
<b>Total net position</b>	\$ 10,987,596

**City of Hermosa Beach**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
**For the Year Ended June 30, 2017**

	Governmental Activities
	Internal Service Funds
<b>OPERATING REVENUES:</b>	
Charges for services	\$ 4,582,327
Miscellaneous revenue	18,615
<b>Total operating revenues</b>	4,600,942
<b>OPERATING EXPENSES:</b>	
Salaries and wages	330,276
Contractor services	2,956,708
Supplies	348,948
Claims expense	2,033,673
Depreciation	420,531
<b>Total operating expenses</b>	6,090,136
<b>OPERATING INCOME</b>	(1,489,194)
<b>NONOPERATING REVENUES (EXPENSES):</b>	
Operating grant	(234,159)
Gain on disposal of capital assets	62,730
<b>Total nonoperating revenues (expenses)</b>	(171,429)
<b>INCOME BEFORE TRANSFERS</b>	(1,660,623)
<b>TRANSFERS:</b>	
Transfers in	944,497
Transfers out	(529,761)
<b>Total transfers</b>	414,736
<b>Change in net position</b>	(1,245,887)
<b>NET POSITION:</b>	
Beginning of the year	12,233,483
End of the year	\$ 10,987,596



**City of Hermosa Beach**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2017**

	Governmental Activities
	Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received for services from other funds	\$ 4,582,327
Cash received from insurance recovery	6,115
Cash payments to suppliers for goods and services	(3,294,128)
Cash payments to employees for services	(321,319)
Cash payment for insurance premiums	(1,339,818)
<b>Net cash (used in) operating activities</b>	<b>(366,823)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Contributions	(234,159)
Transfers in	944,497
Transfers out	(529,761)
<b>Net cash provided by noncapital financing activities</b>	<b>180,577</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Acquisition of capital assets	(366,593)
Proceeds from sale of capital assets	68,064
<b>Net cash (used in) capital and related financing activities</b>	<b>(298,529)</b>
<b>Net change in cash and cash equivalents</b>	<b>(484,775)</b>
<b>CASH AND CASH EQUIVALENTS:</b>	
Beginning of year	14,029,025
End of year	\$ 13,544,250
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH (USED IN) OPERATING ACTIVITIES:</b>	
Operating (loss)	\$ (1,489,194)
Adjustments to reconcile operating income to net cash (used in) operating activities:	
Depreciation	420,531
(Increase) decrease in:	
Other assets	42,252
Increase (decrease) in:	
Accounts payable	(30,724)
Accrued wages and benefits payable	5,624
Workers' compensation claims payable	234,159
General liability claims payable	447,196
Compensated absences	3,333
Total adjustments	1,122,371
<b>Net cash (used in) operating activities</b>	<b>\$ (366,823)</b>

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# FIDUCIARY FUND FINANCIAL STATEMENTS

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*Agency Funds*- are used to account for assets held by the City in the capacity of agent for individuals. Agency Fund spending is controlled primarily through legal agreements and applicable State and Federal laws. The Agency Funds of the City were established to account for transactions related to payments for limited obligation bonds for the Bayview Drive, the Lower Pier Avenue Assessment District, the Beach Drive Assessment District, the Myrtle Avenue Utility Undergrounding Assessment District, and the Loma Drive Utility Undergrounding Assessment District.

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**City of Hermosa Beach**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2017**

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	Agency Funds
<b>ASSETS</b>	
Cash and investments	\$ 569,348
Interest receivable	442
Other receivable	11,577
Other assets	90
<b>Total assets</b>	<b>\$ 581,457</b>
<b>LIABILITIES</b>	
Assessment:	
Installment account	\$ 568,457
Reserve requirement	13,000
<b>Total liabilities</b>	<b>\$ 581,457</b>

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# **NOTES TO THE BASIC FINANCIAL STATEMENTS**

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**City of Hermosa Beach**  
**Index to the Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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**City of Hermosa Beach**  
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**For the Year Ended June 30, 2017**

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**City of Hermosa Beach**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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**Note 1 – Summary of Significant Accounting Policies**

The basic financial statements of the City of Hermosa Beach, California, (the “City”) have been prepared in conformity with accounting principles generally accepted in the United States (“U.S. GAAP”) as applied to governmental agencies. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the City’s significant policies:

**A. Financial Reporting Entity**

The City was incorporated on January 14, 1907, under the General Laws of the State of California. The City operates under a Council-Manager form of government and provides the following services: public safety (police, crossing guards and fire), maintenance and construction of public improvements, cultural, recreation, community development (planning and zoning), and general administrative services.

The basic financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The City is considered to be financially accountable for an organization if the City appoints a voting majority of that organization’s governing body and either the City is able to impose its will on that organization or there is a potential for the organization to provide financial benefits to or impose specific financial burdens on the City. The City is also considered to be financially accountable for an organization if that organization is fiscally dependent (i.e., it is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval from the City). In certain cases, other organizations are included as component units if the nature and significance of their relationship with the City are such that their exclusion would cause the City’s financial statement to be misleading or incomplete. Blended component units, although legally separate entities, are in substance, part of the City’s operations and data from these units are combined with data of the City.

Management determined that the following entities should be reported as blended component units based on the criteria above. Each blended component unit has a June 30 year-end, has a governing board that is substantially the same as the City’s, there is a financial benefit or burden relationship between the City and the blended component unit, and the City is financially accountable for each of the blended component units.

*Hermosa Beach Street Lighting and Landscaping District* – The Hermosa Beach Street Lighting and Landscaping Assessment District was created for street lighting/median maintenance purposes pursuant to Street and Highway Code Sections 22500-22679.

*Lower Pier Avenue Assessment District* – The Lower Pier Avenue Assessment District was created for improvement of the assessment district in November 1997 pursuant to Street and Highway Code Section 10000.

*Myrtle Avenue Underground Utility District* – The Myrtle Avenue Underground Utility District was created in October 1999 pursuant to Street and Highway Code Section 10000.

*Loma Drive Underground Utility District* – The Loma Drive Underground Utility District was created in October 1999 pursuant to Street and Highway Code Section 10000.

*Beach Drive Assessment District* – The Beach Drive Assessment District was created in July 2004 pursuant to Street and Highway Code Section 10000.

*Bayview Drive Underground District* – The Bayview Drive Underground District was created in February 2005 pursuant to Street and Highway Code Section 10000.

*Hermosa Beach Public Financing Authority* – The Hermosa Beach Public Financing Authority was created on July 14, 2015 to authorize the issuance and sale of 2015 Lease Revenue Bonds.

The above component units do not issue separate financial statements.

**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 1 – Summary of Significant Accounting Policies (Continued)**

***B. Basis of Accounting and Measurement Focus***

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. City resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The Statement of Net Position reports separate sections for Deferred Outflows of Resources, and Deferred Inflows of Resources, when applicable.

*Deferred Outflows of Resources* represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.

*Deferred Inflows of Resources* represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as revenue until that time.

*Government-Wide Financial Statements*

The government-wide financial statements are presented on an “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all of the City’s assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying statement of net position. The statement of activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. Fiduciary activities of the City are not included in these statements.

Certain types of transactions are reported as program revenues for the City in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Certain eliminations have been made in regards to interfund activities, payables and receivables. All internal balances in the statement of net position have been eliminated. In the statement of activities, internal service fund transactions have been included in the governmental activities. The following interfund activities have been eliminated:

- Due from and to other funds, which are short-term loans within the primary government
- Transfers in and out, which are flows of assets between funds without the requirement for repayment

*Governmental Fund Financial Statements*

All governmental funds are accounted for on a spending or “*current financial resources*” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances presents increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in fund balances. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 1 – Summary of Significant Accounting Policies (Continued)**

**B. Basis of Accounting and Measurement Focus (Continued)**

Governmental Fund Financial Statements (Continued)

Revenues are recorded when received in cash, except those revenues subject to accrual (generally 60 days after year-end) which are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property taxes, intergovernmental revenues and other taxes. Sales tax is received on a monthly basis. Business license fees are recorded as received, except at year-end when they are accrued pursuant to the modified accrual basis of accounting. The City recognizes business license revenue collected within 60 days as revenue at June 30. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Reconciliations of the fund financial statements to the government-wide financial statements are provided to explain the differences.

The City reports the following major governmental fund:

General Fund – The General Fund is the City’s principal operating fund. It accounts for all revenues and expenditures used to finance the traditional services associated with a municipal government except those required to be accounted for in another fund.

Sewer Special Revenue Fund – This fund is used to account for funds derived from a portion of the 6% utility user tax and miscellaneous services charges. Funds are spent on the Sewer/Storm Drain Department and capital sewer projects.

Capital Improvement Capital Projects Fund – This fund is set aside for capital improvement projects.

Proprietary Fund Financial Statements

Proprietary funds are accounted for using the “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recognized in the period in which the liability is incurred.

**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 1 – Summary of Significant Accounting Policies (Continued)**

***B. Basis of Accounting and Measurement Focus (Continued)***

*Proprietary Fund Financial Statements (Continued)*

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for the proprietary funds include the costs of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Internal service funds are the only funds presented in the proprietary fund financial statements. However, internal service balances and activities have been combined with the governmental activities in the government-wide financial statements. The internal service funds are used to account for equipment replacement and insurance provided to other City departments on a cost-reimbursement basis.

*Fiduciary Fund Financial Statements*

The City's fiduciary funds represent agency funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The fiduciary funds are accounted for using the accrual basis of accounting. The City maintains seven fiduciary funds which represent assets resulting from assessments to the property owners in four utility undergrounding districts, two reserve funds for utility undergrounding districts and a downtown improvement district (Lower Pier Avenue). The assets are used to repay bonds secured by the private property in the district.

***C. Cash and Investments***

The City's cash and cash equivalents are comprised of cash on hand, demand deposits, and short-term investments with original maturity of three months or less from the date of acquisition. All cash and investments of proprietary funds are held in the City's investment pool. These cash pools have the general characteristics of a demand deposit account, therefore, all cash and investments in the proprietary funds are considered cash and cash equivalents for statement of cash flows purposes.

**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 1 – Summary of Significant Accounting Policies (Continued)**

***D. Fair Value Measurement***

Investments, unless otherwise specified, recorded at fair value in the financial statements, are categorized based upon the level of judgment associated with the inputs used to measure their fair value.

The three levels of the fair value measurement hierarchy are described below:

- Level 1 – Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
- Level 2 – Inputs, other than quoted prices included in Level 1, that are observable for the assets or liabilities through corroboration with market data at the measurement date.
- Level 3 – Unobservable inputs that reflect management’s best estimate of what market participants would use in pricing the assets or liabilities at the measurement date.

***E. Property Taxes Receivable***

Property taxes attach as an enforceable lien on property as of January 1 each year. The property tax year runs from July 1 to June 30. Property is taxed as of January 1 for payment in the following fiscal year. Taxes are payable in two installments: December 10 and April 10 of each year. The County of Los Angeles, California (the “County”) bills and collects the property taxes and remits them to the City according to a payment schedule established by the County. City property tax revenues are recognized when received in cash except at year-end when they are accrued pursuant to the modified accrual basis of accounting. The City recognizes available taxes, or those collected within 60 days, as revenue at June 30.

The County is permitted by State law to levy taxes at 1% of full market value (at time of purchase) and can increase the assessed valuation no more than 2% per year. The City receives a share of this basic levy, or .203 cents of each \$1.00, proportionate to what it received during the years 1976 to 1978.

***F. Interfund Transactions***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due from/to other funds” (i.e., current portion of interfund loans).

***G. Capital Assets***

In the government-wide financial statements, capital assets, which include land, buildings, improvements, equipment, furniture, and infrastructure assets (e.g., roads, sidewalks, and similar items), are recorded at historical cost or estimated historical if purchased or constructed. Donated capital assets, donated works of art or similar items, and capital assets received in a service concession arrangement are reported at acquisition value on the date donated rather than fair value. City policy has set the capitalization threshold for reporting capital assets at \$5,000 and infrastructure at \$100,000.

**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 1 – Summary of Significant Accounting Policies (Continued)**

**G. Capital Assets (Continued)**

The City defines infrastructure as the basic physical assets that allow the City to function. The assets include streets, sewers and storm drains, parking meters and monuments. Each major infrastructure system can be divided into subsystems. For example, the street system can be subdivided into pavement, curb and gutters, sidewalks, medians, streetlights and landscaping. These subsystems were not delineated in the basic financial statements. The Finance Department, with the assistance of the appropriate operating department, maintains information regarding the subsystems.

Interest incurred during capital assets construction, if any, is capitalized for the proprietary funds as part of the asset cost.

For all infrastructure systems, the City elected to use the “Basic Approach” and depreciate over its estimated useful life.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method. The lives used for depreciation purposes are as follows:

Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	3-20 years
Infrastructure	15-50 years

**H. Unearned and Unavailable Revenue**

In the government-wide and fund financial statements, unearned revenue is reported for transactions for which revenue has not yet been earned. Typical transactions recorded as unearned revenues in the government-wide financial statements are cell phone site license lease payments received in advance, prepaid charges for services, facility rentals paid in advance, and quarterly encroachment fees, and advance registration for recreation classes.

In the governmental fund financial statements, unavailable revenue is reported when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. The City reports an unavailable revenue when an asset is reported in governmental fund financial statements but the revenue is not available.

**I. Claims Payable**

The City records a liability to reflect an actuarial estimate of ultimate uninsured losses for both general liability claims (including property damage claims) and workers’ compensation claims. The estimated liability for workers’ compensation claims and general liability claims includes “*incurred but not reported*” (“IBNR”) claims. There is no fixed payment schedule to pay these liabilities.



**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

---

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**J. *Compensated Absences Payable***

City employees have vested interest in varying levels of vacation, sick leave and compensatory time based on their length of employment. It is the policy of the City to pay all accumulated vacation pay and all or a portion of sick pay when an employee retires or terminates. The long-term amount is included as a liability in the governmental activities of the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. All of the liability for compensated absences applicable to proprietary funds is reported in those funds. The City's goal is to accumulate 25% of the funding for the accrued liability for compensated absences in the assigned fund balance for compensated absences.

**K. *Pensions***

For purposes of measuring the aggregate net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plans and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans (Note 9). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

The following timeframes are used for pension reporting:

CalPERS

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Measurement Period	July 1, 2015 to June 30, 2016

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

**L. *Net Position***

In the government-wide financial statements and proprietary fund financial statements, net position is classified as follows:

Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation.

Restricted - This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted - This component of net position is the amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 1 – Summary of Significant Accounting Policies (Continued)**

***M. Fund Balances***

In the governmental fund financial statements, fund balances are classified as follows:

*Nonspendable* – Nonspendable fund balances include amounts that cannot be spent because they are not in a spendable form, such as inventory or prepaid items, or because resources legally or contractually must remain intact.

*Restricted* – Restricted fund balances are the portion of fund balance that have externally enforceable limitations on their usage through legislation or limitations imposed by creditors, grantor, laws and regulations of other governments or enabling legislation.

*Committed* – Committed fund balances are self-imposed limitations by the highest level of decision-making authority, namely the City Council, prior to the end of the reporting period. City Council adoption of a resolution is required to commit resources or to rescind the commitment.

*Assigned* – Assigned fund balances are limitations imposed by management based on the intended use of the funds. Modifications or rescissions of the constraints can be removed by the same type of action that limited the use of the funds. Assignment of resources can be done by the highest level of decision making or by a committee or official designated for that purpose. The City Council has authorized the Finance Director for that purpose.

*Unassigned* – Unassigned fund balances represent the residual net resources in excess of the other classifications. The general fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it is not appropriate to report a positive unassigned fund balance amount. However, in governmental fund other than general fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

---

**Note 1 – Summary of Significant Accounting Policies (Continued)**

***N. Spending Policy***

*Government – Wide Financial Statements and Proprietary Fund Financial Statements*

When expenses are incurred for purposes for which both restricted and unrestricted components of net position are available, the City's policy is to apply restricted component of net position first, then the unrestricted component of net position as needed.

*Governmental Fund Financial Statements*

When expenditures are incurred for purposes for which restricted, committed, assigned and unassigned fund balances are all available, the City's policy is to use these balances in the following order unless an ordinance specifies the fund balance to be used: restricted, committed, assigned and unassigned.

*Long-term financial planning*

The City Council's adopted financial policies relating to long-term financial planning for specific purposes are as follows:

Insurance Fund - Goal of \$3,000,000 in net position for claims reserves and catastrophic losses.

Equipment Replacement Fund - Goal of net position equal to the accumulated amount calculated for all equipment, based on replacement cost and useful life of equipment.

Contingency - Goal equal to 16% of the General Fund appropriations for economic uncertainties, unforeseen emergencies.

Compensated Absences - Goal equal to 25% funding for accrued liabilities for employee vacation, sick and compensatory time.

The City also has a financial policy of transferring funds unspent in the General Fund at year-end to the Insurance Fund, Equipment Replacement Fund, and Capital Improvement Capital Projects Fund and to add to Contingency funds. The City Council makes changes as necessary to the year end transfer, depending on the equity in the funds or based on other needs.

***O. Use of Estimates***

The preparation of the basic financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 1 – Summary of Significant Accounting Policies (Continued)**

**P. Accounting Changes**

GASB has issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This change is implemented at the plan level and did not have a significant impact on the City's financial statements for the year ended June 30, 2017.

GASB has issued Statement No. 77, *Tax Abatement Disclosure*. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements: 1) Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients. 2) The gross dollar amount of taxes abated during the period 3) Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. This statement became effective for periods beginning after June 15, 2016 and did not have a significant impact on the City's financial statements for the year ended June 30, 2017.

GASB has issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. This statement became effective for periods beginning after June 15, 2016 and did not have a significant impact on the City's financial statements for the year ended June 30, 2017.

GASB has issued Statement No. 80, *Blending Requirements for Certain Component Units*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This statement became effective for periods beginning after June 15, 2016, and should be applied retroactively. This statement did not have a significant impact on the City's financial statements for the year ended June 30, 2017.

GASB has issued Statement No. 82, *Pension Issues*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This statement became effective for periods beginning after June 15, 2016, and should be applied retroactively. This statement did not have a significant impact on the City's financial statements for the year ended June 30, 2017.

**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 2 – Cash and Investments**

The City maintains a cash and investment pool, which includes cash balances and authorized investments of all funds.

The City had the following cash and investments at June 30, 2017:

	Government-Wide Statement of Net Position Governmental Activities	Statement of Fiduciary Net Position	Total
Cash and investments	\$ 43,922,367	\$ 569,348	\$ 44,491,715

The City’s cash and investments at June 30, 2017 in more detail:

Cash and cash equivalents:	
Demand deposits	\$ 8,559,904
Petty cash	2,000
Total cash and cash equivalents	8,561,904
Investments:	
Local Agency Investment Fund	43,761
Los Angeles County Pooled Investments Funds	29,971,252
Negotiable Certificates of Deposit	5,416,793
U.S. Government Sponsored Enterprise Securities	498,005
Total investments	35,929,811
<b>Total cash and investments</b>	<b>\$ 44,491,715</b>

**A. Deposits**

The carrying amounts of the City’s demand deposits were \$8,559,904 at June 30, 2017. Bank balances at that date were \$9,188,231, the total amount of which was collateralized or insured with accounts held by the pledging financial institutions in the City’s name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the City’s cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City’s name.

The market value of pledged securities must equal at least 110% of the City’s cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City’s total cash deposits. The City may waive collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation (“FDIC”). The City, however, has not waived the collateralization requirements.

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures, if applicable. Interest income earned on pooled cash and investments is allocated on an accounting period basis to the various funds based on the period-end cash and investment balances, however, interest is not allocated to funds created to advance costs for utility undergrounding districts, reimbursable grant funds or internal service funds.

**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

---

**Note 2 – Cash and Investments (Continued)**

**B. Investments**

Under the provisions of the City’s investment policy, the City’s investments are limited to those authorized by the California Government Code, except as follows:

- There is no maximum amount or maximum maturity period of the City’s idle funds that may be invested with the Local Agency Investment Fund (“LAIF”) or the Los Angeles County Pooled Investment Fund (“LACPIF”)
- Negotiable Certificates of Deposit shall not exceed 30 percent of the City’s surplus money and mature in 5 years or less.
- Medium-term corporate notes shall have a Moody or Standard & Poor’s rating of at least AA and mature in 5 years or less

The City is a participant in LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City’s investments with LAIF at June 30, 2017 included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities, which included the following:

*Structured Notes:* debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

*Asset-Backed Securities:* generally mortgage-backed securities that entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (for example, collateralized mortgage obligations), or credit card receivables.

As of June 30, 2017, the City had \$43,761 invested in LAIF, which had invested 2.89% of the pool investment funds in Structured Notes and Asset-Backed Securities.

**C. Investment in Los Angeles County Investment Pool**

The City is a voluntary participant in the Los Angeles County Investment Pool pursuant to Government Code Section 53684. The cash flow needs of participants are monitored daily to ensure that sufficient liquidity is maintained to meet the needs of those participants. At the time deposits are made, the Los Angeles County Investment Pool’s Treasurer may require the depositing entity to provide annual cash flow projections or an anticipated withdrawal schedule for deposits in excess of \$1 million. Projections are to be performed no less than semi-annually. In accordance with Government Code Section 27136, all requests for withdrawal of funds for the purpose of investing or depositing the funds elsewhere shall be evaluated to ensure the proposed withdrawal will not adversely affect the principal deposits of the other participants. As of June 30, 2017, the City had \$29,971,252 invested in the Los Angeles County Investment Pool.

**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 2 – Cash and Investments (Continued)**

**D. Fair Value Measurement**

At June 30, 2017, investments are reported at fair value. The following table presents the fair value measurement of investments on a recurring basis and the levels within fair value hierarchy in which the fair value measurements fall at June 30, 2017:

Investment Type	Value	Level 2	Uncategorized
Local Agency Investment Fund	\$ 43,761	\$ -	\$ 43,761
Los Angeles County Pooled Investments Fund	29,971,252	29,971,252	-
Negotiable Certificates of Deposit	5,416,793	5,416,793	-
U.S. Government Sponsored Enterprise Securities	498,005	498,005	-
<b>Total</b>	<b>\$ 35,929,811</b>	<b>\$ 35,886,050</b>	<b>\$ 43,761</b>

**E. Risk Disclosures**

**Interest Rate Risk** - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits investments to a maximum maturity of five years.

