



**City of Hermosa Beach,
California**

**Comprehensive
Annual
Financial
Report**

For the year ended June 30, 2011

CITY OF HERMOSA BEACH
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ended

June 30, 2011

Prepared by:

Finance Department

City of Hermosa Beach
Basic Financial Statements
For the year ended June 30, 2011

Table of Contents

	<u>Page</u>
<u>INTRODUCTORY SECTION (UNAUDITED)</u>	
Table of Contents	i
Letter of Transmittal	v
Certificate of Achievement for Excellence in Financial Reporting - Governmental Finance Officers Association	xi
Organizational Chart	xii
Principal Officials of the City of Hermosa Beach	xiii
 <u>FINANCIAL SECTION</u>	
Independent Auditors' Report	1
Management's Discussion and Analysis (Required Supplementary Information) (Unaudited)	3
 Basic Financial Statements:	
 Government - Wide Financial Statements:	
Statement of Net Assets	19
Statement of Activities and Changes in Net Assets	20
 Fund Financial Statements:	
 <i>Governmental Fund Financial Statements:</i>	
Balance Sheet	28
Reconciliation of the Governmental Funds Balance Sheet to the Government -Wide Statement of Net Assets	29
Statement of Revenues, Expenditures and Changes in Fund Balances	30
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government - Wide Statement of Activities and Changes in Net Assets	31
 <i>Proprietary Fund Financial Statements:</i>	
Statement of Net Assets	36
Statement of Revenues, Expenses and Changes in Fund Net Assets	37
Statement of Cash Flows	38
 <i>Fiduciary Fund Financial Statements:</i>	
Statement of Fiduciary Net Assets	42
 Index to Notes to Basic Financial Statements	 43
 Notes to Basic Financial Statements	 45
 Required Supplementary Information (Unaudited)	 79

City of Hermosa Beach
Basic Financial Statements
For the year ended June 30, 2011

Table of Contents, Continued

	<u>Page</u>
<u>FINANCIAL SECTION, Continued</u>	
Supplementary Information:	
<i>Non-Major Governmental Funds:</i>	
Combining Balance Sheet.....	88
Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	94
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual	
<i>Non-Major Special Revenue Funds:</i>	
Lighting and Landscape District.....	99
State Gas Tax.....	100
AB 939.....	101
Prop A Open Space.....	102
Tyco.....	103
Tyco Tidelands.....	104
Parks/Recreation Facilities Tax.....	105
Bayview Drive Administrative Expense.....	106
Lower Pier Administrative Expense.....	107
Myrtle District Administrative Expense.....	108
Loma District Administrative Expense.....	109
Beach Drive Assessment District Administrative Expense.....	110
Community Development Block Grant.....	111
Proposition “A” Transit.....	112
Proposition “C”.....	113
Measure R.....	114
Grants.....	115
Air Quality Management District.....	116
Supplemental Law Enforcement Services (COPS).....	117
Sewer.....	118
Asset Seizure and Forfeiture Fund.....	119
Fire Protection.....	120
Capital Improvement.....	121
Artesia Boulevard Relinquishment.....	122
<i>Internal Service Funds:</i>	
Combining Statement of Net Assets.....	124
Combining Statement of Revenues, Expenses and Changes in Net Assets.....	125
Combining Statement of Cash Flows.....	126
<i>Fiduciary Fund Financial Statements:</i>	
Combining Statement of Fiduciary Net Assets.....	128
Combining Statement of Changes in Assets and Liabilities.....	129
<i>Capital Assets Used in the Operating Of Governmental Funds:</i>	
Schedule by Source.....	132
Schedule by Function and Activity.....	133
Schedule of Changes in Capital Assets by Function and Activity.....	134

City of Hermosa Beach
Basic Financial Statements
For the year ended June 30, 2011

Table of Contents, Continued

	<u>Page</u>
<u>STATISTICAL SECTION (Unaudited)</u>	
Net Assets by Component	136
Changes in Net Assets.....	138
Governmental Activities Tax Revenues By Source	142
Fund Balances of Governmental Funds.....	143
Changes in Fund Balances of Governmental Funds.....	144
Governmental Activities Tax Revenues By Source	145
Assessed Value and Estimated Actual Value of Taxable Property.....	146
Direct and Overlapping Government.....	147
Principal Property Taxpayers.....	148
Property Tax Levies and Collections.....	149
Construction Value and Property Value	150
Direct and Overlapping Debt.....	151
Legal Debt Margin Information.....	152
Demographic and Economic Statistics.....	154
Principal Employers	155
Full-Time Equivalent City Government Employees by Function.....	156
Operating Indicators by Function	157
Capital Asset Statistics by Function	158
Independent Auditor’ Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	159

This page intentionally left blank.



City of Hermosa Beach

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

December 27, 2011

Honorable Mayor and Members of the City Council:

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, 2011. 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.

This CAFR is prepared using the financial reporting requirements established for fiscal years beginning after 6/15/02 by Governmental Accounting Standards Board (GASB) Statement 34 for state and local governments throughout the United States. The required Management's Discussion and Analysis (MD&A), gives readers an analysis of the government's financial performance for the year and government-wide financial statements, prepared using accrual accounting for all of the government's activities. Long term assets and liabilities (such as capital assets, including infrastructure and general obligation debt) are measured in addition to current assets and liabilities. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Hermosa Beach's MD&A can be found immediately following the report of the independent auditors.

The City is complying with the newest GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which is effective for fiscal years beginning after 6/15/10. The primary impact of this statement is that funds which were held separately before, namely the Contingency Fund, the Compensated Absences Fund and the Retirement Stabilization Fund will now be part of the General Fund and be designated as "Assigned".

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 Caporicci & Larson, 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, 2011, 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 unqualified opinion that the City of Hermosa Beach's financial statements for the fiscal year ended June 30, 2011, are fairly presented in conformity with GAAP. The independent auditor's 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 1.3 square miles and serves a population of 19,557, according to the State's latest population estimate. However as a beach city, Hermosa 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 2010-11 fiscal year, beach attendance ranged from a low of 94,300 in December 2010 to a high of 939,000 in July 2010, 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 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.

Hermosa Beach 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 Downtown Business Area Enhancement District, 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 2011 Profile of the City of Hermosa Beach*, produced by the Southern California Association of Governments (SCAG), is shown below. The first profile report was produced in May 2009.

**2011 Statistical Summary
(Selected Items)**

Category	Hermosa Beach
Median Age	39
Non-Hispanic White	80.9%
Hispanic	8.4%
Non-Hispanic Asian	5.6%
Non-Hispanic Black	1.1%
Non-Hispanic American Indian	0.1%
Non-Hispanic All Other	3.9%
Homeownership Rate	44.0%
Average Household Size	2
Median Household Income	\$111,230
Mean Travel Time to Work	36 minutes

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. A pre-budget policy meeting with the City Council is held prior to budget preparation. 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 30th. 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 page 81. 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. As a beachfront community, with more bedrooms than businesses, Hermosa Beach had the seventeenth highest percentage change in secured and unsecured assessed valuation of the 88 cities in Los Angeles County for 2010-11. This growth of .8% is the lowest rate since the 1996-97 rate of 1.37%. In the five years preceding this fiscal year, the increase in assessed valuation averaged 7.09% and was 9.64% for the five years prior to that. Even with lower growth, property tax is by far the highest source of revenue for the City. Median home prices in Hermosa Beach as of June 2011 were \$855,000, compared to \$320,000 for Los Angeles County. The Hermosa Beach median home price for June 2010 was \$900,000 and the average median price for 2009-10 was \$899,604. The average median home price for Hermosa Beach for fiscal year 2010-11 was \$1,040,417. Home values adjacent to the beach continue to hold up much better than other parts of the county and state.

As a beach city, the three highest occupations are 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 5.5%, compared with 12.3% for Los Angeles County, and 11.8% for California as of June 2011.

Secured property taxes increased 2% in 2010-11 and on average, 8%, over the past five years, (in spite of the shift of over \$650,000 in 2004-05 and 2005-06 in property tax funds from local government to the State to balance their budget). The strength in this area helped offset the decline in the sales tax base that began in 2001-02 with the loss of several new auto dealerships: Audi/Porsche in 2002, Volkswagen in 2003 and BMW in 2004. The biggest impact was BMW new car sales, which was felt in full for the first time in 2005-06. The pre-owned BMW sales which were maintained on a portion of the old site are also gone now, affecting the first quarter of 2011-12. Sales tax receipts over the past ten years were highest in 2000-01 at \$2.7 million with the low in 2009-10 of \$2.1 million. Receipts for 2010-11 are up 5% and are consistent with sales tax receipts of 1998-99.

In the past ten year period, transient occupancy tax has increased from a low of \$1.1 million in 2001-02 to a high of \$1.9 million in 2007-08. During that ten years, three new hotels were added; the Beach House (phases 1 and 2), the Holiday Inn Express, and the Hampton Inn. After declining 18% from 2007-08 to 2009-10, revenue is up 8% for 2010-11 to \$1.7 million which approximates the 2006-07 level. Average occupancy for 2010-11 was 76.3% for Hermosa Beach compared to last year's rate of 65.8%.

Utility user tax (UUT) was 1.5% less than 2009-10 and is 9% less than the highest year of 2006-07 at \$2.8 million. Part of this decline is related to a change by AT&T in taxation of their cellular bundled services. The utility user tax is the second highest single source of income for the City. 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.

National Economy. The latest UCLA Forecast indicates that recent economic data has improved, taking the threat of a double dip recession off the table. While the forecast calls for job growth of 150,000 per month, total payroll employment is still projected to be 3 million jobs below the 2007 year. Modestly growing gross domestic product (GDP) of 2% will not be sufficient to lower the unemployment rate much below 9% through 2013. Hermosa Beach does fare better with unemployment estimated at 5.5% and stronger assessed valuations on property. Positive trends in sales tax and transient occupancy do suggest an improving economy, albeit a *slowly* improving one.

California Public Employees Retirement System (CalPERS). While CalPERS had a positive investment return of 20.9% as of June 2011, prior losses will still affect employer rates for the future. Rates only increased by .17 points overall in 2010-11 but will increase 11 points for 2011-12. The City was successful in negotiating two tier rates for all bargaining units for future employees beginning in 2011-12, which will cut rates in half for miscellaneous and fire employees and almost 2/3 for police employees.

The City created a Retirement Stabilization Fund in 2003-04 to plan for anticipated rate increases. Because of GASB 54, this fund will no longer be separate. The balance of \$760,482 is now in the General Fund as part of the "Assigned" balance.

State Budget. Because the primary reduction to local governments by the state in 2010-11 and 2011-12 was in redevelopment, Hermosa Beach was not affected since we do not have a redevelopment agency. Since the size of the state deficit is so large and growing, with overstated revenue projections recently announced, it is unlikely that we can remain untouched in the future. We continue to monitor the state budget diligently.

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 assets for 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 15% 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. For 2010-11, the City Council determined that all unspent funds in the General Fund (\$1,188,835) would be transferred to the Insurance Fund to fund insurance liabilities and costs of the ongoing MacPherson Oil lawsuit which is discussed in detail in the Notes to the Financial Statements. The City Council makes changes as necessary to the year end transfer, depending on the equity in the funds or based on other needs.

Prior to GASB 54, the Contingency Fund was a separate fund. The balance of \$3,794,981 is now in the General Fund as part of the "Assigned" balance.

The Compensated Absences Fund was also a separate fund. The balance of \$297,033 is now in the General Fund as part of the "Assigned" balance.

The City's long term financial planning focuses on the Capital Improvement Plan, which is produced as part of the annual budget. Since the City is built out, the plan primarily addresses maintenance, repair and upgrading of facilities and infrastructure, particularly streets and sewers.

Primary projects coming up, (other than street and sewer improvements, which occur every year) are improvements that provide a "safe route to school" with funding of over \$300,000 from State Safe Route to School Funds, structural repairs to the Hermosa Beach Pier, and protective bollards at the pedestrian Pier Plaza downtown.

Cash management policies and practices. Temporarily idle cash was invested during the year in obligations of the U.S. Treasury and the State Treasurer's investment pool. The average maturity was 28 months, with an average yield on investments of .61%. 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 Hermosa Beach.

The City of Hermosa Beach 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 and the California State Association of Counties (CSAC). Together, these two joint powers authorities provide 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 City Manager (since the Human Resources Director/Risk Manager position was cut).

Additional information on the City of Hermosa Beach's risk management activity can be found in Note 9 of the notes to the financial statements.

Pension and other post employment benefits. The City of Hermosa Beach 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 pays employee contributions as a negotiated benefit. City employer contributions are actuarially determined on an annual basis.

The City of Hermosa Beach also provides post employment health care benefits for certain retirees. As of the end of the current fiscal year, there were 53 retirees receiving these benefits.

The City elected early implementation of GASB 45 and 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 Note 10 in the Notes to the Financial Statements.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a 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, 2010. This was the twenty-first consecutive year that Hermosa Beach 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, with particular appreciation to Valerie Mohler, the Accounting Supervisor. 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, Caporicci & Larson, 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

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, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Dandson

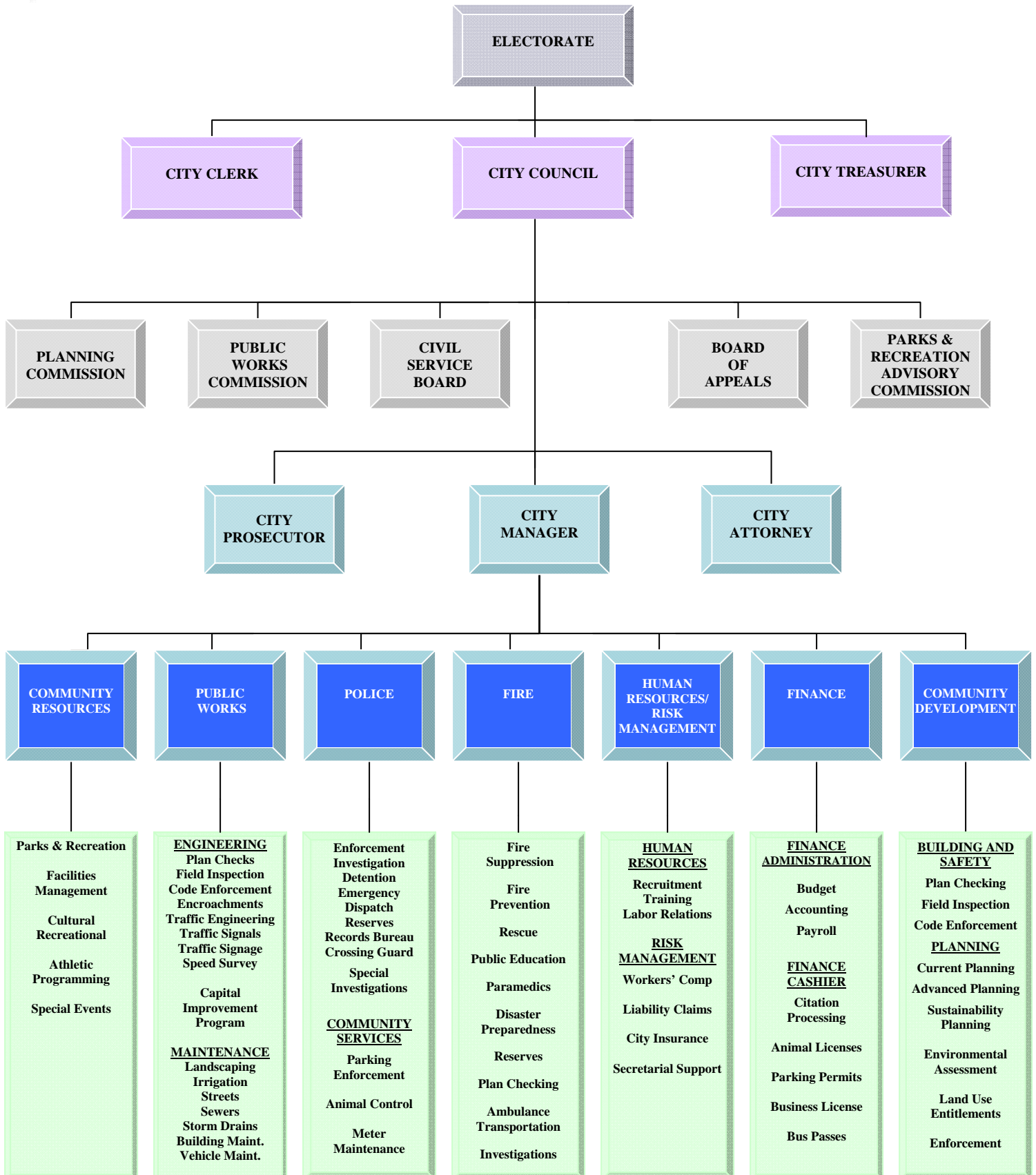
President

Jeffrey R. Emer

Executive Director



CITY OF HERMOSA BEACH ORGANIZATIONAL CHART



PRINCIPAL OFFICIALS OF THE CITY OF HERMOSA BEACH, CALIFORNIA

June 30, 2011

Elected and Administrative Officials

City Council

Howard Fishman
Jeff Duclos
Patrick “Kit” Bobko
Michael Di Virgilio
Peter Tucker

Mayor
Mayor Pro Tempore
Councilmember
Councilmember
Councilmember

Other Elected Officials

John Workman
Elaine Doerfling

City Treasurer
City Clerk

Administrative Officials

Stephen Burrell
Viki Copeland
Ken Robertson

Unfilled

Unfilled

Gregory Savelli
Frank Senteno

David Lantzer

City Manager
Finance Director
Community Development
Director
Community Resources
Director
Personnel Director and
Risk Manager
Police Chief
Acting Public Works
Director
Fire Chief

This page intentionally left blank.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hermosa Beach, California (City), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes 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, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The City adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of July 1, 2010.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2011, 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. 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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 it.

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
Irvine, California
December 27, 2011

Management's Discussion and Analysis

As management of the City of Hermosa Beach, we offer readers of the City of Hermosa Beach'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, 2011. 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 - x of this report.

Financial Highlights

- The assets of the City of Hermosa Beach exceeded its liabilities at the close of the last fiscal year by \$81,944,000 (*net assets*). Of this amount, \$13,284,000 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$1,206,000. Net assets of governmental activities increased \$898,000 (1.25%) while net assets of business type activities increased \$308,000 (3.5%).
- As of June 30, 2011, the City of Hermosa Beach's governmental funds reported combined ending fund balances of \$10,070,000, a decrease of \$656,000 in comparison with the prior year. The decrease is primarily a result of the expenditure of Proposition C Transit Funds on the Upper Pier Avenue Improvement Project and a one-time exchange of Proposition A Funds with another city for unrestricted funds (net decrease of \$256,000).
- The City of Hermosa Beach currently has no debt.

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.

One important distinction in this year's financial statements is the implementation of Governmental Accounting Standards Board (GASB) 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes fund classifications based upon constraints imposed on the use of resources in governmental funds. The primary initial impact of this classification change is that funds previously held separately are now in the General Fund. For Hermosa Beach, these funds are the Contingency Fund, Compensated Absences Fund and Retirement Stabilization Fund. In this report, the funds are shown combined as part of the "Assigned" Fund Balance. See page 28 for Balance Sheet Governmental Funds. Also see note 1L on page 52 and note 11 on page 75 for the detailed amounts and more information.

Government-wide financial statements. The *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 assets* presents information on all of the City of Hermosa Beach's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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).

Both of the government-wide financial statements distinguish functions of the City of Hermosa Beach that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Hermosa Beach include legislative and legal, general government, public safety, public works, community development, and culture and recreation. The business-type activities of the City of Hermosa Beach are in the Downtown Enhancement Fund.

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 19-21 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. *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-five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the fund below, which is considered to be a major fund:

General Fund

Major funds are governmental or enterprise funds whose revenues, expenditures/expenses, assets or liabilities 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-four 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 in the Required Supplementary Information section to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 28-31 of this report.

Proprietary funds. The City of Hermosa Beach maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Hermosa Beach uses an enterprise fund to account for its downtown enhancement operations. *Internal service funds* are an accounting device 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.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Downtown Enhancement Fund which is considered to be a major fund of the City of Hermosa Beach because it is the only proprietary fund. 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 36-38 of this report.

Fiduciary funds. 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. Other Post Employment Benefits (OPEB) funds that were held previously as fiduciary funds by the City, were placed in a trust fund administered by Public Agency Retirement Services in August 2007.

The basic fiduciary fund financial statements can be found on page 42 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 45-78 of this report.

Other 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 page 79 of this report.

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 on pensions. Combining and individual fund statements and schedules can be found on pages 88-129 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As of June 30, 2011, assets exceeded liabilities by \$81,944,000.

By far the largest portion of the City of Hermosa Beach's net assets, \$66,692,000 (82%), 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.

<i>Net Assets June 30, 2011 (dollars in thousands)</i>						
	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	2011	2010	2011	2010	2011	2010
<i>Current and Other Assets</i>	\$ 28,472	\$ 26,628	\$ (486)	\$ (776)	\$ 27,986	\$ 25,852
<i>Capital Assets</i>	56,693	56,600	9,999	9,927	66,692	66,527
Total Assets	85,165	83,228	9,513	9,151	94,678	92,379
<i>Long-term Liabilities</i>						
<i>Outstanding</i>	6,162	4,954	-	-	\$ 6,162	\$ 4,954
<i>Other Liabilities</i>	6,219	6,388	353	299	6,572	6,687
Total Liabilities	12,381	11,342	353	299	12,734	11,641
Net Assets:	72,784	71,886	9,160	8,852	81,944	80,738
Invested in Capital Assets	56,693	56,600	9,999	9,927	\$ 66,692	\$ 66,527
Restricted	1,968	4,513	-	-	1,968	4,513
Unrestricted	14,123	10,773	(839)	(1,075)	13,284	9,698
Total Net Assets	\$ 72,784	\$ 71,886	\$ 9,160	\$ 8,852	\$ 81,944	\$ 80,738

A portion of the City of Hermosa Beach's net assets (2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$13,284,000) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Hermosa Beach is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental activities. The business-type activities show a deficit for unrestricted net assets due to the purchase of a storage lot facility with internal loans from the General Fund, the Insurance Fund and the Equipment Replacement Fund. These loans are being repaid from revenue received from the lease of the facility and unrestricted net assets when available.

The government's net assets increased by \$1,206,000 during the current fiscal year. The following is the condensed Statement of Activities and Changes in Net Assets for the fiscal years ending June 30, 2010 and June 30, 2011.