At June 30, 2017, the City had the following investment maturities:

Investment Type	Fair value	Investment Maturities (in Years)				
		Less than 1	1 to 2	2 to 3	3 to 4	4 to 5
Local Agency Investment Fund	\$ 43,761	\$ 43,761	\$ -	\$ -	\$ -	\$ -
Los Angeles County Pooled Investments Fund	29,971,252	29,971,252	-	-	-	-
Negotiable Certificates of Deposit	5,416,793	247,867	-	1,500,363	1,944,573	1,723,990
U.S. Government Sponsored Enterprise Securities	498,005	-	-	498,005	-	-
<b>Total</b>	<b>\$ 35,929,811</b>	<b>\$ 30,262,880</b>	<b>\$ -</b>	<b>\$ 1,998,368</b>	<b>\$ 1,944,573</b>	<b>\$ 1,723,990</b>

**Credit Risk** – State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. It is the City's policy to limit its investments in these investment types to the top rating issued by Standard & Poor's and Moody's Investor Service. At June 30, 2017, the City's credit risks, expressed on a percentage basis, were as follows:

Credit Quality Distribution for Securities with Credit Exposure as a Percentage of Total Investments			
Investment Type	Moody's Credit Rating	S&P's Credit Rating	% of Investments with Interest Rate Risk
Local Agency Investment Fund (LAIF)	Not Rated	Not Rated	0.12%
Los Angeles County Pooled Investments Fund	Not Rated	Not Rated	83.42%
Negotiable Certificates of Deposits	Not Rated	Not Rated	15.08%
U.S. Government Sponsored Enterprise Securities: Federal Home Loan Mortgage Corporation	Aaa	AA+	1.39%
<b>Total</b>			<b>100.00%</b>

**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 2 – Cash and Investments (Continued)**

**E. Risk Disclosures (Continued)**

Custodial Risk – For deposits, custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer), the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Concentration of credit risk – The City’s investment policy does not allow for investments in any one institution that is in excess of 5% of the City’s total portfolio, except for LAIF and LACIPIF, where there is no limit. The City is in compliance with the investment policy related to the concentration of credit risk for the year ended June 30, 2017.

**Note 3 - Receivables**

**A. Government-Wide Financial Statements**

At June 30, 2017, the government-wide financial statements show the following receivables, net of allowances for uncollectible amounts, if any:

	Government-Wide Statement of Net Position Governmental Activities	Statement of Fiduciary Net Position	Total
Accounts receivable	\$ 3,028,617	\$ -	\$ 3,028,617
Property taxes receivable, net	623,075	-	623,075
Reimbursable grants receivable	183,570	-	183,570
Interest receivable on investments	18,026	442	18,468
Other receivables	78	11,577	11,655
<b>Total</b>	<b>\$ 3,853,366</b>	<b>\$ 12,019</b>	<b>\$ 3,865,385</b>



**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 3 – Receivables (Continued)**

**B. Fund Financial Statements**

Receivables

Receivables consisted of amounts accrued in the ordinary course of operations. The total amount of receivables for each major and nonmajor funds in the aggregate as of June 30, 2017, were as follows:

<b>Governmental funds:</b>	
General Fund	\$ 3,044,630
Sewer Special Revenue Fund	235,044
Capital Improvements Capital Projects Fund	1,964
Nonmajor Funds	543,599
<b>Total governmental funds</b>	3,825,237
<b>Total accounts receivable</b>	\$ 3,825,237

Taxes Receivable

At June 30, 2017, the City had property taxes receivable, net of allowance for delinquent property taxes receivables, in the following major fund and nonmajor funds in the aggregate:

	Property taxes	Allowance for delinquent tax receivables	Property taxes, net of allowance
<b>Governmental Funds:</b>			
General Fund	\$ 1,047,082	\$ (442,463)	\$ 604,619
Sewer Special Revenue Fund	33,670	(23,212)	10,458
Nonmajor funds	26,600	(18,602)	7,998
<b>Total</b>	\$ 1,107,352	\$ (484,277)	\$ 623,075

Reimbursable Grants Receivable

Grants receivable consists of a variety of reimbursable grants from other agencies. The total amount of reimbursable grants receivable as of June 30, 2017 was as follows:

<b>Governmental Funds:</b>	
Bullet Proof Vest Partnership	\$ 8,150
Prop A Open Space Grant	136,901
Other	38,519
<b>Total reimbursable grants receivable</b>	\$ 183,570

**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 4 – Lease Revenues**

In February 2001, a 50-year lease for the retail space located in front of the North Pier Parking Structure was initiated. The City receives a monthly lease payment in the amount of \$2,985. The lease includes a negotiated increase to the monthly lease payment to be calculated every 60 months based on the consumer price index. In February 2016, the lease was increased to \$3,235.

In February 2004, the City entered into a 5 year lease agreement with Sprint, a cellular telephone company, for placement of an antenna on the North Pier Parking Structure. The lease includes a provision for 5 lease extensions with a 5 year term for each. In February 2009, the lease was extended through January 31, 2015. In February 2016, the lease was extended through January 31, 2020. The City received a monthly lease payment in the amount of \$2,984 to January 2017 and \$3,074 from February 2017.

In June 2005, the City purchased property adjacent to City Hall that is used as a self-storage facility. The existing lease for the storage facility was transferred to the City as a condition of the sale. The original lease term was through January 31, 2009, and was extended beginning February 1, 2009 to April 30, 2015 through various amendments. In April, 2015, the lease was amended to extended extend the term to April 30, 2020 and that lease can be terminated without cause at any time after April 2017 with one year of written notice to the City. The City receives a monthly lease payment in the amount of \$15,000.

In February 2014, the City entered into a 5 year lease agreement with Verizon wireless, a cellular telephone company, for the placement of 12 panel antennas and 6 remote radio units at the Municipal Parking Facility. The annual lease rate is expected to increase at a rate of 3% with base monthly payment amount of \$2,400. The City received a monthly lease payment in the amount of \$2,546 to February 2017 and \$2,623 from March 2017.

All of the above leases are accounted for as operating leases by the City.

The future minimum rental revenues under these leases are as follows:

Year ending June 30,	Amounts
2018	\$ 159,075
2019	134,485
2020	91,507
2021	93,953
2022	93,953
2023-2027	215,669
2028-2032	233,755
2033-2037	253,358
2038-2042	274,604
2043-2047	297,633
2048-2051	220,273
<b>Total</b>	<b>\$ 2,068,265</b>

Lease revenue for the year ended June 30, 2017 was \$311,342.

**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 5 – Interfund Transactions**

**Due From/To Other Funds** – At June 30, 2017, the City had the following due from/to other funds:

Due To Other Funds	Due From Other Funds	
	General Fund	
Nonmajor Governmental funds	\$	170,068
<b>Total</b>	\$	<b>170,068</b>

The above amount resulted from the time lag between the dates that reimbursable expenditures occur and payments are received from other agencies.

**Transfers**

During the year ended June 30, 2017, the City had the following transfers:

Transfers out	Transfers in			
	General Fund	Nonmajor Governmental Funds	Internal Service Funds	Total
General Fund	\$ -	\$ 1,588,161	\$ 414,736	\$ 2,002,897
Nonmajor Governmental Funds	353,853	-	-	353,853
Internal Service funds	-	-	529,761	529,761
<b>Total</b>	<b>\$ 353,853</b>	<b>\$ 1,588,161</b>	<b>\$ 944,497</b>	<b>\$ 2,886,511</b>

In general, transfers are used to 1) use unrestricted revenues collected in one fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 2) to transfer to the General Fund to fund administration services.

General Fund transferred \$1,588,161 of Utility Users Tax revenues to Storm Drain Special Revenue Funds and Lighting/Landscaping Fund for operating costs, and to the 2015 Lease Revenue Bond Fund for debt service payment.

General Fund transferred \$414,736 to Insurance Internal Service Fund to pay for settlement (Note 14) related payments.

Non-major Governmental Funds transferred \$353,853 for Lighting/Landscaping administration, agency administration, and traffic safety operations.

Insurance Internal Service Fund transferred \$529,761 to Equipment Replacement Internal Service Fund to bring balance to the goal amount based on replacement cost and useful life.

**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 6 – Capital Assets**

The following is a summary of changes in capital assets for the governmental activities for the year ended June 30, 2017:

	Balance July 1, 2016	Additions	Deletions	Reclassifications	Balance June 30, 2017
<i>Capital assets not being depreciated:</i>					
Land	\$ 22,740,168	\$ -	\$ -	\$ -	\$ 22,740,168
Construction in progress	1,434,312	1,153,907	-	(104,586)	2,483,633
Total capital assets not being depreciated	<u>24,174,480</u>	<u>1,153,907</u>	<u>-</u>	<u>(104,586)</u>	<u>25,223,801</u>
<i>Capital assets being depreciated:</i>					
Buildings and structures	13,049,377	-	-	-	13,049,377
Improvements other than buildings	14,918,376	-	-	-	14,918,376
Machinery and equipment	5,700,472	460,172	(75,010)	-	6,085,634
Vehicles	4,798,032	-	(567,144)	-	4,230,888
Infrastructure	52,953,387	396,767	-	104,586	53,454,740
Total capital assets being depreciated	<u>91,419,644</u>	<u>856,939</u>	<u>(642,154)</u>	<u>104,586</u>	<u>91,739,015</u>
Less accumulated depreciation for:					
Buildings and structures	(4,352,761)	(99,269)	-	-	(4,452,030)
Improvements other than buildings	(12,010,985)	(258,119)	-	-	(12,269,104)
Machinery and equipment	(3,584,667)	(310,774)	5,931	-	(3,889,510)
Vehicles	(2,675,195)	(283,237)	565,484	-	(2,392,948)
Infrastructure	(26,036,720)	(1,505,432)	-	-	(27,542,152)
Total accumulated depreciation	<u>(48,660,328)</u>	<u>(2,456,831)</u>	<u>571,415</u>	<u>-</u>	<u>(50,545,744)</u>
Total capital assets being depreciated, net	<u>42,759,316</u>	<u>(1,599,892)</u>	<u>(70,739)</u>	<u>104,586</u>	<u>41,193,271</u>
<b>Total governmental activities</b>	<u>\$ 66,933,796</u>	<u>\$ (445,985)</u>	<u>\$ (70,739)</u>	<u>\$ -</u>	<u>\$ 66,417,072</u>

Depreciation expense was charged to functions/programs of governmental activities for the year ended June 30, 2017 as follows:

General government	\$ 10,724
Public safety	295,908
Community development	23,694
Culture and recreation	94,582
Public works	526,491
Infrastructure	1,505,432
<b>Total depreciation expense</b>	<u>\$ 2,456,831</u>

**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 7 – Long-Term Liabilities**

Summary of changes in long-term liabilities for governmental activities for the year ended June 30, 2017 is as follows:

	Balance			Balance June 30, 2017	Classification	
	July 1, 2016	Additions	Deletions		Due within One Year	Due in more than One Year
2015 Lease revenue bond	\$ 11,600,000	\$ -	\$ (335,000)	\$ 11,265,000	\$ 435,000	\$ 10,830,000
Bonds Premium	199,040	-	(10,380)	188,660	10,380	178,280
	<u>\$ 11,799,040</u>	<u>\$ -</u>	<u>\$ (345,380)</u>	<u>\$ 11,453,660</u>	<u>\$ 445,380</u>	<u>\$ 11,008,280</u>

**2015 Lease Revenue Bonds**

On July 14, 2015, the PFA issued \$11,600,000 Hermosa Beach Public Financing Authority 2015 Lease Revenue Bonds to (i) make certain payments under an agreement entered into for the purpose of settling certain claims made against the City, and (ii) pay the costs of issuing the 2015 Bonds. Interest rate ranges from 2.00% to 5.00% is payable semiannually on May 1 and November 1 of each year, commencing November 1, 2016. The outstanding balance at June 30, 2017 was \$11,265,000.

The annual debt service requirements by year are as follows:

Year ending June 30,	Principal	Interest	Total
2018	\$ 435,000	\$ 356,088	\$ 791,088
2019	460,000	333,713	793,713
2020	480,000	310,212	790,212
2021	500,000	285,713	785,713
2022	510,000	268,112	778,112
2023-2027	2,735,000	1,232,641	3,967,641
2028-2032	3,180,000	1,172,235	4,352,235
2033-2036	2,965,000	210,028	3,175,028
	<u>\$ 11,265,000</u>	<u>\$ 4,168,742</u>	<u>\$ 15,433,742</u>

**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 8 – Risk Management**

The City maintains an internal service fund to account for the City's general liability and workers' compensation claims, automobile, property, and unemployment insurance.

The City is self-insured for each general liability claim up to \$250,000. The City is insured above the self-insured retention for general liability insurance coverage, up to a maximum of \$30,000,000 per occurrence, as a member of the Independent Cities Risk Management Authority ("ICRMA").

The City purchases workers' compensation coverage through a self-insured program available through ICRMA. The City maintains a \$500,000 self-insured retention limit and participates in a self-insured risk sharing pool through the ICRMA of coverage up to a maximum of \$5 million.

ICRMA is a joint exercise of powers authority organized and operating pursuant to the California Government Code. ICRMA was formed in 1980 pursuant to joint exercise of power agreements for insurance and risk management purposes, which, as amended, enable ICRMA to provide programs of risk sharing, insurance and risk management services in connection with liability, property, and workers' compensation claims.

ICRMA's annual budget is based on estimated actuarially determined member losses within the risk sharing layer, administrative expenses and excess insurance.

The City's premiums to ICRMA in the amount of \$887,683 for the fiscal year 2016-2017 are in accordance with formulas established by ICRMA. The City is liable for possible additional assessments and withdrawal costs under terms of the membership agreement; however, there has never been an additional assessment since the pool was formed.

The City has entered into contracts with third party administrators who supervise and administer the City's general liability and workers' compensation insurance program. Claim loss estimates are determined by the third party administrator based on the nature of an individual claim. The loss estimates include amounts for future compensation, medical, legal and administrative fees. The City also includes estimated claims incurred but not reported ("IBNR") provided by an actuary. Reimbursement requests are submitted to the City on a monthly basis as claims are paid.

The workers' compensation and general liability claims payable of \$6,058,575 reported at June 30, 2017 includes the liability for claims in which it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 8 – Risk Management (Continued)**

Changes in the City’s claims liability amounts were as follows:

	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Year Liability	Amounts Due within One Year	Amounts Due in more than One Year
<i>Workers' Compensation</i>						
2014-2015	5,565,912	(1,168,562)	423,995	4,821,345	686,562	4,134,783
2015-2016	4,821,345	748,213	(892,908)	4,676,650	719,617	3,957,033
2016-2017	4,676,650	1,114,765	(880,606)	4,910,809	749,469	4,161,340
<i>General Liability</i>						
2014-2015	1,386,334	(325,127)	(172,907)	888,300	323,644	564,656
2015-2016	888,300	362,802	(550,532)	700,570	316,291	384,279
2016-2017	700,570	459,706	(12,510)	1,147,766	502,887	644,879

Detailed financial information may be obtained from the ICRMA Program Administrator located at 1100 W. Town and Country Road, Suite 1550, Orange, CA 92868.

**Note 9 – Defined Benefit Pension Plans**

The following is a summary of net pension liabilities, related deferred outflows and inflows of resources as of June 30, 2017 and pension expenses for the year then ended June 30, 2017:

	<u>Miscellaneous</u>	<u>Safety</u>	<u>Total</u>
<b>Deferred outflows of resources:</b>			
Pension contribution after measurement date	\$ 1,379,151	\$ 3,921,179	\$ 5,300,330
Difference between expected and actual experience	34,330	124,927	159,257
Difference between projected and actual earning on pension plan investments	2,192,977	1,188,067	3,381,044
Difference between City contributions and proportionate share of contributions	-	6,243,687	6,243,687
<b>Total deferred outflows of resources</b>	<u>\$ 3,606,458</u>	<u>\$ 11,477,860</u>	<u>\$ 15,084,318</u>
<b>Aggregate Net pension liabilities:</b>			
Aggregate Net pension liabilities	\$ 12,877,883	\$ 32,204,127	\$ 45,082,010
<b>Total net pension liabilities</b>	<u>\$ 12,877,883</u>	<u>\$ 32,204,127</u>	<u>\$ 45,082,010</u>
<b>Deferred inflows of Resources:</b>			
Changes of assumptions	\$ 421,348	\$ -	\$ 421,348
Difference between projected and actual earning on pension plan investments	-	1,270,863	1,270,863
Adjustment due to differences in proportions	336,454	291,478	627,932
Difference between City contributions and proportionate share of contributions	291,091	-	291,091
<b>Total deferred inflows of Resources</b>	<u>\$ 1,048,893</u>	<u>\$ 1,562,341</u>	<u>\$ 2,611,234</u>
<b>Pension expenses:</b>	<u>\$ 723,348</u>	<u>\$ 778,078</u>	<u>\$ 1,501,426</u>

**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 9 – Defined Benefit Pension Plans (Continued)**

***General Information about the Pension Plan***

*Plan Description*

The City contributes to the California Public Employees’ Retirement System (“CalPERS”), a cost-sharing multiple-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and City ordinance. Copies of the CalPERS annual financial report may be obtained from their Executive Office located at 400 P Street, Sacramento, California 95814.

*Employees Covered by Benefit Terms*

At June 30, 2015, the following employees were covered by the benefit terms:

	Plans					
	Fire Tier 1	Fire Tier 2	Fire PEPRAs	Police Tier 1	Police Tier 2	Police PEPRAs
Active employees	14	-	2	28	3	6
Transferred and terminated employees	6	-	-	10	1	1
Separated	5	1	1	2	2	1
Retired Employees and Beneficiaries	51	-	-	89	1	-
Total	76	1	3	129	7	8

	Plans		
	Misc. Tier 1	Misc. Tier 2	Misc. PEPRAs
Active employees	57	17	26
Transferred and terminated employees	59	5	2
Separated	48	2	4
Retired Employees and Beneficiaries	120	-	-
Total	284	24	32

*Benefit Provided*

CalPERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Classic and PEPRAs Safety CalPERS member becomes eligible for service retirement upon attainment of age 55 with at least 5 years of credited service. PEPRAs miscellaneous members become eligible for service retirement upon attainment of age 62 with at least 5 years of service. The service retirement benefit is a monthly allowance equal to the product of the benefit factor, years of service, and final compensation. The final compensation is the monthly average of the member's highest 36 full-time equivalent monthly pay.



**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 9 – Defined Benefit Pension Plans (Continued)**

*General Information about the Pension Plan (Continued)*

*Benefit Provided (Continued)*

Following are the benefit provisions for each plan:

- Fire Tier 1: 3% (at age 55) of the average final 12 months compensation
- Fire Tier 2: 2% (at age 50) of the average final 12 months compensation
- Fire PEPRA: 2.7% (at age 57) of the average final 36 months compensation
- Police Tier 1: 3% (at age 50) of the average final 12 months compensation
- Police Tier 2: 2% (at age 50) of the average final 12 months compensation
- Police Tier PEPRA: 2.7% (at age 57) of the average final 36 months compensation
- Miscellaneous Tier 1: 2% (at age 55) of the average final 12 months compensation
- Miscellaneous Tier 2 : 2% (at age 60) of the average final 12 months compensation
- PEPRA Miscellaneous : 2% (at age 62) of the average final 36 months compensation

Participant is eligible for non-industrial disability retirement if becomes disabled and has at least 5 years of credited service. There is no special age requirement. The standard non-industrial disability retirement benefit is a monthly allowance equal to 1.8 percent of final compensation, multiplied by service. Industrial disability benefits are not offered to miscellaneous employees.

An employee's beneficiary may receive the basic death benefit if the employee dies while actively employed. The employee must be actively employed with the City to be eligible for this benefit. An employee's survivor who is eligible for any other pre-retirement death benefit may choose to receive that death benefit instead of this basic death benefit. The basic death benefit is a lump sum in the amount of the employee's accumulated contributions, where interest is currently credited at 7.5 percent per year, plus a lump sum in the amount of one month's salary for each completed year of current service, up to a maximum of six months' salary. For purposes of this benefit, one month's salary is defined as the member's average monthly full-time rate of compensation during the 12 months preceding death.

Upon the death of a retiree, a one-time lump sum payment of \$500 will be made to the retiree's designated survivor(s), or to the retiree's estate.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance. Beginning the second calendar year after the year of retirement, retirement and survivor allowances will be annually adjusted on a compound basis by 2 percent.

**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 9 – Defined Benefit Pension Plans (Continued)**

***General Information about the Pension Plan (Continued)***

*Contributions*

Section 20814(c) of the California Public Employees’ Retirement Law (“PERL”) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS’ annual actuarial valuation process. The Public agency cost-sharing plans covered by either the Safety risk pools, the Plan’s actuarially determined rate is based on the estimated amount necessary to pay the Plan’s allocated share of the risk pool’s costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2016 (the measurement date), the average contribution rate were as follows:

<u>Plans</u>	<u>Active Employee Contribution Rate</u>	<u>Employer Contribution Rate</u>
Fire Tier 1	9.000%	56.866%
Fire Tier 2	9.000%	16.204%
Fire PEPRA	12.250%	11.923%
Police Tier 1	9.000%	83.821%
Police Tier 2	9.000%	16.215%
Police PEPRA	12.250%	11.923%
Misc. Tier 1	7.000%	26.520%
Misc. Tier 2	7.000%	7.234%
Misc. PEPRA	6.250%	6.237%

***Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension***

*Actuarial Methods and Assumptions Used to Determine Total Pension Liability*

The June 30, 2015 valuation was rolled forward to determine June 30, 2016 total pension liability based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment rate of return	7.65% net of pension plan investment expenses, includes inflation
Mortality Rate Table	Derived using CalPERS’ Membership Data for all Funds.
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 9 – Defined Benefit Pension Plans (Continued)**

*Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)*

Actuarial Methods and Assumptions Used to Determine Total Pension Liability (Continued)

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Change of Assumption

There were no changes of assumptions for June 30, 2016 measurement date.

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund (Public Employees' Retirement Fund) cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 9 – Defined Benefit Pension Plan (Continued)**

*Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)*

Discount Rate (Continued)

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2015.

Asset Class	New Strategic Allocation-%	Real Return Years 1-10 <sup>1</sup> -%	Real Return Years 11+ <sup>2</sup> -%
Global Equity	51.00	5.25	5.71
Global Fixed Income	20.00	0.99	2.43
Inflation Sensitive	6.00	0.45	3.36
Private Equity	10.00	6.83	6.95
Real Estate	10.00	4.50	5.13
Infrastructure and Forestland	2.00	4.50	5.09
Liquidity	1.00	-0.55	-1.05

<sup>1</sup>An expected inflation of 2.5% used for this period

<sup>2</sup>An expected inflation of 3.0% used for this period.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.65%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65%) or 1 percentage-point higher (8.65%) than the current rate:

	Plan's Net Pension Liability/(Asset)		
	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
<b>Miscellaneous</b>	\$ 20,063,404	\$ 12,877,883	\$ 6,939,407
<b>Safety</b>	\$ 48,208,341	\$ 32,204,127	\$ 19,066,307

**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 9 – Defined Benefit Pension Plan (Continued)**

*Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)*

Pension Plan Fiduciary Net Position

Detail information about the plan’s fiduciary net position is available in the separately issued CalPERS financial report and can be obtained from CalPERS’ website under Forms and Publications.

Proportionate Share of Net Pension Liability and Pension Expense

The following table shows the plan’s proportionate share of the risk pool collective net pension liability over the measurement period:

	<b>Increase (Decrease)</b>		
	<b>Plan Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net Pension Liability/(Asset)</b>
<b>Miscellaneous</b>			
Balance at: 6/30/15 (Valuation date)	\$ 47,109,480	\$ 36,745,465	\$ 10,364,015
Balance at: 6/30/16 (Measurement date)	\$ 48,767,292	\$ 35,889,409	\$ 12,877,883
Net Changes during 2015-2016	\$ 1,657,812	\$ (856,056)	\$ 2,513,868
<b>Safety</b>			
Balance at: 6/30/15 (Valuation date)	\$ 99,512,288	\$ 72,043,288	\$ 27,469,000
Balance at: 6/30/16 (Measurement date)	\$ 103,141,747	\$ 70,937,620	\$ 32,204,127
Net Changes during 2015-2016	\$ (3,629,459)	\$ 1,105,668	\$ 4,735,127

**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 9 – Defined Benefit Pension Plan (Continued)**

***Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)***

***Proportionate Share of Net Pension Liability and Pension Expense (Continued)***

The following is the approach established by the plan actuary to allocate the net pension liability and pension expense to the individual employers within the risk pool.

- (1) In determining a cost-sharing plan’s proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2015). The risk pool’s fiduciary net position (“FNP”) subtracted from its total pension liability (“TPL”) determines the net pension liability (“NPL”) at the valuation date.
- (2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2016). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool’s FNP at the measurement date denotes the aggregate risk pool’s FNP at June 30, 2016 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2014-2015).
- (3) The individual plan’s TPL, FNP and NPL are also calculated at the valuation date. TPL is allocated based on the rate plan’s share of the actuarial accrued liability. FNP is allocated based on the rate plan’s share of the market value assets.
- (4) Two ratios are created by dividing the plan’s individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool’s total TPL and FNP, respectively.
- (5) The plan’s TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan’s FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.
- (6) The plan’s NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5).

Deferred outflows of resources, deferred inflows of resources, and pension expense is allocate based on the City’s share of contributions during measurement period.

The City’s proportionate share of the net pension liability was as follows:

	<b>Miscellaenous</b>	<b>Safety</b>
June 30, 2015	0.15099%	0.40019%
June 30, 2016	0.14882%	0.37217%
Change - Increase (Decrease)	-0.00217%	-0.02803%

**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 9 – Defined Benefit Pension Plan (Continued)**

*Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)*

Proportionate Share of Net Pension Liability and Pension Expense (Continued)

For the year ended June 30, 2017, the City recognized pension expense as follows:

Miscellaneous	\$	723,348
Safety		778,078
		1,501,426
		1,501,426

The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized over 5-years straight line. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period.

The expected average remaining service lifetime (“EARSL”) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired) in the risk pool. The EARSL for risk pool for the 2015-2016 measurement period is 3.7 years, which was obtained by dividing the total service years of 475,689 (the sum of remaining service lifetimes of the active employees) by 127,009 (the total number of participants: active, inactive, and retired).

At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Miscellaneous	
	Deferred outflows of Resources	Deferred inflows of Resources
Pension contribution after measurement date	\$ 1,379,151	\$ -
Difference between expected and actual experience	34,330	-
Changes of assumptions	-	(421,348)
Difference between projected and actual earning on pension plan investments	2,192,977	-
Adjustment due to differences in proportions	-	(336,454)
Difference between City contributions and proportionate share of contributions	-	(291,091)
	-	-
Total	\$ 3,606,458	\$ (1,048,893)

**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 9 – Defined Benefit Pension Plan (Continued)**

*Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)*

*Proportionate Share of Net Pension Liability and Pension Expense (Continued)*

At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (Continued):

	Safety	
	Deferred outflows of Resources	Deferred inflows of Resources
Pension contribution after measurement date	\$ 3,921,179	\$ -
Difference between expected and actual experience	124,927	-
Changes of assumptions	-	-
Difference between projected and actual earning on pension plan investments	1,188,067	(1,270,863)
Adjustment due to differences in proportions	-	(291,478)
Difference between City contributions and proportionate share of contributions	6,243,687	-
	-	-
Total	\$ 11,477,860	\$ (1,562,341)

At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (Continued):

Deferred outflows of resources related to pensions resulting from the City’s contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Period Ended June 30,	Deferred Outflows/ (Inflows) of Resources	
	Miscellaneous	Safety
2017	\$ (262,070)	\$ 707,588
2018	(134,492)	672,214
2019	1,006,970	2,989,125
2020	568,006	1,625,413
2021	-	-
Thereafter	-	-
	-	-
	\$ 1,178,414	\$ 5,994,340



**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 10 – Other Postemployment Benefit Plan**

On June 12, 2007, the City Council adopted a resolution authorizing participation in a post retirement health care plan trust to be administered by Public Agency Retirement Services (“PARS”) and Union Bank of California. In July 2007, the City signed an agreement with Public Agency Retirement Services to create and administer an irrevocable trust fund for the payment of other postemployment benefits for city employees. Funds in the amount of \$1,401,000 that were previously set aside were forwarded to Union Bank pursuant to the agreement to establish the trust during the year ended June 30, 2008. Contributions are made on a monthly basis.

***Plan Description***

The City participates in a post retirement health care plan trust (“Plan”) administered by PARS and Union Bank of California. The Plan provides medical insurance benefits to eligible retirees. PARS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by contacting the City at 1315 Valley Drive, Hermosa Beach, CA 90254.

The Plan is comprised of employees and retirees from several bargaining units, including General and Supervisory; Professional and Administrative Employees Association; Hermosa Beach Management Association; Police Management Association; Police Officers Association and Firefighters Association.

The range of monthly benefits to be paid by the City ranges from \$40 to \$556 per month based on years of service from 10 years to 20 years provided to the City.

The monthly benefits paid by the City are subject to change with increases provided based on age at retirement and years of service.

***Eligibility***

All of the Plan’s employees became participants in accordance with negotiated Memorandum of Understanding (“MOU”) as negotiated by each group or bargaining unit. In order to receive benefits, eligible employees must meet the minimum requirements defined in their MOU. Participants of the Plan as of June 30, 2017 were as follows:

Participants	Total
Active employees	139
Retirees	60
Total	199

***Funding Policy***

The contribution requirements for Plan members and the City are established by a MOU as negotiated by each group or bargaining unit. The City is funding 100% of the annual required contribution as calculated based on the actuarial valuation. For the year ended June 30, 2017, the City contributed \$875,682. Plan members receiving benefits contributed \$224,211 of the total premiums, as their required contributions.

**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 10 – Other Postemployment Benefit Plan (Continued)**

***Annual OPEB Cost and Net OPEB Asset***

The City’s annual Other Postemployment Benefits (“OPEB”) cost (expense) is calculated based on the *Annual Required Contribution of the Employer* (“ARC”), an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excesses) over a period not to exceed thirty years.

The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the City’s net OPEB asset:

	<b>Total</b>
Annual required contribution	\$ 792,000
Interest on net OPEB obligation	(16,926)
Adjustment to annual required contribution	32,747
Annual OPEB cost (expense)	807,821
Implied subsidy	(224,211)
Contributions made to the trust	(875,682)
(Increase) in net OPEB asset	(292,072)
Net OPEB asset - beginning of year	(270,821)
Net OPEB asset - end of year	\$ (562,893)

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation for year ended June 30, 2017 and the preceding two years are as follows:

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Contributions Made</b>	<b>% of Annual OPEB Cost Contributed</b>	<b>Net OPEB Asset</b>
6/30/2015	\$ 951,532	\$ 919,944	96.68%	\$ 91,126
6/30/2016	771,749	951,444	123.28%	270,821
6/30/2017	807,821	1,099,893	136.16%	562,893

**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 10 – Other Postemployment Benefit Plan (Continued)**

*Funded Status and Funding Progress*

As of June 30, 2014, the most recent actuarial valuation date, the plan was 53.6% funded. The actuarial accrued liability for benefits was \$10,714,000 and the actuarial value of assets as of June 30, 2014 was \$5,747,000, resulting in an UAAL of \$4,967,000. The covered payroll (annual payroll of active employees covered by the Plan) was \$10,262,000 and the ratio of UAAL to the covered payroll was 48.40%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare costs trend. Amounts determined regarding the funded status of the Plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information following the Notes to the Basic Financial Statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2014 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions include a 6.25% investment rate of return (net of administrative expenses), which is based on the expected return on funds invested, and an annual healthcare cost trend rate of 8% or 8.3% (Non Medicare or Medicare) initially reduced by decrements to an ultimate rate of 5% thereafter. The actuarial assumption for inflation was 3%, and the aggregate payroll increases was 3.25% used in the actuarial valuation. The City's Plan does not provide postretirement benefit increases. The UAAL is amortized as a level percentage of future payroll on a 30-year closed amortization period. The remaining average amortization period at June 30, 2017 was 10 years.

**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 11 – Classification of Fund Balances**

At June 30, 2017, fund balances are classified in the governmental funds as follows:

	General Fund	Sewer Special Revenue Fund	Capital Improvements Capital Projects Fund	Nonmajor Governmental Funds	Total
<b>Nonspendable</b>					
Prepaid items	\$ 66,700	\$ -	\$ -	\$ 7,083	\$ 73,783
Total nonspendable	<u>66,700</u>	<u>-</u>	<u>-</u>	<u>7,083</u>	<u>73,783</u>
<b>Restricted</b>					
Verizon PEG Grant	108,149	-	-	-	108,149
Chamber Sign Donation	50,000	-	-	-	50,000
Lighting District	-	-	-	47,062	47,062
Gas Tax	-	-	-	139,279	139,279
Source Reduction/Recycling	-	-	-	28,889	28,889
Tyco Tidelands	-	-	-	3,714	3,714
Parks/Rec Facility Projects	-	-	-	122,764	122,764
Undergrounding Districts	-	-	-	31,468	31,468
Prop A, C and Measure R					
Transit Projects	-	-	-	3,133,594	3,133,594
Air Quality Improvement Projects	-	-	-	78,647	78,647
Supplemental Law Enforcement					
Services Funds	-	-	-	163,205	163,205
Asset Forfeiture - Drug Enforcement an	-	-	-	246,333	246,333
Fire Protection	-	-	-	91,039	91,039
Grants	-	-	-	603,233	603,233
Storm Drain	-	-	-	413,532	413,532
Total restricted	<u>158,149</u>	<u>-</u>	<u>-</u>	<u>5,102,759</u>	<u>5,260,908</u>
<b>Committed</b>					
Capital Projects	-	209,860	-	-	209,860
In Lieu Fee- Parking Facilities	115,600	-	-	-	115,600
Tyco	-	-	-	669,148	669,148
Retirement Rate Stabilization	1,000,000	-	-	-	1,000,000
Total committed	<u>1,115,600</u>	<u>209,860</u>	<u>-</u>	<u>669,148</u>	<u>1,994,608</u>
<b>Assigned</b>					
Reappropriations- Non-CIP	326,996	-	-	-	326,996
Public Works Capital					
Improvement Projects	1,506,348	-	-	-	1,506,348
Sewers and Storm Drains	-	5,165,531	-	-	5,165,531
Contingencies	5,469,589	-	-	-	5,469,589
Community Events	36,466	-	-	-	36,466
TOT Revenues for Fire Services	754,850	-	-	-	754,850
Unspecified Contingencies	227,854	-	-	-	227,854
Public Financing Authority	-	-	-	3,702	3,702
Capital Projects	-	-	7,537,725	-	7,537,725
Total assigned	<u>8,322,103</u>	<u>5,165,531</u>	<u>7,537,725</u>	<u>3,702</u>	<u>21,029,061</u>
<b>Total fund balances</b>	<u>\$ 9,662,552</u>	<u>\$ 5,375,391</u>	<u>\$ 7,537,725</u>	<u>\$ 5,782,692</u>	<u>\$ 28,358,360</u>

**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 12 – Non-City Obligations**

At June 30, 2017, the following special assessment bonds are payable from the proceeds of the special assessment levied and collected on all real property within the special districts. The City is in no way obligated to repay the debt in the event of default and the debt is not recorded in the accompanying financial statements.

***1998 Lower Pier Special Assessment Bonds***

In November 1997, limited obligation improvement bonds in the amount of \$400,000 were issued for the Lower Pier Avenue Assessment District for street and sidewalk improvements in the downtown area. The City is not financially obligated for payments of the bonds, which are secured by private property in the district. The bonds will be repaid from assessments to the property owners as part of their annual property tax bill.

The annual debt service requirements by year are as follows:

Year ending June 30,	Principal	Interest	Total
2018	\$ 35,000	\$ 1,137	\$ 36,137
<b>Total</b>	<b>\$ 35,000</b>	<b>\$ 1,137</b>	<b>\$ 36,137</b>

***1999 Myrtle Utility Underground District Special Assessment Bonds***

In October 1999, limited obligation improvement bonds in the amount of \$1,159,114 were issued for the Myrtle Avenue Utility Underground Assessment District for the undergrounding of utilities within the district. The City is not financially obligated for payment of the bonds, which are secured by private property in the district. The bonds will be repaid from assessments to the property owners as part of their annual property tax bill.

The annual debt service requirements by year are as follows:

Year ending June 30,	Principal	Interest	Total
2018	\$ 70,000	\$ 10,925	\$ 80,925
2019	75,000	6,756	81,756
2020	80,000	2,300	82,300
<b>Total</b>	<b>\$ 225,000</b>	<b>\$ 19,981</b>	<b>\$ 244,981</b>

**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 12 – Non-City Obligations (Continued)**

***1999 Loma Utility Underground District Special Assessment Bonds***

In October 1999, limited obligation improvement bonds in the amount of \$1,324,653 were issued for the Loma Drive Utility Underground Assessment District for the undergrounding of utilities within the district. The City is not financially obligated for payment of the bonds, which are secured by private property in the district. The bonds will be repaid from assessments to the property owners as part of their annual property tax bill.

The annual debt service requirements by year are as follows:

Year ending June 30,	Principal	Interest	Total
2018	\$ 80,000	\$ 12,362	\$ 92,362
2019	85,000	7,619	92,619
2020	90,000	2,587	92,587
<b>Total</b>	<b>\$ 255,000</b>	<b>\$ 22,568</b>	<b>\$ 277,568</b>

***2004 Beach Drive Utility Underground Assessment District Special Assessment Bonds***

In July 2004, limited obligation improvement bonds in the amount of \$404,341 were issued for the Beach Drive Utility Underground Assessment District for the undergrounding of utilities within the district. The City is not financially obligated for payment of the bonds, which are secured by private property in the district. The bonds will be repaid from assessments to the property owners as part of their annual property tax bill.

The annual debt service requirements by year are as follows:

Year ending June 30,	Principal	Interest	Total
2018	\$ 21,977	\$ 9,474	\$ 31,451
2019	23,032	8,394	31,426
2020	24,137	7,262	31,399
2021	25,296	6,075	31,371
2022	26,510	4,832	31,342
2023-2025	87,413	6,424	93,837
	<b>\$ 208,365</b>	<b>\$ 42,461</b>	<b>\$ 250,826</b>

**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 12 – Non-City Obligations (Continued)**

***2005 Bayview Drive Utility Underground Assessment District Improvement Bonds***

In February 2005, limited obligation improvement bonds in the amount of \$951,667 were issued for the Bayview Drive Utility Underground Assessment District for the undergrounding of utilities within the district. The City is not financially obligated for payment of the bonds, which are secured by private property in the district. The bonds will be repaid from assessments to the property owners as part of their annual property tax bill.

The annual debt service requirements by year are as follows:

Year ending June 30,	Principal	Interest	Total
2018	\$ 39,219	\$ 17,707	\$ 56,926
2019	41,311	15,996	57,307
2020	43,492	14,194	57,686
2021	45,765	12,297	58,062
2022	48,135	10,301	58,436
2023-2026	218,320	19,129	237,449
<b>Total</b>	<b>\$ 436,242</b>	<b>\$ 89,624</b>	<b>\$ 525,866</b>

**Note 13 – Commitments and Contingencies**

**A. Commitments**

The City had several outstanding or planned construction and other projects as of June 30, 2017. These projects are evidenced by contractual commitments with contractors and include:

Project	Spent to Date	Commitment Remaining
Permit Software Upgrade and Integration Project	\$ 185,581	\$ 354,419
General Plan & Coastal Plan Update	992,861	24,792
Citywide Conservation Upgrades	414,543	224,912
<b>Total</b>	<b>\$ 1,592,985</b>	<b>\$ 604,123</b>

Of the commitments listed above, \$24,792 represents commitments in the General Fund and \$579,331 represents commitments in internal service funds.

**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 13 – Commitments and Contingencies (Continued)**

**A. Commitments (Continued)**

In January 2000, the North Pier Parking Structure was completed. The parking structure contains 400 parking spaces and was funded in part by a downtown developer in exchange for the use of 100 spaces in the structure. The remainder of the funding was provided by the City's former Downtown Enhancement Enterprise Fund and Prop A Open Space funding contributed by the Los Angeles County Department of Beaches and Harbors ("County"). In consideration of the County contribution, 50% of the annual net income derived from the parking structure must be shared with the County each year by September 1. The payment made to the County for fiscal year 2016-2017 is \$329,209.

**B. Contingencies**

The City is a defendant in a number of lawsuits, which have arisen in the normal course of business. While substantial damages are alleged in some of these actions, their outcome cannot be predicted with certainty.

**C. Grants**

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies. While no matters of noncompliance were disclosed by the audit of the financial statements or single audit of the Federal grant programs, grantor agencies may subject grant programs to additional compliance tests, which may result in disallowed costs. In the opinion of management, future disallowances of current or prior grant expenditures, if any, would not have a material adverse effect on the financial position of the City.

**Note 14 – MacPherson Oil Project Litigation**

The City entered into a lease with MacPherson Oil in 1992 to allow oil drilling from the City Yard site. During the time that ensued, MacPherson was taking the necessary steps to obtain all required environmental reviews and permits. In 1995 the voters enacted a new ordinance by way of an initiative, entitled Proposition E, to prohibit oil drilling in the City. The issue of whether Proposition E applied to MacPherson's project was the subject of a lawsuit initiated by Proposition E proponents. The City and MacPherson argued that Proposition E did not preclude MacPherson from exercising its rights under the lease. The Court of Appeals, in a final opinion, ruled otherwise.

MacPherson then sued the City, by way of a cross-complaint in the legal action referred to above, for damages due to the alleged breach of contract caused by Proposition E. Both parties filed motions for summary judgment in the trial court. In its motion, MacPherson contended, among other things, that enactment of Proposition E worked a breach of its lease with the City, entitling it to damages for lost profits. It claims damages in excess of \$500 million. In its motion, the City contended that because the Court of Appeals has ruled Proposition E not to be an unconstitutional impairment of contract, it cannot work a breach. The City further contended that the passage of Proposition E made performance of the lease impossible. Finally, the City contended that if MacPherson is entitled to any damages, it is limited to restitution, and not lost profits.

In December 2003, the trial court granted the City's motion in its entirety, holding that MacPherson is not entitled to proceed against the City for damages. MacPherson appealed this ruling to the Court of appeals, and in an unpublished decision issued in November 2005, the Court of Appeals reversed, rejecting many of the City's defenses and remanding the case back to the trial court for trial. The City's petition to the Supreme Court for review of this decision was denied. The case returned to the trial court in early 2006 and was assigned to a new judge, JoAnne O'Donnell, because MacPherson filed a timely objection to the previous Superior Court judge.

The City engaged new trial counsel to defend it in the trial of this case, the Century City law firm of Bird Marella.



**City of Hermosa Beach**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 14 – MacPherson Oil Project Litigation (Continued)**

MacPherson filed a motion to amend its cross-complaint to add causes of action for inverse condemnation and civil rights. Judge O'Donnell denied the motion, ruling that it was barred by laches due to the passage of time since the original cross-complaint was filed. The City filed a motion to bifurcate the trial, so that liability issues can be litigated first, and the damages phase litigated only if MacPherson prevails in the liability phase. Judge O'Donnell granted the motion over MacPherson's strenuous objections. Thereafter, the parties actively engaged in pretrial discovery regarding liability, including production of documents, exchanges of interrogatories, and depositions of witnesses.

Cross-motions for summary judgment on liability were filed and heard, and in early 2008 Judge O'Donnell denied the City's motion and granted MacPherson's motion, ruling that the City bore the risk of a breach by way of Proposition E and that the "compliance with all laws" clause in the lease does not provide the City with a defense. The City's petitions to the Court of Appeal and the California Supreme Court seeking review of that decision were both denied. On October 16, 2008, Judge O'Donnell scheduled a trial date for the damages phase of the trial for August 12, 2009 (later continued to September 2, 2009). In July, 2009, the City brought another motion for summary adjudication on the issue of causation in order to limit the City's liability in damages; the basis of the motion was that the City Council had a contractual right to terminate the oil project in September, 1998 on the ground that it was hazardous. Judge O'Donnell denied the motion and the City petitioned the Court of Appeal for a writ, which was granted. The Court of Appeal vacated the trial date, ordered further briefing and scheduled an oral argument on the writ for December 7, 2009. Following oral argument, the Court of Appeal ruled that the City possessed the legal authority in 1998 to stop the oil project for safety reasons, but further held that the question of whether there was substantial evidence to support that decision (or whether the safety justification in support of that decision was merely pretextual) was a matter to be tried before a jury.

The City filed a petition with the California Supreme Court seeking review of that decision, arguing that relegation of that decision to a jury necessarily involved an invasion of the deliberative process privilege in contravention of established law, and that the City's 1998 decision to stop the project should be affirmed based on the record. Review was not granted, and the case was back on track for a jury trial. Trial was scheduled for January 18, 2012, but then continued to April 2012.

In March 2012, the Hermosa Beach City Council unanimously voted to enter into a settlement agreement with Macpherson, ending the litigation. The settlement included a third party – E&B Natural Resources Management Corporation ("E&B") – which has assumed all of Macpherson's rights under the original lease and City entitlements and intends to attempt to resurrect the oil drilling project.

Pursuant to the terms of the settlement, the residents of Hermosa Beach were asked by way of ballot Measure O at March 3, 2015 special election whether the City-wide ban on oil drilling should be modified to allow a new oil and natural gas production project proposed by E&B within the City limits. The ballot measure failed. Consequently, under the settlement the City owed E&B \$17.5 million to be paid on "commercially reasonable" terms. The City paid E&B \$6,000,000 during the year ended June 30, 2015 and the remaining principal in the amount of \$11,500,000 on August 13, 2015.

E& B contended that interest on the \$17.5 million commenced to run in March 2012, when the settlement agreement was executed; the City disagreed. The City resolved its dispute with E&B Natural Resources Management Corporation with the payment of \$1.5 million in return for a complete termination of all disputes raised in E&B's February 18, 2016 formal claim against the City, including its claim for additional interest on the \$17.5 million E&B originally paid on behalf of the City under the 2012 settlement. The settlement permanently terminates E&B's existing drilling and mineral rights within the City, including the oil project contemplated by Measure O at the City's maintenance yard and any claims related thereto. Consequently, the oil dispute dating from 1996 no longer represents a contingent liability for the City.