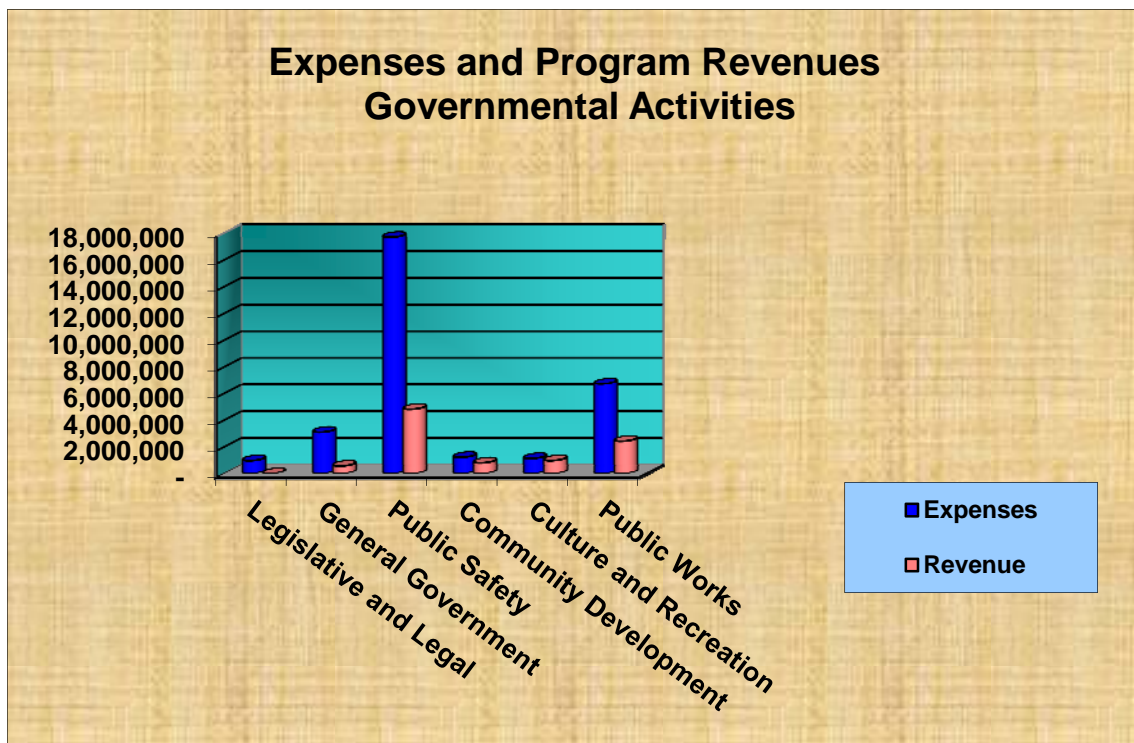
Governmental activities. Governmental activities increased the City of Hermosa Beach's net assets by \$898,000. Key elements of this increase are as follows:

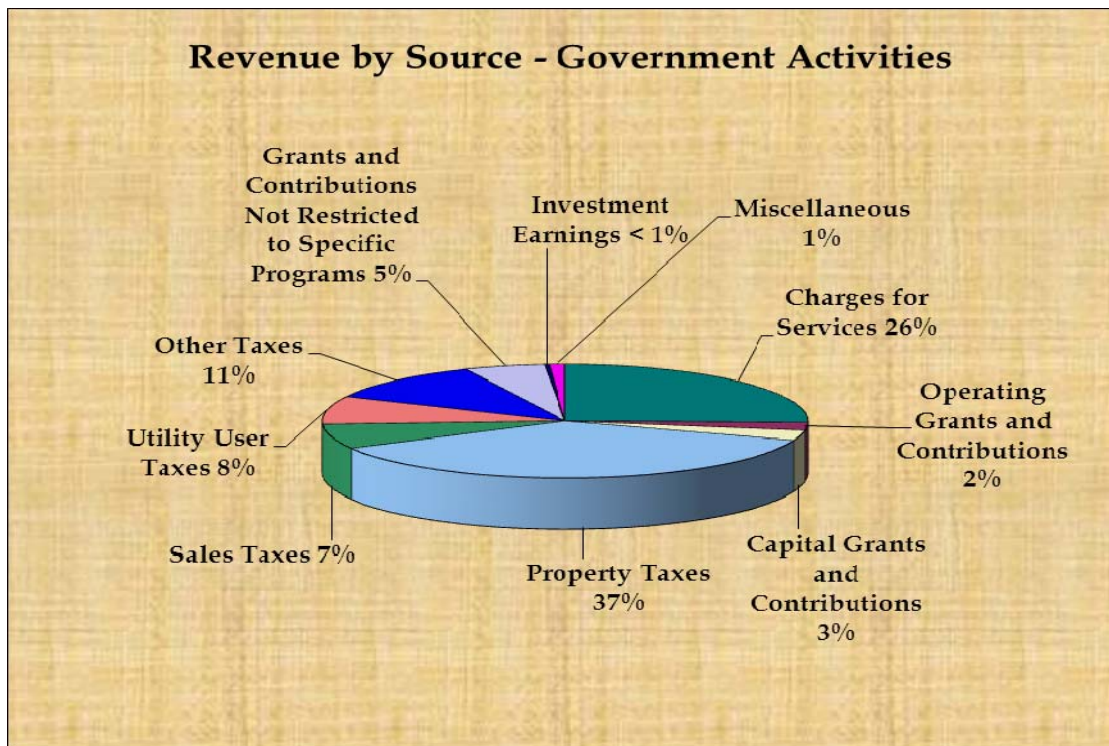
Changes in Net Assets
June 30, 2011
(dollars in thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program Revenues:						
Charges For Services	\$ 7,991	\$ 7,566	\$ 1,410	\$ 1,026	\$ 9,401	\$ 8,592
Operating Grants and Contributions	701	544	-	-	701	544
Capital Grants and Contributions	903	1,818	-	-	903	1,818
General Revenues:						
Property Taxes	11,519	11,408	-	-	11,519	11,408
Other Taxes	8,270	8,076	-	-	8,270	8,076
Grants and Contributions Not Restricted to Specific Programs	1,667	1,242	-	-	1,667	1,242
Other	444	608	35	7	479	615
Total Revenues	31,495	31,262	1,445	1,033	32,940	32,295
Expenses:						
Legislative and Legal	973	980	-	-	973	980
General Government	3,103	2,410	-	-	3,103	2,410
Public Safety	17,698	17,842	-	-	17,698	17,842
Community Development	1,224	1,244	-	-	1,224	1,244
Culture and Recreation	1,133	1,252	-	-	1,133	1,252
Public Works	6,725	7,823	-	-	6,725	7,823
Downtown Enhancement	-	-	878	997	878	997
Total Expenses	30,856	31,551	878	997	31,734	32,548
Increase (Decrease) in Net Assets Before Transfers	639	(289)	567	36	1,206	(253)
Transfers	259	4	(259)	(4)	-	-
Increase (Decrease) in Net Assets	898	(285)	308	32	1,206	(253)
Net Assets - 7/1/10	71,886	72,171	8,852	8,820	80,738	80,991
Net Assets - 6/30/11	\$ 72,784	\$ 71,886	\$ 9,160	\$ 8,852	\$ 81,944	\$ 80,738

- Charges for services increased \$425,000 primarily due to an increase in development related revenues as the economy shows slight signs of improvement. Revenue received for facilities rentals and special events was higher due to completed renovations and construction at the Community Center. A new fee for street repairs related to development projects was added in 2010 providing an additional increase to development related revenue.
- Property Taxes overall increased by \$111,000 or approximately 1%. Assessed valuations increased .8% overall.
- Other Taxes increased approximately 2% as a result of increases in revenue from the transient occupancy tax (tax on hotel stays) and sales tax.
- Capital Grants and Contributions decreased primarily because projects related to four American Recovery and Reinvestment Act (ARRA) grants received from the Federal Government for improvements of the City's main arterial street, an innovative water filtration system and repairs made to other residential streets were primarily completed in 2010. Two of the grants are administered by the State of California Department of Transportation and two by the California State Water Resources Control Board.

- Grants and Contributions Not Restricted to Specific Programs increased for the following reasons: elimination of traffic congestion relief funding which is now a portion of the new Highway Users Tax Account (HUTA) section 2103 decreased this category by \$177,000; Proposition A and C Transit Funds increased by \$32,000 since they are collected as a portion of the sales tax which increased in 2011; the amount of State reimbursed claims for mandated costs was \$4,000 more. The Measure R allocation, a ½ cent sales tax passed by Los Angeles County voters in November 2008 for transportation solutions for Los Angeles County, increased by \$39,000. The City exchanged \$800,000 of prior year Proposition A funds with the City of Torrance, California for unrestricted funds resulting in a one-time increase in this revenue category of \$544,000. No Transportation Development Act revenue was received in 2011 decreasing revenue by \$20,000.
- Other revenue decreased primarily due to a one-time restitution payment for transient occupancy tax that was received in 2009-10 and a decrease of 32% for investment earnings due to falling interest rates.



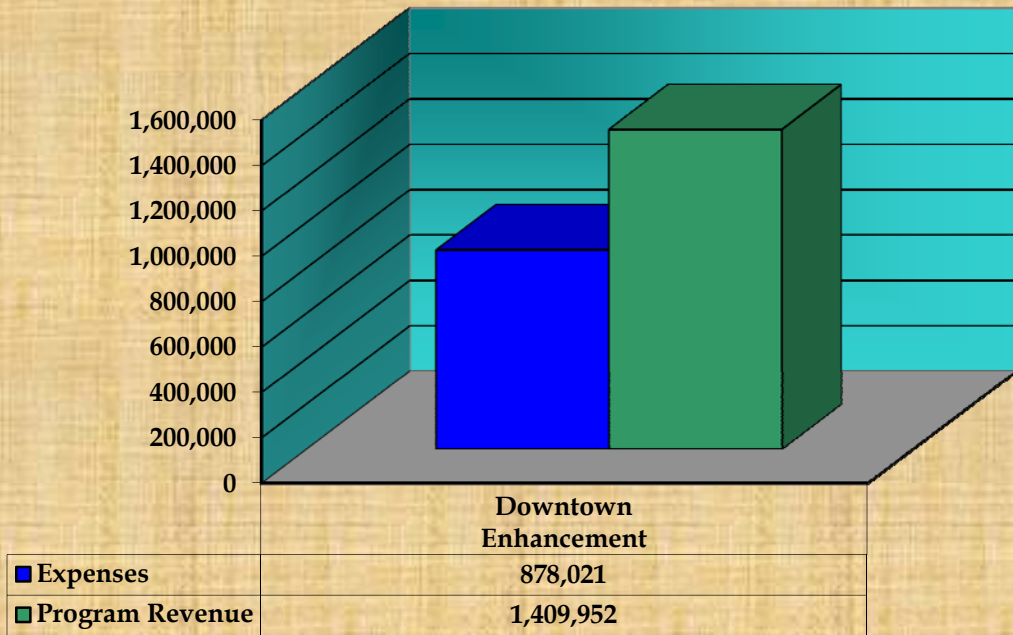


Expenses in total declined primarily due to a total of fourteen unfilled vacancies impacting all categories except the Legislative and Legal function. In addition, eleven employees in various city functions took advantage of an early retirement program. The Legislative and Legal function decreased by approximately 1% because there were no election costs in 2010-11. The General Government function shows an increase since a one-time fund exchange of Proposition A funds with the City of Torrance, California was recorded in this category in 2010-11. The Public Safety function increased primarily due to the increased use of Supplemental Law Enforcement Service (COPS) funds in order to meet the timely use requirements for these funds. Less coverage by an independent contractor of the Senior Building Inspector vacancy was the main factor for Community Development expenditures being under budget by \$50,000. Culture and Recreation decreased because of vacancies, fewer excursions and lower recreation class instructor payments due to lower enrollment in classes. Legal costs for the ongoing MacPherson Oil Company litigation, discussed in Note 13 of the Notes to the Basic Financial Statements are recorded in the Insurance Fund. The total amount for these legal costs for 2010-11 was \$240,000, a decrease from 2009-10 of approximately \$555,000. Insurance claims are allocated to the function where the claims occur. These actuarially determined costs increased dramatically for 2010-11, with an increase to the general liability claims of \$319,000 (28%) and the workers' compensation claims of \$1,325,000 (31%).

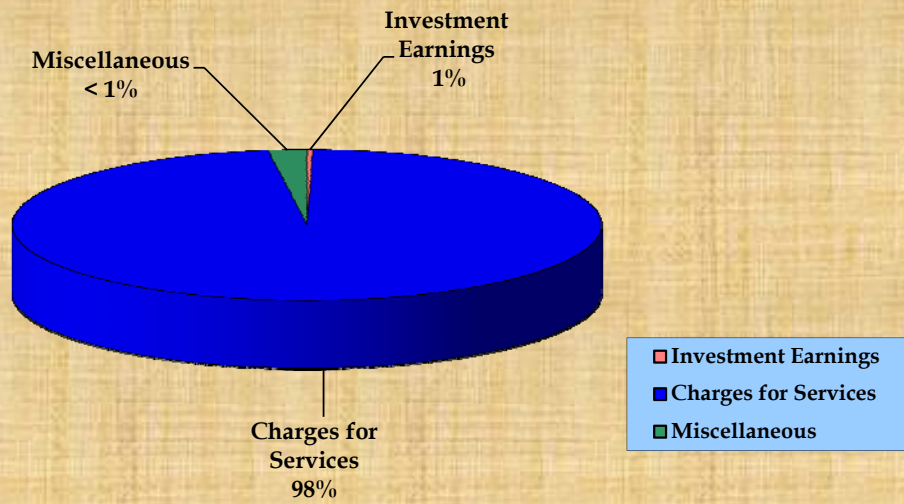
Business-type activities. Business-type activities increased the net assets by \$308,000. The primary contributing factors to this increase were:

- Charges for Services increased due to the change from attended parking to pay-by-space parking meters in the downtown parking lots and the North Pier Parking Structure. These meters allow the use of credit or debit cards to pay for parking fees as well as cash keys and coins.
- Other revenue increased due to the reimbursement of a portion of the North Pier Parking Structure utility costs by a downtown hotel that uses the structure for hotel parking. The reimbursement covered a ten-year period. The utilities are now being reimbursed on a monthly basis.
- The Downtown Enhancement operation shows decreased expenses because of the elimination of the lot operators in the downtown parking lots and the North Pier Parking Structure.

Expenses and Program Revenue Business-type Activities



Revenue by Source - Business-type Activities



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. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. 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 and Special Revenue funds.

As of the end of the current fiscal year, the City of Hermosa Beach's governmental funds reported combined ending fund balances of \$10,070,000, a decrease of \$656,000 (6%), in comparison with the prior year. The fund balance is comprised of non-spendable, restricted, committed or assigned to indicate that it is not available for new spending. The City has no unassigned fund balance at year end.

One fund qualifies as a major fund under the GASB Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*, reporting criteria: the General Fund.

The General Fund balance increased in fiscal year 2010-11 by 612,000. Overall, the General Fund's performance resulted in revenues exceeding expenditures in the year ended June 30, 2011 by \$2,875,000. The primary reason for the increased fund balance was savings experienced from the early retirement of eleven city employees and new contracts obtained at a lower cost due to rebidding in 2011 for street sweeping and landscaping services that are performed by outside contractors.

Proprietary funds. The City of Hermosa Beach's proprietary fund financial statements for the Downtown Enhancement Fund provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Downtown Enhancement operation at the end of the year were (\$839,000). The deficit is due to the purchase of a storage lot facility with partial funding from internal loans from the General, Insurance and Equipment Replacement Funds. The loans were recorded as if they were being made to the Downtown Enhancement Fund so that the balance payable is easily tracked. These loans are being repaid from revenue received from the lease of the facility and any unrestricted net assets that become available, which will ultimately eliminate the deficit.

General Fund Budgetary Highlights

The final amended budget for revenue is 1% more than the original budget. Actual revenue was higher than the final budget by 2% for the following reasons:

- Property tax revenue collections were 1% higher than budget primarily due to a conservative estimate for this revenue in a declining economy.
- Other tax revenue collections were 3% higher than budget primarily due to conservative estimates for transient occupancy tax, sales tax, and utility users' tax in a declining economy.
- Licenses and Permits were 9% higher than budget and service charges were 2% higher than budget as a result of increased building activity.
- Miscellaneous revenue was 24% higher than budget as a result of donations recorded for the Hermosa Beach Surfers' Memorial Statue project.

The final amended budget for appropriations other than Transfers Out is less than the original budget by slightly more than 2%.

Actual expenditures were less than the final appropriations by \$1,224,000 (5%). The largest variances can be summarized as follows:

- General Government expenditures were less than budget by \$156,000 because of the delays associated with implementing a new parking citation and parking permit software system, the delay of the affordable housing project completion, and the vacancy of an account clerk in the Finance Cashier division.
- Public Safety expenditures were less than budget by \$640,000 primarily due to the early retirement of three paramedics, a police captain, and three non-sworn employees in the Police Department.
- Less coverage by an independent contractor of the Senior Building Inspector vacancy was the main factor for Community Development expenditures being under budget by \$50,000.
- Expenditures in the Capital Outlay category were less than budgeted by \$349,000 due to the delay of the start of several capital improvement projects scheduled for fiscal year 2010-11.

Capital Asset and Debt Administration

Capital assets. The City of Hermosa Beach's investment in capital assets for its governmental and business type activities as of June 30, 2011, is \$66,692,000 (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 increase in the City of Hermosa Beach's investment in capital assets for the 2010-11 fiscal year was less than 1% (a .17% increase for governmental activities and a .72% increase for business-type activities) due to the purchase of pay-by-space parking meters in the downtown area and the continued freeze on vehicle replacement because of economic conditions.

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

Governmental Activities

- A major renovation of the City's main arterial street was begun in January 2010 with completion in September 2011. Electric vehicle charging stations and pay-by-space meters are anticipated to be installed sometime in 2011-12.
- Construction in progress on Beach Restroom Rehabilitation was \$296,000 at the end of the fiscal year.
- Construction on the Hermosa Beach Surfer's Memorial statue to be located at the Community Center was begun in 2010-11. The project is fully funded by donations and expected to be completed in 2011-12. Construction in progress at year end for this project was \$40,000.

Business type Activities

- Pay-by-space parking meters were purchased and installed in the downtown area parking lots and the North Pier Parking Structure. These meters allow payment for parking fees by credit or debit card as well as coin and cash keys.

Additional information on the City of Hermosa Beach's capital assets can be found in Note 6 on pages 62-64 of this report.

Economic Factors and Next Year's Budgets and Rates

- Secured property tax, which is the tax on real property such as homes, comprises 33% of General Fund revenue. Revenue grew by 2% in 2010-11 and was projected to grow 1% for 2011-12. Beach cities generally are very fortunate to have positive growth, unlike other areas in California.
- Sales tax revenue increased 5% but is still 18% lower than our highest year of 2000-01. The highest sales tax producing category, Eating and Drinking Places, represents 45% of revenue and grew by 2%.
- City retirement rates increased .17 points for 2010-11. Rates are projected to increase 11 points for 2011-12 due to amortization of PERS investment losses. A snapshot of CalPERS investment earnings is as follows:

2001	-	(7.2)%	2007	-	19.1%
2002	-	(5.9)%	2008	-	(2.5)%
2003	-	3.9%	2009	-	(23.4)%
2004	-	16.7%	2010	-	11.6%
2005	-	12.7%	2011	-	20.9%
2006	-	12.3%			

Historically, CalPERS investment earnings have funded 64% of pension costs. The City has set aside its own Retirement Stabilization funds for use in times of high retirement rates and has used these funds to offset rate increases. The City also negotiated with all bargaining groups to implement a second tier for future employees' retirement benefits due to the high rates for the current plans. Second tier rates are about 1/2 of the tier one rate for fire and miscellaneous employees and about 2/3 lower for police employees.

- Significant expenditures from the Insurance Fund continue for the ongoing MacPherson Oil lawsuit. See the Notes to the Financial Statements for a complete history of this lawsuit.
- Proposition 22, passed by voters in November 2010, protects local government funds by preventing the state from borrowing property tax, motor vehicle fuel tax, Proposition 42 sales tax on gasoline and the public transportation account. The latest raid on local government funds was in the redevelopment area. Since Hermosa Beach does not have a redevelopment agency, we were not affected. The State of California's structural deficit, which grew recently with the announcement of overly optimistic revenue projections, continues to be a source of concern for local government.
- A balanced budget was adopted for 2011-12 with seventeen (17) fewer positions, including two department heads, than the prior year. Savings in contract services were achieved by rebidding several large contracts. As mentioned above, a two tier retirement system was also implemented for future employees in all bargaining groups. The City Council also requested a report outlining potential reductions of 10%, which was presented in October 2011. Three items were approved by the City Council: negotiate personnel cost reductions with the seven bargaining groups; offer a second round of two year retirement service credit incentives; update the feasibility of issuing pension obligation bonds to pay off retirement side funds. The savings resulting from these items along with additional revenue generated by a successful ballot measure to increase business license fees and the update of user fees will have a positive effect on the budget results for 2011-12.
- Hermosa Beach has no debt and therefore has no adverse affects in this area.

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.

BASIC FINANCIAL STATEMENTS

This page intentionally left blank.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

This page intentionally left blank.

City of Hermosa Beach
Statement of Net Assets
June 30, 2011

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Current assets:			
Cash and investments	24,602,615	\$ 522,651	\$ 25,125,266
Property taxes receivable, net	459,895	-	459,895
Reimbursable grants receivable	346,541	-	346,541
Interest receivable on investments	25,835	1,530	27,365
Other accounts receivable	1,632,180	13,348	1,645,528
Internal balances	1,023,760	(1,023,760)	-
Deposits	165,000	-	165,000
Other assets	216,331	-	216,331
Total current assets	28,472,157	(486,231)	27,985,926
Noncurrent assets:			
Capital assets:			
Non-depreciable	18,143,048	5,188,092	23,331,140
Depreciable, net	38,550,451	4,810,577	43,361,028
Total capital assets, net	56,693,499	9,998,669	66,692,168
Total noncurrent assets	56,693,499	9,998,669	66,692,168
Total assets	85,165,656	9,512,438	94,678,094
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	1,435,969	302,452	1,738,421
Accrued wages and benefits payable	1,955,255	12,456	1,967,711
Refundable deposits	310,101	37,610	347,711
Unearned revenue	694,945	-	694,945
Workers' compensation claims payable - due within one year	757,624	-	757,624
General liability claims payable - due within one year	533,952	-	533,952
Compensated absences - due within one year	531,227	-	531,227
Total current liabilities	6,219,073	352,518	6,571,591
Noncurrent liabilities:			
Workers' compensation claims payable	4,784,611	-	4,784,611
General liability claims payable	906,436	-	906,436
Compensated absences	471,211	-	471,211
Total noncurrent liabilities	6,162,258	-	6,162,258
Total liabilities	12,381,331	352,518	12,733,849
NET ASSETS			
Invested in capital assets	56,693,499	9,998,669	66,692,168
Restricted for:			
Street and sewer purposes	668,903	-	668,903
Transportation purposes	488,340	-	488,340
Public safety	551,897	-	551,897
Other purposes	259,135	-	259,135
Total restricted assets	1,968,275	-	1,968,275
Unrestricted	14,122,551	(838,749)	13,283,802
Total net assets	72,784,325	\$ 9,159,920	\$ 81,944,245

See accompanying Notes to Basic Financial Statements.