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**REQUIRED SUPPLEMENTARY  
INFORMATION (UNAUDITED)**

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**City of Hermosa Beach**  
**Required Supplementary Information (Unaudited)**  
**Budgetary Comparison Schedule – General Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Fund balance, July 1, 2016</b>	\$ 8,778,042	\$ 8,778,042	\$ 8,778,042	\$ -
Resources (inflows):				
Property taxes	15,451,603	15,673,927	15,753,082	79,155
Other taxes	10,584,329	10,731,581	10,737,793	6,212
Licenses and permits	1,150,240	1,159,956	967,956	(192,000)
Fines and forfeitures	2,309,388	2,290,465	2,070,599	(219,866)
Use of money and property	917,090	862,238	718,239	(143,999)
Intergovernmental	174,240	121,608	116,176	(5,432)
Charges for services	6,831,450	6,711,239	6,969,683	258,444
Miscellaneous	219,350	313,279	126,818	(186,461)
Transfers in	356,460	356,460	353,853	(2,607)
Amount available for appropriation	<u>46,772,192</u>	<u>46,998,795</u>	<u>46,592,241</u>	<u>(406,554)</u>
Charges to appropriations (outflows):				
Legislative and legal	1,249,075	1,477,142	1,448,509	28,633
General government	3,518,424	3,758,627	3,640,396	118,231
Public safety	21,275,753	21,642,549	21,287,623	354,926
Community development	1,839,028	1,992,459	1,832,234	160,225
Culture and recreation	1,285,033	1,327,473	1,282,637	44,836
Public works	4,970,577	5,177,776	4,869,805	307,971
Capital outlay	1,352,611	1,128,049	565,588	562,461
Transfers out	1,588,161	2,002,897	2,002,897	-
Total charges to appropriations	<u>37,078,662</u>	<u>38,506,972</u>	<u>36,929,689</u>	<u>1,577,283</u>
<b>Fund balance, June 30, 2017</b>	<u>\$ 9,693,530</u>	<u>\$ 8,491,823</u>	<u>\$ 9,662,552</u>	<u>\$ 1,170,729</u>

**City of Hermosa Beach**  
**Required Supplementary Information (Unaudited)**  
**Budgetary Comparison Schedule – Sewer Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Fund balance, July 1, 2016</b>	\$ 4,712,140	\$ 4,712,140	\$ 4,712,140	\$ -
Resources (inflows):				
Intergovernmental	25,500	25,500	47,378	21,878
Charges for services	998,374	1,105,860	1,110,295	4,435
Interest earned on investments	42,569	62,430	-	(62,430)
Amount available for appropriation	5,778,583	5,905,930	5,869,813	(36,117)
Charges to appropriations (outflows):				
Public works	347,187	444,915	340,199	104,716
Capital outlay	600,000	600,000	154,223	445,777
Total charges to appropriations	947,187	1,044,915	494,422	550,493
<b>Fund balance, June 30, 2017</b>	\$ 4,831,396	\$ 4,861,015	\$ 5,375,391	\$ 514,376

**City of Hermosa Beach**  
**Required Supplementary Information (Unaudited)**  
**Notes to the Budgetary Comparison Schedule**  
**For the Year Ended June 30, 2017**

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**Budgetary Control and Accounting Policy**

Budgets are annually adopted for all governmental and proprietary fund types on a basis consistent with generally accepted accounting principles. The City is required by its municipal code to adopt an annual budget on or before June 30 for the ensuing fiscal year. From the effective date of the budget, the amounts become the “*annual appropriated budget*.”

The appropriated budget is prepared by fund, department and division. The City Council may amend the budget by motion during the fiscal year. Expenditures may not legally exceed appropriations at the fund level. The City Manager is authorized to transfer budgeted amounts between departments within the same fund; however, any transfers between funds or revisions that alter total appropriations of any fund require City Council approval. The legal level of control is therefore at the fund level.

Supplemental appropriations, which increase appropriations, were made during the fiscal year, therefore, “final” budgeted revenue and appropriation amounts shown in the financial statements represent the original budget, modified for adjustments during the year. Appropriations lapse at the end of the fiscal year.

Encumbrances - Under encumbrance accounting, purchase orders, contracts and other commitments for expenditures are recorded to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary accounting. Unexpended appropriations lapse at year-end.

**City of Hermosa Beach**  
**Required Supplementary Information (Unaudited)**  
**Schedule of Funding Progress – Other Postemployment Benefits**  
**For the Year Ended June 30, 2017**

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The schedule of funding progress for the past three actuarial valuations is presented below:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	Accrued Liability ("UAAL") (A - B)	Funded Ratio (A / B)	Covered Payroll (C)	UAAL as a % of Payroll (A - B) / C
6/30/2008	\$ 1,890,000	\$ 5,830,000	\$ (3,940,000)	32.4%	\$ 9,182,000	42.91%
6/30/2011	3,491,000	10,221,000	(6,730,000)	34.2%	9,030,000	74.53%
6/30/2014	5,747,000	10,714,000	(4,967,000)	53.6%	10,262,000	48.40%



**City of Hermosa Beach**  
**Required Supplementary Information (Unaudited) (Continued)**  
**Schedule of the City's Proportionate Share of the Net Pension Liability and Related Ratios**  
**For the Year Ended June 30, 2017**

**Last Ten Fiscal Years**

**California Public Employees' Retirement System ("CalPERS") Miscellaneous Plan**

	June 30, 2016 <sup>1</sup>	June 30, 2015 <sup>1</sup>	June 30, 2014 <sup>1</sup>
City's Proportion of the Net Pension Liability/(Asset)	0.14882%	0.15099%	0.16331%
City's Proportionate Share of the Net Pension Liability/(Asset)	\$ 12,877,883	\$ 10,364,015	\$ 10,161,668
City's Covered Payroll	\$ 6,540,869	\$ 5,700,485	\$ 5,355,599
City's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered Payroll	<u>196.88%</u>	<u>181.81%</u>	<u>189.74%</u>
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>73.59%</u>	<u>78.00%</u>	<u>78.34%</u>

**California Public Employees' Retirement System ("CalPERS") Safety Plan**

	June 30, 2015 <sup>1</sup>	June 30, 2015 <sup>1</sup>	June 30, 2014 <sup>1</sup>
City's Proportion of the Net Pension Liability/(Asset)	0.37217%	0.40019%	0.42012%
City's Proportionate Share of the Net Pension Liability/(Asset)	\$ 32,204,127	\$ 27,469,000	\$ 26,141,972
City's Covered Payroll	\$ 5,342,937	\$ 5,492,822	\$ 5,065,109
City's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered Payroll	<u>602.74%</u>	<u>500.09%</u>	<u>516.12%</u>
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>68.78%</u>	<u>72.40%</u>	<u>74.24%</u>

<sup>1</sup> Historical information is presented only for measurement periods for which GASB 68 is applicable. The measurement date 2014 was the first year of implementation, therefore only two year is presented.

**City of Hermosa Beach**  
**Required Supplementary Information (Unaudited) (Continued)**  
**Schedule of the City's Contributions**  
**For the Year Ended June 30, 2016**

**Last Ten Fiscal Years**

**California Public Employees' Retirement System ("CalPERS") Miscellaneous Plan**

	2016-17	2015-16	2014-15	2013-14 <sup>1</sup>
Actuarially Determined Contribution	\$ 518,722	\$ 469,656	\$ 883,493	\$ 799,637
Contribution in Relation to the Actuarially Determined Contribution	(1,379,151)	(1,245,120)	(883,493)	(799,637)
Contribution Deficiency (Excess)	\$ (860,429)	\$ (775,464)	\$ -	\$ -
Covered Payroll <sup>2</sup>	\$ 6,785,443	\$ 6,540,869	\$ 5,700,485	\$ 5,355,599
Contributions as a Percentage of Covered Payroll	20.33%	19.04%	15.50%	14.93%

**California Public Employees' Retirement System ("CalPERS") Safety Plan**

	2016-17	2015-16	2014-15	2013-14 <sup>1</sup>
Actuarially Determined Contribution	\$ 1,029,129	\$ 1,033,371	\$ 2,842,420	\$ 1,923,392
Contribution in Relation to the Actuarially Determined Contribution	(3,921,179)	(3,698,115)	(2,842,420)	(1,923,392)
Contribution Deficiency (Excess)	\$ (2,892,050)	\$ (2,664,744)	\$ -	\$ -
Covered Payroll <sup>2</sup>	\$ 5,597,651	\$ 5,342,937	\$ 5,492,822	\$ 5,065,109
Contributions as a Percentage of Covered Payroll	70.05%	69.22%	51.75%	37.97%

<sup>1</sup> Historical information is presented only for measurement periods for which GASB 68 is applicable. The fiscal year 2014 was the first year of implementation, therefore only three years are presented.

<sup>2</sup> Covered Payroll represented above is based on pensionable earnings provided by the employer.

**Notes to Schedule**

Changes of Assumptions: The discount rate was changed from 7.5% to 7.65% from June 30, 2014 to June 30, 2016 (measurement date).

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# **SUPPLEMENTARY INFORMATION**

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# NON MAJOR GOVERNMENTAL FUNDS

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## Special Revenue Funds:

**Lighting and Landscaping District Fund** - This fund is used to account for the Lighting Assessment District, which was created for street lighting/median maintenance purposes pursuant to Street and Highway Code 22500-22679.

**State Gas Tax Fund** - This fund is used to account for the City's share of state gasoline tax, which is restricted for use on public streets. Restricted Transportation Development Act funds from Los Angeles County Transportation Commission for the Strand Walkway Project and Bicycle Path Project are also accounted for in this fund.

**AB 939 Fund** - This fund is used to account for the fees collected in connection with solid waste collection. The fees are used to implement a Source Reduction and Recycling Element and a Household Waste Element.

**Prop A Open Space Fund** - This fund is used to account for funds generated by passage of the L.A. County Safe Neighborhood Parks Bond Act by County voters for the purpose of improving parks and recreational facilities.

**Tyco Fund** - This fund is used to account for funds received from an easement granted for construction of a transpacific, submarine fiber optic cable system originating in Japan with a landing in Hermosa Beach. The project will provide additional capacity.

**Tyco Tidelands Fund** - This fund is used to account for the portion of the funds specific to the tidelands and submerged lands received from an easement granted for construction of a transpacific, submarine fiber optic cable system originating in Japan with a landing in Hermosa Beach that were set aside to build one new restroom and rehabilitate three existing restrooms at the beach.

**Parks/Recreation Facilities Tax Fund** - This fund is used to account for revenue from subdivision fees and park or recreation facility tax fees on new dwellings. Generally, the funds are to be used for acquisition, improvements and expansion of park or recreational facilities.

**Bayview Drive Administrative Expense Fund** - This fund is used to account for all administrative expenditures required for the Bayview Utility Underground Special Assessment District.

**Lower Pier Administrative Expense Fund** - This fund is used to account for all administrative expenditures required for the Lower Pier District. These funds are invested but interest is not allocated to this fund because it is not required by the bond documents.

**Myrtle District Administrative Expense Fund** - This fund is used to account for all administrative expenditures required for the Myrtle Avenue Utility Underground Special Assessment District.

**Loma District Administrative Expense Fund** - This fund is used to account for all administrative expenditures required for the Loma Drive Utility Underground Special Assessment District.

**Beach Drive Assessment District Administrative Expense Fund** - This fund is used to account for all administrative expenditures required for the Loma Drive Utility Underground Special Assessment District.

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# NON MAJOR

## GOVERNMENTAL FUNDS (Continued)

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Special Revenue Funds (Continued):

**Proposition "A" Transit Fund** - Transit revenue consists primarily of Proposition A fund (the 1/2 cent sales tax for Los Angeles County transportation purposes). The City currently operates a Dial-a-Ride program for seniors, a taxi voucher program, a commuter bus, special event and after school program shuttles and subsidizes bus passes for senior citizens and students.

**Proposition "C" Fund** - This is a fund which was added during 1992 to account for funds allocated from the voter-approved 1/2 cent sales tax. Funds must be used for transit purposes.

**Measure "R" Fund** - This is a fund which was added July 1, 2009 to account for a 1/2 cent sales tax approved by Los Angeles County voters in November 2008 to meet the transportation needs of Los Angeles County. The program is to be used for transportation projects that have been approved by the Los Angeles County Metropolitan Transit Authority.

**Air Quality Management District Fund** - This fund is used to account for funds distributed by the South Coast Air Quality Management district. The revenues are restricted to programs which promote reduction in air pollution from motor vehicles.

**Supplemental Law Enforcement Services Fund** - This fund is used to account for funds received from the Citizen Option for Public Safety ("COPS") program, established by the State Legislature in fiscal year 1996-1997. Funds must be used for front line municipal police services and must supplement and not supplant existing funding.

**Asset Seizure and Forfeiture Fund** - This fund is used to account for property seized as a result of illegal activity and forfeited to the Police Department. Funds must be used for law enforcement purposes to supplement, not replace or decrease, existing appropriations.

**Fire Protection Fund** - This fund is used to account for fire flow fees which are used to upgrade and enhance the fire flow capabilities of the fire protection system in the City and for upgrades to fire facilities.

**Community Development Block Grant (CDBG) Fund** - This fund is used to track the costs related to community development block grant.

**Grants Special Revenue Fund** - This fund is used to support eligible public service agencies.

**Storm Drain Special Revenue Fund** - This fund is used to account for maintenance of the City's storm drains. This includes administration of the national Pollution Discharge Elimination System Program.

Debt Service Fund:

**2015 Lease Revenue Bond** - This fund is used to account for 2015 Lease Revenue Bond.

**City of Hermosa Beach**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2017**

	Special Revenue Funds			
	Lighting and Landscaping District	State Gas Tax	AB 939	Prop A Open Space
<b>ASSETS</b>				
Cash and investments	\$ 69,497	\$ 85,574	\$ 34,988	\$ 13,928
Accounts receivable	71,766	53,507	253	156,140
Property taxes receivable, net	7,998	-	-	-
Reimbursable grants receivable	-	-	-	-
Interest receivable	77	198	14	-
Other assets	-	-	-	-
<b>Total assets</b>	<b>\$ 149,338</b>	<b>\$ 139,279</b>	<b>\$ 35,255</b>	<b>\$ 170,068</b>
<b>LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 80,493	\$ -	\$ -	\$ -
Accrued wages and benefits payable	7,471	-	3,813	-
Due to other funds	-	-	-	170,068
Compensated absences, due within one year	6,314	-	2,553	-
<b>Total liabilities</b>	<b>94,278</b>	<b>-</b>	<b>6,366</b>	<b>170,068</b>
<b>Deferred inflows of resources:</b>				
Unavailable Revenues	7,998	-	-	-
<b>Total deferred inflows of resources</b>	<b>7,998</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balances:</b>				
Nonspendable	-	-	-	-
Restricted	47,062	139,279	28,889	-
Committed	-	-	-	-
Assigned	-	-	-	-
<b>Total fund balances</b>	<b>47,062</b>	<b>139,279</b>	<b>28,889</b>	<b>-</b>
<b>Total liabilities, deferred outflows of resources and fund balances</b>	<b>\$ 149,338</b>	<b>\$ 139,279</b>	<b>\$ 35,255</b>	<b>\$ 170,068</b>

(Continued)



**City of Hermosa Beach**  
**Combining Balance Sheet (Continued)**  
**Nonmajor Governmental Funds**  
**June 30, 2017**

	Special Revenue Funds			
	Tyco	Tyco Tidelands	Parks/ Recreation Facilities Tax	Bayview Drive Administrative Expense
<b>ASSETS</b>				
Cash and investments	\$ 628,857	\$ 3,714	\$ 138,211	\$ 1,936
Accounts receivable	39,856	-	1,450	-
Property taxes receivable, net	-	-	-	-
Reimbursable grants receivable	-	-	-	-
Interest receivable	435	-	289	2
Other assets	-	-	-	-
<b>Total assets</b>	<b>\$ 669,148</b>	<b>\$ 3,714</b>	<b>\$ 139,950</b>	<b>\$ 1,938</b>
<b>LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ -	\$ 17,186	\$ 388
Accrued wages and benefits payable	-	-	-	-
Due to other funds	-	-	-	-
Compensated absences, due within one year	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>17,186</b>	<b>388</b>
<b>Deferred inflows of resources:</b>				
Unavailable Revenues	-	-	-	-
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balances:</b>				
Nonspendable	-	-	-	-
Restricted	-	3,714	122,764	1,550
Committed	669,148	-	-	-
Assigned	-	-	-	-
<b>Total fund balances</b>	<b>669,148</b>	<b>3,714</b>	<b>122,764</b>	<b>1,550</b>
<b>Total liabilities, deferred outflows of resources and fund balances</b>	<b>\$ 669,148</b>	<b>\$ 3,714</b>	<b>\$ 139,950</b>	<b>\$ 1,938</b>

(Continued)

**City of Hermosa Beach**  
**Combining Balance Sheet (Continued)**  
**Nonmajor Governmental Funds**  
**June 30, 2017**

	Special Revenue Funds			
	Lower Pier Administrative Expense	Myrtle District Administrative Expense	Loma District Administrative Expense	Beach Drive Assessment District Admin Expense
<b>ASSETS</b>				
Cash and investments	\$ 2,675	\$ 9,572	\$ 16,644	\$ 2,768
Accounts receivable	-	-	-	-
Property taxes receivable, net	-	-	-	-
Reimbursable grants receivable	-	-	-	-
Interest receivable	-	10	15	2
Other assets	-	-	-	-
<b>Total assets</b>	<b>\$ 2,675</b>	<b>\$ 9,582</b>	<b>\$ 16,659</b>	<b>\$ 2,770</b>
<b>LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 311	\$ 463	\$ 634	\$ 360
Accrued wages and benefits payable	-	-	-	-
Due to other funds	-	-	-	-
Compensated absences, due within one year	-	-	-	-
<b>Total liabilities</b>	<b>311</b>	<b>463</b>	<b>634</b>	<b>360</b>
<b>Deferred inflows of resources:</b>				
Unavailable Revenues	-	-	-	-
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balances:</b>				
Nonspendable	-	-	-	-
Restricted	2,364	9,119	16,025	2,410
Committed	-	-	-	-
Assigned	-	-	-	-
<b>Total fund balances</b>	<b>2,364</b>	<b>9,119</b>	<b>16,025</b>	<b>2,410</b>
<b>Total liabilities, deferred outflows of resources and fund balances</b>	<b>\$ 2,675</b>	<b>\$ 9,582</b>	<b>\$ 16,659</b>	<b>\$ 2,770</b>

(Continued)

**City of Hermosa Beach**  
**Combining Balance Sheet (Continued)**  
**Nonmajor Governmental Funds**  
**June 30, 2017**

	Special Revenue Funds			
	Proposition "A" Transit	Proposition "C"	Measure "R"	Air Quality Management District
<b>ASSETS</b>				
Cash and investments	\$ 1,179,323	\$ 1,270,842	\$ 731,087	\$ 66,099
Accounts receivable	-	-	3,332	13,192
Property taxes receivable, net	-	-	-	-
Reimbursable grants receivable	-	-	-	-
Interest receivable	600	740	389	26
Other assets	-	-	-	-
<b>Total assets</b>	<b>\$ 1,179,923</b>	<b>\$ 1,271,582</b>	<b>\$ 734,808</b>	<b>\$ 79,317</b>
<b>LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 52,073	\$ -	\$ -	\$ 647
Accrued wages and benefits payable	458	-	188	23
Due to other funds	-	-	-	-
Compensated absences, due within one year	-	-	-	-
<b>Total liabilities</b>	<b>52,531</b>	<b>-</b>	<b>188</b>	<b>670</b>
<b>Deferred inflows of resources:</b>				
Unavailable Revenues	-	-	-	-
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balances:</b>				
Nonspendable	-	-	-	-
Restricted	1,127,392	1,271,582	734,620	78,647
Committed	-	-	-	-
Assigned	-	-	-	-
<b>Total fund balances</b>	<b>1,127,392</b>	<b>1,271,582</b>	<b>734,620</b>	<b>78,647</b>
<b>Total liabilities, deferred outflows of resources and fund balances</b>	<b>\$ 1,179,923</b>	<b>\$ 1,271,582</b>	<b>\$ 734,808</b>	<b>\$ 79,317</b>

(Continued)

**City of Hermosa Beach**  
**Combining Balance Sheet (Continued)**  
**Nonmajor Governmental Funds**  
**June 30, 2017**

	Special Revenue Funds			
	Supplemental Law Enforcement Services	Asset Seizure and Forfeiture	Fire Protection	CDBG
<b>ASSETS</b>				
Cash and investments	\$ 163,475	\$ 244,111	\$ 90,997	\$ -
Accounts receivable	-	2,074	-	4,971
Property taxes receivable, net	-	-	-	-
Reimbursable grants receivable	-	-	-	-
Interest receivable	150	227	42	-
Other assets	7,083	-	-	-
<b>Total assets</b>	<b>\$ 170,708</b>	<b>\$ 246,412</b>	<b>\$ 91,039</b>	<b>\$ 4,971</b>
<b>LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 420	\$ 79	\$ -	\$ 4,971
Accrued wages and benefits payable	-	-	-	-
Due to other funds	-	-	-	-
Compensated absences, due within one year	-	-	-	-
<b>Total liabilities</b>	<b>420</b>	<b>79</b>	<b>-</b>	<b>4,971</b>
<b>Deferred inflows of resources:</b>				
Unavailable Revenues	-	-	-	-
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balances:</b>				
Nonspendable	7,083	-	-	-
Restricted	163,205	246,333	91,039	-
Committed	-	-	-	-
Assigned	-	-	-	-
<b>Total fund balances</b>	<b>170,288</b>	<b>246,333</b>	<b>91,039</b>	<b>-</b>
<b>Total liabilities, deferred outflows of resources and fund balances</b>	<b>\$ 170,708</b>	<b>\$ 246,412</b>	<b>\$ 91,039</b>	<b>\$ 4,971</b>

(Continued)

**City of Hermosa Beach**  
**Combining Balance Sheet (Continued)**  
**Nonmajor Governmental Funds**  
**June 30, 2017**

	<u>Special Revenue Funds</u>		<u>Debt Service Fund</u>	Total Nonmajor Governmental Funds
	<u>Grants</u>	<u>Storm Drain</u>	2015 Lease Revenue Bond	
<b>ASSETS</b>				
Cash and investments	\$ 570,698	\$ 537,176	\$ 3,702	\$ 5,865,874
Accounts receivable	5,274	-	-	351,815
Property taxes receivable, net	-	-	-	7,998
Reimbursable grants receivable	183,570	-	-	183,570
Interest receivable	-	-	-	3,216
Other assets	-	-	-	7,083
<b>Total assets</b>	<b>\$ 759,542</b>	<b>\$ 537,176</b>	<b>\$ 3,702</b>	<b>\$ 6,419,634</b>
<b>LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 156,262	\$ 109,682	\$ -	\$ 423,969
Accrued wages and benefits payable	-	8,593	-	20,546
Due to other funds	-	-	-	170,068
Compensated absences, due within one year	47	5,369	-	14,283
<b>Total liabilities</b>	<b>156,309</b>	<b>123,644</b>	<b>-</b>	<b>628,866</b>
<b>Deferred inflows of resources:</b>				
Unavailable Revenues	-	-	-	7,998
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,998</b>
<b>Fund Balances:</b>				
Nonspendable	-	-	-	7,083
Restricted	603,233	413,532	-	5,102,759
Committed	-	-	-	669,148
Assigned	-	-	3,702	3,702
<b>Total fund balances</b>	<b>603,233</b>	<b>413,532</b>	<b>3,702</b>	<b>5,782,692</b>
<b>Total liabilities, deferred outflows of resources and fund balances</b>	<b>\$ 759,542</b>	<b>\$ 537,176</b>	<b>\$ 3,702</b>	<b>\$ 6,419,556</b>

(Concluded)

**City of Hermosa Beach**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2017**

	Special Revenue Funds			
	Lighting and Landscaping District	State Gas Tax	AB 939	Prop A Open Space
<b>REVENUES:</b>				
Property taxes	\$ 455,926	\$ -	\$ -	\$ -
Other taxes	-	-	-	-
Fines and forfeitures	-	-	-	-
Use of money and property	-	-	-	-
Intergovernmental	-	378,859	-	41,114
Charges for services	-	-	59,122	-
Miscellaneous	-	-	-	-
Interest earned on investments	-	-	469	-
<b>Total revenues</b>	<u>455,926</u>	<u>378,859</u>	<u>59,591</u>	<u>41,114</u>
<b>EXPENDITURES:</b>				
Current:				
General government	-	-	52,554	-
Public safety	-	-	-	-
Community development	-	-	-	-
Culture and recreation	-	-	-	-
Public works	574,566	12,043	-	-
Capital outlay	-	20,848	-	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
<b>Total expenditures</b>	<u>574,566</u>	<u>32,891</u>	<u>52,554</u>	<u>-</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(118,640)</u>	<u>345,968</u>	<u>7,037</u>	<u>41,114</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	177,824	-	-	-
Transfers out	(12,122)	(283,196)	-	(41,114)
<b>Total other financing sources (uses)</b>	<u>165,702</u>	<u>(283,196)</u>	<u>-</u>	<u>(41,114)</u>
<b>CHANGES IN FUND BALANCES</b>	47,062	62,772	7,037	-
<b>FUND BALANCES:</b>				
Beginning of year	-	76,507	21,852	-
End of year	<u>\$ 47,062</u>	<u>\$ 139,279</u>	<u>\$ 28,889</u>	<u>\$ -</u>

(Continued)

**City of Hermosa Beach**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2017**

	Special Revenue Funds			
	Tyco	Tyco Tidelands	Parks/ Recreation Facility Tax	Bayview Drive Administrative Expense
<b>REVENUES:</b>				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	-
Fines and forfeitures	-	-	-	-
Use of money and property	328,845	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	250,614	-
Miscellaneous	24,413	-	-	4,500
Interest earned on investments	-	-	583	-
<b>Total revenues</b>	<u>353,258</u>	<u>-</u>	<u>251,197</u>	<u>4,500</u>
<b>EXPENDITURES:</b>				
Current:				
General government	-	-	-	1,203
Public safety	-	-	-	-
Community development	-	-	-	-
Culture and recreation	-	-	21,454	-
Public works	-	-	-	-
Capital outlay	-	-	168,470	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
<b>Total expenditures</b>	<u>-</u>	<u>-</u>	<u>189,924</u>	<u>1,203</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>353,258</u>	<u>-</u>	<u>61,273</u>	<u>3,297</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	(2,307)
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,307)</u>
<b>CHANGES IN FUND BALANCES</b>	353,258	-	61,273	990
<b>FUND BALANCES:</b>				
Beginning of year	315,890	3,714	61,491	560
End of year	<u>\$ 669,148</u>	<u>\$ 3,714</u>	<u>\$ 122,764</u>	<u>\$ 1,550</u>

(Continued)

**City of Hermosa Beach**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2017**

	Special Revenue Funds			
	Lower Pier Administrative Expense	Myrtle District Administrative Expense	Loma District Administrative Expense	Beach Drive Assessment District Admin Expense
<b>REVENUES:</b>				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	-
Fines and forfeitures	-	-	-	-
Use of money and property	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Miscellaneous	2,600	9,000	10,000	3,500
Interest earned on investments	-	15	27	-
<b>Total revenues</b>	<u>2,600</u>	<u>9,015</u>	<u>10,027</u>	<u>3,500</u>
<b>EXPENDITURES:</b>				
Current:				
General government	969	5,084	5,440	1,113
Public safety	-	-	-	-
Community development	-	-	-	-
Culture and recreation	-	-	-	-
Public works	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
<b>Total expenditures</b>	<u>969</u>	<u>5,084</u>	<u>5,440</u>	<u>1,113</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>1,631</u>	<u>3,931</u>	<u>4,587</u>	<u>2,387</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	-	-
Transfers out	(2,249)	(5,264)	(5,710)	(1,891)
<b>Total other financing sources (uses)</b>	<u>(2,249)</u>	<u>(5,264)</u>	<u>(5,710)</u>	<u>(1,891)</u>
<b>CHANGES IN FUND BALANCES</b>	(618)	(1,333)	(1,123)	496
<b>FUND BALANCES:</b>				
Beginning of year	2,982	10,452	17,148	1,914
End of year	<u>\$ 2,364</u>	<u>\$ 9,119</u>	<u>\$ 16,025</u>	<u>\$ 2,410</u>

(Continued)



**City of Hermosa Beach**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2017**

	Special Revenue Funds			
	Proposition "A" Transit	Proposition "C"	Measure "R"	Air Quality Management District
<b>REVENUES:</b>				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other taxes	360,788	299,112	224,502	-
Fines and forfeitures	-	-	-	-
Use of money and property	-	-	-	-
Intergovernmental	-	-	-	25,282
Charges for services	6,206	-	-	-
Miscellaneous	-	-	2,761	-
Interest earned on investments	-	-	-	-
<b>Total revenues</b>	<b>366,994</b>	<b>299,112</b>	<b>227,263</b>	<b>25,282</b>
<b>EXPENDITURES:</b>				
Current:				
General government	12,637	-	-	763
Public safety	67,417	-	-	-
Community development	30,831	-	-	-
Culture and recreation	76,298	-	-	-
Public works	-	72,898	-	-
Capital outlay	-	-	42,229	5,835
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
<b>Total expenditures</b>	<b>187,183</b>	<b>72,898</b>	<b>42,229</b>	<b>6,598</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>179,811</b>	<b>226,214</b>	<b>185,034</b>	<b>18,684</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>CHANGES IN FUND BALANCES</b>	<b>179,811</b>	<b>226,214</b>	<b>185,034</b>	<b>18,684</b>
<b>FUND BALANCES:</b>				
Beginning of year	947,581	1,045,368	549,586	59,963
End of year	<u>\$ 1,127,392</u>	<u>\$ 1,271,582</u>	<u>\$ 734,620</u>	<u>\$ 78,647</u>

(Continued)

**City of Hermosa Beach**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2017**

	Special Revenue Funds			
	Supplemental Law Enforcement Services	Asset Seizure and Forfeiture	Fire Protection	CDBG
<b>REVENUES:</b>				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other taxes	129,324	-	-	-
Fines and forfeitures	-	51,736	-	-
Use of money and property	-	-	-	-
Intergovernmental	-	-	-	99,426
Charges for services	-	-	16,402	-
Miscellaneous	-	-	-	-
Interest earned on investments	-	121	-	-
<b>Total revenues</b>	<u>129,324</u>	<u>51,857</u>	<u>16,402</u>	<u>99,426</u>
<b>EXPENDITURES:</b>				
Current:				
General government	-	-	-	-
Public safety	22,837	6,609	-	-
Community development	-	-	-	-
Culture and recreation	-	-	-	-
Public works	-	-	-	1,743
Capital outlay	-	-	-	99,426
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
<b>Total expenditures</b>	<u>22,837</u>	<u>6,609</u>	<u>-</u>	<u>101,169</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>106,487</u>	<u>45,248</u>	<u>16,402</u>	<u>(1,743)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>CHANGES IN FUND BALANCES</b>	106,487	45,248	16,402	(1,743)
<b>FUND BALANCES:</b>				
Beginning of year	63,801	201,085	74,637	1,743
End of year	<u>\$ 170,288</u>	<u>\$ 246,333</u>	<u>\$ 91,039</u>	<u>\$ -</u>

(Continued)

**City of Hermosa Beach**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2017**

	<u>Special Revenue Fund</u>		<u>Debt Service Fund</u>	Total Nonmajor Governmental Funds
	<u>Grants</u>	<u>Storm Drain</u>	2015 Lease <u>Revenue Bond</u>	
<b>REVENUES:</b>				
Property taxes	\$ -	\$ -	\$ -	\$ 455,926
Other taxes	-	-	-	1,013,726
Fines and forfeitures	-	-	-	51,736
Use of money and property	-	-	-	328,845
Intergovernmental	322,956	-	-	867,637
Charges for services	-	-	-	332,344
Miscellaneous	353,808	-	-	410,582
Interest earned on investments	-	-	-	1,215
<b>Total revenues</b>	<b>676,764</b>	<b>-</b>	<b>-</b>	<b>3,462,011</b>
<b>EXPENDITURES:</b>				
Current:				
General government	-	-	-	79,763
Public safety	8,151	-	-	105,014
Community development	5,953	-	-	36,784
Culture and recreation	-	-	-	97,752
Public works	7,597	227,797	-	896,644
Capital outlay	163,288	243,281	-	743,377
Debt service:				
Principal	-	-	335,000	335,000
Interest and fiscal charges	-	-	375,332	375,332
<b>Total expenditures</b>	<b>184,989</b>	<b>471,078</b>	<b>710,332</b>	<b>2,669,666</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>491,775</b>	<b>(471,078)</b>	<b>(710,332)</b>	<b>792,345</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from lease revenue bond	-	-	-	-
Transfers in	-	700,000	710,337	1,588,161
Transfers out	-	-	-	(353,853)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>700,000</b>	<b>710,337</b>	<b>1,234,308</b>
<b>CHANGES IN FUND BALANCES</b>	<b>491,775</b>	<b>228,922</b>	<b>5</b>	<b>2,026,653</b>
<b>FUND BALANCES:</b>				
Beginning of year	111,458	184,610	3,697	3,756,039
End of year	<b>\$ 603,233</b>	<b>\$ 413,532</b>	<b>\$ 3,702</b>	<b>\$ 5,782,692</b>

(Concluded)

**City of Hermosa Beach**  
**Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual**  
**Lighting and Landscaping District Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
<b>Fund balance, July 1, 2016</b>	\$ -	\$ -	\$ -
Resources (inflows):			
Property taxes	457,500	455,926	(1,574)
Interest earned on investments	5	-	(5)
Transfers in	<u>177,824</u>	<u>177,824</u>	<u>-</u>
Amount available for appropriation	<u>635,329</u>	<u>633,750</u>	<u>(1,579)</u>
Charges to appropriations (outflows):			
Public works	615,616	574,566	41,050
Transfers out	<u>12,122</u>	<u>12,122</u>	<u>-</u>
Total charges to appropriations	<u>627,738</u>	<u>586,688</u>	<u>41,050</u>
<b>Fund balance, June 30, 2017</b>	<u>\$ 7,591</u>	<u>\$ 47,062</u>	<u>\$ 39,471</u>

**City of Hermosa Beach**  
**Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual**  
**State Gas Tax Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
<b>Fund balance, July 1, 2016</b>	\$ 76,507	\$ 76,507	\$ -
Resources (inflows):			
Intergovernmental	410,685	378,859	(31,826)
Interest earned on investments	1,050	-	(1,050)
Amount available for appropriation	<u>488,242</u>	<u>455,366</u>	<u>(32,876)</u>
Charges to appropriations (outflows):			
Public works	22,897	12,043	10,854
Capital outlay	18,620	20,848	(2,228)
Transfers out	283,196	283,196	-
Total charges to appropriations	<u>324,713</u>	<u>316,087</u>	<u>8,626</u>
<b>Fund balance, June 30, 2017</b>	<u>\$ 163,529</u>	<u>\$ 139,279</u>	<u>\$ (24,250)</u>

**City of Hermosa Beach**  
**Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual**  
**AB 939 Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
<b>Fund balance, July 1, 2016</b>	\$ 21,852	\$ 21,852	\$ -
Resources (inflows):			
Charges for services	58,632	59,122	490
Interest earned on investments	371	469	98
Amount available for appropriation	<u>80,855</u>	<u>81,443</u>	<u>588</u>
Charges to appropriations (outflows):			
General government	54,408	52,554	1,854
Total charges to appropriations	<u>54,408</u>	<u>52,554</u>	<u>1,854</u>
<b>Fund balance, June 30, 2017</b>	<u>\$ 26,447</u>	<u>\$ 28,889</u>	<u>\$ 2,442</u>

**City of Hermosa Beach**  
**Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual**  
**Prop A Open Space Special Revenue Fund**  
**For the Year Ended June 30, 2017**

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	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
<b>Fund balance, July 1, 2016</b>	\$ -	\$ -	\$ -
Resources (inflows):			
Intergovernmental	20,557	41,114	20,557
Amount available for appropriation	20,557	41,114	20,557
Charges to appropriations (outflows):			
Transfers out	43,721	41,114	2,607
Total charges to appropriations	43,721	41,114	2,607
<b>Fund balance, June 30, 2017</b>	<u>\$ (23,164)</u>	<u>\$ -</u>	<u>\$ 23,164</u>

**City of Hermosa Beach**  
**Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual**  
**Tyco Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
<b>Fund balance, July 1, 2016</b>	\$ 315,890	\$ 315,890	\$ -
Resources (inflows):			
Use of money and property	318,845	328,845	10,000
Miscellaneous	-	24,413	24,413
Interest earned on investments	6,976	-	(6,976)
Amount available for appropriation	<u>641,711</u>	<u>669,148</u>	<u>27,437</u>
Charges to appropriations (outflows):			
Capital outlay	<u>131,201</u>	-	<u>131,201</u>
Total charges to appropriations	<u>131,201</u>	-	<u>131,201</u>
<b>Fund balance, June 30, 2017</b>	<u>\$ 510,510</u>	<u>\$ 669,148</u>	<u>\$ 158,638</u>



**City of Hermosa Beach**  
**Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual**  
**Tyco Tidelands Special Revenue Fund**  
**For the Year Ended June 30, 2017**

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	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
<b>Fund balance, July 1, 2016</b>	\$ 3,714	\$ 3,714	\$ -
Resources (inflows):			
Interest earned on investments	35	-	(35)
Amount available for appropriation	3,749	3,714	(35)
<b>Fund balance, June 30, 2017</b>	<u>\$ 3,749</u>	<u>\$ 3,714</u>	<u>\$ (35)</u>

**City of Hermosa Beach**  
**Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual**  
**Parks/Recreation Facilities Tax Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
<b>Fund balance, July 1, 2016</b>	\$ 61,491	\$ 61,491	\$ -
Resources (inflows):			
Charge for services	243,282	250,614	7,332
Interest earned on investments	1,935	583	(1,352)
Amount available for appropriation	<u>306,708</u>	<u>312,688</u>	<u>5,980</u>
Charges to appropriations (outflows):			
Culture and recreation	-	21,454	(21,454)
Public works	52,454	-	52,454
Capital outlay	324,287	168,470	155,817
Total charges to appropriations	<u>376,741</u>	<u>189,924</u>	<u>186,817</u>
<b>Fund balance, June 30, 2017</b>	<u>\$ (70,033)</u>	<u>\$ 122,764</u>	<u>\$ 192,797</u>

**City of Hermosa Beach**  
**Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual**  
**Bayview Drive Administrative Expense Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
<b>Fund balance, July 1, 2016</b>	\$ 560	\$ 560	\$ -
Resources (inflows):			
Miscellaneous	4,500	4,500	-
Interest earned on investments	21	-	(21)
Amount available for appropriation	<u>5,081</u>	<u>5,060</u>	<u>(21)</u>
Charges to appropriations (outflows):			
General government	2,107	1,203	904
Transfers out	2,307	2,307	-
Total charges to appropriations	<u>4,414</u>	<u>3,510</u>	<u>904</u>
<b>Fund balance, June 30, 2017</b>	<u>\$ 667</u>	<u>\$ 1,550</u>	<u>\$ 883</u>

**City of Hermosa Beach**  
**Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual**  
**Lower Pier Administrative Expense Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
<b>Fund balance, July 1, 2016</b>	\$ 2,982	\$ 2,982	\$ -
Resources (inflows):			
Miscellaneous	2,600	2,600	-
Amount available for appropriation	<u>5,582</u>	<u>5,582</u>	<u>-</u>
Charges to appropriations (outflows):			
General government	1,575	969	606
Transfers out	2,249	2,249	-
Total charges to appropriations	<u>3,824</u>	<u>3,218</u>	<u>606</u>
<b>Fund balance, June 30, 2017</b>	<u>\$ 1,758</u>	<u>\$ 2,364</u>	<u>\$ 606</u>

**City of Hermosa Beach**  
**Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual**  
**Myrtle District Administrative Expense Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
<b>Fund balance, July 1, 2016</b>	\$ 10,452	\$ 10,452	\$ -
Resources (inflows):			
Miscellaneous	9,000	9,000	-
Interest earned on investments	143	15	(128)
Amount available for appropriation	<u>19,595</u>	<u>19,467</u>	<u>(128)</u>
Charges to appropriations (outflows):			
General government	6,305	5,084	1,221
Transfers out	5,264	5,264	-
Total charges to appropriations	<u>11,569</u>	<u>10,348</u>	<u>1,221</u>
<b>Fund balance, June 30, 2017</b>	<u>\$ 8,026</u>	<u>\$ 9,119</u>	<u>\$ 1,093</u>

**City of Hermosa Beach**  
**Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual**  
**Loma District Administrative Expense Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
<b>Fund balance, July 1, 2016</b>	\$ 17,148	\$ 17,148	\$ -
Resources (inflows):			
Miscellaneous	10,000	10,000	-
Interest earned on investments	219	27	(192)
Amount available for appropriation	<u>27,367</u>	<u>27,175</u>	<u>(192)</u>
Charges to appropriations (outflows):			
General government	5,881	5,440	441
Transfers out	5,710	5,710	-
Total charges to appropriations	<u>11,591</u>	<u>11,150</u>	<u>441</u>
<b>Fund balance, June 30, 2017</b>	<u>\$ 15,776</u>	<u>\$ 16,025</u>	<u>\$ 249</u>

**City of Hermosa Beach**  
**Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual**  
**Beach Drive Assessment District Administrative Expense Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
<b>Fund balance, July 1, 2016</b>	\$ 1,914	\$ 1,914	\$ -
Resources (inflows):			
Miscellaneous	3,500	3,500	-
Use of money and property	28	-	(28)
Amount available for appropriation	<u>5,442</u>	<u>5,414</u>	<u>(28)</u>
Charges to appropriations (outflows):			
General government	1,734	1,113	621
Transfers out	1,891	1,891	-
Total charges to appropriations	<u>3,625</u>	<u>3,004</u>	<u>621</u>
<b>Fund balance, June 30, 2017</b>	<u>\$ 1,817</u>	<u>\$ 2,410</u>	<u>\$ 593</u>

**City of Hermosa Beach**  
**Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual**  
**Proposition "A" Transit Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
<b>Fund balance, July 1, 2016</b>	\$ 947,581	\$ 947,581	\$ -
Resources (inflows):			
Other taxes	362,268	360,788	(1,480)
Charges for services	7,120	6,206	(914)
Interest earned on investments	13,834	-	(13,834)
Amount available for appropriation	<u>1,330,803</u>	<u>1,314,575</u>	<u>(16,228)</u>
Charges to appropriations (outflows):			
General government	16,289	12,637	3,652
Public safety	76,000	67,417	8,583
Community development	31,149	30,831	318
Culture and recreation	89,200	76,298	12,902
Total charges to appropriations	<u>212,638</u>	<u>187,183</u>	<u>25,455</u>
<b>Fund balance, June 30, 2017</b>	<u>\$ 1,118,165</u>	<u>\$ 1,127,392</u>	<u>\$ 9,227</u>



**City of Hermosa Beach**  
**Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual**  
**Proposition "C" Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
<b>Fund balance, July 1, 2016</b>	\$ 1,045,368	\$ 1,045,368	\$ -
Resources (inflows):			
Other taxes	300,492	299,112	(1,380)
Interest earned on investments	14,565	-	(14,565)
Amount available for appropriation	<u>1,360,425</u>	<u>1,344,480</u>	<u>(15,945)</u>
Charges to appropriations (outflows):			
Public works	92,296	72,898	19,398
Total charges to appropriations	<u>92,296</u>	<u>72,898</u>	<u>19,398</u>
<b>Fund balance, June 30, 2017</b>	<u>\$ 1,268,129</u>	<u>\$ 1,271,582</u>	<u>\$ 3,453</u>

**City of Hermosa Beach**  
**Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual**  
**Measure "R" Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
<b>Fund balance, July 1, 2016</b>	\$ 549,586	\$ 549,586	\$ -
Resources (inflows):			
Other taxes	225,352	224,502	(850)
Miscellaneous	-	2,761	2,761
Interest earned on investments	8,310	-	(8,310)
Amount available for appropriation	<u>783,248</u>	<u>776,849</u>	<u>(6,399)</u>
Charges to appropriations (outflows):			
Capital outlay	<u>281,660</u>	<u>42,229</u>	<u>239,431</u>
Total charges to appropriations	<u>281,660</u>	<u>42,229</u>	<u>239,431</u>
<b>Fund balance, June 30, 2017</b>	<u>\$ 501,588</u>	<u>\$ 734,620</u>	<u>\$ 233,032</u>

**City of Hermosa Beach**  
**Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual**  
**Air Quality Management District Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
<b>Fund balance, July 1, 2016</b>	\$ 59,963	\$ 59,963	\$ -
Resources (inflows):			
Intergovernmental	25,000	25,282	282
Interest earned on investments	695	-	(695)
Amount available for appropriation	<u>85,658</u>	<u>85,245</u>	<u>(413)</u>
Charges to appropriations (outflows):			
General government	28,600	763	27,837
Capital outlay	-	5,835	(5,835)
Total charges to appropriations	<u>28,600</u>	<u>6,598</u>	<u>22,002</u>
<b>Fund balance, June 30, 2017</b>	<u>\$ 57,058</u>	<u>\$ 78,647</u>	<u>\$ 21,589</u>

**City of Hermosa Beach**  
**Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual**  
**Supplemental Law Enforcement Services Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
<b>Fund balance, July 1, 2016</b>	\$ 63,801	\$ 63,801	\$ -
Resources (inflows):			
Other taxes	100,000	129,324	29,324
Interest earned on investments	1,093	-	(1,093)
Amount available for appropriation	<u>164,894</u>	<u>193,125</u>	<u>28,231</u>
Charges to appropriations (outflows):			
Public safety	<u>32,114</u>	<u>22,837</u>	<u>9,277</u>
Total charges to appropriations	<u>32,114</u>	<u>22,837</u>	<u>9,277</u>
<b>Fund balance, June 30, 2017</b>	<u>\$ 132,780</u>	<u>\$ 170,288</u>	<u>\$ 37,508</u>