City of Hermosa Beach
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Total Program Revenues
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
Legislative and legal	\$ 972,979	\$ -	\$ -	\$ -	\$ -
General government	3,102,761	546,793	24,430	-	571,223
Public safety	17,698,263	4,646,663	153,566	16,497	4,816,726
Community development	1,223,581	797,248	6,453	-	803,701
Culture and recreation	1,133,467	975,469	1,945	-	977,414
Public works	6,725,147	1,025,008	514,297	886,009	2,425,314
Total governmental activities	30,856,198	7,991,181	700,691	902,506	9,594,378
Business-type activities:					
Downtown enhancement	878,021	1,409,952	-	-	1,409,952
Total business-type activities	878,021	1,409,952	-	-	1,409,952
Total primary government	\$ 31,734,219	\$ 9,401,133	\$ 700,691	\$ 902,506	\$ 11,004,330

General Revenues:

Taxes:

- Property taxes
- Sale taxes
- Real property transfer tax
- Franchise fees
- Transient occupancy tax
- Business license
- Utility users tax
- ½ cent sales tax for public safety
- Total taxes

Grants and contributions not restricted to specific programs

- Investment earnings
- Gain on sale of assets
- Miscellaneous

Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning of year

Net assets - end of year

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (972,979)	\$ -	\$ (972,979)
(2,531,538)	-	(2,531,538)
(12,881,537)	-	(12,881,537)
(419,880)	-	(419,880)
(156,053)	-	(156,053)
(4,299,833)	-	(4,299,833)
(21,261,820)	-	(21,261,820)
-	531,931	531,931
-	531,931	531,931
(21,261,820)	531,931	(20,729,889)
11,518,645	-	11,518,645
2,209,559	-	2,209,559
178,912	-	178,912
698,622	-	698,622
1,689,356	-	1,689,356
807,755	-	807,755
2,520,720	-	2,520,720
165,627	-	165,627
19,789,196	-	19,789,196
1,666,460	-	1,666,460
91,910	4,679	96,589
18,596	-	18,596
334,127	30,613	364,740
259,513	(259,513)	-
22,159,802	(224,221)	21,935,581
897,982	307,710	1,205,692
71,886,343	8,852,210	80,738,553
\$ 72,784,325	\$ 9,159,920	\$ 81,944,245

This page intentionally left blank.

FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements

Proprietary Fund Financial Statements

Fiduciary Fund Financial Statements

This page intentionally left blank.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

This page intentionally left blank.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Governmental Funds of the City are outlined below:

The General Fund - This 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.

Other Governmental Funds - Other Governmental Funds is the aggregate of all the non-major governmental funds.

City of Hermosa Beach
Balance Sheet
Governmental Funds
June 30, 2011

	Major Fund	Other Governmental	
	General	Funds	Total
ASSETS			
Cash and investments	\$ 7,110,258	\$ 4,216,880	\$ 11,327,138
Property taxes receivable, net	445,197	14,698	459,895
Reimbursable grants receivable	-	346,541	346,541
Interest receivable on investments	16,495	9,340	25,835
Other accounts receivable	1,511,403	118,099	1,629,502
Other assets	109,495	-	109,495
Due from other funds	-	234,877	234,877
Advances to other funds	172,587	-	172,587
Total assets	\$ 9,365,435	\$ 4,940,435	\$ 14,305,870
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 653,185	\$ 421,575	\$ 1,074,760
Accrued wages and benefits payable	1,868,445	52,788	1,921,233
Refundable deposits	310,101	-	310,101
Deferred revenue	680,247	14,698	694,945
Due to other funds	-	234,877	234,877
Total liabilities	3,511,978	723,938	4,235,916
Fund Balances:			
Non-Spendable	35,613	-	35,613
Restricted	172,021	4,216,497	4,388,518
Committed	10,592	-	10,592
Assigned	5,635,231	-	5,635,231
Total fund balances	5,853,457	4,216,497	10,069,954
Total liabilities and fund balances	\$ 9,365,435	\$ 4,940,435	\$ 14,305,870

City of Hermosa Beach
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2011

Total Fund Balances - Total Governmental Funds \$ 10,069,954

Amounts reported for governmental activities in the Statement of Net Assets were reported differently because:

	Governmental- Wide Statement of Net Assets	Internal Service Funds	
Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet.			
Non-depreciable	\$ 18,143,048	\$ (359,018)	17,784,030
Depreciable, net	38,550,451	(1,670,472)	36,879,979
Total capital assets	\$ 56,693,499	\$ (2,029,490)	54,664,009

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 governmental activities in the Government-Wide Statement of Net Assets.

Insurance Fund	3,334,761
Equipment Replacement Fund	5,718,039
Total internal service funds	9,052,800

Compensated absences were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet. (1,002,438)

Net Assets of Governmental Activities \$ 72,784,325

City of Hermosa Beach
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2011

	Major Fund	Other	
	General	Governmental Funds	Total
REVENUES:			
Property taxes	\$ 11,518,645	\$ 459,971	\$ 11,978,616
Other taxes	8,270,551	752,808	9,023,359
Licenses and permits	627,056	-	627,056
Fines and forfeitures	2,129,045	90,007	2,219,052
Use of money and property	340,852	312,900	653,752
Intergovernmental	175,728	1,503,252	1,678,980
Charges for services	3,864,207	141,213	4,005,420
Miscellaneous	217,942	320,156	538,098
Interest earned on investments	52,725	39,188	91,913
Total revenues	27,196,751	3,619,495	30,816,246
EXPENDITURES:			
Current:			
Legislative and legal	960,365	-	960,365
General government	2,024,169	977,737	3,001,906
Public safety	16,336,764	180,128	16,516,892
Community development	1,161,390	28,603	1,189,993
Culture and recreation	1,010,432	33,699	1,044,131
Public works	2,773,108	1,134,813	3,907,921
Capital outlay	55,405	2,989,292	3,044,697
Total expenditures	24,321,633	5,344,272	29,665,905
REVENUES OVER (UNDER) EXPENDITURES	2,875,118	(1,724,777)	1,150,341
OTHER FINANCING SOURCES (USES):			
Transfers in	1,255,842	983,354	2,239,196
Transfers out	(3,518,832)	(526,820)	(4,045,652)
Total other financing sources (uses)	(2,262,990)	456,534	(1,806,456)
Net change in fund balances	612,128	(1,268,243)	(656,115)
FUND BALANCES:			
Beginning of year	5,241,329	5,484,740	10,726,069
End of year	\$ 5,853,457	\$ 4,216,497	\$ 10,069,954

See accompanying Notes to Basic Financial Statements.

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 and Changes in Net Assets For the year ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds	\$ (656,115)
---	---------------------

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 and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.

Total capital outlay expenditures reported in governmental funds	3,044,697
Less repair and maintenance expenditures	(247,179)
Total	<u>2,797,518</u>

Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in governmental funds except for the Internal Service Funds amount of \$412,489, which is reported below.

Total depreciation reported in Government-Wide Statement of Activities	(2,959,698)
Less depreciation reported in Internal Service Funds	412,489
Total	<u>(2,547,209)</u>

Compensated absences were reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they did not require the use of current financial resources. Therefore, compensated absences were not reported as expenditures in governmental funds.

186,606

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 with Governmental Activities.

1,117,182

Change in Net Assets of Governmental Activities	\$ 897,982
--	-------------------

This page intentionally left blank.

PROPRIETARY FUND FINANCIAL STATEMENTS

This page intentionally left blank.

PROPRIETARY FUND FINANCIAL STATEMENTS

Downtown Enhancement Fund - All parking lot revenues are deposited to the Downtown Enhancement Fund in order to promote business in general and improve the appearance of the downtown area.

City of Hermosa Beach
Statement of Net Assets
Proprietary Funds
June 30, 2011

	Major Enterprise Fund Downtown Enhancement	Governmental Activities Internal Service Funds
ASSETS		
Current assets:		
Cash and investments	\$ 522,651	\$ 13,275,477
Interest receivable on investments	1,530	-
Other accounts receivable	13,348	2,678
Advances to other funds	-	851,173
Deposits	-	165,000
Other assets	-	106,836
Total current assets	537,529	14,401,164
Noncurrent assets:		
Nondepreciable capital assets	5,188,092	359,018
Depreciable capital assets, net of accumulated depreciation	4,810,577	1,670,472
Total noncurrent assets	9,998,669	2,029,490
Total assets	10,536,198	16,430,654
LIABILITIES		
Current liabilities:		
Accounts payable	302,452	361,209
Accrued wages and benefits payable	12,456	34,022
Refundable deposit	37,610	-
Advances from other funds	1,023,760	-
Current portion of long-term liabilities	-	1,291,576
Total current liabilities	1,376,278	1,686,807
Long-term liabilities:		
Workers' compensation claims payable	-	5,542,235
General liability claims payable	-	1,440,388
Less current portion above	-	(1,291,576)
Total long-term liabilities	-	5,691,047
Total liabilities	1,376,278	7,377,854
NET ASSETS		
Investment in capital assets	9,998,669	2,029,490
Unrestricted	(838,749)	7,023,310
Total net assets	\$ 9,159,920	\$ 9,052,800

See accompanying Notes to Basic Financial Statements

City of Hermosa Beach
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the year ended June 30, 2011

	Major Enterprise Fund Downtown Enhancement	Governmental Activities Internal Service Funds
OPERATING REVENUES:		
Lease revenues	\$ 257,217	\$ -
Charges for services	1,152,735	3,905,312
Miscellaneous revenue	30,613	656,825
Total operating revenues	1,440,565	4,562,137
OPERATING EXPENSES:		
Salaries and wages	58,727	265,094
Contractor services	347,639	1,417,881
Reimbursement agreement with Los Angeles County	280,941	-
Supplies	60,355	334,745
Claims expense	-	3,102,311
Depreciation	130,359	412,489
Total operating expenses	878,021	5,532,520
OPERATING INCOME (LOSS)	562,544	(970,383)
NONOPERATING REVENUES (EXPENSES):		
Interest earned on investments	4,679	-
Gain on disposal of capital assets	-	18,596
Total nonoperating revenues (expenses)	4,679	18,596
INCOME (LOSS) BEFORE CONTRIBUTION AND TRANSFERS	567,223	(951,787)
Contribution	-	3,000
Transfers in	202,167	2,268,136
Transfers out	(461,680)	(202,167)
Total contribution and transfers	(259,513)	2,068,969
Change in net assets	307,710	1,117,182
NET ASSETS:		
Beginning of the year	8,852,210	7,935,618
End of the year	\$ 9,159,920	\$ 9,052,800

See accompanying Notes to Basic Financial Statements.

City of Hermosa Beach
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2011

	Major Enterprise Fund Downtown Enhancement	Governmental Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 1,432,709	\$ -
Cash received for services from other funds	-	3,955,438
Cash payments to suppliers for goods and services	(626,356)	(1,545,173)
Cash payments to employees for services	(59,026)	(258,555)
Insurance premiums and settlements	-	(806,960)
Net cash provided by (used for) operating activities	747,327	1,344,750
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Contribution	-	3,000
Transfers in	202,167	2,268,136
Transfers out	(461,680)	(202,167)
Net cash provided by (used for) noncapital financing activities	(259,513)	2,068,969
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Repayment of advances from other funds	(194,685)	-
Cash receipts from advances to other funds	-	129,790
Acquisition of capital assets	(202,167)	(294,367)
Proceed from sale of capital assets	-	56,872
Net cash provided by (used for) capital and related financing activities	(396,852)	(107,705)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest receivable on investments	4,938	-
Net cash provided by (used for) investing activities	4,938	-
Net increase (decrease) in cash and cash equivalents	95,900	3,306,014
CASH AND CASH EQUIVALENTS:		
Beginning of year	426,751	9,969,463
End of year	\$ 522,651	\$ 13,275,477
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Operating income (loss)	\$ 562,544	\$ (970,383)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	130,359	412,489
Changes in operating assets and liabilities:		
Other accounts receivable	326	45,126
Deposits	10,598	(25,000)
Other assets		(5,848)
Accounts payable	62,579	238,301
Accrued wages	(299)	6,539
Unearned revenue	(18,780)	-
Worker's compensation claims payable	-	1,324,788
General liability claims payable	-	318,738
Total adjustments	184,783	2,315,133
Net cash provided by (used for) operating activities	\$ 747,327	\$ 1,344,750

See accompanying Notes to Basic Financial Statements.

FIDUCIARY FUND FINANCIAL STATEMENTS

This page intentionally left blank.

FIDUCIARY FUND FINANCIAL STATEMENTS

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.

City of Hermosa Beach
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	<u>Agency Funds</u>
ASSETS	
Cash and investments	\$ 489,194
Interest receivable	1,025
Other accounts receivable	<u>17,680</u>
Total assets	<u>\$ 507,899</u>
LIABILITIES	
Assessment:	
Installment account	\$ 490,858
Reserve requirement	<u>17,041</u>
Total liabilities	<u>\$ 507,899</u>
NET ASSETS	

See accompanying Notes to Basic Financial Statements.

City of Hermosa Beach
Index to Notes to Basic Financial Statements
For the year ended June 30, 2011

	<u>Page</u>
Note 1 - Summary of Significant Accounting Policies.....	45
A. Financial Reporting Entity.....	45
B. Basis of Accounting and Measurement Focus.....	46
C. Spending Policy	49
D. Cash and Investments.....	49
E. Property Tax Receivable	50
F. Interfund Transactions.....	50
G. Capital Assets.....	50
H. Claims Payable.....	51
I. Compensated Absences Payable.....	51
J. Unearned and Deferred Revenue.....	51
K. Net Assets	52
L. Fund Balances	52
M. Use of Estimates.....	53
Note 2 - Cash and Investments	54
Note 3 - Receivables	57
Note 4 - Lease Revenues.....	59
Note 5 - Interfund Transactions.....	60
Note 6 - Capital Assets.....	62
Note 7 - Long-Term Debt	65
Note 8 - Other Required Fund Disclosures	68
Note 9 - Risk Management	68
Note 10 - Retirement Plans	69
Note 11 - Classification of Fund Balances.....	75
Note 12 - Commitments and Contingencies.....	76
Note 13 - Macpherson Oil Project Litigation.....	76
Note 14 - Subsequent Events	78

This page intentionally left blank.

City of Hermosa Beach
Notes to Basic Financial Statements
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Hermosa Beach, California, (City) have been prepared in conformity with generally accepted accounting principles (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 more significant of the City's accounting policies are described below.

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. 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. Each blended component unit has a June 30 year-end. The following entities are reported as blended component units because the governing board is substantively the same as the primary government:

Hermosa Beach Street Lighting and Landscaping District

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

Lower Pier Avenue Assessment District

This fund is used to account for the funds of the improvement assessment district, which was created in November 1997 pursuant to Street and Highway Code Section 10000

Myrtle Underground Utility District

This fund is used to account for the funds of the utility underground assessment district, which was created in October 1999 pursuant to Street and Highway Code Section 10000.

Loma Drive Underground Utility District

This fund is used to account for the funds of the utility underground assessment district, which was created in October 1999 pursuant to Street and Highway Code Section 10000.

Bayview Drive Underground District

This fund is used to account for the funds of the utility underground assessment district, which was created in February 2005 pursuant to Street and Highway Code Section 10000.

Beach Drive Assessment District

This fund is used to account for the funds of the utility underground assessment district, which was created in July 2004 pursuant to Street and Highway Code Section 10000.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

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 in 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 purpose for which they are to be spent and the means by which spending activities are controlled.

Government - Wide Financial Statements

The City Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental and Business-Type Activities for the City, the primary government, accompanied by a total column. Fiduciary activities of the City are not included in these statements.

The basic 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 Assets. The Statement of Activities presents changes in net assets. 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. The types of transactions reported as program revenues for the City are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) 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 Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated because their expenses are reported a second time as expenditures/expenses in the funds that are billed for the goods or services they provide. However, transactions between governmental and business-type activities have not been eliminated. The following interfund activities, if applicable, have been eliminated:

- Due to/from other funds - short-term loans within the primary government
- Advances to/from other funds - long-term loans within the primary government
- Transfers in/out - flows of assets between funds without the requirement for repayment

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Governmental Fund Financial Statements, Continued

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the government-wide financial statements. The City has presented all major funds that met those qualifications. The City reports the following major governmental fund:

General Fund. This 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.

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 net current assets. 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.

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 tax, sales tax, intergovernmental revenues and other taxes. The exception to that rule is sales tax. Beginning in 2004-05, the State took sales tax revenue (Sales Tax In Lieu) from cities and counties, in order to use the source of funds as a guarantee for state issued debt to finance budget deficits. Sales tax is received on a monthly basis. Funds will be repaid according to the property tax schedule, with the bulk of payments occurring only twice a year. As such, the City has adopted an accrual policy of 7 months for recording this revenue. The revenue was earned by June 30, however the payment will not be received until January of the following fiscal year. This amount is reported as assigned fund balance to reflect that these funds are not available for appropriation. 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.

Deferred revenues arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures, or when lease payments, recreation class registrations or facility rentals are received in advance. In subsequent periods when the government has a legal claim to the resources, the deferred revenue is removed from the balance sheet and revenue is recognized.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Governmental Fund Financial Statements, Continued

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34 and is located after the governmental fund balance sheet in the fund financial statements.

Proprietary Fund Financial Statements

Two types of funds are classified as proprietary funds: enterprise funds and internal service funds. Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows for each major proprietary fund. A separate column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the Government-Wide Financial Statements.

The City reports the following major enterprise fund:

Downtown Enhancement Fund. This fund accounts for downtown parking lot and parking structure operations and expenses related to the promotion of business in general.

The internal service funds are used to account for fleet services, information technology services and risk management services provided to other departments on a cost-reimbursement basis.

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 non-current) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets. 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. In these funds, receivables have been recorded as revenue and provisions have been made for uncollectible amounts if applicable.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses, if applicable.

Fiduciary Fund Financial Statements

Fiduciary Fund Financial Statements include a Statement of Net Assets. 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. Fiduciary fund types are accounted for according to the nature of the fund. Funds held as fiduciary funds 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.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Spending Policy

Government - Wide Financial Statements

When both restricted and unrestricted net assets are available for an expense item, the City's policy is to apply restricted net assets first.

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
- Unassigned

D. Cash and Investments

The City pools cash resources of its various funds to facilitate cash management. Cash in excess of current requirements is invested and reported as investments. It is the City's intent to hold investments until maturity. However, the City may, in response to market conditions, sell investments prior to maturity in order to improve the quality, liquidity or yield of the portfolio. Interest earnings are apportioned among funds based on ending accounting period cash and investment balances.

The City's cash and cash equivalent are comprised of cash on hand, demand deposits, and highly liquid investments with original maturities of three months or less at the time of acquisition.

Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The City participates in the Local Agency Investment Fund (LAIF), an investment pool managed by the State of California. LAIF has invested a portion of the pool funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as a result of changes in interest rates.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Property Tax 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 (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 either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans)." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

G. Capital Assets

Capital assets, which include land, buildings, improvements, equipment, furniture, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities in the Government-Wide Financial Statements. Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Donated capital assets are valued at their estimated fair value on the date donated. City policy has set the capitalization threshold for reporting capital assets at \$5,000 and infrastructure at \$100,000. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

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

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.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

G. Capital Assets, Continued

Interest accrued during capital assets construction, if any, is capitalized for the business-type and proprietary funds as part of the asset cost.

For all infrastructure systems, the City elected to use the Basic Approach as defined by GASB Statement No. 34 for infrastructure reporting. Under the Basic Approach, the City reports depreciation in connection with infrastructure systems. The City commissioned an appraisal of City owned infrastructure and property as of June 30, 2003. This appraisal determined the original cost, which is defined as the actual cost to acquire new property in accordance with market prices at the time of first construction/acquisition. Original costs were developed in one of three ways: (1) historical records; (2) standard unit costs appropriate for the construction/acquisition date; or (3) present cost indexed by a reciprocal factor of the price increase from the construction/acquisition date to the current date. The accumulated depreciation, defined as the total depreciation from the date of construction/acquisition to the current date on a straight line, unrecovered cost method was computed using industry-accepted life expectancies for each infrastructure subsystem. The book value was then computed by deducting the accumulated depreciation from the original cost.

H. 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.

I. 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.

J. Unearned and Deferred Revenue

In the Government-Wide Financial Statements, unearned revenue is recognized 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 and facility rentals paid in advance.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

J. Unearned and Deferred Revenue, Continued

In the Fund Financial Statements, deferred revenue is recorded when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. The City records deferred revenue for transactions for which revenues have not been earned, or for which funds are not available to meet current financial obligations. Typical transactions for which deferred revenue is recorded are lease payments, quarterly encroachment fees and advance registration for recreation classes which were not yet earned or available.

K. Net Assets

Government-Wide Financial Statements

In the government-wide financial statements, net assets are reported in one of three categories:

Invested in Capital Assets - This amount consists of capital assets net of accumulated depreciation.

Restricted Net Assets - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets - This amount represents remaining net assets that do not meet the definition of "invested in capital assets" or "restricted net assets."

L. Fund Balances

In the Governmental Fund Financial Statements, fund balances are reported in classifications based on the extent to which the City is bound by constraints on specific purpose for which those funds can be spent as required by Governmental Accounting Standards Board (GASB) Statement 54 implemented in fiscal year 2011. The classifications are reported as follows in order of hierarchy:

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 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 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 approval is required to commit resources or to rescind the commitment.

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.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

L. Fund Balances, Continued

Unassigned fund balances represent the residual net resources in excess of the other classifications. The General Fund is the only fund that can report a positive unassigned fund balance, but any governmental fund can report a negative unassigned fund balance.

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 assets for 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 15% 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. For 2010-11, the City Council determined that all unspent funds in the General Fund (\$1,188,835) would be transferred to the Insurance Fund to fund insurance liabilities and costs of the ongoing MacPherson Oil lawsuit which is discussed in detail in the Notes to the Financial Statements. The City Council makes changes as necessary to the year end transfer, depending on the equity in the funds or based on other needs.