**City of Hermosa Beach**  
**Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual**  
**Asset Seizure and Forfeiture Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
<b>Fund balance, July 1, 2016</b>	\$ 201,085	\$ 201,085	\$ -
Resources (inflows):			
Fines and forfeitures	50,000	51,736	1,736
Interest earned on investments	2,713	121	(2,592)
Amount available for appropriation	<u>253,798</u>	<u>252,942</u>	<u>(856)</u>
Charges to appropriations (outflows):			
Public safety	12,500	6,609	5,891
Capital outlay	600	-	600
Total charges to appropriations	<u>13,100</u>	<u>6,609</u>	<u>6,491</u>
<b>Fund balance, June 30, 2017</b>	<u>\$ 240,698</u>	<u>\$ 246,333</u>	<u>\$ 5,635</u>

**City of Hermosa Beach**  
**Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual**  
**Fire Protection Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
<b>Fund balance, July 1, 2016</b>	\$ 74,637	\$ 74,637	\$ -
Resources (inflows):			
Charges for services	20,235	16,402	(3,833)
Interest earned on investments	1,047	-	(1,047)
Amount available for appropriation	95,919	91,039	(4,880)
<b>Fund balance, June 30, 2017</b>	<u>\$ 95,919</u>	<u>\$ 91,039</u>	<u>\$ (4,880)</u>

**City of Hermosa Beach**  
**Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual**  
**Community Development Block Grant Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
<b>Fund balance, July 1, 2016</b>	\$ 1,743	\$ 1,743	\$ -
Resources (inflows):			
Intergovernmental	143,000	99,426	(43,574)
Amount available for appropriation	<u>144,743</u>	<u>101,169</u>	<u>(43,574)</u>
Charges to appropriations (outflows):			
Public works	-	1,743	(1,743)
Capital outlay	143,000	99,426	43,574
Total charges to appropriations	<u>143,000</u>	<u>101,169</u>	<u>41,831</u>
<b>Fund balance, June 30, 2017</b>	<u>\$ 1,743</u>	<u>\$ -</u>	<u>\$ (1,743)</u>

**City of Hermosa Beach**  
**Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual**  
**Grants Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
<b>Fund balance, July 1, 2016</b>	\$ 111,458	\$ 111,458	\$ -
Resources (inflows):			
Intergovernmental	406,994	322,956	(84,038)
Miscellaneous	618,710	353,808	(264,902)
Amount available for appropriation	<u>1,137,162</u>	<u>788,222</u>	<u>(348,940)</u>
Charges to appropriations (outflows):			
Public safety	8,151	8,151	-
Community development	23,513	5,953	17,560
Public works	27,296	7,597	19,699
Capital outlay	850,974	163,288	687,686
Total charges to appropriations	<u>909,934</u>	<u>184,989</u>	<u>724,945</u>
<b>Fund balance, June 30, 2017</b>	<u>\$ 227,228</u>	<u>\$ 603,233</u>	<u>\$ 376,005</u>



**City of Hermosa Beach**  
**Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual**  
**Storm Drains Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
<b>Fund balance, July 1, 2016</b>	\$ 184,610	\$ 184,610	\$ -
Resources (inflows):			
Interest earned on investments	-	-	-
Transfers in	700,000	700,000	-
Amount available for appropriation	884,610	884,610	-
Charges to appropriations (outflows):			
Public works	385,102	227,797	157,305
Capital outlay	362,675	243,281	119,394
Total charges to appropriations	747,777	471,078	276,699
<b>Fund balance, June 30, 2017</b>	<u>\$ 136,833</u>	<u>\$ 413,532</u>	<u>\$ 276,699</u>

**City of Hermosa Beach**  
**Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual**  
**2015 Lease Revenue Bond Debt Service Fund**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
<b>Fund balance, July 1, 2016</b>	\$ 3,697	\$ 3,697	\$ -
Resources (inflows):			
Transfers in	710,337	710,337	-
Amount available for appropriation	714,034	714,034	-
Charges to appropriations (outflows):			
Legislative and legal	-	-	-
Principal	335,000	335,000	-
Interest and fiscal charges	375,337	375,332	5
Total charges to appropriations	710,337	710,332	5
<b>Fund balance, June 30, 2017</b>	<u>\$ 3,697</u>	<u>\$ 3,702</u>	<u>\$ 5</u>

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# INTERNAL SERVICE FUNDS

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***Insurance Fund*** - This fund was created to account for costs associated with the City's insurances: liability, workers' compensation, unemployment, auto, property and officials' bonds and settlement losses.

***Equipment Replacement Fund*** - This fund was created to provide ongoing funds to replace assets at the end of the assets' useful life.

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**City of Hermosa Beach**  
**Combining Statement of Net Position**  
**All Internal Service Funds**  
**June 30, 2017**

	Insurance Fund	Equipment Replacement Fund	Total
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 7,593,531	\$ 5,950,719	\$ 13,544,250
Accounts receivable	-	28,129	28,129
Other assets	79,000	45,064	124,064
<b>Total current assets</b>	<b>7,672,531</b>	<b>6,023,912</b>	<b>13,696,443</b>
Capital assets:			
Nondepreciable	-	181,182	181,182
Depreciable, net	-	3,306,314	3,306,314
<b>Total capital assets</b>	<b>-</b>	<b>3,487,496</b>	<b>3,487,496</b>
<b>Total assets</b>	<b>7,672,531</b>	<b>9,511,408</b>	<b>17,183,939</b>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	34,178	64,769	98,947
Accrued wages and benefits payable	6,033	10,480	16,513
Compensated absences due within one year	11,163	11,145	22,308
Workers' compensation claims payable, due within one year	749,469	-	749,469
General liability claims payable, due within one year	502,887	-	502,887
<b>Total current liabilities</b>	<b>1,303,730</b>	<b>86,394</b>	<b>1,390,124</b>
Long-term liabilities:			
Workers' compensation claims payable, due in more than one year	4,161,340	-	4,161,340
General liability claims payable, due in more than one year	644,879	-	644,879
<b>Total long-term liabilities</b>	<b>4,806,219</b>	<b>-</b>	<b>4,806,219</b>
<b>Total liabilities</b>	<b>6,109,949</b>	<b>86,394</b>	<b>6,196,343</b>
<b>NET POSITION</b>			
Investment in capital assets	-	3,487,496	3,487,496
Unrestricted	1,562,582	5,937,518	7,500,100
<b>Total net position</b>	<b>\$ 1,562,582</b>	<b>\$ 9,425,014</b>	<b>\$ 10,987,596</b>

**City of Hermosa Beach**  
**Combining Statement of Revenues, Expenses, and Changes in Net Position**  
**All Internal Service Funds**  
**For the Year Ended June 30, 2017**

	Insurance Fund	Equipment Replacement Fund	Total
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 2,872,956	\$ 1,709,371	\$ 4,582,327
Miscellaneous	6,115	12,500	18,615
<b>Total operating revenues</b>	<u>2,879,071</u>	<u>1,721,871</u>	<u>4,600,942</u>
<b>OPERATING EXPENSES:</b>			
Salaries and wages	110,007	220,269	330,276
Contractor services	2,476,506	480,202	2,956,708
Supplies	105	348,843	348,948
Claims expense	2,033,673	-	2,033,673
Depreciation	-	420,531	420,531
<b>Total operating expenses</b>	<u>4,620,291</u>	<u>1,469,845</u>	<u>6,090,136</u>
<b>OPERATING INCOME</b>	<u>(1,741,220)</u>	<u>252,026</u>	<u>(1,489,194)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Interest income (expense)	(234,159)	-	(234,159)
Gain on disposal of capital assets	-	62,730	62,730
<b>Total nonoperating revenues (expenses)</b>	<u>(234,159)</u>	<u>62,730</u>	<u>(171,429)</u>
<b>INCOME BEFORE TRANSFERS</b>	<u>(1,975,379)</u>	<u>314,756</u>	<u>(1,660,623)</u>
<b>TRANSFERS:</b>			
Transfers in	414,736	529,761	944,497
Transfers out	(529,761)	-	(529,761)
<b>Total transfers</b>	<u>(115,025)</u>	<u>529,761</u>	<u>414,736</u>
<b>Changes in net position</b>	<u>(2,090,404)</u>	<u>844,517</u>	<u>(1,245,887)</u>
<b>NET POSITION:</b>			
Beginning of the year	3,652,986	8,580,497	12,233,483
End of the year	<u>\$ 1,562,582</u>	<u>\$ 9,425,014</u>	<u>\$ 10,987,596</u>

**City of Hermosa Beach**  
**Combining Statement of Cash Flows**  
**All Internal Service Funds**  
**For the Year Ended June 30, 2017**

	Insurance Fund	Equipment Replacement Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash received for services from other funds	\$ 2,872,956	\$ 1,709,371	\$ 4,582,327
Cash received for insurance recovery	6,115	-	6,115
Cash payments to suppliers of goods and services	(2,505,293)	(788,835)	(3,294,128)
Cash payments to employees for services	(106,031)	(215,288)	(321,319)
Cash payment for insurance premiums	(1,352,318)	12,500	(1,339,818)
<b>Net cash provided by (used in) operating activities</b>	<b>(1,084,571)</b>	<b>717,748</b>	<b>(366,823)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Contributions	(234,159)	-	(234,159)
Transfers in	414,736	529,761	944,497
Transfers out	(529,761)	-	(529,761)
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>(349,184)</b>	<b>529,761</b>	<b>180,577</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition of capital assets	-	(366,593)	(366,593)
Proceeds from sale of capital assets	-	68,064	68,064
<b>Net cash (used in) capital and related financing activities</b>	<b>-</b>	<b>(298,529)</b>	<b>(298,529)</b>
<b>Net change in cash and cash equivalents</b>	<b>(1,433,755)</b>	<b>948,980</b>	<b>(484,775)</b>
<b>CASH AND CASH EQUIVALENTS:</b>			
Beginning of year	9,027,286	5,001,739	14,029,025
End of year	\$ 7,593,531	\$ 5,950,719	\$ 13,544,250
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>			
Operating income (loss)	\$ (1,741,220)	\$ 252,026	\$ (1,489,194)
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	-	420,531	420,531
(Increase) Decrease in:			
Other assets	-	42,252	42,252
Increase (Decrease) in:			
Accounts payable	(28,682)	(2,042)	(30,724)
Accrued wages and benefits payable	2,534	3,090	5,624
Workers' compensation claims payable	234,159	-	234,159
General liability claims payable	447,196	-	447,196
Compensated absences	1,442	1,891	3,333
<b>Total adjustments</b>	<b>656,649</b>	<b>465,722</b>	<b>1,122,371</b>
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (1,084,571)</b>	<b>\$ 717,748</b>	<b>\$ (366,823)</b>

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# FIDUCIARY FUND FINANCIAL STATEMENTS

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*The Agency Funds* of the City were established to account for transactions related to payments for limited obligation bonds for the Bayview Drive, the Lower Pier Avenue Assessment District, the Beach Drive Assessment District, the Myrtle Avenue Utility Undergrounding Assessment District, and the Loma Drive Utility Undergrounding Assessment District.

**City of Hermosa Beach**  
**Combining Statement of Fiduciary Net Position**  
**All Agency Funds**  
**June 30, 2017**

	<u>Bayview Drive Redemption</u>	<u>Bayview Drive Reserve</u>	<u>Lower Pier Avenue Assessment District Redemption</u>	<u>Beach Drive Assessment District Redemption</u>
<b>ASSETS</b>				
Cash and investments	\$ 140,639	\$ 13,981	\$ 38,368	\$ 74,309
Interest receivable	112	11	35	58
Other accounts receivable	1,371	-	527	1,233
Other assets	-	-	-	-
<b>Total assets</b>	<u><u>\$ 142,122</u></u>	<u><u>\$ 13,992</u></u>	<u><u>\$ 38,930</u></u>	<u><u>\$ 75,600</u></u>
<b>LIABILITIES</b>				
Assessment:				
Installment account	\$ 142,122	\$ 3,992	\$ 38,930	\$ 75,600
Reserve requirement	-	10,000	-	-
<b>Total liabilities</b>	<u><u>\$ 142,122</u></u>	<u><u>\$ 13,992</u></u>	<u><u>\$ 38,930</u></u>	<u><u>\$ 75,600</u></u>

**City of Hermosa Beach**  
**Combining Statement of Fiduciary Net Position (Continued)**  
**All Agency Funds**  
**June 30, 2017**

	Beach Drive Assessment District Reserve	Myrtle Avenue Utility Undergrounding Assessment District	Loma Drive Utility Undergrounding Assessment District	Total
<b>ASSETS</b>				
Cash and investments	\$ 4,264	\$ 136,098	\$ 161,689	\$ 569,348
Interest receivable	3	102	121	442
Other accounts receivable	-	4,771	3,675	11,577
Other assets	-	-	90	90
<b>Total assets</b>	<b>\$ 4,267</b>	<b>\$ 140,971</b>	<b>\$ 165,575</b>	<b>\$ 581,457</b>
<b>LIABILITIES</b>				
Assessment:				
Installment account	\$ 1,267	\$ 140,971	\$ 165,575	\$ 568,457
Reserve requirement	3,000	-	-	13,000
<b>Total liabilities</b>	<b>\$ 4,267</b>	<b>\$ 140,971</b>	<b>\$ 165,575</b>	<b>\$ 581,457</b>

**City of Hermosa Beach**  
**Combining Statement of Changes in Assets and Liabilities**  
**All Agency Funds**  
**For the Year Ended June 30, 2017**

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
<b>ASSETS</b>				
<b>Bayview Drive Redemption Fund:</b>				
Cash and investments	\$ 147,007	\$ 57,226	\$ (63,594)	\$ 140,639
Interest receivable	285	40	(213)	112
Other accounts receivable	1,023	1,477	(1,129)	1,371
<b>Bayview Drive Reserve Fund:</b>				
Cash and investments	13,934	485	(438)	13,981
Interest receivable	33	6	(28)	11
<b>Lower Pier District Redemption Fund:</b>				
Cash and investments	55,530	28,088	(45,250)	38,368
Interest receivable	92	12	(69)	35
Other accounts receivable	-	527	-	527
<b>Beach Drive Assessment District Redemption Fund:</b>				
Cash and investments	75,173	28,980	(29,844)	74,309
Interest receivable	154	22	(118)	58
Other accounts receivable	342	1,233	(342)	1,233
<b>Beach Drive Assessment District Reserve Fund:</b>				
Cash and investments	4,242	133	(111)	4,264
Interest receivable	10	3	(10)	3
<b>Myrtle Avenue Assessment Fund:</b>				
Cash and investments	134,385	97,471	(95,758)	136,098
Interest receivable	240	39	(177)	102
Other accounts receivable	4,064	5,190	(4,483)	4,771
<b>Loma Drive Assessment Fund:</b>				
Cash and investments	155,689	106,866	(100,866)	161,689
Interest receivable	284	46	(209)	121
Other accounts receivable	2,945	4,871	(4,141)	3,675
Other assets	90	-	-	90
<b>Total assets</b>	<u>\$ 595,522</u>	<u>\$ 332,715</u>	<u>\$ (346,780)</u>	<u>\$ 581,457</u>
<b>LIABILITIES</b>				
<b>Bayview Drive Redemption Fund:</b>				
Assessment installment account	\$ 148,315	\$ 58,743	\$ (64,936)	\$ 142,122
<b>Bayview Drive Reserve Fund:</b>				
Assessment installment account	3,967	491	(466)	3,992
Assessment reserve requirement	10,000	-	-	10,000
<b>Lower Pier District Redemption Fund:</b>				
Assessment installment account	55,622	28,627	(45,319)	38,930
<b>Beach Drive Assessment District Redemption Fund:</b>				
Assessment installment account	75,669	30,235	(30,304)	75,600
<b>Beach Drive Assessment District Reserve Fund:</b>				
Assessment installment account	1,252	136	(121)	1,267
Assessment reserve requirement	3,000	-	-	3,000
<b>Myrtle Avenue Assessment Fund:</b>				
Assessment installment account	138,689	102,700	(100,418)	140,971
<b>Loma Drive Assessment Fund:</b>				
Assessment installment account	159,008	111,783	(105,216)	165,575
<b>Total liabilities</b>	<u>\$ 595,522</u>	<u>\$ 332,715</u>	<u>\$ (346,780)</u>	<u>\$ 581,457</u>

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# STATISTICAL SECTION

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# STATISTICAL SECTION

This part of the City of Hermosa Beach's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the government's overall financial health.

<b>Contents</b>	<b>Page</b>
Financial Trends	150-155
These schedules contain trend information to help the reader understand how the government's financial performance and well being have changed over time.	
Revenue Capacity	157-167
These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.	
Debt Capacity	169-171
These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future. <sup>1</sup>	
Demographic and Economic Information	172-173
These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.	
Operating Information	174-179
These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.	

<sup>1</sup> Since the City of Hermosa Beach has no debt, the following schedules are not included in the Statistical Section:

- Ratios of Outstanding Debt by Type
- Ratios of General Bonded Debt Outstanding
- Pledged-Revenue Coverage

**City of Hermosa Beach**  
**Net Position by Component**  
**Last Ten Fiscal Years**  
**(accrual basis of accounting)**

	Fiscal Year				
	2008	2009	2010	2011	2012
Governmental activities:					
Invested in capital assets, net of related debt	\$ 57,117,532	\$ 56,419,592	\$ 56,599,591	\$ 56,693,499	\$ 65,518,736
Restricted	5,171,642	5,403,000	4,518,727	1,968,275	3,860,192
Unrestricted	10,619,806	10,348,315	10,768,025	14,122,551	10,589,507
Total governmental activities net assets	<u>\$ 72,908,980</u>	<u>\$ 72,170,907</u>	<u>\$ 71,886,343</u>	<u>\$ 72,784,325</u>	<u>\$ 79,968,435</u>
Business-type activities:					
Invested in capital assets, net of related debt	\$ 10,187,758	\$ 10,057,219	\$ 9,926,861	\$ 9,998,669	\$ -
Restricted	-	-	-	-	-
Unrestricted	(1,443,914)	(1,236,859)	(1,074,651)	(838,749)	-
Total business-type activities net assets	<u>\$ 8,743,844</u>	<u>\$ 8,820,360</u>	<u>\$ 8,852,210</u>	<u>\$ 9,159,920</u>	<u>\$ -</u>
Primary government:					
Invested in capital assets, net of related debt	\$ 67,305,110	\$ 66,476,811	\$ 66,526,450	\$ 66,692,168	\$ 65,518,736
Restricted	5,171,642	5,403,000	4,518,727	1,968,275	3,860,192
Unrestricted	9,175,892	9,111,456	9,693,374	13,283,802	10,589,507
Total primary government net assets	<u>\$ 81,652,644</u>	<u>\$ 80,991,267</u>	<u>\$ 80,738,551</u>	<u>\$ 81,944,245</u>	<u>\$ 79,968,435</u>

<sup>1</sup> The Downtown Enhancement Fund was combined with the General Fund at the end of June 30, 2012.

<sup>2</sup> GASB 68 was implemented June 30, 2015. The recording of the City's net pension liability resulted in a negative unrestricted net asset balance.



**City of Hermosa Beach**  
**Net Position by Component (Continued)**  
**Last Ten Fiscal Years**  
**(accrual basis of accounting)**

	Fiscal Year				
	2013	2014	2015	2016	2017
Governmental activities:					
Invested in capital assets, net of related debt	\$ 64,135,741	\$ 64,828,005	\$ 66,733,301	\$ 66,933,796	\$ 66,417,072
Restricted	4,050,722	4,476,554	4,188,404	3,774,552	5,260,908
Unrestricted	17,294,405	22,988,231	(24,869,037)	(18,769,530)	(13,287,058)
Total governmental activities net assets	<u>\$ 85,480,868</u>	<u>\$ 92,292,790</u>	<u>\$ 46,052,668</u>	<u>\$ 51,938,818</u>	<u>\$ 58,390,922</u>
Business-type activities:					
Invested in capital assets, net of related debt	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	-	-	-	-	-
Unrestricted	-	-	-	-	-
Total business-type activities net assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Primary government:					
Invested in capital assets, net of related debt	\$ 64,135,741	\$ 64,828,005	\$ 66,733,301	\$ 66,933,796	\$ 66,417,072
Restricted	4,050,722	4,476,554	4,188,404	3,774,552	5,260,908
Unrestricted	17,294,405	22,988,231	(24,869,037)	(18,769,530)	(13,287,058)
Total primary government net assets	<u>\$ 85,480,868</u>	<u>\$ 92,292,790</u>	<u>\$ 46,052,668</u>	<u>\$ 51,938,818</u>	<u>\$ 58,390,922</u>

<sup>1</sup> The Downtown Enhancement Fund was combined with the General Fund at the end of June 30, 2012.

<sup>2</sup> GASB 68 was implemented June 30, 2015. The recording of the City's net pension liability resulted in a negative unrestricted net asset balance.

**City of Hermosa Beach**  
**Changes in Net Position**  
**Last Ten Fiscal Years**  
**(accrual basis of accounting)**

	Fiscal Year				
	2008	2009	2010	2011	2012
<b>Expenses:</b>					
<b>Governmental activities:</b>					
Legislative and legal	\$ 990,342	\$ 1,059,528	\$ 980,157	\$ 972,979	\$ 4,677,233
General government	2,544,004	3,579,453	2,409,611	3,102,761	2,376,929
Public safety	19,569,031	17,471,578	17,841,984	17,698,263	18,179,929
Community development	1,358,051	1,416,714	1,243,490	1,223,581	1,235,058
Culture and recreation	1,343,223	1,420,956	1,252,037	1,133,467	1,037,790
Public works	6,942,529	6,860,854	7,823,275	6,725,147	7,239,076
Total governmental activities expenses	<u>32,747,180</u>	<u>31,809,083</u>	<u>31,550,554</u>	<u>30,856,198</u>	<u>34,746,015</u>
<b>Business-type activities:</b>					
Downtown Enhancement	1,133,746	963,304	997,138	878,021	906,244
Parking	-	-	-	-	-
Proposition "A" Transit	-	-	-	-	-
Proposition "C" Transit	-	-	-	-	-
Total business-type activities expenses	<u>1,133,746</u>	<u>963,304</u>	<u>997,138</u>	<u>878,021</u>	<u>906,244</u>
Total primary government expenses	<u>33,880,926</u>	<u>32,772,387</u>	<u>32,547,692</u>	<u>31,734,219</u>	<u>35,652,259</u>
<b>Program revenues:</b>					
<b>Governmental activities:</b>					
<b>Charges for services:</b>					
General government	563,583	569,772	543,259	546,793	555,607
Public safety	4,423,335	4,633,478	4,674,410	4,646,663	5,112,011
Community development	1,262,109	782,904	650,962	797,248	860,158
Culture and recreation	1,092,512	949,439	856,135	975,469	957,989
Public works	877,367	907,579	840,740	1,025,008	938,822
Operating grants and contributions	731,097	539,518	543,531	700,691	828,722
Capital grants and contributions	68,862	850,357	1,817,638	902,506	759,889
Total governmental activities program revenues:	<u>9,018,865</u>	<u>9,233,047</u>	<u>9,926,675</u>	<u>9,594,378</u>	<u>10,013,198</u>
<b>Business-type activities:</b>					
<b>Charges for services:</b>					
Downtown Enhancement	1,088,298	1,021,114	1,026,185	1,409,952	1,649,197
Parking	-	-	-	-	-
Proposition A Transit	-	-	-	-	-
Proposition C Transit	-	-	-	-	-
Operating grants and contributions	-	-	-	-	-
Capital grants and contributions	-	-	-	-	-
Total business-type activities program revenues:	<u>1,088,298</u>	<u>1,021,114</u>	<u>1,026,185</u>	<u>1,409,952</u>	<u>1,649,197</u>
Total primary government program revenues:	<u>10,107,163</u>	<u>10,254,161</u>	<u>10,952,860</u>	<u>11,004,330</u>	<u>11,662,395</u>

**City of Hermosa Beach**  
**Changes in Net Position (Continued)**  
**Last Ten Fiscal Years**  
**(accrual basis of accounting)**

	Fiscal Year				
	2008	2009	2010	2011	2012
Net revenues (expenses):					
Governmental activities	(23,728,315)	(22,576,036)	(21,623,879)	(21,261,820)	(24,732,817)
Business-type activities	(45,448)	57,810	29,047	531,931	742,953
Total net revenues (expenses)	<u>(23,773,763)</u>	<u>(22,518,226)</u>	<u>(21,594,832)</u>	<u>(20,729,889)</u>	<u>(23,989,864)</u>
General revenues and other changes in net assets:					
Governmental activities:					
Taxes:					
Property taxes	10,458,034	11,188,377	11,407,964	11,518,645	11,598,615
Sales tax	2,500,659	2,390,658	2,112,971	2,209,559	2,474,651
Other taxes	6,456,786	6,069,339	5,962,978	6,060,992	6,461,065
Grants and contributions not restricted to specific programs					
	1,472,191	1,454,006	1,242,064	1,666,460	1,121,380
Investment income	850,176	429,087	135,423	91,910	109,571
Other general revenues	503,414	303,035	473,559	352,723	237,670
Transfers	4,259	3,461	4,356	259,513	9,913,975
Settlement (Note 14)	-	-	-	-	-
Total governmental activities	<u>22,245,519</u>	<u>21,837,963</u>	<u>21,339,315</u>	<u>22,159,802</u>	<u>31,916,927</u>
Business-type activities:					
Investment income	28,320	17,749	5,609	4,679	6,418
Other general revenues	-	-	-	-	-
Miscellaneous	57,840	4,597	1,550	30,613	4,684
Transfers	(4,259)	(3,461)	(4,356)	(259,513)	(9,913,975)
Total business-type activities	<u>81,901</u>	<u>18,885</u>	<u>2,803</u>	<u>(224,221)</u>	<u>(9,902,873)</u>
Total primary government	<u>22,327,420</u>	<u>21,856,848</u>	<u>21,342,118</u>	<u>21,935,581</u>	<u>22,014,054</u>
Changes in net assets					
Governmental activities:	(1,482,796)	(738,073)	(284,564)	897,982	7,184,110
Business-type activities:	36,453	76,695	31,850	307,710	(9,159,920)
Total primary government	<u>\$ (1,446,343)</u>	<u>\$ (661,378)</u>	<u>\$ (252,714)</u>	<u>\$ 1,205,692</u>	<u>\$ (1,975,810)</u>

<sup>1</sup> Transit operations were transferred to special revenue funds in fiscal year 2005.

<sup>2</sup> The Parking Fund was combined with the General Fund in fiscal year 2006.

**City of Hermosa Beach**  
**Changes in Net Position (Continued)**  
**Last Ten Fiscal Years**  
**(accrual basis of accounting)**

	Fiscal Year				
	2013	2014	2015	2016	2017
<b>Expenses:</b>					
<b>Governmental activities:</b>					
Legislative and legal	\$ 881,556	\$ 1,076,211	\$ 1,293,214	\$ 2,083,297	\$ 2,043,740
General government	2,458,548	2,827,895	3,078,044	2,262,107	3,598,512
Public safety	16,431,962	16,856,166	16,737,044	20,034,932	18,911,734
Community development	1,260,996	1,519,632	1,710,563	1,347,087	1,787,364
Culture and recreation	1,087,000	1,068,388	1,257,311	1,108,749	1,310,740
Public works	7,529,499	7,420,724	6,985,762	9,131,490	7,957,044
Total governmental activities expenses	<u>29,649,561</u>	<u>30,769,016</u>	<u>31,061,938</u>	<u>35,967,662</u>	<u>35,609,134</u>
<b>Business-type activities:</b>					
Downtown Enhancement	-	-	-	-	-
Parking	-	-	-	-	-
Proposition "A" Transit	-	-	-	-	-
Proposition "C" Transit	-	-	-	-	-
Total business-type activities expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total primary government expenses	<u>29,649,561</u>	<u>30,769,016</u>	<u>31,061,938</u>	<u>35,967,662</u>	<u>35,609,134</u>
<b>Program revenues:</b>					
<b>Governmental activities:</b>					
<b>Charges for services:</b>					
General government	2,275,297	2,323,797	2,582,857	2,414,955	2,433,987
Public safety	5,282,223	5,455,694	5,398,329	5,254,859	4,993,104
Community development	1,125,637	1,641,773	1,679,400	1,996,538	1,664,132
Culture and recreation	1,271,845	1,425,451	1,522,417	1,178,323	1,341,455
Public works	989,656	892,784	1,085,165	2,217,610	2,374,774
Operating grants and contributions	702,873	1,106,254	983,628	755,650	601,816
Capital grants and contributions	255,996	260,844	328,649	203,033	327,534
Total governmental activities program revenues:	<u>11,903,527</u>	<u>13,106,597</u>	<u>13,580,445</u>	<u>14,020,968</u>	<u>13,736,802</u>
<b>Business-type activities:</b>					
<b>Charges for services:</b>					
Downtown Enhancement	-	-	-	-	-
Parking	-	-	-	-	-
Proposition A Transit	-	-	-	-	-
Proposition C Transit	-	-	-	-	-
Operating grants and contributions	-	-	-	-	-
Capital grants and contributions	-	-	-	-	-
Total business-type activities program revenues:	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total primary government program revenues:	<u>11,903,527</u>	<u>13,106,597</u>	<u>13,580,445</u>	<u>14,020,968</u>	<u>13,736,802</u>

<sup>1</sup> Transit operations were transferred to special revenue funds in fiscal year 2005.

<sup>2</sup> The Parking Fund was combined with the General Fund in fiscal year 2006.

**City of Hermosa Beach**  
**Changes in Net Position (Continued)**  
**Last Ten Fiscal Years**  
**(accrual basis of accounting)**

	Fiscal Year				
	2013	2014	2015	2016	2017
Net revenues (expenses):					
Governmental activities	(17,746,034)	(17,662,419)	(17,481,493)	(21,946,694)	(21,872,332)
Business-type activities	-	-	-	-	-
Total net revenues (expenses)	<u>(17,746,034)</u>	<u>(17,662,419)</u>	<u>(17,481,493)</u>	<u>(21,946,694)</u>	<u>(21,872,332)</u>
General revenues and other changes in net assets:					
Governmental activities:					
Taxes:					
Property taxes	12,151,229	12,910,426	13,739,648	15,317,458	15,714,094
Sales tax	2,598,752	2,653,631	2,768,225	2,895,794	2,816,289
Other taxes	6,638,189	6,924,202	7,179,945	7,527,467	7,930,375
Grants and contributions not restricted to specific programs	1,156,589	1,222,808	1,246,419	1,369,042	1,304,880
Investment income	130,709	141,794	510,668	455,234	-
Other general revenues	582,999	621,480	489,740	267,849	564,798
Transfers	-	-	-	-	-
Settlement (Note 14)	-	-	(14,000,000)	-	-
Total governmental activities	<u>23,258,467</u>	<u>24,474,341</u>	<u>11,934,645</u>	<u>27,832,844</u>	<u>28,330,436</u>
Business-type activities:					
Investment income	-	-	-	-	-
Other general revenues	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Transfers	-	-	-	-	-
Total business-type activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total primary government	<u>23,258,467</u>	<u>24,474,341</u>	<u>11,934,645</u>	<u>27,832,844</u>	<u>28,330,436</u>
Changes in net assets					
Governmental activities:	5,512,433	6,811,922	(5,546,848)	5,886,150	6,458,104
Business-type activities:	-	-	-	-	-
Total primary government	<u>\$ 5,512,433</u>	<u>\$ 6,811,922</u>	<u>\$ (5,546,848)</u>	<u>\$ 5,886,150</u>	<u>\$ 6,458,104</u>

<sup>1</sup> Transit operations were transferred to special revenue funds in fiscal year 2005.

<sup>2</sup> The Parking Fund was combined with the General Fund in fiscal year 2006.

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**City of Hermosa Beach**  
**Governmental Activities Tax Revenues By Source**  
**Last Ten Years**  
**(accrual basis of accounting)**

Fiscal year ended June 30	Property tax	Sales tax	Real property transfer tax	Franchise fees	1/2 cent sales tax extension for public safety	Transient occupancy tax	Utility user's tax	Business license	Total
2008	10,458,034	2,500,659	226,349	634,421	187,277	1,892,363	2,714,029	802,347	19,415,479
2009	11,188,377	2,390,658	140,113	674,947	167,427	1,645,571	2,575,209	866,072	19,648,374
2010	11,407,964	2,112,971	162,562	650,115	168,103	1,559,048	2,559,369	863,781	19,483,913
2011	11,518,645	2,209,559	178,912	698,622	165,627	1,689,356	2,520,720	807,755	19,789,196
2012	11,639,960	2,474,650	177,555	730,953	180,493	1,884,020	2,495,895	950,803	20,534,329
2013	12,151,229	2,598,752	233,412	752,586	192,175	1,996,174	2,503,265	950,526	21,378,119
2014	12,910,426	2,653,631	290,379	788,694	182,608	2,204,420	2,443,285	1,006,478	22,479,921
2015	13,739,648	2,768,225	312,416	785,935	229,824	2,349,750	2,442,575	1,059,445	23,687,818
2016	15,317,458	2,895,795	320,731	776,316	212,511	2,762,444	2,388,825	1,058,663	25,732,743
2017	15,714,094	2,816,289	345,603	720,338	218,092	3,237,026	2,302,024	1,098,421	26,451,887

**City of Hermosa Beach**  
**Fund Balances of Governmental Funds**  
**Last Ten Fiscal Years**  
**(modified accrual basis of accounting)**

	Fiscal Year				
	2008	2009	2010	2011	2012
General Fund:					
Reserved	\$ 241,142	\$ 312,880	\$ 447,426	\$ -	\$ -
Unreserved	257,599	348,373	253,005	-	-
Non-spendable	-	-	-	35,613	14,271
Restricted	-	-	-	172,021	255,200
Committed	-	-	-	10,592	10,592
Assigned	-	-	-	5,635,231	5,776,500
Unassigned	-	-	-	-	-
Total general fund	<u>\$ 498,741</u>	<u>\$ 661,253</u>	<u>\$ 700,431</u>	<u>\$ 5,853,457</u>	<u>\$ 6,056,563</u>
All other governmental funds:					
Reserved	\$ 1,734,658	\$ 1,273,762	\$ 3,060,042	\$ -	\$ -
Unreserved, reported in:					
Special revenue funds	11,135,309	9,764,500	6,965,596	-	-
Non-spendable	-	-	-	-	1,500
Restricted	-	-	-	-	3,604,992
Committed	-	-	-	-	117,415
Assigned	-	-	-	4,216,497	961,251
Unassigned	-	-	-	-	-
Total all other governmental funds	<u>\$ 12,869,967</u>	<u>\$ 11,038,262</u>	<u>\$ 10,025,638</u>	<u>\$ 4,216,497</u>	<u>\$ 4,685,158</u>
Total governmental funds	<u>\$ 13,368,708</u>	<u>\$ 11,699,515</u>	<u>\$ 10,726,069</u>	<u>\$ 10,069,954</u>	<u>\$ 10,741,721</u>

Note: GASB 54 was implemented in year ended June 30, 2011; prior years have no comparable data.



**City of Hermosa Beach**  
**Fund Balances of Governmental Funds (Continued)**  
**Last Ten Fiscal Years**  
**(modified accrual basis of accounting)**

	Fiscal Year				
	2013	2014	2015	2016	2017
General Fund:					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	-	-	-	-	-
Non-spendable	21,589	10,603	19,444	21,261	66,700
Restricted	391,504	410,289	460,304	329,890	158,149
Committed	10,592	28,900	28,900	28,900	1,115,600
Assigned	6,555,423	7,655,210	10,005,040	8,529,250	8,322,103
Unassigned	-	-	-	-	-
Total general fund	<u>\$ 6,979,108</u>	<u>\$ 8,105,002</u>	<u>\$ 10,513,688</u>	<u>\$ 8,909,301</u>	<u>\$ 9,662,552</u>
All other governmental funds:					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:					
Special revenue funds	-	-	-	-	-
Non-spendable	-	1,600	-	5,835	7,083
Restricted	3,659,218	4,083,450	3,728,100	3,430,617	5,102,759
Committed	137,166	432,606	431,716	1,305,276	879,008
Assigned	847,266	2,831,179	7,646,948	11,348,565	12,706,958
Unassigned	-	-	-	(24,138)	-
Total all other governmental funds	<u>\$ 4,643,650</u>	<u>\$ 7,348,835</u>	<u>\$ 11,806,764</u>	<u>\$ 16,066,155</u>	<u>\$ 18,695,808</u>
Total governmental funds	<u>\$ 11,622,758</u>	<u>\$ 15,453,837</u>	<u>\$ 22,320,452</u>	<u>\$ 24,975,456</u>	<u>\$ 28,358,360</u>

Note: GASB 54 was implemented in year ended June 30, 2011; prior years have no comparable data.

**City of Hermosa Beach**  
**Changes in Fund Balances of Governmental Funds**  
**Last Ten Fiscal Years**  
**(modified accrual basis of accounting)**

	Fiscal Year				
	2008	2009	2010	2011	2012
<b>Revenues:</b>					
Property taxes	\$ 10,907,119	\$ 11,639,348	\$ 11,863,846	\$ 11,978,616	\$ 12,056,548
Other taxes	9,630,365	9,079,246	8,760,988	9,023,359	9,722,036
Licenses and permits	877,775	678,477	556,737	627,056	668,405
Fines and forfeitures	1,994,522	2,111,467	2,075,759	2,219,052	2,475,311
Use of money and property	679,528	716,215	622,847	653,752	815,367
Intergovernmental	1,277,080	1,788,584	2,578,807	1,678,980	1,555,097
Charges for services	4,171,165	4,102,959	4,080,450	4,005,420	4,301,971
Miscellaneous	737,112	436,138	301,179	538,098	198,858
Interest earned on investments	850,176	429,092	135,423	91,913	109,186
Total revenues	<u>31,124,842</u>	<u>30,981,526</u>	<u>30,976,036</u>	<u>30,816,246</u>	<u>31,902,779</u>
<b>Expenditures</b>					
<b>Current:</b>					
Legislative and legal	967,423	1,057,092	976,862	960,365	1,170,820
General government	2,433,226	2,513,647	2,350,692	3,001,906	2,293,402
Public safety	17,374,613	16,974,820	17,251,686	16,516,892	16,604,695
Community development	1,283,317	1,400,933	1,229,909	1,189,993	1,177,696
Culture and recreation	1,249,251	1,372,611	1,201,057	1,044,131	989,265
Public works	3,993,055	4,288,179	4,158,945	3,907,921	3,852,318
Capital outlay	1,672,441	3,294,817	4,176,566	3,044,697	2,414,507
Debt service:	n/a	n/a	n/a	n/a	n/a
Total expenditures	<u>28,973,326</u>	<u>30,902,099</u>	<u>31,345,717</u>	<u>29,665,905</u>	<u>28,502,703</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,151,516</u>	<u>79,427</u>	<u>(369,681)</u>	<u>1,150,341</u>	<u>3,400,076</u>
<b>Other financing sources (uses)</b>					
Proceeds from sale of assets	-	-	-	-	2,360
Transfers in	1,755,358	1,919,303	2,316,998	2,239,196	1,911,100
Transfers out	<u>(3,588,874)</u>	<u>(3,667,923)</u>	<u>(2,993,912)</u>	<u>(4,045,652)</u>	<u>(4,641,769)</u>
Total other financing sources (uses)	<u>(1,833,516)</u>	<u>(1,748,620)</u>	<u>(676,914)</u>	<u>(1,806,456)</u>	<u>(2,728,309)</u>
Net change in fund balances	<u>\$ 318,000</u>	<u>\$ (1,669,193)</u>	<u>\$ (1,046,595)</u>	<u>\$ (656,115)</u>	<u>\$ 671,767</u>
<b>Debt service as a percentage of noncapital expenditures</b>					
	0.0%	0.0%	0.0%	0.0%	0.0%

**City of Hermosa Beach**  
**Changes in Fund Balances of Governmental Funds (Continued)**  
**Last Ten Fiscal Years**  
**(modified accrual basis of accounting)**

	Fiscal Year				
	2013	2014	2015	2016	2017
<b>Revenues:</b>					
Property taxes	\$ 12,618,579	\$ 13,368,615	\$ 14,198,054	\$ 15,113,479	\$ 16,209,008
Other taxes	10,076,591	10,492,906	10,992,377	11,302,910	11,751,519
Licenses and permits	783,121	971,336	916,073	1,111,366	967,956
Fines and forfeitures	2,416,031	2,781,240	2,652,193	2,412,554	2,122,335
Use of money and property	1,102,797	1,077,154	1,087,758	965,738	1,047,084
Intergovernmental	896,216	1,350,674	1,290,849	949,255	1,031,191
Charges for services	6,312,731	6,722,773	7,318,409	8,130,681	8,412,322
Miscellaneous	469,725	630,271	688,047	679,937	540,021
Interest earned on investments	131,749	137,909	244,026	445,260	6,175
Total revenues	<u>34,807,540</u>	<u>37,532,878</u>	<u>39,387,786</u>	<u>41,111,180</u>	<u>42,087,611</u>
<b>Expenditures</b>					
<b>Current:</b>					
Legislative and legal	893,460	1,093,518	1,170,229	1,958,940	1,448,509
General government	2,550,162	2,806,176	3,040,426	3,458,191	3,722,659
Public safety	16,926,014	17,768,720	18,142,958	21,272,474	21,392,637
Community development	1,279,999	1,548,185	1,722,513	1,806,130	1,869,018
Culture and recreation	1,110,456	1,132,849	1,246,532	1,291,808	1,395,915
Public works	4,946,423	5,216,430	5,317,541	6,622,698	6,106,648
Capital outlay	1,813,990	2,774,016	3,620,185	2,953,123	1,644,253
Debt service:	n/a	n/a	n/a	233,425	710,332
Total expenditures	<u>29,520,504</u>	<u>32,339,894</u>	<u>34,260,384</u>	<u>39,596,789</u>	<u>38,289,971</u>
Excess (deficiency) of revenues over (under) expenditures	<u>5,287,036</u>	<u>5,192,984</u>	<u>5,127,402</u>	<u>1,514,391</u>	<u>3,797,640</u>
<b>Other financing sources (uses)</b>					
Proceeds from sale of assets	-	-	-	11,799,905	-
Transfers in	1,381,842	3,905,349	6,911,913	5,733,408	1,942,014
Transfers out	<u>(5,787,841)</u>	<u>(5,267,254)</u>	<u>(5,172,700)</u>	<u>(16,392,700)</u>	<u>(2,356,750)</u>
Total other financing sources (uses)	<u>(4,405,999)</u>	<u>(1,361,905)</u>	<u>1,739,213</u>	<u>1,140,613</u>	<u>(414,736)</u>
Net change in fund balances	<u>\$ 881,037</u>	<u>\$ 3,831,079</u>	<u>\$ 6,866,615</u>	<u>\$ 2,655,004</u>	<u>\$ 3,382,904</u>
<b>Debt service as a percentage of noncapital expenditures</b>					
	0.0%	0.0%	0.0%	0.6%	0.9%

**City of Hermosa Beach**  
**General Government Tax Revenues By Source**  
**Last Ten Fiscal Years**  
**(modified accrual basis of accounting)**

Fiscal year ended June 30	Property tax	Sales tax	Real property transfer tax	Franchise fees	Transient occupancy tax	Utility user's tax	Other	Total
2008	10,907,119	2,500,659	226,349	634,421	1,892,363	2,714,029	1,662,544	20,537,484
2009	11,639,348	2,390,658	140,113	674,947	1,645,571	2,575,209	1,652,748	20,718,594
2010	11,863,846	2,112,971	162,562	650,115	1,559,048	2,559,369	1,716,923	20,624,834
2011	11,978,616	2,209,559	178,912	698,622	1,689,356	2,520,720	1,726,190	21,001,975
2012	12,056,548	2,474,650	177,555	730,954	1,884,020	2,495,895	1,958,962	21,778,584
2013	12,618,579	2,598,752	233,412	752,586	1,996,174	2,503,265	1,992,402	22,695,170
2014	13,368,615	2,653,631	290,379	788,694	2,204,420	2,443,285	2,112,497	23,861,521
2015	14,198,054	2,768,225	312,416	785,935	2,349,750	2,442,575	2,333,476	25,190,431
2016	15,113,479	2,895,794	320,731	776,316	2,762,444	2,388,824	2,290,061	26,547,649
2017	16,209,008	2,816,289	345,603	720,338	3,237,026	2,302,024	2,330,236	27,960,527

**City of Hermosa Beach**  
**Assessed Value and Estimated Actual Value of Taxable Property**  
**Last Ten Fiscal Years**  
**(In Thousands)**

Fiscal year ended June 30	Residential property	Commercial property	Industrial property	Other	Less exemptions	Total taxable assessed value	Total direct tax rate	Estimated actual taxable value	Percentage increase
2008	3,978,216	305,364	11,695	108,583	(45,501)	4,358,357	1.00	4,403,858	11.90%
2009	4,261,900	355,516	12,724	96,991	(45,381)	4,681,750	1.00	4,705,847	7.42%
2010	4,350,467	378,930	12,442	128,227	(46,338)	4,823,728	1.00	4,870,066	3.03%
2011	4,422,662	397,297	12,412	76,659	(46,807)	4,862,224	1.00	4,909,030	0.80%
2012	4,479,178	407,825	11,156	92,987	(46,205)	4,944,941	1.00	4,991,146	1.70%
2013	4,608,192	422,855	11,853	96,628	(46,338)	5,093,190	1.00	5,139,528	3.00%
2014	4,883,870	437,214	10,379	95,294	(47,030)	5,379,750	1.00	5,332,719	5.63%
2015	5,181,815	455,035	12,635	104,834	(43,278)	5,711,045	1.00	5,667,767	6.16%
2016	5,522,546	484,979	13,186	111,635	(43,260)	6,089,089	1.00	6,045,828	6.62%
2017	5,994,296	508,160	13,921	120,700	(43,295)	6,593,784	1.00	6,550,489	8.29%

**NOTE:**

In 1978, the voters of the State of California passed Proposition 13 which limited taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum of 2%). With few exceptions, property is only reassessed as a result of new construction activity or at the time it is sold to a new owner. At that point, the property is reassessed based upon the added value of the construction or at the purchase price (market value) or economic value of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

Source: Los Angeles County Auditor-Controller

Note: Assessed valuations available from the County of Los Angeles are based on 100% of full value per Section 135 of the California Revenue and Taxation Code.