M. Use of Estimates

The preparation of the basic financial statements in conformity with accounting principals generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses. Actual results could differ from these estimates and assumptions.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

2. CASH AND INVESTMENTS

The City maintains a cash and investment pool which includes cash balances and authorized investments of all funds. This pooled cash is invested by the City Treasurer to enhance earnings. The pooled interest earned is allocated to the fund based on cash and investment balances in these funds at the end of each accounting period. The City had the following cash and investments at June 30, 2011:

	Government-Wide Statement of Net Assets			Fiduciary Funds	
	Governmental	Business-type	Total	Statement of	Total
	activities	activities		Net Assets	
Cash and investments	<u>\$ 24,602,615</u>	<u>\$ 522,651</u>	<u>\$ 25,125,266</u>	<u>\$ 489,194</u>	<u>\$ 25,614,460</u>

The City's cash and investments at June 30 in more detail:

	<u>Fair value</u>
City Treasury	
<i>Cash deposits</i>	
Demand accounts	\$ 982,968
<i>Petty cash</i>	1,900
<i>Investments</i>	
Local Agency Investment Fund	24,123,887
Corporate notes	505,705
Total investments	<u>24,629,592</u>
Total cash and investments	<u>\$ 25,614,460</u>

A. Cash Deposits

The carrying amounts of the City's cash deposits were \$982,968 at June 30, 2011. Bank balances at June 30, 2011, were \$1,250,229 which were fully insured or collateralized with securities 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. The law 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. The City, however, has not waived the collateralization requirements.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

2. CASH AND INVESTMENTS, Continued

A. Cash Deposits, Continued

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 from cash and investments with fiscal agents is credited directly to the related fund. 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. Interest is not allocated to the Compensated Absences Fund, funds created to advance costs for utility undergrounding districts, reimbursable grant funds or internal service funds.

B. Investments

The City's investment policy is more restrictive than the State's, by design. Under the provisions of the City's investment policy, and in accordance with California Government Code, the investments below are authorized.

- US Treasury Bills and US Treasury Notes
- US Government Sponsored Enterprise Securities
- Banker's Acceptances
- Time Certificates of Deposits
- Negotiable Certificates of Deposit
- California Local Agency Investment Fund
- Corporate Medium-Term Notes
- Los Angeles County Pooled Investment Fund

The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year-end with the effects of these adjustments included in income for that fiscal year. Changes in value for the fiscal year ended June 30, 2011, amounted to an unrealized decrease of \$3,016.

The City's investments with the Local Agency Investment Fund (LAIF), the State of California's investment pool, at June 30, 2011, included a portion of the pooled funds invested in Structured Notes and Asset-Backed Securities. These investments included the following:

Structured Notes, which are 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, the bulk of which are mortgage-backed securities, and which 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, such as collateralized mortgage obligations (CMO's), or credit card receivables.

As of June 30, 2011, the City had \$24,123,887 invested in LAIF. 5.01% of pool investment funds were invested in Structured Notes and Asset-Backed Securities.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

2. CASH AND INVESTMENTS, Continued

C. 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, 2011, the City had the following investment maturities:

Investment Type	Fair value	Investment maturities (in years)	
		Less than 1	1 to 2
General Electric Capital Corporate Notes	\$ 505,705	\$ -	\$ 505,705
Local Agency Investment Fund	24,123,887	24,123,887	-
Total	\$ 24,629,592	\$ 24,123,887	\$ 505,705

Custodial Risk - For deposits, custodial credit risk is the risk that, in the event of the failure of a deposit financial institution, a government 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. The City's investment policy requires that all securities purchased from brokers/dealers shall be held in third party safekeeping. All Treasury bills and most other Treasury securities are "book entry" securities that are held at the Federal Reserve Union Bank of California. Collateral for time deposits in banks, savings and loans are held by the Federal Home Loan Bank or an approved agency of depository of the financial institution. The City's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the provision for deposits stated in Note 2A. \$1,000,229 of the City's deposits with financial institutions in excess of federal depository insurance limits was held in collateralized accounts.

Credit Risk - The City's investment policy recognizes the risk of potential loss of principal, interest or a combination of these amounts on investments. As such, the policy allows for investments only in instruments that are considered very safe. The City's investments are rated by the nationally recognized statistical rating organizations as follows:

	Moody's	Standard & Poor's
Corporate Notes		
General Electric Capital Corporate Notes	Aa2	AA+
External Pool		
State of California - Local Agency Investment Fund	Not Rated	Not Rated

Concentration of credit risk - The City's investment policy does not allow for investments in Time Certificates of Deposits and Negotiable Certificates of Deposits in any one institution that is in excess of 5% of the government's total portfolio. The City's investment policy also does not allow more than 5% of the City's surplus fund be invested in the Banker's Acceptance of any one commercial bank. The City is in compliance with the investment policy related to the concentration of credit risk for the year ended June 30, 2011.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

3. RECEIVABLES

Government-Wide Financial Statements

At June 30, 2011, the Government-Wide Financial Statements show the following miscellaneous receivables net of allowances for uncollectible amounts, if any:

	Government-Wide		Fiduciary Funds	Total
	Statement of Net Assets			
	Governmental activities	Business-type activities		
Accounts	\$ 1,632,180	\$ 13,348	\$ 17,680	\$ 1,663,208
Taxes	459,895	-	-	459,895
Interest	25,835	1,530	1,025	28,390
Grants	346,541	-	-	346,541
Total	\$ 2,464,451	\$ 14,878	\$ 18,705	\$ 2,498,034

Fund Financial Statements

At June 30, 2011, the Fund Financial Statements show the following receivables:

A. Accounts Receivable

Accounts receivable consisted of amounts accrued in the ordinary course of operations. The total amount of accounts receivable for each major and non-major fund in the aggregate as of June 30, 2011, were as follows:

<i>Governmental funds:</i>	
General Fund	\$ 1,511,403
Non-major Funds	118,099
<i>Internal Service funds</i>	2,678
Total governmental funds	1,632,180
<i>Enterprise fund:</i>	
Downtown Enhancement Fund	13,348
Total Enterprise fund	13,348
Total	1,645,528
<i>Agency funds</i>	17,680
Total account receivable	\$ 1,663,208

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

3. RECEIVABLES, Continued

B. Taxes Receivable

At June 30, 2011, the City had property taxes receivable, net of allowance for delinquent property taxes receivables, in the following major funds and non-major funds in the aggregate:

	Property taxes	Allowance for delinquent tax receivables	Property taxes, net of allowance
<i>Governmental Funds:</i>			
General Fund	\$ 1,461,499	\$ (1,016,302)	\$ 445,197
Non-major funds	23,285	(8,587)	14,698
Total	\$ 1,484,784	\$ (1,024,889)	\$ 459,895

C. Interest Receivable

Interest receivable consists of interest from investments pooled by the City, which is distributed among the funds according to their cash balances at the end of the accounting period, and interest receivable on restricted investments held by the fiscal agents, which are recorded in the funds holding the investment. The interest receivable as of June 30, 2011, was as follows:

	City pooled investments
<i>Governmental funds:</i>	
General Fund	\$ 16,495
Non-major Funds	9,340
Total governmental funds	25,835
<i>Enterprise fund:</i>	
Downtown Enhancement Fund	1,530
Total Enterprise fund	1,530
Total	27,365
<i>Agency funds</i>	
	1,025
Total interest receivable	\$ 28,390

D. Reimbursable Grants Receivable

Grants receivable consists of a variety of reimbursable grants from other agencies. The total amount of reimbursable grants for each major and non-major funds in the aggregate as of June 30, 2011 were as follows:

<i>Governmental Funds:</i>	
Non-major funds	\$ 346,541
Total governmental funds	\$ 346,541

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

4. LEASE REVENUES

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 Downtown Enhancement Fund and Prop A Open Space funding contributed by the Los Angeles County Department of Beaches and Harbors. 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 to the County for fiscal year 2010-2011 is \$280,941.

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. The next increase is due in January 2016.

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, 2014. The City receives a monthly lease payment in the amount of \$2,574.

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, however the lease was extended for 3 years beginning February 1, 2009. The monthly lease payment increases in February of each year based on the consumer price index up to a maximum of 3% per year. The City receives a monthly lease payment in the amount of \$16,374.

The City leases a portion of the Hermosa Beach Community Center to nonprofit and cultural organizations. The leases are renegotiated annually.

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,		
2012	\$	198,830
2013		68,033
2014		54,935
2015		35,816
2016		35,816
2017-2021		179,082
2022-2026		179,082
2027-2031		179,082
2032-2036		179,082
2037-2041		179,082
2042-2046		179,082
2047-2051		161,174
Total	\$	1,629,096

Lease revenue for fiscal year 2011 was \$314,649 with \$57,432 reflected in the General Fund and \$257,217 in the Downtown Enhancement Fund, an enterprise fund.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

5. INTERFUND TRANSACTIONS

Due To/From Other Funds

The composition of due to/from other funds at June 30, 2011 is as follows:

	Due to other funds	
		Due to other funds
		Non-major Governmental Funds
Due from other funds	Non-major governmental Funds	\$ 234,877
	Total	\$ 234,877

The balance of \$234,877 in non-major governmental funds resulted from the time lag between the dates that reimbursable expenditures occur and payments are received from other agencies. All balances are scheduled to be collected in the subsequent year.

Advances From/To Other Funds

At June 30, 2011, the composition of advances to other funds is as follows:

		Advances from other funds
		Downtown Enhancement Fund
Advances to other funds	General Fund	\$ 172,587
	Internal Service Funds	851,173
	Total	\$ 1,023,760

The balance of \$172,587 and \$851,173 from the General Fund and Internal Service funds, respectively, to the Downtown Enhancement Fund, represents the balance owed to these funds for the purchase of real property. The advances will be repaid from lease proceeds from a storage facility located on the property and unrestricted net assets available at year end.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

5. INTERFUND TRANSACTIONS, Continued

Transfers

At June 30, 2011, the City had the following transfers:

		Transfers out				Total
		Non-major		Internal		
		General	Governmental funds	Downtown Enhancement	Service funds	
Transfers in	General Fund	\$ 267,342	\$ 526,820	\$ 461,680	\$ -	\$ 1,255,842
	Non-major					
	Governmental funds	983,354	-	-	-	983,354
	Downtown Enhancement Fund	-	-	-	202,167	202,167
	Internal Service Funds	2,268,136	-	-	-	2,268,136
Total		\$ 3,518,832	\$ 526,820	\$ 461,680	\$ 202,167	\$ 4,709,499

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 reimburse the General Fund for administration services provided to other funds.

In the year ended June 30, 2011, the following one-time transfers were made:

- The Downtown Enhancement Enterprise Fund transferred \$461,680 to the General Fund as a planned budgetary transfer of increased revenue from conversion of attended parking to pay by space meters, a rate increase in downtown lots to match meter rates and elimination of special events.
- The Equipment Replacement Internal Service Fund transferred \$202,167 to the Downtown Enhancement Enterprise Fund to provide funding for the purchase of pay by space parking meters installed in the downtown area parking lots and the parking structure.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

6. CAPITAL ASSETS

A. Government-Wide Financial Statements

At June 30, 2011, the City's capital assets consisted of the following:

	Government Activities	Business-Type Activities	Total
<i>Non-Depreciable Assets:</i>			
Land	\$ 17,552,076	\$ 5,188,092	\$ 22,740,168
Construction in progress	590,972	-	590,972
Total non-depreciable assets	<u>18,143,048</u>	<u>5,188,092</u>	<u>23,331,140</u>
<i>Depreciable Assets:</i>			
Buildings and structures	5,632,113	5,879,099	11,511,212
Improvements other than buildings	14,058,737	5,610	14,064,347
Machinery and equipment	3,614,101	19,267	3,633,368
Vehicles	3,149,276	-	3,149,276
Infrastructure	46,637,695	261,815	46,899,510
Total depreciable assets	<u>73,091,922</u>	<u>6,165,791</u>	<u>79,257,713</u>
Less accumulated depreciation for:			
Buildings and structures	(2,122,272)	(1,329,156)	(3,451,428)
Improvements other than buildings	(8,467,655)	(1,686)	(8,469,341)
Machinery and equipment	(2,488,065)	(15,426)	(2,503,491)
Vehicles	(2,170,785)	-	(2,170,785)
Infrastructure	(19,292,694)	(8,946)	(19,301,640)
Total accumulated depreciation	<u>(34,541,471)</u>	<u>(1,355,214)</u>	<u>(35,896,685)</u>
Total depreciable assets, net	<u>38,550,451</u>	<u>4,810,577</u>	<u>43,361,028</u>
Total capital assets	<u><u>\$ 56,693,499</u></u>	<u><u>\$ 9,998,669</u></u>	<u><u>\$ 66,692,168</u></u>

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

6. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

The following is a summary of capital assets for governmental activities for the year ended June 30, 2011:

	Balance July 1, 2010	Additions	Deletions/ Adjustments	Balance June 30, 2011
<i>Capital assets not being depreciated:</i>				
Land	\$ 17,552,076	\$ -	\$ -	\$ 17,552,076
Construction in progress	572,381	188,190	(169,599)	590,972
Total capital assets not being depreciated	<u>18,124,457</u>	<u>188,190</u>	<u>(169,599)</u>	<u>18,143,048</u>
<i>Capital assets being depreciated:</i>				
Buildings and structures	5,577,213	54,900	-	5,632,113
Improvements other than buildings	14,058,737		-	14,058,737
Machinery and equipment	3,318,869	349,731	(54,499)	3,614,101
Vehicles	3,274,446	87,208	(212,378)	3,149,276
Infrastructure	44,056,239	2,581,456	-	46,637,695
Total capital assets being depreciated	<u>70,285,504</u>	<u>3,073,295</u>	<u>(266,877)</u>	<u>73,091,922</u>
Less accumulated depreciation for:				
Buildings and structures	(2,012,136)	(110,136)	-	(2,122,272)
Improvements other than buildings	(7,463,934)	(1,003,721)	-	(8,467,655)
Machinery and equipment	(2,219,108)	(310,360)	41,403	(2,488,065)
Vehicles	(2,104,824)	(253,159)	187,198	(2,170,785)
Infrastructure	<u>(18,010,368)</u>	<u>(1,282,322)</u>	<u>-</u>	<u>(19,292,690)</u>
Total accumulated depreciation	<u>(31,810,370)</u>	<u>(2,959,698)</u>	<u>228,601</u>	<u>(34,541,467)</u>
Total capital assets being depreciated, net	<u>38,475,134</u>	<u>113,597</u>	<u>(38,276)</u>	<u>38,550,455</u>
Total governmental activities	<u>\$ 56,599,591</u>	<u>\$ 301,787</u>	<u>\$ (207,875)</u>	<u>\$ 56,693,503</u>

The City allocated the depreciation expenses to departments/functions of the government as follows:

General government	\$ 62,062
Public safety	146,953
Community development	7,512
Culture and recreation	51,422
Public works	996,938
Infrastructure	1,282,322
Capital assets held by the governments internal service funds are charged to the various functions based on their usage of the assets	<u>412,489</u>
Total depreciation expenses	<u>\$ 2,959,698</u>

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

6. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

The following is a summary of capital assets for business-type activities:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
<i>Capital assets not being depreciated:</i>				
Land	\$ 5,188,092	\$ -	\$ -	\$ 5,188,092
Total capital assets not being depreciated	<u>5,188,092</u>	<u>-</u>	<u>-</u>	<u>5,188,092</u>
<i>Capital assets being depreciated:</i>				
Buildings and structures	5,879,099	-	-	5,879,099
Improvements other than buildings	5,610	-	-	5,610
Machinery and equipment	19,267	-	-	19,267
Infrastructure	59,650	202,165	-	261,815
Total capital assets, being depreciated	<u>5,963,626</u>	<u>202,165</u>	<u>-</u>	<u>6,165,791</u>
Less accumulated depreciation for:				
Buildings and structures	(1,203,378)	(125,778)	-	(1,329,156)
Improvements other than buildings	(1,405)	(281)	-	(1,686)
Machinery and equipment	(14,108)	(1,318)	-	(15,426)
Infrastructure	(5,964)	(2,982)	-	(8,946)
Total accumulated depreciation	<u>(1,224,855)</u>	<u>(130,359)</u>	<u>-</u>	<u>(1,355,214)</u>
Total capital assets being depreciated, net	<u>4,738,771</u>	<u>71,806</u>	<u>-</u>	<u>4,810,577</u>
Total business-type activities	<u><u>\$ 9,926,863</u></u>	<u><u>\$ 71,806</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 9,998,669</u></u>

Business-type activities depreciation expenses for capital assets for the year ended June 30, 2011 are as follows:

Downtown Enhancement	<u>\$ 130,359</u>
Total depreciation expense	<u><u>\$ 130,359</u></u>

B. Fund Financial Statements

The fund financial statements do not present general government capital assets. They are shown in the Reconciliation of the Governmental Funds Balances Sheet to the Government-Wide Statement of Net Assets located after the governmental fund balance sheet in the fund financial statements.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

7. LONG-TERM DEBT

A. Long-Term Debt with City Commitment

The following is a summary of compensated absences payable transactions for the year ended June 30, 2011:

	Balance			Balance June 30, 2011	Classification	
	July 1, 2010	Additions	Retirements		Due in one year	Due in more than one year
<i>Governmental activities:</i>						
Compensated absences	\$ 1,189,047	\$ 1,275,497	\$ (1,462,106)	\$ 1,002,438	\$ 531,227	\$ 471,211

The compensated absences payable has been accrued for the Governmental Activities on the Government-Wide Financial Statement. Typically, the General Fund (major fund), the Lighting and Landscaping District Fund, AB939 Fund and the Sewer Fund (non-major funds) have been used to liquidate the liability for compensated absences. There is no fixed payment schedule to pay these liabilities. The total amount of compensated absences payable at June 30, 2011, was \$1,002,438.

B. Long-Term Debt without City Commitment

At June 30, 2011, 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	Balance total
2012	\$ 25,000	\$ 12,512	\$ 37,512
2013	25,000	10,888	35,888
2014	25,000	9,263	34,263
2015	30,000	7,475	37,475
2016	30,000	5,525	35,525
2017-2018	70,000	4,550	74,550
Total	\$ 205,000	\$ 50,213	\$ 255,213

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

7. LONG-TERM DEBT, Continued

B. Long-Term Debt without City Commitment, Continued

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	Balance total
2012	\$ 55,000	\$ 32,573	\$ 87,573
2013	55,000	29,630	84,630
2014	60,000	26,495	86,495
2015	65,000	23,025	88,025
2016	70,000	19,210	89,210
2017-2020	300,000	35,345	335,345
Total	\$ 605,000	\$ 166,278	\$ 771,278

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	Balance total
2012	\$ 55,000	\$ 35,690	\$ 90,690
2013	60,000	32,612	92,612
2014	65,000	29,205	94,205
2015	70,000	25,458	95,458
2016	75,000	21,360	96,360
2016-2020	335,000	39,511	374,511
Total	\$ 660,000	\$ 183,836	\$ 843,836

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

7. LONG-TERM DEBT, Continued

B. Long-Term Debt without City Commitment, Continued

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	Balance total
2012	\$ 16,588	\$ 14,992	\$ 31,580
2013	17,385	14,177	31,562
2014	18,219	13,322	31,541
2015	19,094	12,427	31,521
2016	20,010	11,488	31,498
2017-2021	115,412	41,710	157,122
2022-2025	113,923	11,257	125,180
	<u>\$ 320,631</u>	<u>\$ 119,373</u>	<u>\$ 440,004</u>

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	Balance total
2012	\$ 33,342	\$ 27,009	\$ 60,351
2013	34,972	25,557	60,529
2014	36,670	24,035	60,705
2015	38,442	22,438	60,880
2016	35,288	20,871	56,159
2017-2021	206,999	79,524	286,523
2022-2026	266,455	29,429	295,884
Total	<u>\$ 652,168</u>	<u>\$ 228,863</u>	<u>\$ 881,031</u>

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

8. OTHER REQUIRED FUND DISCLOSURES

A. Deficit Fund Balances

At June 30, 2011, the following fund had deficit unrestricted net assets:

Downtown Enhancement	<u>\$ 838,749</u>
----------------------	-------------------

The deficit in this fund represents advances from the Contingency Special Revenue Fund, the Insurance Internal Service Fund and the Equipment Replacement Internal Service Fund for the purchase of property adjacent to City Hall that is used as a storage facility. The deficit will be eliminated with future revenues received from an operating lease on the facility.

B. Expenditures Exceeding Appropriations

For the year ended June 30, 2011, expenditures exceeded appropriation in the Proposition "A" Transit Special Revenue Fund in public safety function due increased usage of our taxi voucher program and community development function due to increased cost for the Commuter Express program in amounts of \$14,410 and \$495, respectively.

9. 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 \$20,000,000 per occurrence, as a member of the Independent Cities Risk Management Authority (ICRMA).

The City of Hermosa Beach 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 and the California State Association of Counties (CSAC). Together, these two joint powers authorities provide a shared limit of coverage up to a maximum of \$200 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 \$590,035 for the fiscal year 2010-2011 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.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

9. RISK MANAGEMENT, Continued

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 \$6,982,623 reported at June 30, 2011, are based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that 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. Changes in the Fund's claims liability amounts were as follows:

	Beginning of Year Liability	Claims and Changes in Estimates	Claim Payments	End of Year Liability	Amounts Due within One Year	Due in More Than One Year
<i>Workers' Compensation</i>						
2008-2009	\$ 3,611,218	\$ 921,435	\$ (800,614)	\$ 3,732,039	\$ 711,902	\$ 3,020,137
2009-2010	3,732,039	1,229,619	(744,211)	4,217,447	573,037	3,644,410
2010-2011	4,217,447	3,692,251	(2,367,463)	5,542,235	757,624	4,784,611
<i>General Liability</i>						
2008-2009	\$ 1,545,212	\$ 499,302	\$ (740,022)	\$ 1,304,492	\$ 471,313	\$ 833,179
2009-2010	1,304,492	(18,415)	(164,427)	1,121,650	407,146	714,504
2010-2011	1,121,650	1,046,533	(727,795)	1,440,388	533,952	906,436

Detailed financial information may be obtained from the ICRMA Program Administrator located at 3780 Kilroy Airport Way, Suite 870, Long Beach, California 90806.

10. RETIREMENT PLANS

A. Public Employee Retirement System

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.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

10. RETIREMENT PLANS, Continued

A. Public Employee Retirement System, Continued

Funding Policy

City employees are required by State statute to contribute 7% for miscellaneous employees and 9% for safety employees of their annual covered salary. As a negotiated benefit, the City makes the contributions required of City employees on their behalf. Those contributions amounted to \$816,085 for the year ended June 30, 2011. The City, as the employer, is required to contribute for fiscal year 2010-2011 at actuarially determined rates which are applied to annual covered payroll. The 2010-2011 rate is 14.977% for miscellaneous employees, 47.543% for police employees and 37.858% for fire employees. The contribution requirements of City employees and the City employer are established and may be amended by CalPERS.