**City of Hermosa Beach**  
**Direct and Overlapping Property Tax Rates**  
**Last Ten Fiscal Years**  
**(rate per \$100 of assessed value)**

Fiscal Year	City direct rate	Overlapping rates					Total
	Basic rate *	Hermosa Beach School District	El Camino Community College District	Los Angeles County	Flood Control District	Metropolitan Water District	
2008	1.000000	0.017139	0.016467	-	-	0.004500	1.038106
2009	1.000000	0.016398	0.017026	-	-	0.004300	1.037724
2010	1.000000	0.017250	0.014868	-	-	0.004300	1.036418
2011	1.000000	0.018067	0.016140	-	-	0.003700	1.037907
2012	1.000000	0.016904	0.016884	-	-	0.003700	1.037488
2013	1.000000	0.018550	0.018490	-	-	0.003500	1.040540
2014	1.000000	0.017970	0.017498	-	-	0.003500	1.038968
2015	1.000000	0.014729	0.017422	-	-	0.003500	1.035651
2016	1.000000	0.015746	0.017447	-	-	0.003500	1.036693
2017	1.000000	0.014928	0.022942	-	-	0.003500	1.041370

\* The Basic rate for all years is comprised of the following:

- 0.2774 - Los Angeles County
- 0.2030 - Tax District # 1
- 0.1602 - Educational Augmentation Fund Impound
- 0.1331 - Hermosa Beach City School District
- 0.0849 - Educational Revenue Augmentation Fund
- 0.0431 - Development Center Handicapped Minor – Hermosa Beach
- 0.0275 - El Camino Community College District
- 0.0210 - Los Angeles County Library
- 0.01203 - South Bay Cities Sanitation District Operating
- 0.00861 - Los Angeles County Flood Control Maintenance
- 0.00859 - County School Service Fund – Hermosa Beach
- 0.00827 - Beach Cities Hospital District
- 0.00637 - Los Angeles County FFW
- 0.00258 - Childrens Instil. Tuition Fund
- 0.00152 - Los Angeles Flood Drain Improvement District Maintenance
- 0.00130 - County School Services
- 0.00019 - Los Angeles County West Vector Control District
- 0.00016 - Water Replenishment District of Southern California
- 0.00010 - Los Angeles County Accumulated Capital Outlay
- 1.0000000

Note: In 1978 California voters passed Proposition 13 which set the property tax rate at a 1.00% fixed amount. The 1.00% is shared by all taxing agencies wherein the subject property resides. In addition to the 1.00% fixed amount, property owners are charged taxes as a percentage of assessed property values for the payment of any voter approved bonds.

Source: Los Angeles County Auditor-Controller

**City of Hermosa Beach**  
**Principal Property Tax Payers**  
**Current Year and Nine Years ago**

Taxpayer	2017		2008	
	Taxable assessed value	Percent of total city taxable assessed value	Taxable assessed value	Percent of total city taxable assessed value
Crico of Fountain Place Limited Partnership (1)	\$ 79,201,147	1.20%	\$ -	
EQR Gallery Apartments Limited Partnership (1)	70,913,227	1.08%	-	
1601 PCH, LLP (1)	24,892,013	0.38%	-	
Strand and Pier Holding Company LLC (4)	20,325,201	0.31%	-	
William Stirton Trust (4)	19,362,670	0.29%	-	
Johnny and Elizabeth Lopez Trust (2)	18,325,912	0.28%	-	
Hermosa Hotel Investments LLC (1)	17,471,262	0.26%	-	
South Bay III LLC (1)	16,466,022	0.25%	-	
IWF Hotel Hermosa LP (1)	15,928,629	0.24%	-	
Reg8 Plaza Hermosa LLC (7)	15,560,713	0.24%	-	
Crico of Fountain Place Limited Partnership (1)	-	-	70,204,000	1.61%
EQR Gallery Apartments Limited Partnership (1)	-	-	64,609,100	1.48%
Regency Centers LP (7)	-	-	13,749,002	0.32%
Barbara K. Robinson (3)	-	-	12,062,764	0.28%
Beta Group (2)	-	-	11,872,994	0.27%
Robert J & Ranae Desantis (1)	-	-	11,471,876	0.26%
Delphi Properties 1722 Strand LLC (3)	-	-	10,861,777	0.25%
Sepulveda Blvd Properties LLC (2)	-	-	9,425,000	0.22%
Rollin Investment Holdings (1)	-	-	8,688,400	0.20%
Barks PCH (1)	-	-	8,531,280	0.20%
	<u>\$ 298,446,796</u>	<u>4.53%</u>	<u>221,476,193</u>	<u>5.09%</u>

Source: HdL Coren & Cone, Los Angeles County Assessor Combined Tax Rolls  
Numbers in parentheses represent the number of parcels owned by the tax payer.

**City of Hermosa Beach**  
**Property Tax Levies and Collections**  
**Last Ten Fiscal Years**

Fiscal year ended June 30	Taxes levied for the fiscal year	Collected within the fiscal year of levy		Collections in subsequent years	Total collections to date	
		Amount	Percent of levy		Amount	Percent of levy
2008	9,192,162	8,237,323	89.61%	406,013	8,643,336	94.03%
2009	9,859,343	8,065,980	81.81%		8,065,980	81.81%
2010	10,210,015	9,165,388	89.77%		9,165,388	89.77%
2011	10,298,644	9,789,691	95.06%		9,789,691	95.06%
2012	10,477,164	9,971,097	95.17%		9,971,097	95.17%
2013	10,761,548	10,422,088	96.85%		10,422,088	96.85%
2014	11,124,112	10,798,615	97.07%		10,798,615	97.07%
2015	12,081,959	11,805,592	97.71%		11,805,592	97.71%
2016	12,879,664	12,577,259	97.65%		12,577,259	97.65%
2017	13,875,400	13,547,393	97.64%		13,547,393	97.64%

Source: Los Angeles County Auditor-Controller



**City of Hermosa Beach**  
**Construction Value and Property Value**  
**Last Ten Fiscal Years**

Fiscal year ended June 30	Residential		Commercial		Total assessed value
	Number of permits	Valuation	Number of permits	Valuation	
2008	531	29,341,001	73	4,600,100	4,358,356,873
2009	416	16,284,748	72	5,004,689	4,705,847,448
2010	377	9,596,415	64	2,454,027	4,823,727,991
2011	486	16,079,850	81	2,599,656	4,862,223,524
2012	410	15,944,064	82	3,597,461	4,944,940,538
2013	462	24,241,397	56	2,710,750	5,093,189,582
2014	468	36,787,127	69	3,946,450	5,379,750,286
2015	457	39,058,181	52	1,947,535	5,711,045,616
2016	554	44,224,105	68	9,283,387	6,089,089,031
2017	448	37,467,738	40	4,791,924	6,593,783,921

Source: City of Hermosa Beach Community Development Department  
Los Angeles County Auditor-Controller

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**City of Hermosa Beach**  
**Direct and Overlapping Debt**  
**June 30, 2017**

City assessed valuation		\$ 6,593,783,921	
Redevelopment agency incremental valuation		-	
Total assessed valuation		<u>\$ 6,593,783,921</u>	
	<u>Percentage applicable</u>	<u>Outstanding debt 6/30/17</u>	<u>Estimated share of overlapping debt</u>
Overlapping debt repaid with property taxes:			
West Basin Water District debt service	0.610%	36,281,674	221,263
Hermosa Beach School District debt service 2005 refunding	100.000%	30,868,773	30,868,773
El Camino Community College District 2002 series 2012C	6.733%	180,149,353	12,129,454
El Camino Community College District 2012 refunding	6.733%	41,490,000	2,793,521
El Camino Community College District 2012 series 2016 A	6.733%	100,000,000	6,732,999
El Camino Community College District 2016 refunding	6.733%	<u>79,920,000</u>	<u>5,381,013</u>
Total overlapping debt repaid with property taxes		<u>\$ 468,709,800</u>	<u>58,127,023</u>
Total direct and overlapping debt			<u>\$ 58,127,023</u>
Direct Debt	0.170%		
Overlapping Debt	0.880%		
Total Debt	1.050%		

Source: HdL Coren & Cone  
Los Angeles County Assessor's Office

The percentage of overlapping debt applicable is estimated by using taxable assessed values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the city's boundaries and dividing it by each unit's total taxable assessed value.

**City of Hermosa Beach**  
**Legal Debt Margin Information**  
**Last Ten Fiscal Years**

	Fiscal Year				
	2008	2009	2010	2011	2012
Assessed valuation	\$ 4,382,493,918	\$ 4,705,847,448	\$ 4,823,727,991	\$ 4,862,223,524	\$ 4,944,940,538
Conversion percentage	25%	25%	25%	25%	25%
Adjusted assessed valuation	\$ 1,095,623,480	\$ 1,176,461,862	\$ 1,205,931,998	\$ 1,215,555,881	\$ 1,236,235,135
Debt limit percentage	15%	15%	15%	15%	15%
Debt limit	\$ 164,343,522	\$ 176,469,279	\$ 180,889,800	\$ 182,333,382	\$ 185,435,270
Total net debt applicable to limit	\$ -	\$ -	\$ -	\$ -	\$ -
Legal debt margin	<u>\$ 164,343,522</u>	<u>\$ 176,469,279</u>	<u>\$ 180,889,800</u>	<u>\$ 182,333,382</u>	<u>\$ 185,435,270</u>
Total debt applicable to the limit as a percentage of debt limit	0%	0%	0%	0%	0%

California Government Code section 43605 provides for a legal debt limit of 15% of gross assessed valuation. This provision was enacted when assessed valuation was based on 25% of market value. Effective fiscal year 1981-82, each parcel was assessed based on 100% of market value as of the most recent change in ownership. The computations shown above convert the assessed valuation data for each fiscal year from the full valuation perspective to the 25% level that was in effect at the time that the legal debt margin was enacted.

Source: City of Hermosa Beach Finance Department  
County of Los Angeles, Auditor-Controller

**City of Hermosa Beach**  
**Legal Debt Margin Information (Continued)**  
**Last Ten Fiscal Years**

	Fiscal Year				
	2013	2014	2015	2016	2017
Assessed valuation	\$ 5,093,189,582	\$ 5,379,750,286	\$ 5,711,045,616	\$ 6,089,089,031	\$ 6,593,783,921
Conversion percentage	25%	25%	25%	25%	25%
Adjusted assessed valuation	\$ 1,273,297,396	\$ 1,344,937,572	\$ 1,427,761,404	\$ 1,522,272,258	\$ 1,648,445,980
Debt limit percentage	15%	15%	15%	15%	15%
Debt limit	\$ 190,994,609	\$ 201,740,636	\$ 214,164,211	\$ 228,340,839	\$ 247,266,897
Total net debt applicable to limit	\$ -	\$ -	\$ -	\$ -	\$ 11,265,000
Legal debt margin	<u>\$ 190,994,609</u>	<u>\$ 201,740,636</u>	<u>\$ 214,164,211</u>	<u>\$ 228,340,839</u>	<u>\$ 236,001,897</u>
Total debt applicable to the limit as a percentage of debt limit	0%	0%	0%	0%	4.6%

California Government Code section 43605 provides for a legal debt limit of 15% of gross assessed valuation. This provision was enacted when assessed valuation was based on 25% of market value. Effective fiscal year 1981-82, each parcel was assessed based on 100% of market value as of the most recent change in ownership. The computations shown above convert the assessed valuation data for each fiscal year from the full valuation perspective to the 25% level that was in effect at the time that the legal debt margin was enacted.

Source: City of Hermosa Beach Finance Department  
County of Los Angeles, Auditor-Controller

**City of Hermosa Beach**  
**Demographic and Economic Statistics**  
**Last Ten Calendar Years**

Calendar Year	Population (1)	Personal income (in thousands) (2)	Per capita personal income (2)	City per capita personal income (3)	Unemployment rate (4)	School enrollment (5)
2008	19,527	413,316,582	42,265	121,634	2.9%	1,518
2009	19,491	402,459,119	40,867	-	4.7%	1,521
2010	19,599	-	-	-	5.5%	1,278
2011	19,510	420,913,463	42,564	-	5.5%	1,420
2012	19,574	420,913,463	42,564	-	4.9%	1,608
2013	19,653	420,913,463	42,564	-	4.5%	1,710
2014	19,750	466,098,988	46,530	-	3.6%	1,764
2015	19,772	499,767,889	49,400	-	3.1%	1,827
2016	19,801	544,324,900	53,521	-	2.2%	1,765
2017	19,616	563,907,868	55,624	-	1.9%	1,672

Source:

(1) State of California Department of Finance.

(2) U.S. Department of Commerce, Bureau of Economic Analysis (data shown is for Los Angeles County), which was last updated in 2016.

(3) Personal Income figures for 2008 are from the Internal Revenue Service individual income tax statistics by zip code and for Internal Revenue Service figures are not an ongoing statistical project therefore all years are not available. Census information is available every 10 years, however 2010 information is not yet available.

(4) State of California Employment Development Department.

(5) State of California Department of Education.

**City of Hermosa Beach**  
**Principal Employers**  
**Current Year and Nine Years Ago**

Employer	2017		2008	
	Number of employees	Percent of total employment	Number of employees	Percent of total employment
City of Hermosa Beach	179	3.84%	184	4.24%
24 Hour Fitness	-	0.00%	158	3.64%
Intensive Behavior Intervention Consultants	150	3.22%	-	0.00%
Von's Companies	139	2.98%	142	3.27%
Shorewood Realtors	-	0.00%	99	2.28%
First Steps for Kids, Inc.	95	2.04%	-	0.00%
Ralph's Grocery	-	0.00%	77	1.77%
Hermosa Beach School District	88	1.89%	76	1.75%
Hennessey's	74	1.59%	70	1.61%
24 Hour Fitness	68	1.46%	-	0.00%
Sunrise Assisted Living	65	1.40%	-	0.00%
Beach House	55	1.18%	-	0.00%
Patick Molloy's	55	1.18%	64	1.47%
Comedy & Magic Club	-	0.00%	54	1.24%
Glen Ivy Hot Springs, Incorporated	-	0.00%	52	1.20%

Source: City of Hermosa Beach Finance Department

**City of Hermosa Beach**  
**Full-time and Part-time City Employees by Function**  
**Last Ten Fiscal Years**

<u>Function</u>	<u>Full-time employees as of June 30</u>									
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
General government	23	19	16	16	13	17	18	20	20	21
Public safety	87	92	95	72	74	74	75	81	82	76
Community development	6	8	8	9	8	8	8	8	10	11
Culture and recreation	4	4	2	3	3	2	2	3	4	4
Public works	24	20	20	16	17	15	20	17	23	23
Total	<u>144</u>	<u>143</u>	<u>141</u>	<u>116</u>	<u>115</u>	<u>116</u>	<u>123</u>	<u>129</u>	<u>139</u>	<u>135</u>

<u>Function</u>	<u>Part-time employees as of June 30</u>									
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
General government	-	-	-	-	-	-	3	4	6	4
Public safety	9	14	13	26	12	24	13	6	14	5
Community development	2	2	-	1	1	1	2	3	2	3
Culture and recreation	29	24	22	20	19	26	21	25	27	29
Public works	-	-	-	-	1	2	-	3	1	3
Total	<u>40</u>	<u>40</u>	<u>35</u>	<u>47</u>	<u>33</u>	<u>53</u>	<u>39</u>	<u>41</u>	<u>50</u>	<u>44</u>

Source: City of Hermosa Beach Finance Department



**City of Hermosa Beach**  
**Operating Indicators by Function**  
**Last Ten Fiscal Years**

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Public safety										
Police:										
Physical arrests	933	648	665	795	781	857	945	732	739	615
Traffic citations issued	2,490	2,503	2,798	1,593	2,290	1,819	3,421	2,406	1,966	1,826
Parking citations issued	59,656	52,080	47,620	63,010	68,193	70,678	74,228	65,783	62,957	56,398
Fire:										
Number of emergency calls <sup>1</sup>	2,088	2,273	2,162	2,149	2,487	2,488	2,386	2,467	2,678	2,427
Inspections	312	965	908	436	559	495	657	1,061	540 <sup>2</sup>	611
Community development:										
Building permits issued	637	511	441	567	492	462	537	509	622	488
Culture and recreation:										
Number of recreation classes	171	138	165	172	169	129	134	514	526 <sup>3</sup>	498 <sup>3</sup>
Total enrollment	4,272	3,744	3,776	3,798	4,327	4,982	5,464	4,247	4,947	4,817
Public works:										
Graffiti removal (hours)	461	341	540	468	383	408	212	209	200	112
Permits issued	1,071	643	611	564	718	736	819	904	1,406	1,496

Source: Various city departments.

Note:

<sup>1</sup> Emergency calls for 2005-2008 were only available for January through June.

<sup>2</sup> Fire Department Inspections were not conducted between July 2015 and January 2016 as the position was open/unfilled.

<sup>3</sup> A new software program was used for recreation classes after the 2013-14 fiscal year and classes are now counted by date and time rather than grouped.

**City of Hermosa Beach**  
**Capital Asset Statistics by Function**  
**Last Ten Fiscal Years**

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Public safety										
Police:										
Police stations	1	1	1	1	1	1	1	1	1	1
Parking meters	1,666	1,666	1,663	1,663 <sup>1</sup>	1,663	1,663	1,565	1,553	1,553	1,557
Fire:										
Fire stations	1	1	1	1	1	1	1	1	1	1
Culture and recreation										
Community centers	1	1	1	1	1	1	1	1	1	1
Community theatres	1	1	1	1	1	1	1	1	1	1
Public works:										
Beach (acres)	36.5	36.5	36.5	36.5	36.5	36.5	36.5	36.5	36.5	36.5
Greenbelt (acres)	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5
Parks	20	20	20	20	20	20	20	20	20	20
Parks (acres)	21.7	21.7	21.7	21.7	21.7	21.7	21.7	21.7	21.7	21.7
Sanitary sewers (miles)	34	34	34	34	34	34	40	40	40	40
Streets (miles)	40	40	40	40	40	40	40	40	40	40
Streetlights	392	392	392	392	392	392	400	400	400	400
Storm drains (miles)	1	1	1	1	1	1	2	2	2	2
Traffic Signals	18	18	18	18	19	19	19	19	19	19
Infiltration (miles) <sup>2</sup>				0.6	0.6	0.6	0.6	0.2	0.2	0.2

Source: City of Hermosa Beach Finance Department

<sup>1</sup> The City purchased 24 pay-by-space meters in fiscal year 2011. Fourteen of the machines are installed in City parking lots (which are reflected in this figure), with the remaining ten meters being returned for single head meter for on-street parking.

<sup>2</sup> This is a system for monitoring the water quality before it reached the Pacific Ocean. The project was funded by a Federal ARRA Grant passed through the California State Water Control Board. Grant approval required the submission of an ongoing monitoring plan that was accepted by the grantor. The project received an award from the American Public Works Association in 2010.

**City of Hermosa Beach**  
**Ratios of Outstanding Debt by Type**  
**Last Ten Calendar Years**

<u>Governmental Activities</u>						
<u>Fiscal Year Ended June 30</u>	<u>Lease Revenue Bonds</u>	<u>Total Government Activities</u>	<u>Total Primary Government</u>	<u>Percentage of Personal Income<sup>1</sup></u>	<u>Per Capita Debt<sup>2</sup></u>	
2008	-	-	-	N/A	-	
2009	-	-	-	N/A	-	
2010	-	-	-	N/A	-	
2011	-	-	-	N/A	-	
2012	-	-	-	N/A	-	
2013	-	-	-	N/A	-	
2014	-	-	-	N/A	-	
2015	-	-	-	N/A	-	
2016	\$ 11,600,000	\$ 11,600,000	\$ 11,600,000	0.96%	586	
2017	\$ 11,265,000	\$ 11,265,000	\$ 11,265,000	0.99%	574	

**Note:** Details regarding the City's outstanding debt can be found in the notes to the financial statements

<sup>1</sup> This ratio is calculated using the median household income for the prior calendar year.

<sup>2</sup> This ratio is calculated using the population total as of January 1 of the calendar year.

**City of Hermosa Beach**  
**Ratios of General Bonded Debt Outstanding**  
**Last Ten Calendar Years**  
*(In thousands, except per capita)*

**Outstanding General Bonded Debt**

<b>Fiscal Year Ended June 30</b>	<b>Lease Revenue Bonds</b>	<b>Total</b>	<b>Percent Assessed Value<sup>1</sup></b>	<b>Per Capita</b>
2008	-	-	-	-
2009	-	-	-	-
2010	-	-	-	-
2011	-	-	-	-
2012	-	-	-	-
2013	-	-	-	-
2014	-	-	-	-
2015	-	-	-	-
2016	\$ 11,600,000	\$ 11,600,000	52.49%	586
2017	\$ 11,265,000	\$ 11,265,000	58.53%	574

**Note:** General bonded is debt payable with government fund resources and general obligation bonds recorded in enterprise funds (of which, the City has none).

<sup>1</sup> Assessed value has been used because actual value of taxable property is not readily available in the State of California.

**City of Hermosa Beach**  
**Pledged-Revenue Coverage**  
**Last Ten Calendar Years**  
*(In thousands)*

Fiscal Year Ended June 30	Outstanding General Bonded Debt					
	Revenue	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal <sup>1</sup>	Interest	
2008	31,125	27,301	3,824	-	-	-
2009	30,982	27,607	3,375	-	-	-
2010	31,049	27,169	3,880	-	-	-
2011	30,816	26,621	4,195	-	-	-
2012	31,903	25,997	5,906	-	-	-
2013	34,808	27,707	7,101	-	-	-
2014	37,533	29,566	7,967	-	-	-
2015	39,388	30,640	8,748	-	-	-
2016	41,111	36,404	4,707	-	270	17.43
2017	42,088	35,936	6,152	335	375	8.70

**Note:** Details regarding the City's outstanding debt can be found in the notes to the financial statements. Operating expenses do not include interest, depreciation, or amortization expenses.

<sup>1</sup> There was no principal payment due in the 15/16 fiscal year.

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