Annual Pension Cost

For fiscal year 2010-2011, the City's annual pension cost of \$3,087,190 for CalPERS was equal to the City's required and actual contributions, of which \$757,889 is for the miscellaneous plan, \$1,587,832 for the police plan and \$741,469 for the fire plan.

Assumptions

A summary of principal assumptions and methods used to determine the ARC is as follows for the agent multiple employer plan.

Valuation Date:	June 30, 2008
Actuarial Cost Method:	Entry Age Actuarial Cost Method
Amortization Method:	Level Percent of Projected Payroll
Average Remaining Period:	16 Years
Asset Valuation Method:	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return:	7.75% (net of administrative expenses)
Projected Salary Increases:	3.25% to 14.45% depending on Age, Service, and Type of Employment
Inflation:	3.00%
Payroll Growth:	3.25%
Individual Salary Growth:	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of .25%.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

10. RETIREMENT PLANS, Continued

A. Public Employee Retirement System, Continued

Annual Pension Cost, Continued

THREE-YEAR TREND INFORMATION FOR PERS

Fiscal Year	<u>Miscellaneous Plan</u>		Net Pension Obligation
	Pension Cost (APC)	APC Contributed	
6/30/2009	\$ 819,860	100%	\$ -
6/30/2010	820,766	100%	-
6/30/2011	757,889	100%	-

Fiscal Year	<u>Police Plan</u>		Net Pension Obligation
	Annual Pension Cost (APC)	Percentage of APC Contributed	
6/30/2009	\$ 1,702,907	100%	\$ -
6/30/2010	1,642,334	100%	-
6/30/2011	1,587,832	100%	-

Fiscal Year	<u>Fire Plan</u>		Net Pension Obligation
	Annual Pension Cost (APC)	Percentage of APC Contributed	
6/30/2009	\$ 742,265	100%	\$ -
6/30/2010	841,697	100%	-
6/30/2011	741,469	100%	-

B. Other Post-Employment Benefits

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 post employment benefits for city employees in compliance with Governmental Accounting Standards Board Statement 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. 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. Contributions were forwarded on a monthly basis.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

10. RETIREMENT PLANS, Continued

B. Other Post-Employment Benefits, Continued

Plan Description. The City of Hermosa Beach (City) participates in a post retirement health care plan trust (Plan) administered by Public Agency Retirement Services (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 writing to City of Hermosa Beach, 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; Firefighters Association and Professional Engineers Employee Group.

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, 2011 were as follows:

<u>Participants</u>	<u>Total</u>
Active employees	116
Retirees	53
Total	<u>169</u>

Funding Policy. The contribution requirements for Plan members and the City are established by a Memorandum of Understanding 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 prepared in accordance with GASB statement 45. For fiscal year 2011, the City contributed \$539,468. Plan members receiving benefits contributed \$218,629 of the total premiums, as their required contributions.

Annual OPEB Cost and Net OPEB Obligation. The City’s Annual Other Postemployment Benefit (OPEB) cost (expense) is calculated based on the *Annual Required Contribution of the Employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. 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 City has elected to amortize its Unfunded Actuarial Accrued Liability (UAAL) over a period of eighteen years. The amortization method uses a level percentage of payroll to determine the annual required contribution.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

10. RETIREMENT PLANS, Continued

B. Other Post-Employment Benefits, Continued

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 Obligation to the Plan:

	<u>Total</u>
Annual required contribution	\$ 475,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	<u>64,468</u>
Annual OPEB cost (expense)	539,468
Contribution Plan:	
2011 contribution	<u>539,468</u>
Contributions made	<u>(539,468)</u>
Increase in net OPEB obligation	-
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	<u>\$ -</u>

The City's Annual OPEB cost, the percentage of Annual OPEB cost contributed to the Plan and the net OPEB obligation for years ended June 30, 2011 are as follows:

<u>Fiscal</u> <u>Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB</u> <u>Cost</u>	<u>% of Annual</u> <u>OPEB Cost</u> <u>Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>
6/30/2009	\$ 475,000	100.00%	\$ -
6/30/2010	595,482	100.00%	-
6/30/2011	539,468	100.00%	-

Funded Status and Funding Progress. In August 2007, the City made an initial contribution of \$1,401,000. As of June 30, 2008, the Actuarial Accrued Liability for benefits was \$5,830,000 and the actuarial value of assets as of June 30, 2011 was \$3,557,201, resulting in an UAAL of \$2,272,799. The funded ratio was 61 percent. The covered payroll (annual payroll of active employees covered by the Plan) was \$10,010,179, and the ratio of UAAL to the covered payroll was 30.8 percent.

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 Annual Required Contributions 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.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

10. RETIREMENT PLANS, Continued

B. Other Post-Employment Benefits, Continued

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, 2008, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions include a 7.0 percent 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 10 percent initially reduced by decrements to an ultimate rate of 5 percent thereafter. The actuarial assumption for inflation was 3 percent, and the aggregate payroll increases was 3.25 percent used in the actuarial valuation. The City plan does not provide post-retirement benefit increases.

The next actuarial valuation will take place in fiscal year 2011-2012.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

11. CLASSIFICATION OF FUND BALANCES

The City has adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions which is effective June 15, 2010*. GASB 54 establishes Fund Balance Classifications based largely upon the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The Governmental Fund Financial statements conform to this new classification.

	General Fund	Governmental Funds	Total
Nonspendable			
Cable TV Franchise Damage Deposit	\$ 16,436	\$ -	\$ 16,436
Prepaid Items	19,177	-	19,177
	<u>35,613</u>	<u>-</u>	<u>35,613</u>
Restricted			
Affordable Housing	41,831	-	41,831
General Plan Maintenance	58,407	-	58,407
Broadcasting Grant	26,783	-	26,783
Civic Theatre Donation	45,000	-	45,000
Lighting District	-	74,840	74,840
Gas Tax	-	668,903	668,903
Source Reduction/Recycling	-	233,058	233,058
Parks Projects	-	132,506	132,506
Undergrounding Districts	-	36,987	36,987
Transit	-	488,340	488,340
Clean Air Projects	-	85,648	85,648
SLESF Law Enforcement	-	264,493	264,493
Sewers and Storm Drains	-	631,905	631,905
Asset Forfeiture - drug enforcement and education	-	250,695	250,695
Fire Protection	-	36,709	36,709
Capital Improvements	-	1,303,112	1,303,112
Traffic Safety	-	9,301	9,301
	<u>172,021</u>	<u>4,216,497</u>	<u>4,388,518</u>
Committed			
Capital Outlay-Parking Facilities	9,592	-	9,592
Clark Building	1,000	-	1,000
	<u>10,592</u>	<u>-</u>	<u>10,592</u>
Assigned			
Sales Tax In-lieu	95,646	-	95,646
Reappropriations	478,036	-	478,036
Contingencies	3,794,981	-	3,794,981
Retirement rate stabilization	760,482	-	760,482
Compensated absences	297,033	-	297,033
Community Events	36,466	-	36,466
Storage Lot Loan	172,587	-	172,587
	<u>5,635,231</u>	<u>-</u>	<u>5,635,231</u>
Unassigned			
	-	-	-
Total fund balances	<u>\$ 5,853,457</u>	<u>\$ 4,216,497</u>	<u>\$ 10,069,954</u>

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

12. COMMITMENTS AND CONTINGENCIES

A. Commitments

The City had several outstanding or planned construction projects as of June 30, 2011. These projects are evidenced by contractual commitments with contractors and include:

<u>Project</u>	<u>Spent to Date</u>	<u>Commitment Remaining</u>
Infrastructure - Hermosa Beach Surfers' Memorial Statue	\$ 40,000	\$ 51,242
City Yard Renovation	255,177	300,000
Beach Restroom Rehabilitation	<u>295,795</u>	<u>1,087,693</u>
Total	<u>\$ 590,972</u>	<u>\$ 1,438,935</u>

The infrastructure project is a memorial statue that is funded entirely by donations received in the General Fund. The City Yard Renovation is funded by the Equipment Replacement Fund. The Beach Restroom Rehabilitation Project is funded by a grant recorded in the Proposition A Open Space Fund, the Tyco Fund and the Tyco Tidelands Fund.

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 non-compliance 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.

13. 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, and the oil project is now dead as a result of that decision.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

13. MACPHERSON OIL PROJECT LITIGATION, Continued

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.

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.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

13. MACPHERSON OIL PROJECT LITIGATION, Continued

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 is back on track for a jury trial. Trial is scheduled for January 18, 2012. Both discovery and trial preparation are ongoing.

The City continues to vigorously defend the case. To date, the City's effort to limit its damages liability through legislation has not succeeded, and neither have settlement negotiations. A two day mediation in June 2009 presided over by retired federal bankruptcy court judge John Ryan failed to yield a settlement. Both the cost of defense and a potential adverse judgment in this case could have a material effect on the financial picture of the City.

14. SUBSEQUENT EVENTS

Two Tier Retirement Rates

The City negotiated a second tier retirement plan for future employees in all seven bargaining groups effective 7/16/2011. Rates will be almost 50% less for Miscellaneous and Fire employees and 60% less for Police employees.

**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

City of Hermosa Beach
Required Supplementary Information (Unaudited)
For the year ended June 30, 2011

BUDGETS AND BUDGETARY ACCOUNTING

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. An example of this would be the Finance Department, which has two divisions, Finance Administration, funded by the General Fund and Finance Cashier, funded by the Parking Fund. The City Manager may approve a transfer from Finance Administration to another department within the General Fund; however, a transfer from Finance Administration to Finance Cashier would require City Council approval because the divisions are in two different funds.

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.

Following are the budget comparison schedules for the General Fund and applicable major special revenue funds for which an annual operating budget was adopted.

City of Hermosa Beach
Required Supplementary Information (Unaudited), Continued
For the year ended June 30, 2011

BUDGETS AND BUDGETARY ACCOUNTING, Continued

Budgetary Comparison Schedule - General Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Fund Balance, July 1, 2010	\$ 4,784,710	\$ 5,241,329	\$ 5,241,329	\$ -
Resources (inflows):				
Property taxes	11,050,369	11,453,361	11,518,645	65,284
Other taxes	7,771,392	8,054,230	8,270,551	216,321
Licenses and permits	650,886	575,867	627,056	51,189
Fines and forfeitures	2,170,421	2,118,127	2,129,045	10,918
Use of money and property	336,500	320,366	340,852	20,486
Intergovernmental	165,704	176,941	175,728	(1,213)
Charges for services	4,115,084	3,805,516	3,864,207	58,691
Miscellaneous	82,224	176,192	217,942	41,750
Interest earned on investments	48,477	47,625	52,725	5,100
Transfers in	810,630	1,255,841	1,255,842	1
Amount available for appropriation	31,986,397	33,225,395	33,693,922	468,527
Charges to appropriations (outflows):				
Legislative and legal	940,768	982,321	960,365	21,956
General government	2,167,651	2,180,327	2,024,169	156,158
Public safety	17,595,970	16,976,579	16,336,764	639,815
Community development	1,204,540	1,211,375	1,161,390	49,985
Culture and recreation	945,586	1,015,459	1,010,432	5,027
Public works	3,011,827	2,775,372	2,773,108	2,264
Capital outlay	300,000	404,385	55,405	348,980
Transfers out	853,569	3,518,832	3,518,832	-
Total charges to appropriations	27,019,911	29,064,650	27,840,465	1,224,185
Fund Balance, June 30, 2011	\$ 4,966,486	\$ 4,160,745	\$ 5,853,457	\$ 1,692,712

City of Hermosa Beach
Required Supplementary Information (Unaudited), Continued
For the year ended June 30, 2011

Schedule of Funding Progress for the City's OPEB Plan

<u>Date</u>	<u>Actuarial Asset Value</u>	<u>Actuarial Accrued Liability Entry Age</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded Actuarial Liability as Percentage of Covered Payroll</u>
Actuarial Valuation Date 6/30/2005						
6/30/2009	\$ 1,919,038	\$ 4,241,000	\$ 2,321,962	45.3%	\$ 10,820,469	21.5%
Actuarial Valuation Date 6/30/2008						
6/30/2010	\$ 2,637,242	\$ 5,830,000	\$ 3,192,758	45.2%	\$ 10,930,488	29.2%
6/30/2011	3,557,201	5,830,000	2,272,799	61.0%	10,010,179	22.7%

SUPPLEMENTARY INFORMATION

This page intentionally left blank.

NON-MAJOR GOVERNMENTAL FUNDS

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.

NON-MAJOR GOVERNMENTAL FUNDS, Continued

Special Revenue Funds, Continued:

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.

Community Development Block Grant Fund - This fund is used to account for funds received for participation in the federal block grant program. Projects must be approved by the County CDBG Commission.

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.

Grants Special Revenue Fund - The Grants Fund is used to account for State and Federal grants for specific projects and for smaller grants from miscellaneous sources.

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 (COPS) - 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

Sewer 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

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.

Capital Improvement Special Revenue Fund - Funds set aside for Capital Improvement Projects.

Artesia Boulevard Relinquishment Fund - This fund is used to track the costs related to the transfer ownership of Artesia Boulevard from the State to the City. During the fiscal year 2000-01, the State of California determined an estimated cost for the rehabilitation of the street which will be contributed to the City as a part of the transfer of ownership.

This page intentionally left blank.

City of Hermosa Beach
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2011

	Special Revenue Funds			
	Lighting and Landscaping District	State Gas Tax	AB 939	Prop A Open Space
ASSETS				
Cash and investments	\$ 104,583	\$ 612,754	\$ 261,238	\$ -
Property taxes receivable, net	14,698	-	-	-
Reimbursable grants receivable	-	-	-	-
Interest receivable				
on investments	221	1,301	556	-
Other accounts receivable	23,285	59,932	4,485	-
Due from other funds	-	-	-	-
Total assets	\$ 142,787	\$ 673,987	\$ 266,279	\$ -
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 31,437	\$ 5,084	\$ 23,459	\$ -
Accrued wages and benefits payable	21,812	-	9,762	-
Deferred revenue	14,698	-	-	-
Due to other funds	-	-	-	-
Total liabilities	67,947	5,084	33,221	-
Fund Balances:				
Non-Spendable	-	-	-	-
Restricted	74,840	668,903	233,058	-
Total fund balances	74,840	668,903	233,058	-
Total liabilities and fund balances	\$ 142,787	\$ 673,987	\$ 266,279	\$ -

Special Revenue Funds

Tyco	Tyco Tidelands	Parks/ Recreation Facilities Tax	Bayview Dr Admin Expense	Lower Pier Admin Expense	Myrtle Dist Admin Expense	Loma Dist Admin Expense
\$ 797,091	\$ 93,969	\$ 132,233	\$ 1,820	\$ 4,757	\$ 13,277	\$ 17,519
-	-	-	-	-	-	-
-	-	-	-	-	-	-
1,733	198	273	19	-	28	37
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 798,824</u>	<u>\$ 94,167</u>	<u>\$ 132,506</u>	<u>\$ 1,839</u>	<u>\$ 4,757</u>	<u>\$ 13,305</u>	<u>\$ 17,556</u>
\$ -	\$ 48,097	\$ -	\$ 382	\$ 300	\$ 622	\$ 549
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	48,097	-	382	300	622	549
-	-	-	-	-	-	-
798,824	46,070	132,506	1,457	4,457	12,683	17,007
798,824	46,070	132,506	1,457	4,457	12,683	17,007
<u>\$ 798,824</u>	<u>\$ 94,167</u>	<u>\$ 132,506</u>	<u>\$ 1,839</u>	<u>\$ 4,757</u>	<u>\$ 13,305</u>	<u>\$ 17,556</u>

(Continued)

City of Hermosa Beach
Combining Balance Sheet, Continued
Non-Major Governmental Funds, Continued
June 30, 2011

	Special Revenue Funds			
	Beach Drive Assessment Dist Admin Expense	Community Development Block Grant	Proposition "A" Transit	Proposition "C"
ASSETS				
Cash and investments	\$ 1,717	\$ -	\$ 107,154	\$ 229,447
Property taxes receivable, net	-	-	-	-
Reimbursable grants receivable	-	-	-	-
Interest receivable on investments	4	-	221	470
Other accounts receivable	-	-	(3,000)	-
Due from other funds	-	-	-	-
Total assets	\$ 1,721	\$ -	\$ 104,375	\$ 229,917
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 338	\$ -	\$ 56,889	\$ 39,142
Accrued wages and benefits payable	-	-	319	1
Deferred revenue	-	-	-	-
Due to other funds	-	-	-	-
Total liabilities	338	-	57,208	39,143
Fund Balances:				
Non-Spendable	-	-	-	-
Restricted	1,383	-	47,167	190,774
Total fund balances	1,383	-	47,167	190,774
Total liabilities and fund balances	\$ 1,721	\$ -	\$ 104,375	\$ 229,917

Special Revenue Funds

Measure "R"	Grants	Air Quality Management District	Supplemental Law Enforcement Services	Sewer	Asset Seizure and Forfeiture	Fire Protection
\$ 252,549	\$ -	\$ 80,889	\$ 269,891	\$ 419,010	\$ 239,689	\$ 36,632
-	-	-	-	-	-	-
-	346,541	-	-	-	-	-
538	-	171	572	1,367	510	77
-	-	4,612	12,706	5,209	10,870	-
-	-	-	-	234,877	-	-
<u>\$ 253,087</u>	<u>\$ 346,541</u>	<u>\$ 85,672</u>	<u>\$ 283,169</u>	<u>\$ 660,463</u>	<u>\$ 251,069</u>	<u>\$ 36,709</u>
\$ 2,688	\$ 96,077	\$ -	\$ 18,676	\$ 14,236	\$ 374	\$ -
-	(3)	24	-	14,322	-	-
-	-	-	-	-	-	-
-	234,877	-	-	-	-	-
<u>2,688</u>	<u>330,951</u>	<u>24</u>	<u>18,676</u>	<u>28,558</u>	<u>374</u>	<u>-</u>
-	-	-	-	-	-	-
<u>250,399</u>	<u>15,590</u>	<u>85,648</u>	<u>264,493</u>	<u>631,905</u>	<u>250,695</u>	<u>36,709</u>
<u>250,399</u>	<u>15,590</u>	<u>85,648</u>	<u>264,493</u>	<u>631,905</u>	<u>250,695</u>	<u>36,709</u>
<u>\$ 253,087</u>	<u>\$ 346,541</u>	<u>\$ 85,672</u>	<u>\$ 283,169</u>	<u>\$ 660,463</u>	<u>\$ 251,069</u>	<u>\$ 36,709</u>

(Continued)

City of Hermosa Beach
Combining Balance Sheet, Continued
Non-Major Governmental Funds, Continued
June 30, 2011

	Special Revenue Funds		
	Capital Improvement	Artesia Blvd. Relinquish- ment	Total Other Governmental Funds
ASSETS			
Cash and investments	\$ 530,885	\$ 9,776	\$ 4,216,880
Property taxes receivable, net	-	-	14,698
Reimbursable grants receivable	-	-	346,541
Interest receivable on investments	1,013	31	9,340
Other accounts receivable	-	-	118,099
Due from other funds	-	-	234,877
Total assets	\$ 531,898	\$ 9,807	\$ 4,940,435
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 82,719	\$ 506	\$ 421,575
Accrued wages and benefits payable	6,551	-	52,788
Deferred revenue	-	-	14,698
Due to other funds	-	-	234,877
Total liabilities	89,270	506	723,938
Fund Balances:			
Non-Spendable	-	-	-
Restricted	442,628	9,301	4,216,497
Total fund balances	442,628	9,301	4,216,497
Total liabilities and fund balances	\$ 531,898	\$ 9,807	\$ 4,940,435

(Concluded)

This page intentionally left blank.

City of Hermosa Beach
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the year ended June 30, 2011

	Special Revenue Funds			
	Lighting and Landscaping District	State Gas Tax	AB 939	Prop A Open Space
REVENUES:				
Property taxes	\$ 459,971	\$ -	\$ -	\$ -
Other taxes	-	-	-	-
Fines and forfeitures	-	-	-	-
Use of money and property	-	-	-	-
Intergovernmental	-	488,298	-	20,557
Charges for services	-	-	56,269	-
Miscellaneous	-	-	-	-
Interest earned on investments	566	4,887	2,519	-
Total revenues	460,537	493,185	58,788	20,557
EXPENDITURES:				
Current:				
General government	-	-	115,378	-
Public safety	-	-	-	-
Community development	-	-	-	-
Culture & recreation	-	-	-	-
Public works	507,807	-	-	-
Capital outlay	-	117,565	-	-
Total expenditures	507,807	117,565	115,378	-
REVENUES OVER (UNDER) EXPENDITURES	(47,270)	375,620	(56,590)	20,557
OTHER FINANCING SOURCES (USES):				
Transfers in	68,354	-	40,000	-
Transfers out	(11,002)	(308,137)	-	(20,561)
Total other financing sources (uses)	57,352	(308,137)	40,000	(20,561)
CHANGE IN FUND BALANCES	10,082	67,483	(16,590)	(4)
FUND BALANCES:				
Beginning of year	64,758	601,420	249,648	4
End of year	<u>\$ 74,840</u>	<u>\$ 668,903</u>	<u>\$ 233,058</u>	<u>\$ -</u>

Special Revenue Funds

Tyco	Tyco Tidelands	Parks/ Recreation Facility Tax	Bayview Dr Admin Expense	Lower Pier Admin Expense	Myrtle Dist Admin Expense	Loma Dist Admin Expense
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	6,576	-	-	-	-
-	-	-	-	-	-	-
312,900	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	121,232	4,325	2,500	8,800	9,650
7,492	1,584	500	56	-	158	204
<u>320,392</u>	<u>1,584</u>	<u>128,308</u>	<u>4,381</u>	<u>2,500</u>	<u>8,958</u>	<u>9,854</u>
-	-	-	1,577	1,323	7,069	7,210
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
1,975	144,067	-	-	-	-	-
<u>1,975</u>	<u>144,067</u>	<u>-</u>	<u>1,577</u>	<u>1,323</u>	<u>7,069</u>	<u>7,210</u>
318,417	(142,483)	128,308	2,804	1,177	1,889	2,644
-	-	-	-	-	-	-
(175,000)	-	-	(2,718)	(1,142)	(3,309)	(3,783)
<u>(175,000)</u>	<u>-</u>	<u>-</u>	<u>(2,718)</u>	<u>(1,142)</u>	<u>(3,309)</u>	<u>(3,783)</u>
143,417	(142,483)	128,308	86	35	(1,420)	(1,139)
655,407	188,553	4,198	1,371	4,422	14,103	18,146
<u>\$ 798,824</u>	<u>\$ 46,070</u>	<u>\$ 132,506</u>	<u>\$ 1,457</u>	<u>\$ 4,457</u>	<u>\$ 12,683</u>	<u>\$ 17,007</u>

(Continued)

City of Hermosa Beach
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds, Continued
For the year ended June 30, 2011

	Special Revenue Funds			
	Beach Drive Assessment Dist Admin Expense	Community Development Block Grant	Proposition "A" Transit	Proposition "C"
REVENUES:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	263,611	219,180
Fines and forfeitures	-	-	-	-
Use of money and property	-	-	-	-
Intergovernmental	-	6,453	-	-
Charges for services	-	-	6,490	-
Miscellaneous	2,700	-	-	3,641
Interest earned on investments	22	-	861	3,619
Total revenues	<u>2,722</u>	<u>6,453</u>	<u>270,962</u>	<u>226,440</u>
EXPENDITURES:				
Current:				
General government	1,486	-	842,613	-
Public safety	-	-	65,410	-
Community development	-	6,451	22,152	-
Culture & recreation	-	-	33,699	-
Public works	-	-	-	-
Capital outlay	-	-	253,996	1,404,925
Total expenditures	<u>1,486</u>	<u>6,451</u>	<u>1,217,870</u>	<u>1,404,925</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>1,236</u>	<u>2</u>	<u>(946,908)</u>	<u>(1,178,485)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	(1,155)	(13)	-	-
Total other financing sources (uses)	<u>(1,155)</u>	<u>(13)</u>	<u>-</u>	<u>-</u>
CHANGE IN FUND BALANCES	81	(11)	(946,908)	(1,178,485)
FUND BALANCES:				
Beginning of year	<u>1,302</u>	<u>11</u>	<u>994,075</u>	<u>1,369,259</u>
End of year	<u>\$ 1,383</u>	<u>\$ -</u>	<u>\$ 47,167</u>	<u>\$ 190,774</u>

Special Revenue Funds

Measure "R"	Grants	Air Quality Management District	Supplemental Law Enforcement	Sewer	Asset Seizure and Forfeiture	Fire Protection
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
163,441	-	-	100,000	-	-	-
-	-	-	-	-	90,007	-
-	-	-	-	-	-	-
-	902,508	21,430	-	18,906	-	-
-	-	-	-	42,500	-	35,954
-	-	-	-	394	1,000	-
1,890	-	694	2,532	4,880	1,871	188
<u>165,331</u>	<u>902,508</u>	<u>22,124</u>	<u>102,532</u>	<u>66,680</u>	<u>92,878</u>	<u>36,142</u>
-	-	1,081	-	-	-	-
-	18,832	-	86,571	-	1,815	7,500
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	448,216	-	-
20,167	892,873	-	48,904	15,296	29,387	-
<u>20,167</u>	<u>911,705</u>	<u>1,081</u>	<u>135,475</u>	<u>463,512</u>	<u>31,202</u>	<u>7,500</u>
<u>145,164</u>	<u>(9,197)</u>	<u>21,043</u>	<u>(32,943)</u>	<u>(396,832)</u>	<u>61,676</u>	<u>28,642</u>
-	-	-	-	700,000	-	-
-	-	-	-	-	-	-
-	-	-	-	700,000	-	-
145,164	(9,197)	21,043	(32,943)	303,168	61,676	28,642
105,235	24,787	64,605	297,436	328,737	189,019	8,067
<u>\$ 250,399</u>	<u>\$ 15,590</u>	<u>\$ 85,648</u>	<u>\$ 264,493</u>	<u>\$ 631,905</u>	<u>\$ 250,695</u>	<u>\$ 36,709</u>

(Continued)

City of Hermosa Beach
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds, Continued
For the year ended June 30, 2011

	Special Revenue Funds		
	Capital Improvement	Artesia Blvd. Relinquish- ment	Total Other Governmental Funds
REVENUES:			
Property taxes	\$ -	\$ -	\$ 459,971
Other taxes	-	-	752,808
Fines and forfeitures	-	-	90,007
Use of money and property	-	-	312,900
Intergovernmental	45,100	-	1,503,252
Charges for services	-	-	141,213
Miscellaneous	165,914	-	320,156
Interest earned on investments	4,517	148	39,188
Total revenues	215,531	148	3,619,495
EXPENDITURES:			
Current:			
General government	-	-	977,737
Public safety	-	-	180,128
Community development	-	-	28,603
Culture & recreation	-	-	33,699
Public works	177,791	999	1,134,813
Capital outlay	60,137	-	2,989,292
Total expenditures	237,928	999	5,344,272
REVENUES OVER (UNDER) EXPENDITURES	(22,397)	(851)	(1,724,777)
OTHER FINANCING SOURCES (USES):			
Transfers in	175,000	-	983,354
Transfers out	-	-	(526,820)
Total other financing sources (uses)	175,000	-	456,534
CHANGE IN FUND BALANCES	152,603	(851)	(1,268,243)
FUND BALANCES:			
Beginning of year	290,025	10,152	5,484,740
End of year	<u>\$ 442,628</u>	<u>\$ 9,301</u>	<u>\$ 4,216,497</u>

(Concluded)

City of Hermosa Beach

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Lighting and Landscaping District

For the year ended June 30, 2011

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2010	\$ 64,758	\$ 64,758	\$ -
Resources (inflows):			
Property taxes	453,514	459,971	6,457
Interest earned on investments	410	566	156
Transfers in	<u>68,354</u>	<u>68,354</u>	<u>-</u>
Amount available for appropriation	<u>587,036</u>	<u>593,649</u>	<u>6,613</u>
Charges to appropriations (outflows):			
Public works	537,572	507,807	29,765
Transfers out	<u>11,002</u>	<u>11,002</u>	<u>-</u>
Total charges to appropriations	<u>548,574</u>	<u>518,809</u>	<u>29,765</u>
Fund balance, June 30, 2011	<u>\$ 38,462</u>	<u>\$ 74,840</u>	<u>\$ 36,378</u>

City of Hermosa Beach

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

State Gas Tax

For the year ended June 30, 2011

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2010	<u>\$ 601,420</u>	<u>\$ 601,420</u>	<u>\$ -</u>
Resources (inflows):			
Intergovernmental	507,400	488,298	(19,102)
Interest earned on investments	<u>4,112</u>	<u>4,887</u>	<u>775</u>
Amount available for appropriation	<u>1,112,932</u>	<u>1,094,605</u>	<u>(18,327)</u>
Charges to appropriations (outflows):			
Capital outlay	533,860	117,565	416,295
Transfers out	<u>308,137</u>	<u>308,137</u>	<u>-</u>
Total charges to appropriations	<u>841,997</u>	<u>425,702</u>	<u>416,295</u>
Fund balance, June 30, 2011	<u><u>\$ 270,935</u></u>	<u><u>\$ 668,903</u></u>	<u><u>\$ 397,968</u></u>

City of Hermosa Beach

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

AB 939

For the year ended June 30, 2011

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2010	\$ 249,648	\$ 249,648	\$ -
Resources (inflows):			
Charges for services	58,826	56,269	(2,557)
Interest earned on investments	2,442	2,519	77
Transfers in	<u>40,000</u>	<u>40,000</u>	<u>-</u>
Amount available for appropriation	<u>350,916</u>	<u>348,436</u>	<u>(2,480)</u>
Charges to appropriations (outflows):			
General government	<u>157,163</u>	<u>115,378</u>	<u>41,785</u>
Total charges to appropriations	<u>157,163</u>	<u>115,378</u>	<u>41,785</u>
Fund balance, June 30, 2011	<u>\$ 193,753</u>	<u>\$ 233,058</u>	<u>\$ 39,305</u>

City of Hermosa Beach

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Prop A Open Space

For the year ended June 30, 2011

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2010	<u>\$ 4</u>	<u>\$ 4</u>	<u>\$ -</u>
Resources (inflows):			
Intergovernmental	<u>270,557</u>	<u>20,557</u>	<u>(250,000)</u>
Amount available for appropriation	<u>270,561</u>	<u>20,561</u>	<u>(250,000)</u>
Charges to appropriations (outflows):			
Capital outlay	<u>250,000</u>	<u>-</u>	<u>250,000</u>
Transfers out	<u>20,560</u>	<u>20,561</u>	<u>(1)</u>
Total charges to appropriations	<u>270,560</u>	<u>20,561</u>	<u>249,999</u>
Fund balance, June 30, 2011	<u><u>\$ 1</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (1)</u></u>

City of Hermosa Beach

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Tyco

For the year ended June 30, 2011

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2010	\$ 655,407	\$ 655,407	\$ -
Resources (inflows):			
Use of money and property	312,900	312,900	-
Interest earned on investments	6,507	7,492	985
Amount available for appropriation	<u>974,814</u>	<u>975,799</u>	<u>985</u>
Charges to appropriations (outflows):			
Capital outlay	796,421	1,975	794,446
Transfers out	175,000	175,000	-
Total charges to appropriations	<u>971,421</u>	<u>176,975</u>	<u>794,446</u>
Fund balance, June 30, 2011	<u>\$ 3,393</u>	<u>\$ 798,824</u>	<u>\$ 795,431</u>

City of Hermosa Beach

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Tyco Tidelands

For the year ended June 30, 2011

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2010	<u>\$ 188,553</u>	<u>\$ 188,553</u>	<u>\$ -</u>
Resources (inflows):			
Interest earned on investment	<u>1,708</u>	<u>1,584</u>	<u>(124)</u>
Amount available for appropriation	<u>190,261</u>	<u>190,137</u>	<u>(124)</u>
Charges to appropriations (outflows):			
Capital outlay	<u>187,313</u>	<u>144,067</u>	<u>43,246</u>
Total charges to appropriations	<u>187,313</u>	<u>144,067</u>	<u>43,246</u>
Fund balance, June 30, 2011	<u><u>\$ 2,948</u></u>	<u><u>\$ 46,070</u></u>	<u><u>\$ 43,122</u></u>

City of Hermosa Beach

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Parks/Recreation Facilities Tax

For the year ended June 30, 2011

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
Fund balance, July 1, 2010	<u>\$ 4,198</u>	<u>\$ 4,198</u>	<u>\$ -</u>
Resources (inflows):			
Other taxes	13,034	6,576	(6,458)
Miscellaneous	121,232	121,232	-
Interest earned on investments	24	500	476
Amount available for appropriation	<u>138,488</u>	<u>132,506</u>	<u>(5,982)</u>
Charges to appropriations (outflows):			
Culture and recreation	-	-	-
Public works	-	-	-
Capital outlay	-	-	-
Total charges to appropriations	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2010	<u>\$ 138,488</u>	<u>\$ 132,506</u>	<u>\$ (5,982)</u>

City of Hermosa Beach

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Bayview Drive Administrative Expense

For the year ended June 30, 2011

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2010	\$ 1,371	\$ 1,371	\$ -
Resources (inflows):			
Miscellaneous	4,325	4,325	-
Interest earned on investments	15	56	41
Amount available for appropriation	<u>5,711</u>	<u>5,752</u>	<u>41</u>
Charges to appropriations (outflows):			
General government	1,650	1,577	73
Transfers out	<u>2,718</u>	<u>2,718</u>	<u>-</u>
Total charges to appropriations	<u>4,368</u>	<u>4,295</u>	<u>73</u>
Fund balance, June 30, 2011	<u>\$ 1,343</u>	<u>\$ 1,457</u>	<u>\$ 114</u>

City of Hermosa Beach

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Lower Pier Administrative Expense

For the year ended June 30, 2011

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
Fund balance, July 1, 2010	<u>\$ 4,422</u>	<u>\$ 4,422</u>	<u>\$ -</u>
Resources (inflows):			
Miscellaneous	<u>2,500</u>	<u>2,500</u>	<u>-</u>
Amount available for appropriation	<u>6,922</u>	<u>6,922</u>	<u>-</u>
Charges to appropriations (outflows):			
General government	<u>1,500</u>	<u>1,323</u>	<u>177</u>
Transfers out	<u>1,142</u>	<u>1,142</u>	<u>-</u>
Total charges to appropriations	<u>2,642</u>	<u>2,465</u>	<u>177</u>
Fund balance, June 30, 2011	<u><u>\$ 4,280</u></u>	<u><u>\$ 4,457</u></u>	<u><u>\$ 177</u></u>

City of Hermosa Beach

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Myrtle District Administrative Expense

For the year ended June 30, 2011

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
Fund balance, July 1, 2010	\$ 14,103	\$ 14,103	\$ -
Resources (inflows):			
Miscellaneous	8,800	8,800	-
Interest earned on investments	146	158	12
Amount available for appropriation	<u>23,049</u>	<u>23,061</u>	<u>12</u>
Charges to appropriations (outflows):			
General government	7,069	7,069	-
Transfers out	3,309	3,309	-
Total charges to appropriations	<u>10,378</u>	<u>10,378</u>	<u>-</u>
Fund balance, June 30, 2011	<u>\$ 12,671</u>	<u>\$ 12,683</u>	<u>\$ 12</u>

City of Hermosa Beach

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Loma District Administrative Expense

For the year ended June 30, 2011

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
Fund balance, July 1, 2010	\$ 18,146	\$ 18,146	\$ -
Resources (inflows):			
Miscellaneous	9,650	9,650	-
Interest earned on investments	188	204	16
Amount available for appropriation	<u>27,984</u>	<u>28,000</u>	<u>16</u>
Charges to appropriations (outflows):			
General government	7,210	7,210	-
Transfers out	3,783	3,783	-
Total charges to appropriations	<u>10,993</u>	<u>10,993</u>	<u>-</u>
Fund balance, June 30, 2011	<u>\$ 16,991</u>	<u>\$ 17,007</u>	<u>\$ 16</u>

City of Hermosa Beach

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Beach Drive Assessment District Administrative Expense

For the year ended June 30, 2011

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2010	\$ 1,302	\$ 1,302	\$ -
Resources (inflows):			
Miscellaneous	2,700	2,700	-
Interest earned on investments	<u>15</u>	<u>22</u>	<u>7</u>
Amount available for appropriation	<u>4,017</u>	<u>4,024</u>	<u>7</u>
Charges to appropriations (outflows):			
General government	1,650	1,486	164
Transfers out	<u>1,155</u>	<u>1,155</u>	<u>-</u>
Total charges to appropriations	<u>2,805</u>	<u>2,641</u>	<u>164</u>
Fund balance, June 30, 2011	<u>\$ 1,212</u>	<u>\$ 1,383</u>	<u>\$ 171</u>

City of Hermosa Beach

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Community Development Block Grant

For the year ended June 30, 2011

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2010	\$ 11	\$ 11	\$ -
Resources (inflows):			
Intergovernmental	9,149	6,453	(2,696)
Amount available for appropriation	<u>9,160</u>	<u>6,464</u>	<u>(2,696)</u>
Charges to appropriations (outflows):			
Community development	9,149	6,451	2,698
Transfer out	<u>12</u>	<u>13</u>	<u>(1)</u>
Total charges to appropriations	<u>9,161</u>	<u>6,464</u>	<u>2,697</u>
Fund balance, June 30, 2011	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ 1</u>

City of Hermosa Beach

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Proposition "A" Transit

For the year ended June 30, 2011

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2010	\$ 994,075	\$ 994,075	\$ -
Resources (inflows):			
Other taxes	262,698	263,611	913
Charges for services	5,800	6,490	690
Interest earned on investments	3,959	861	(3,098)
Amount available for appropriation	<u>1,266,532</u>	<u>1,265,037</u>	<u>(1,495)</u>
Charges to appropriations (outflows):			
General government	860,343	842,613	17,730
Public safety	51,000	65,410	(14,410)
Community development	21,657	22,152	(495)
Culture and recreation	40,000	33,699	6,301
Capital outlay	256,648	253,996	2,652
Total charges to appropriations	<u>1,229,648</u>	<u>1,217,870</u>	<u>11,778</u>
Fund balance, June 30, 2011	<u>\$ 36,884</u>	<u>\$ 47,167</u>	<u>\$ 10,283</u>

City of Hermosa Beach

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual Proposition "C"

For the year ended June 30, 2011

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2010	\$ 1,369,259	\$ 1,369,259	\$ -
Resources (inflows):			
Other taxes	217,901	219,180	1,279
Miscellaneous	-	3,641	3,641
Interest earned on investments	9,474	3,619	(5,855)
Amount available for appropriation	<u>1,596,634</u>	<u>1,595,699</u>	<u>(935)</u>
Charges to appropriations (outflows):			
Public works	40,000	-	40,000
Capital outlay	1,465,542	1,404,925	60,617
Total charges to appropriations	<u>1,505,542</u>	<u>1,404,925</u>	<u>100,617</u>
Fund balance, June 30, 2011	<u>\$ 91,092</u>	<u>\$ 190,774</u>	<u>\$ 99,682</u>

City of Hermosa Beach

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual Measure R

For the year ended June 30, 2011

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2010	\$ 105,235	\$ 105,235	\$ -
Resources (inflows):			
Other taxes	163,426	163,441	15
Interest earned on investments	<u>3,727</u>	<u>1,890</u>	<u>(1,837)</u>
Amount available for appropriation	<u>272,388</u>	<u>270,566</u>	<u>(1,822)</u>
Charges to appropriations (outflows):			
Capital outlay	<u>119,420</u>	<u>20,167</u>	<u>99,253</u>
Total charges to appropriations	<u>119,420</u>	<u>20,167</u>	<u>99,253</u>
Fund balance, June 30, 2011	<u>\$ 152,968</u>	<u>\$ 250,399</u>	<u>\$ 97,431</u>

City of Hermosa Beach

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual Grants

For the year ended June 30, 2011

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
Fund balance, July 1, 2010	\$ 24,787	\$ 24,787	\$ -
Resources (inflows):			
Intergovernmental	1,290,771	902,508	(388,263)
Amount available for appropriation	<u>1,315,558</u>	<u>927,295</u>	<u>(388,263)</u>
Charges to appropriations (outflows):			
Public Safety	47,239	18,832	28,407
Public Works	165	-	165
Capital outlay	<u>1,252,747</u>	<u>892,873</u>	<u>359,874</u>
Total charges to appropriations	<u>1,300,151</u>	<u>911,705</u>	<u>388,446</u>
Fund balance, June 30, 2011	<u>\$ 15,407</u>	<u>\$ 15,590</u>	<u>\$ 183</u>

City of Hermosa Beach

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Air Quality Management District

For the year ended June 30, 2011

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
Fund balance, July 1, 2010	<u>\$ 64,605</u>	<u>\$ 64,605</u>	<u>\$ -</u>
Resources (inflows):			
Intergovernmental	23,000	21,430	(1,570)
Interest earned on investments	<u>601</u>	<u>694</u>	<u>93</u>
Amount available for appropriation	<u>88,206</u>	<u>86,729</u>	<u>(1,477)</u>
Charges to appropriations (outflows):			
General government	3,600	1,081	2,519
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>
Total charges to appropriations	<u>3,600</u>	<u>1,081</u>	<u>2,519</u>
Fund balance, June 30, 2011	<u><u>\$ 84,606</u></u>	<u><u>\$ 85,648</u></u>	<u><u>\$ 1,042</u></u>

City of Hermosa Beach

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Supplemental Law Enforcement Services

For the year ended June 30, 2011

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2010	<u>\$ 297,436</u>	<u>\$ 297,436</u>	<u>\$ -</u>
Resources (inflows):			
Other taxes	100,000	100,000	-
Interest earned on investments	<u>2,517</u>	<u>2,532</u>	<u>15</u>
Amount available for appropriation	<u>399,953</u>	<u>399,968</u>	<u>15</u>
Charges to appropriations (outflows):			
Public safety	144,375	86,571	57,804
Capital outlay	<u>70,609</u>	<u>48,904</u>	<u>21,705</u>
Total charges to appropriations	<u>214,984</u>	<u>135,475</u>	<u>79,509</u>
Fund balance, June 30, 2011	<u><u>\$ 184,969</u></u>	<u><u>\$ 264,493</u></u>	<u><u>\$ 79,524</u></u>

City of Hermosa Beach

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Sewer

For the year ended June 30, 2011

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2010	\$ 328,737	\$ 328,737	\$ -
Resources (inflows):			
Intergovernmental	30,433	18,906	(11,527)
Charges for services	17,500	42,500	25,000
Miscellaneous	-	394	394
Interest earned on investments	3,852	4,880	1,028
Transfers in	700,000	700,000	-
Amount available for appropriation	<u>1,080,522</u>	<u>1,095,417</u>	<u>14,895</u>
Charges to appropriations (outflows):			
Public works	501,420	448,216	53,204
Capital outlay	265,814	15,296	250,518
Total charges to appropriations	<u>767,234</u>	<u>463,512</u>	<u>303,722</u>
Fund balance, June 30, 2011	<u>\$ 313,288</u>	<u>\$ 631,905</u>	<u>\$ 318,617</u>

City of Hermosa Beach

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Asset Seizure and Forfeiture

For the year ended June 30, 2011

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2010	\$ 189,019	\$ 189,019	\$ -
Resources (inflows):			
Fines and forfeitures	19,300	90,007	70,707
Miscellaneous	-	1,000	1,000
Interest earned on investments	1,638	1,871	233
Amount available for appropriation	<u>209,957</u>	<u>281,897</u>	<u>71,940</u>
Charges to appropriations (outflows):			
Public Safety	8,568	1,815	6,753
Capital Outlay	30,000	29,387	613
Total charges to appropriations	<u>38,568</u>	<u>31,202</u>	<u>7,366</u>
Fund balance, June 30, 2011	<u>\$ 171,389</u>	<u>\$ 250,695</u>	<u>\$ 79,306</u>

City of Hermosa Beach

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Fire Protection

For the year ended June 30, 2011

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2010	<u>\$ 8,067</u>	<u>\$ 8,067</u>	<u>\$ -</u>
Resources (inflows):			
Charges for services	42,500	35,954	(6,546)
Interest earned on investments	<u>47</u>	<u>188</u>	<u>141</u>
Amount available for appropriation	<u>50,614</u>	<u>44,209</u>	<u>(6,405)</u>
Charges to appropriations (outflows):			
Public Safety	<u>7,500</u>	<u>7,500</u>	<u>-</u>
Total charges to appropriations	<u>7,500</u>	<u>7,500</u>	<u>-</u>
Fund balance, June 30, 2011	<u><u>\$ 43,114</u></u>	<u><u>\$ 36,709</u></u>	<u><u>\$ (6,405)</u></u>

City of Hermosa Beach

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Capital Improvement

For the year ended June 30, 2011

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
Fund balance, July 1, 2010	\$ 290,025	\$ 290,025	\$ -
Resources (inflows):			
Intergovernmental	45,100	45,100	-
Miscellaneous	141,914	165,914	24,000
Interest earned on investments	4,226	4,517	291
Transfers in	175,000	175,000	-
Amount available for appropriation	<u>656,265</u>	<u>680,556</u>	<u>24,291</u>
Charges to appropriations (outflows):			
Public works	218,228	177,791	40,437
Capital outlay	354,682	60,137	294,545
Total charges to appropriations	<u>572,910</u>	<u>237,928</u>	<u>334,982</u>
Fund balance, June 30, 2011	<u>\$ 83,355</u>	<u>\$ 442,628</u>	<u>\$ 359,273</u>

City of Hermosa Beach

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Artesia Boulevard Relinquishment

For the year ended June 30, 2011

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
Fund balance, July 1, 2010	<u>\$ 10,152</u>	<u>\$ 10,152</u>	<u>\$ -</u>
Resources (inflows):			
Interest earned on investments	<u>148</u>	<u>148</u>	<u>-</u>
Amount available for appropriation	<u>10,300</u>	<u>10,300</u>	<u>-</u>
Charges to appropriations (outflows):			
Public works	<u>4,000</u>	<u>999</u>	<u>3,001</u>
Total charges to appropriations	<u>4,000</u>	<u>999</u>	<u>3,001</u>
Fund balance, June 30, 2011	<u><u>\$ 6,300</u></u>	<u><u>\$ 9,301</u></u>	<u><u>\$ 3,001</u></u>

INTERNAL SERVICE FUNDS

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.

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

City of Hermosa Beach
Combining Statement of Net Assets
All Internal Service Funds
June 30, 2011

	Insurance Fund	Equipment Replacement Fund	Total
ASSETS			
Current assets:			
Cash and investments	\$ 9,665,084	\$ 3,610,393	\$ 13,275,477
Other accounts receivables	-	2,678	2,678
Deposits	165,000	-	165,000
Advances to other funds	425,586	425,587	851,173
Other assets	82,495	24,341	106,836
Total current assets	<u>10,338,165</u>	<u>4,062,999</u>	<u>14,401,164</u>
Capital assets			
Nondepreciable	-	359,018	359,018
Depreciable, net	-	1,670,472	1,670,472
Total capital assets	<u>-</u>	<u>2,029,490</u>	<u>2,029,490</u>
Total assets	<u>10,338,165</u>	<u>6,092,489</u>	<u>16,430,654</u>
LIABILITIES			
Current liabilities:			
Accounts payable	13,899	347,310	361,209
Accrued wages and benefits payable	6,882	27,140	34,022
Current portion of long-term liabilities	1,291,576	-	1,291,576
Total current liabilities	<u>1,312,357</u>	<u>374,450</u>	<u>1,686,807</u>
Long-term liabilities:			
Workers' compensation claims payable	5,542,235	-	5,542,235
General liability claims payable	1,440,388	-	1,440,388
Less current portion above	(1,291,576)	-	(1,291,576)
Total long-term liabilities	<u>5,691,047</u>	<u>-</u>	<u>5,691,047</u>
Total liabilities	<u>7,003,404</u>	<u>374,450</u>	<u>7,377,854</u>
NET ASSETS			
Invested in capital assets	-	2,029,490	2,029,490
Unrestricted	3,334,761	3,688,549	7,023,310
Total net assets	<u>\$ 3,334,761</u>	<u>\$ 5,718,039</u>	<u>\$ 9,052,800</u>

City of Hermosa Beach
Combining Statement of Revenues, Expenses, and Changes in Net Assets
All Internal Service Funds
For the year ended June 30, 2011

	Insurance Fund	Equipment Replacement Fund	Total
OPERATING REVENUES:			
Charges for services	\$ 2,312,266	\$ 1,593,046	\$ 3,905,312
Miscellaneous	651,825	5,000	656,825
Total operating revenues	2,964,091	1,598,046	4,562,137
OPERATING EXPENSES:			
Salaries and wages	50,838	214,256	265,094
Contractor services	992,697	425,184	1,417,881
Supplies	75	334,670	334,745
Claims expense	3,102,311	-	3,102,311
Depreciation	-	412,489	412,489
Total operating expenses	4,145,921	1,386,599	5,532,520
OPERATING INCOME (LOSS)	(1,181,830)	211,447	(970,383)
NONOPERATING REVENUES (EXPENSES):			
Gain on disposal of capital assets	-	18,596	18,596
Total nonoperating revenues (expenses)	-	18,596	18,596
INCOME (LOSS) BEFORE CONTRIBUTION AND TRANSFERS	(1,181,830)	230,043	(951,787)
Contribution	-	3,000	3,000
Transfers in	2,268,136	-	2,268,136
Transfers out	-	(202,167)	(202,167)
Total contribution and transfers	2,268,136	(199,167)	2,068,969
Change in net assets	1,086,306	30,876	1,117,182
NET ASSETS			
Beginning of the year	2,248,455	5,687,163	7,935,618
End of the year	<u>\$ 3,334,761</u>	<u>\$ 5,718,039</u>	<u>\$ 9,052,800</u>

City of Hermosa Beach
Combining Statement of Cash Flows
All Internal Service Funds
For the year ended June 30, 2011

	Insurance Fund	Equipment Replacement Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received for services from other funds	\$ 2,356,572	\$ 1,598,866	\$ 3,955,438
Cash payments to suppliers of goods and services	(1,056,356)	(488,817)	(1,545,173)
Cash payments to employees for services	(50,112)	(208,443)	(258,555)
Insurance premiums, settlements and recovery	(806,960)	-	(806,960)
Net cash provided by (used for) operating activities	443,144	901,606	1,344,750
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Contribution	-	3,000	3,000
Transfers in	2,268,136	-	2,268,136
Transfers out	-	(202,167)	(202,167)
Net cash provided by (used for) noncapital financing activities	2,268,136	(199,167)	2,068,969
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Repayment of advances to other funds	64,895	64,895	129,790
Acquisition of capital assets	-	(294,367)	(294,367)
Proceed from sale of capital assets	-	56,872	56,872
Net cash provided by (used for) capital and related financing activities	64,895	(172,600)	(107,705)
Net increase (decrease) in cash and cash equivalents	2,776,175	529,839	3,306,014
CASH AND CASH EQUIVALENTS:			
Beginning of year	6,888,909	3,080,554	9,969,463
End of year	<u>\$ 9,665,084</u>	<u>\$ 3,610,393</u>	<u>\$ 13,275,477</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:			
Operating income (loss)	\$ (1,181,830)	\$ 211,447	\$ (970,383)
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	-	412,489	412,489
Changes in current assets and liabilities:			
Other accounts receivable	44,306	820	45,126
Deposits	(25,000)	-	(25,000)
Other assets	(2,553)	(3,295)	(5,848)
Accounts payable	(36,031)	274,332	238,301
Accrued wages	726	5,813	6,539
Worker's compensation claims payable	1,324,788	-	1,324,788
General liability claims payable	318,738	-	318,738
Total adjustments	1,624,974	690,159	2,315,133
Net cash provided by (used for) operating activities	\$ 443,144	\$ 901,606	\$ 1,344,750

FIDUCIARY FUNDS

The Agency Funds of the City was 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 Assets
All Agency Funds
June 30, 2011

	Bayview Drive	Bayview Drive Reserve	Lower Pier Avenue Assessment District	Beach Drive Assessment District	Beach Drive Assessment Reserve	Myrtle Avenue Utility Undergrounding Assessment District	Loma Drive Utility Undergrounding Assessment District	Total
ASSETS								
Cash and investments	\$ 136,315	\$ 13,036	\$ 45,056	\$ 66,937	\$ 3,969	\$ 103,017	\$ 120,864	\$ 489,194
Interest receivable	275	28	96	142	8	219	257	1,025
Other accounts receivable	1,592	-	1,459	757	-	9,178	4,694	17,680
Total assets	\$ 138,182	\$ 13,064	\$ 46,611	\$ 67,836	\$ 3,977	\$ 112,414	\$ 125,815	\$ 507,899
LIABILITIES								
Assessment:								
Installment account	\$ 138,182	\$ -	\$ 46,611	\$ 67,836	\$ -	\$ 112,414	\$ 125,815	\$ 490,858
Reserve requirement	-	13,064	-	-	3,977	-	-	17,041
Total liabilities	\$ 138,182	\$ 13,064	\$ 46,611	\$ 67,836	\$ 3,977	\$ 112,414	\$ 125,815	\$ 507,899

City of Hermosa Beach
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
For the year ended June 30, 2011

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
ASSETS				
Bayview Drive Redemption Fund:				
Cash and investments	\$ 136,849	\$ 61,666	\$ (62,200)	\$ 136,315
Interest receivable	396	314	(435)	275
Other accounts receivable	-	1,592	-	1,592
Bayview Drive Reserve Fund				
Cash and investments	12,886	196	(46)	13,036
Interest receivable	37	33	(42)	28
Lower Pier District Redemption Fund:				
Cash and investments	41,905	38,743	(35,592)	45,056
Interest receivable	120	111	(135)	96
Other accounts receivable	-	1,459	-	1,459
Beach Drive Assessment District Redemption Fund:				
Cash and investments	65,687	34,613	(33,363)	66,937
Interest receivable	187	151	(196)	142
Other accounts receivable	787	757	(787)	757
Beach Drive Assessment District Reserve Fund:				
Cash and investments	3,924	60	(15)	3,969
Interest receivable	11	10	(13)	8
Myrtle Avenue Assessment Fund:				
Cash and investments	97,977	111,083	(106,043)	103,017
Interest receivable	282	255	(318)	219
Other accounts receivable	7,525	9,178	(7,525)	9,178
Loma Drive Assessment Fund:				
Cash and investments	108,400	120,527	(108,063)	120,864
Interest receivable	311	301	(355)	257
Other accounts receivable	10,063	4,694	(10,063)	4,694
Total assets	\$ 487,347	\$ 385,743	\$ (365,191)	\$ 507,899
LIABILITIES				
Bayview Drive Redemption Fund:				
Assessment installment account	\$ 137,245	\$ 63,572	\$ (62,635)	\$ 138,182
Bayview Drive Reserve Fund				
Reserve requirement	12,923	229	(88)	13,064
Lower Pier District Redemption Fund:				
Assessment installment account	42,025	40,313	(35,727)	46,611
Beach Drive Assessment District Redemption Fund:				
Assessment installment account	66,661	35,521	(34,346)	67,836
Beach Drive Assessment District Reserve Fund:				
Reserve requirement	3,935	70	(28)	3,977
Myrtle Avenue Assessment Funds:				
Assessment installment account	105,784	120,516	(113,886)	112,414
Loma Drive Assessment Fund:				
Assessment installment account	118,774	125,522	(118,481)	125,815
Total liabilities	\$ 487,347	\$ 385,743	\$ (365,191)	\$ 507,899

This page intentionally left blank.

**CAPITAL ASSETS USED IN THE OPERATING
OF GOVERNMENTAL FUNDS**

City of Hermosa Beach
Capital Assets Used in the Operation of Governmental Funds
Schedule By Source*
For the year ended June 30, 2011

GOVERNMENTAL FUNDS CAPITAL ASSETS:

Land	\$ 17,448,235
Buildings and improvements	5,360,261
Improvements other than buildings	14,054,192
Machinery and equipment	2,077,412
Vehicles	126,297
Construction in progress	335,795
Infrastructure	46,637,695
	<hr/>
Total governmental funds capital assets	86,039,887
Accumulated depreciation	(31,375,878)
	<hr/>
Total governmental funds capital assets, net	\$ 54,664,009
	<hr/> <hr/>

INVESTMENTS IN GOVERNMENTAL FUNDS CAPITAL ASSETS BY SOURCE:

State grants	\$ 2,521,054
General fund revenues	32,399,298
Special revenue funds revenues	50,589,417
Donated assets	530,118
	<hr/>
Total governmental funds capital assets	86,039,887
Accumulated depreciation	(31,375,878)
	<hr/>
Total governmental funds capital assets, net	\$ 54,664,009
	<hr/> <hr/>

* This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in the internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

City of Hermosa Beach
Capital Assets Used in the Operation of Governmental Funds
Schedule by Function and Activity*
For the year ended June 30, 2011

	Land	Buildings and Structures	Improvements Other than Buildings	Machinery and Equipment	Vehicles	Infrastructure	Construction in Progress	Total
GOVERNMENTAL FUNDS								
CAPITAL ASSETS								
General government	\$ 307,349	\$ 2,111,825	\$ 97,728	\$ 301,702	\$ -	\$ -	\$ -	\$ 2,818,604
Public safety	-	534,812	751,295	1,410,768	126,297	-	-	2,823,172
Community development	-	-	99,858	12,755	-	-	-	112,613
Culture and recreation	650,000	1,713,398	1,004,480	131,157	-	-	-	3,499,035
Public works	16,490,886	1,000,226	12,100,831	221,030	-	46,637,695	335,795	76,786,463
Total governmental funds capital assets	17,448,235	5,360,261	14,054,192	2,077,412	126,297	46,637,695	335,795	86,039,887
Accumulated depreciation	-	(2,095,087)	(8,464,585)	(1,479,258)	(44,254)	(19,292,694)	-	(31,375,878)
Total governmental funds capital assets	\$ 17,448,235	\$ 3,265,174	\$ 5,589,607	\$ 598,154	\$ 82,043	\$ 27,345,001	\$ 335,795	\$ 54,664,009

* This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in the internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

City of Hermosa Beach
Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes in Capital Assets - By Function by Activity*
For the year ended June 30, 2011

	Capital Assets July 1, 2010	Additions	Deletions	Capital Assets June 30, 2011
Function and Activity:				
General government	\$ 2,818,604	\$ -	\$ -	\$ 2,818,604
Public safety	2,683,450	139,722	-	2,823,172
Community development	112,613	-	-	112,613
Culture and recreation	3,499,035	-	-	3,499,035
Public works	74,128,667	2,827,395	(169,599)	76,786,463
Total governmental funds capital assets	83,242,369	2,967,117	(169,599)	86,039,887
Accumulated depreciation	(28,828,669)	(2,547,209)	-	(31,375,878)
Total governmental funds capital assets, net	\$ 54,413,700	\$ 419,908	\$ (169,599)	\$ 54,664,009

* This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in the internal service funds are excluded from the above amounts.

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.

Contents	Page
Financial Trends	136
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	145
These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.	
Debt Capacity	151
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. ¹	
Demographic and Economic Information	154
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	156
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.	

¹ 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 Assets by Component
Last Nine Fiscal Years
(accrual basis of accounting)

	Fiscal Year				
	2003	2004	2005	2006	2007
Governmental activities:					
Invested in capital assets, net of related debt	\$ 52,434,822	\$ 54,115,206	\$ 57,049,484	\$ 56,667,910	\$ 58,249,212
Restricted	524,561	2,217,823	3,305,478	3,590,623	3,813,004
Unrestricted	15,165,745	15,218,039	14,932,486	15,221,233	12,424,195
Total governmental activities net assets	<u>\$ 68,125,128</u>	<u>\$ 71,551,068</u>	<u>\$ 75,287,448</u>	<u>\$ 75,479,766</u>	<u>\$ 74,486,411</u>
Business-type activities:					
Invested in capital assets, net of related debt	\$ 6,796,868	\$ 6,880,925	\$ 8,081,080	\$ 8,297,790	\$ 10,311,365
Restricted	864,024	-	-	-	-
Unrestricted	780,346	827,781	502,758	237,824	(1,604,154)
Total business-type activities net assets	<u>\$ 8,441,238</u>	<u>\$ 7,708,706</u>	<u>\$ 8,583,838</u>	<u>\$ 8,535,614</u>	<u>\$ 8,707,211</u>
Primary government:					
Invested in capital assets, net of related debt	\$ 59,231,690	\$ 60,996,131	\$ 65,130,564	\$ 64,965,700	\$ 68,560,577
Restricted	1,388,585	2,217,823	3,305,478	3,590,623	3,813,004
Unrestricted	15,946,091	16,045,820	15,435,244	15,459,057	10,820,041
Total primary government net assets	<u>\$ 76,566,366</u>	<u>\$ 79,259,774</u>	<u>\$ 83,871,286</u>	<u>\$ 84,015,380</u>	<u>\$ 83,193,622</u>

The City of Hermosa Beach has elected to show only nine years of data for this schedule to coincide with the implementation of GASB 34.

Fiscal Year			
2008	2009	2010	2011
\$ 57,117,532	\$ 56,419,592	\$ 56,599,591	\$ 56,693,499
5,171,642	5,403,000	4,518,727	1,968,275
10,619,806	10,348,315	10,768,025	14,122,551
<u>\$ 72,908,980</u>	<u>\$ 72,170,907</u>	<u>\$ 71,886,343</u>	<u>\$ 72,784,325</u>
\$ 10,187,758	\$ 10,057,219	\$ 9,926,861	\$ 9,998,669
-	-	-	-
(1,443,914)	(1,236,859)	(1,074,651)	(838,749)
<u>\$ 8,743,844</u>	<u>\$ 8,820,360</u>	<u>\$ 8,852,210</u>	<u>\$ 9,159,920</u>
\$ 67,305,110	\$ 66,476,811	\$ 66,526,450	\$ 66,692,168
5,171,642	5,403,000	4,518,727	1,968,275
9,175,892	9,111,456	9,693,374	13,283,802
<u>\$ 81,652,644</u>	<u>\$ 80,991,267</u>	<u>\$ 80,738,551</u>	<u>\$ 81,944,245</u>

City of Hermosa Beach
Changes in Net Assets
Last Nine Fiscal Years
(accrual basis of accounting)

	Fiscal Year			
	2003	2004	2005	2006
Expenses:				
Governmental activities:				
Legislative and legal	\$ 810,589	755,591	737,903	962,682
General government	1,415,000	1,816,801	1,727,484	1,999,234
Public safety	10,415,111	11,219,997	12,855,036	15,167,715
Community development	968,000	1,115,600	1,355,888	1,349,891
Culture and recreation	1,045,567	965,440	996,021	1,149,070
Public works	4,136,564	4,592,460	6,687,811	7,980,811
Total governmental activities expenses	18,790,831	20,465,889	24,360,143	28,609,403
Business-type activities:				
Downtown Enhancement	909,137	939,576	166,732	1,130,499
Parking	1,525,371	1,632,093	1,701,775	- ²
Proposition "A" Transit	302,907	310,113	- ¹	-
Proposition "C" Transit	103,091	48,119	- ¹	-
Total business-type activities expenses	2,840,506	2,929,901	1,868,507	1,130,499
Total primary government expenses	21,631,337	23,395,790	26,228,650	29,739,902
Program revenues:				
Governmental activities:				
Charges for services:				
General government	89,037	84,745	88,375	458,900
Public safety	833,755	914,655	1,063,594	3,891,881 ²
Community development	768,241	929,695	1,245,622	1,393,212
Culture and recreation	708,296	793,748	874,111	986,137
Public works	203,533	689,457	2,368,076	808,091
Operating grants and contributions	642,214	674,451	721,198	725,136
Capital grants and contributions	475,933	665,806	2,465,698	1,042,854
Total governmental activities program revenues:	3,721,009	4,752,557	8,826,674	9,306,211
Business-type activities:				
Charges for services:				
Downtown Enhancement	774,865	879,495	906,857	1,187,249
Parking	2,503,330	2,895,143	3,247,478	- ²
Proposition A Transit	14,381	14,384	- ¹	-
Proposition C Transit	-	-	- ¹	-
Operating grants and contributions	-	-	-	-
Capital grants and contributions	-	-	-	-
Total business-type activities program revenues:	3,292,576	3,789,022	4,154,335	1,187,249
Total primary government program revenues:	7,013,585	8,541,579	12,981,009	10,493,460

City of Hermosa Beach
Changes in Net Assets, Continued
Last Nine Fiscal Years
(accrual basis of accounting)

	Fiscal Year			
	2003	2004	2005	2006
Net revenues (expenses):				
Governmental activities	(15,069,822)	(15,713,332)	(15,533,469)	(19,303,192)
Business-type activities	452,070	859,121	2,285,828	56,750
Total net revenues (expenses)	<u>(14,617,752)</u>	<u>(14,854,211)</u>	<u>(13,247,641)</u>	<u>(19,246,442)</u>
General revenues and other changes in net assets:				
Governmental activities:				
Taxes:				
Property taxes	5,282,147	5,885,480	6,221,535	8,361,888
Sales tax	2,508,346	2,596,135	2,584,015	2,511,004
Other taxes	5,166,212	5,559,070	5,897,908	6,186,641
Grants and contributions not restricted to specific programs	3,111,569	1,229,911	2,318,501	1,537,667
Investment income	439,050	177,757	467,923	753,746
Other general revenues	400,658	615,309	272,664	113
Transfers	990,593	2,356,585	1,507,304	144,451
Total governmental activities	<u>17,898,575</u>	<u>18,420,247</u>	<u>19,269,850</u>	<u>19,495,510</u>
Business-type activities:				
Investment income	96,117	73,519	96,365	33,154
Other general revenues	498,276	530,773	- ¹	-
Miscellaneous	10,812	12,966	243	6,323
Transfers	(990,593)	(2,356,585)	(1,507,304)	(144,451)
Total business-type activities	<u>(385,388)</u>	<u>(1,739,327)</u>	<u>(1,410,696)</u>	<u>(104,974)</u>
Total primary government	<u>17,513,187</u>	<u>16,680,920</u>	<u>17,859,154</u>	<u>19,390,536</u>
Changes in net assets				
Governmental activities:	2,828,753	2,706,915	3,736,381	192,318
Business-type activities:	66,682	(880,206)	875,132	(48,224)
Total primary government	<u>\$ 2,895,435</u>	<u>1,826,709</u>	<u>4,611,513</u>	<u>144,094</u>

The City of Hermosa Beach has elected to show only nine years of data for this schedule to coincide with the implementation of GASB 34.

¹ Transit operations were transferred to special revenue funds in fiscal year 2005.

² The Parking Fund was combined with the General Fund in fiscal year 2006.

City of Hermosa Beach
Changes in Net Assets, Continued
Last Nine Fiscal Years
(accrual basis of accounting)

	Fiscal Year				
	2007	2008	2009	2010	2011
Expenses:					
Governmental activities:					
Legislative and legal	867,481	990,342	1,059,528	980,157	972,979
General government	2,523,060	2,544,004	3,579,453	2,409,611	3,102,761
Public safety	17,237,156	19,569,031	17,471,578	17,841,984	17,698,263
Community development	1,424,766	1,358,051	1,416,714	1,243,490	1,223,581
Culture and recreation	1,253,882	1,343,223	1,420,956	1,252,037	1,133,467
Public works	7,106,083	6,942,529	6,860,854	7,823,275	6,725,147
Total governmental activities expenses	<u>30,412,428</u>	<u>32,747,180</u>	<u>31,809,083</u>	<u>31,550,554</u>	<u>30,856,198</u>
Business-type activities:					
Downtown Enhancement	1,096,039	1,133,746	963,304	997,138	878,021
Parking	-	- ²	- ²	- ²	- ²
Proposition "A" Transit	-	-	- ¹	- ¹	- ¹
Proposition "C" Transit	-	-	- ¹	- ¹	- ¹
Total business-type activities expenses	<u>1,096,039</u>	<u>1,133,746</u>	<u>963,304</u>	<u>997,138</u>	<u>878,021</u>
Total primary government expenses	<u>31,508,467</u>	<u>33,880,926</u>	<u>32,772,387</u>	<u>32,547,692</u>	<u>31,734,219</u>
Program revenues:					
Governmental activities:					
Charges for services:					
General government	497,423	563,583	569,772	543,259	546,793
Public safety	4,078,709	4,423,335	4,633,478	4,674,410	4,646,663
Community development	1,179,786	1,262,109	782,904	650,962	797,248
Culture and recreation	944,229	1,092,512	949,439	856,135	975,469
Public works	835,845	877,367	907,579	840,740	1,025,008
Operating grants and contributions	755,716	731,097	539,518	543,531	700,691
Capital grants and contributions	286,930	68,862	850,357	1,817,638	902,506
Total governmental activities program revenues:	<u>8,578,638</u>	<u>9,018,865</u>	<u>9,233,047</u>	<u>9,926,675</u>	<u>9,594,378</u>
Business-type activities:					
Charges for services:					
Downtown Enhancement	1,144,666	1,088,298	1,021,114	1,026,185	1,409,952
Parking	-	- ²	- ²	- ²	- ²
Proposition A Transit	-	-	- ¹	- ¹	- ¹
Proposition C Transit	-	-	- ¹	- ¹	- ¹
Operating grants and contributions	-	-	-	-	-
Capital grants and contributions	-	-	-	-	-
Total business-type activities program revenues:	<u>1,144,666</u>	<u>1,088,298</u>	<u>1,021,114</u>	<u>1,026,185</u>	<u>1,409,952</u>
Total primary government program revenues:	<u>9,723,304</u>	<u>10,107,163</u>	<u>10,254,161</u>	<u>10,952,860</u>	<u>11,004,330</u>

City of Hermosa Beach
Changes in Net Assets, Continued
Last Nine Fiscal Years
(accrual basis of accounting)

	Fiscal Year				
	2007	2008	2009	2010	2011
Net revenues (expenses):					
Governmental activities	(21,833,790)	(23,728,315)	(22,576,036)	(21,623,879)	(21,261,820)
Business-type activities	48,627	(45,448)	57,810	29,047	531,931
Total net revenues (expenses)	<u>(21,785,163)</u>	<u>(23,773,763)</u>	<u>(22,518,226)</u>	<u>(21,594,832)</u>	<u>(20,729,889)</u>
General revenues and other changes in net assets:					
Governmental activities:					
Taxes:					
Property taxes	9,383,544	10,458,034	11,188,377	11,407,964	11,518,645
Sales tax	2,395,390	2,500,659	2,390,658	2,112,971	2,209,559
Other taxes	6,414,534	6,456,786	6,069,339	5,962,978	6,060,992
Grants and contributions not restricted to specific programs	1,273,625	1,472,191	1,454,006	1,242,064	1,666,460
Investment income	1,097,128	850,176	429,087	135,423	91,910
Other general revenues	170,325	503,414	303,035	473,559	352,723
Transfers	11,255	4,259	3,461	4,356	259,513
Total governmental activities	<u>20,745,801</u>	<u>22,245,519</u>	<u>21,837,963</u>	<u>21,339,315</u>	<u>22,159,802</u>
Business-type activities:					
Investment income	48,113	28,320	17,749	5,609	4,679
Other general revenues	-	-	-	-	-
Miscellaneous	86,112	57,840	4,597	1,550	30,613
Transfers	(11,255)	(4,259)	(3,461)	(4,356)	(259,513)
Total business-type activities	<u>122,970</u>	<u>81,901</u>	<u>18,885</u>	<u>2,803</u>	<u>(224,221)</u>
Total primary government	<u>20,868,771</u>	<u>22,327,420</u>	<u>21,856,848</u>	<u>21,342,118</u>	<u>21,935,581</u>
Changes in net assets					
Governmental activities:	(1,087,989)	(1,482,796)	(738,073)	(284,564)	897,982
Business-type activities:	171,597	36,453	76,695	31,850	307,710
Total primary government	<u>(916,392)</u>	<u>(1,446,343)</u>	<u>(661,378)</u>	<u>(252,714)</u>	<u>1,205,692</u>

The City of Hermosa Beach has elected to show only nine years of data for this schedule to coincide with the implementation of GASB 34.

¹ Transit operations were transferred to special revenue funds in fiscal year 2005.

² The Parking Fund was combined with the General Fund in fiscal year 2006.

City of Hermosa Beach
Governmental Activities Tax Revenues By Source
Last Nine 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
2003	\$ 5,282,147	\$ 2,508,346	\$ 194,035	\$ 517,907	\$ 150,453	\$ 1,054,272	\$ 2,137,975	\$ 689,270	\$ 12,534,405
2004	5,885,480	2,596,135	243,390	514,403	162,902	1,291,689	2,652,821	693,865	14,040,685
2005	6,221,535	2,584,015	279,627	590,372	178,539	1,477,612	2,675,196	696,562	14,703,458
2006	8,361,888	2,511,004	305,018	597,754	188,644	1,628,394	2,726,085	740,746	17,059,533
2007	9,383,544	2,395,390	279,219	606,572	189,852	1,769,015	2,769,113	800,763	18,193,468
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

The City of Hermosa Beach has elected to show only nine years of data for this schedule to coincide with the implementation of GASB 34.

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

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Fund:									
Reserved	\$ 231,701	\$ 230,527	\$ 103,014	\$ 158,854	\$ 142,604	\$ 241,142	\$ 312,880	\$ 447,426	
Unreserved	461,115	403,455	373,817	211,191	168,089	257,599	348,373	253,005	
Nonspendable									\$ 35,613
Restricted									172,021
Committed									10,592
Assigned									5,635,231
Total general fund	<u>692,816</u>	<u>633,982</u>	<u>476,831</u>	<u>370,045</u>	<u>310,693</u>	<u>498,741</u>	<u>661,253</u>	<u>700,431</u>	<u>5,853,457</u>
All other governmental funds:									
Reserved	909,806	1,459,679	4,107,762	3,845,091	3,875,682	1,734,658	1,273,762	3,060,042	
Unreserved, reported in:									
Special revenue funds	11,053,526	12,038,695	10,516,612	10,900,400	8,864,333	11,135,309	9,764,500	6,965,596	
Restricted									4,216,497
Total all other governmental funds	<u>\$ 11,963,332</u>	<u>\$ 13,498,374</u>	<u>\$ 14,624,374</u>	<u>\$ 14,745,491</u>	<u>\$ 12,740,015</u>	<u>\$ 12,869,967</u>	<u>\$ 11,038,262</u>	<u>\$ 10,025,638</u>	<u>\$ 4,216,497</u>

The City of Hermosa Beach has elected to show only nine years of data for this schedule to coincide with the implementation of GASB 34.

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

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Revenues:									
Property taxes	\$ 5,736,937	\$ 6,339,123	\$ 6,668,515	\$ 8,818,051	\$ 9,834,400	\$ 10,907,119	\$ 11,639,348	\$ 11,863,846	\$ 11,978,616
Other taxes	7,323,267	8,262,205	9,085,304	9,404,925	9,488,447	9,630,365	9,079,246	8,760,988	9,023,359
Licenses and permits	571,682	664,169	701,468	868,085	772,832	877,775	678,477	556,737	627,056
Fines and forfeitures	278,334	371,802	459,106	1,627,274	1,615,777	1,994,522	2,111,467	2,075,759	2,219,052
Use of money and property	2,185,382	590,605	871,782	612,248	656,966	679,528	716,215	622,847	653,752
Intergovernmental	2,175,932	2,168,077	4,333,949	2,278,769	1,299,426	1,277,080	1,788,584	2,578,807	1,678,980
Charges for services	1,254,917	1,414,665	1,852,726	3,905,640	4,125,954	4,171,165	4,102,959	4,080,450	4,005,420
Miscellaneous	645,335	793,633	2,053,250	388,532	349,856	737,112	436,138	301,179	538,098
Interest earned on investments	450,116	177,757	467,925	753,746	1,097,128	850,176	429,092	135,423	91,913
Total revenues	<u>20,621,902</u>	<u>20,782,036</u>	<u>26,494,025</u>	<u>28,657,270</u>	<u>29,240,786</u>	<u>31,124,842</u>	<u>30,981,526</u>	<u>30,976,036</u>	<u>30,816,246</u>
Expenditures									
Current:									
Legislative and legal	832,157	752,541	727,026	963,031	858,017	967,423	1,057,092	976,862	960,365
General government	1,245,306	1,259,275	1,340,435	2,220,062	2,426,179	2,433,226	2,513,647	2,350,692	3,001,906
Public safety	10,040,618	10,555,169	12,139,133	14,444,334	16,236,080	17,374,613	16,974,820	17,251,686	16,516,892
Community development	951,856	1,089,056	1,325,219	1,346,996	1,417,596	1,283,317	1,400,933	1,229,909	1,189,993
Culture and recreation	966,621	932,447	940,158	1,124,347	1,205,653	1,249,251	1,372,611	1,201,057	1,044,131
Public works	3,082,096	3,189,361	3,374,363	3,785,554	3,895,291	3,993,055	4,288,179	4,158,945	3,907,921
Capital outlay	4,281,144	3,119,265	6,425,895	3,406,570	4,722,412	1,672,441	3,294,817	4,176,566	3,044,697
Debt service:	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total expenditures	21,399,798	20,897,114	26,272,229	27,290,894	30,761,228	28,973,326	30,902,099	31,345,717	29,665,905
Excess (deficiency) of revenues over (under) expenditures	<u>(777,896)</u>	<u>(115,078)</u>	<u>221,796</u>	<u>1,366,376</u>	<u>(1,520,442)</u>	<u>2,151,516</u>	<u>79,427</u>	<u>(369,681)</u>	<u>1,150,341</u>
Other financing sources (uses)									
Transfers in	4,016,062	6,962,841	7,368,202	4,273,743	2,550,370	1,755,358	1,919,303	2,316,998	2,239,196
Transfers out	<u>(3,625,668)</u>	<u>(5,371,555)</u>	<u>(6,621,149)</u>	<u>(5,625,788)</u>	<u>(3,094,756)</u>	<u>(3,588,874)</u>	<u>(3,667,923)</u>	<u>(2,993,912)</u>	<u>(4,045,652)</u>
Total other financing sources (uses)	<u>390,394</u>	<u>1,591,286</u>	<u>747,053</u>	<u>(1,352,045)</u>	<u>(544,386)</u>	<u>(1,833,516)</u>	<u>(1,748,620)</u>	<u>(676,914)</u>	<u>(1,806,456)</u>
Net change in fund balances	<u>\$ (387,502)</u>	<u>\$ 1,476,208</u>	<u>\$ 968,849</u>	<u>\$ 14,331</u>	<u>\$ (2,064,828)</u>	<u>\$ 318,000</u>	<u>\$ (1,669,193)</u>	<u>\$ (1,046,595)</u>	<u>\$ (656,115)</u>
Debt service as a percentage of noncapital expenditures	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

The City of Hermosa Beach has elected to show only nine years of data for this schedule, to coincide with the implementation of GASB 34. The City has no debt, therefore Debt Service as a percentage of noncapital expenditures is 0.0% for all years.

City of Hermosa Beach
General Government Tax Revenues By Source
Last Nine 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
2003	\$ 5,736,937	\$ 2,508,346	\$ 194,035	\$ 517,907	\$ 1,054,272	\$ 2,137,975	\$ 910,732	\$ 13,060,204
2004	6,339,123	2,596,135	243,390	514,403	1,291,689	2,652,821	963,767	14,601,328
2005	6,668,515	2,584,015	279,627	590,372	1,477,612	2,675,196	1,478,482	15,753,819
2006	8,818,051	2,511,004	305,018	597,754	1,628,394	2,726,085	1,636,670	18,222,976
2007	9,834,400	2,395,390	279,219	606,572	1,769,015	2,769,113	1,669,138	19,322,847
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

The City of Hermosa Beach has elected to show only nine years of data for this schedule, to coincide with the implementation of GASB 34. The City has no debt, therefore Debt Service as a percentage

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
2002	\$ 2,163,509	\$ 163,177	\$ 7,552	\$ 91,586	\$ (26,278)	\$ 2,399,546	1.00	\$ 2,425,824	
2003	2,342,017	175,517	7,340	101,252	(29,039)	2,597,087	1.00	2,626,126	8.23%
2004	2,581,409	191,355	7,867	93,753	(27,925)	2,846,459	1.00	2,874,384	9.60%
2005	2,834,252	201,708	7,276	98,635	(31,158)	3,110,712	1.00	3,141,870	9.28%
2006	3,158,374	228,948	7,853	102,802	(29,415)	3,468,562	1.00	3,497,977	11.50%
2007	3,579,546	258,573	8,653	83,453	(35,325)	3,894,900	1.00	3,930,225	12.29%
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)	4,862,223	1.00	4,909,030	0.80%

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	
2002	1.000000			0.001033	0.000881	0.006700	1.008614
2003	1.000000			0.001033	0.000881	0.006700	1.008614
2004	1.000000	0.019308	0.019025	0.000992	0.000462	0.006100	1.045887
2005	1.000000	0.016685	0.016558	0.000923	0.000245	0.005800	1.040211
2006	1.000000	0.014660	0.018380	0.000800	0.000050	0.005200	1.039090
2007	1.000000	0.020430	0.035700	0.000660	0.000050	0.004700	1.061540
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

Source: Los Angeles County Auditor-Controller

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

Taxpayer	2011		2002	
	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)	\$ 72,854,465	1.50%		
EQR Gallery Apartments Limited Partnership (1)	66,974,494	1.38%		
Diana Albergate Trust (5)	24,847,122	0.51%		
1601 PCH, LLP (1)	23,750,000	0.49%		
Barbara K. Robinson (5)	19,301,191	0.40%		
Sepulveda Blvd Properties, LLC (5)	17,290,778	0.36%		
Hermosa Hotel Investments	16,398,759	0.34%		
Regency Centers Limited Partnership (7)	14,270,539	0.29%	12,224,695	0.51%
Beta Group (2)	12,322,479	0.25%	10,559,292	0.44%
Robert J. & Ranae R. Desantis Trust (1)	11,907,050	0.24%	10,200,000	0.43%
International Church of the Foursquare (7)			12,583,904	0.52%
Playa Pacifica Limited (2)			11,331,278	0.47%
Cheng Yi and Ying Yin Chang (1)			7,073,148	0.29%
Roger E. Bacon (5)			5,595,099	0.23%
Century TCI California Comm LP (2)			5,454,984	0.23%
SII Trust (1)			5,200,000	0.22%
Vasek Polak Properties, Incorporated (12)			4,715,702	0.20%
	<u>\$ 279,916,877</u>	<u>5.76%</u>	<u>84,938,102</u>	<u>3.54%</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
2002	4,790,920	4,576,910	95.53%	214,010	4,790,920	100.00%
2003	5,193,796	5,017,148	96.60%	176,648	5,193,796	100.00%
2004	5,688,428	5,489,332	96.50%	199,096	5,688,428	100.00%
2005	6,215,435	5,708,000	91.84%	507,435	6,215,435	100.00%
2006	6,938,764	6,717,516	96.81%	221,248	6,938,764	100.00%
2007	8,256,383	7,778,209	94.21%	344,407	8,122,616	98.38%
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%			

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	
2002	591	19,260,802	43	2,142,566	2,425,823,846
2003	630	23,174,222	65	2,499,590	2,626,125,947
2004	596	28,114,344	75	6,713,988	2,874,383,847
2005	610	33,433,982	74	4,388,664	3,141,870,060
2006	696	41,088,855	66	4,101,562	3,497,977,443
2007	526	26,041,241	52	4,595,140	3,894,900,286
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

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

City of Hermosa Beach
Direct and Overlapping Debt
June 30, 2011

City assessed valuation		\$ 4,862,223,524	
Redevelopment agency incremental valuation		-	
Total assessed valuation		<u>\$ 4,862,223,524</u>	
	Percentage applicable	Outstanding debt 6/30/11	Estimated share of overlapping debt
	<u> </u>	<u> </u>	<u> </u>
Overlapping debt repaid with property taxes:			
West Basin Water District debt service	0.573%	107,259,876	614,098
El Camino Community College District 2002 series 2003A	6.142%	5,120,000	314,466
El Camino Community College District 2005 refunding	6.142%	28,732,715	1,764,741
El Camino Community College District 2002 series 2006B	6.142%	<u>137,350,000</u>	<u>8,435,928</u>
Total overlapping debt repaid with property taxes		<u>\$ 278,462,591</u>	<u>11,129,233</u>
City direct debt			
Hermosa Beach City School District debt service 2002	100.000%		1,164,401
Hermosa Beach School District debt service 2005	100.000%		3,994,298
Hermosa Beach School District debt service 2005 refunding	100.000%		<u>5,625,074</u>
Total city direct debt			<u>10,783,773</u>
Total direct and overlapping debt			<u>\$ 21,913,006</u>
Direct Debt	0.220%		
Overlapping Debt	0.230%		
Total Debt	0.450%		

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			
	2002	2003	2004	2005
Assessed valuation	\$ 2,425,823,846	\$ 2,626,125,947	\$ 2,874,383,847	\$ 3,141,870,060
Conversion percentage	25%	25%	25%	25%
Adjusted assessed valuation	\$ 606,455,962	\$ 656,531,487	\$ 718,595,962	\$ 785,467,515
Debt limit percentage	15%	15%	15%	15%
Debt limit	\$ 90,968,394	\$ 98,479,723	\$ 107,789,394	\$ 117,820,127
Total net debt applicable to limit	\$ -	\$ -	\$ -	\$ -
Legal debt margin	<u>\$ 90,968,394</u>	<u>\$ 98,479,723</u>	<u>\$ 107,789,394</u>	<u>\$ 117,820,127</u>
Total debt applicable to the limit as a percentage of debt limit	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

		Fiscal Year									
		2006	2007	2008	2009	2010	2011				
\$	3,497,977,443	\$	3,930,224,784	\$	4,382,493,918	\$	4,705,847,448	\$	4,823,727,991	\$	4,862,223,524
	25%		25%		25%		25%		25%		25%
\$	874,494,361	\$	982,556,196	\$	1,095,623,480	\$	1,176,461,862	\$	1,205,931,998	\$	1,215,555,881
	15%		15%		15%		15%		15%		15%
\$	131,174,154	\$	147,383,429	\$	164,343,522	\$	176,469,279	\$	180,889,800	\$	182,333,382
\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
\$	<u>131,174,154</u>	\$	<u>147,383,429</u>	\$	<u>164,343,522</u>	\$	<u>176,469,279</u>	\$	<u>180,889,800</u>	\$	<u>182,333,382</u>
	0%		0%		0%		0%		0%		0%

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)
2002	19,175	301,002,945	30,828	51,979	1.4%	1,471
2003	19,365	310,043,501	31,452		1.7%	1,489
2004	19,549	329,048,068	33,179	58,927	1.8%	1,498
2005	19,608	342,231,121	34,426	70,777	2.3%	1,475
2006	19,435	369,174,348	37,362	124,479	1.9%	1,462
2007	19,474	390,295,865	39,794	102,630	2.0%	1,449
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	19,557	-	-	-	5.5%	1,420

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). Not available for 2010 or 2011.

(3) Personal Income figures for 2002, 2004, 2005, 2006, 2007 and 2008 are from the Internal Revenue Service individual income tax statistics by zip code and for 2000 from the U.S. Census Bureau, Census 2000. 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	2011		2002	
	Number of employees	Percent of total employment	Number of employees	Percent of total employment
24 Hour Fitness	175	3.62%		
City of Hermosa Beach	163	3.37%	194	0.00%
Hope Chapel	120	2.48%	130	0.00%
Von's Companies	117	2.42%	105	0.00%
Hermosa Beach School District	113	2.34%	100	0.00%
Hennesey's Tavern	94	1.95%	100	0.00%
Shorewood Realtors, Incorporated	87	1.80%		
Ralph's Grocery	69	1.43%	65	0.00%
First Steps for Kids, Inc.	60	1.24%		
Comedy & Magic Club	59	1.22%	55	0.00%
Albertson's			65	0.00%
Patrick Molloy's			55	0.00%
Rocky Cola			47	0.00%

Source: City of Hermosa Beach Finance Department

¹Percent of total employment is not available for 2002.

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

<u>Function</u>	Full-time employees as of June 30									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General government	19	20	20	19	18	19	23	19	16	16
Public safety	95	88	89	98	89	90	87	92	95	72
Community development	8	9	9	8	8	9	6	8	8	9
Culture and recreation	5	4	5	5	5	4	4	4	2	3
Public works	22	23	20	23	20	20	24	20	20	16
Total	<u>149</u>	<u>144</u>	<u>143</u>	<u>153</u>	<u>140</u>	<u>142</u>	<u>144</u>	<u>143</u>	<u>141</u>	<u>116</u>

<u>Function</u>	Part-time employees as of June 30									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General government	-	-	-	-	-	-	-	-	-	-
Public safety	14	26	17	17	23	13	9	14	13	26
Community development	1	2	2	3	3	1	2	2	-	1
Culture and recreation	21	25	27	32	35	32	29	24	22	20
Public works	-	-	1	-	2	1	-	-	-	-
Total	<u>36</u>	<u>53</u>	<u>47</u>	<u>52</u>	<u>63</u>	<u>47</u>	<u>40</u>	<u>40</u>	<u>35</u>	<u>47</u>

Source: City of Hermosa Beach Finance Department

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

	Fiscal Year					Fiscal Year				
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Public safety										
Police:										
Physical arrests	1,027	1,343	1,413	1,064	887	896	933	648	665	795
Traffic citations issued	3,086	3,631	3,372	2,101	1,518	1,681	2,490	2,503	2,798	1,593
Parking citations issued	45,339	46,342	49,379	54,010	47,770	48,329	59,656	52,080	47,620	63,010
Fire:										
Number of emergency calls	1,681	1,717	1,923	2,023	2,136	2,255	2,088	2,273	2,162	2,149
Inspections	-	391	28	182	467	751	312	965	908	436
Community development:										
Building permits issued	636	691	676	696	762	597	637	511	451	567
Culture and recreation:										
Number of recreation classes	139	139	135	159	165	186	171	138	165	172
Total enrollment	5,112	4,778	4,616	5,969	5,228	5,128	4,272	3,744	3,776	3,798
Public works:										
Graffiti removal (hours)	285	410	456	217	414	474	461	341	540	468
Permits issued	528	567	529	706	875	821	1,071	643	611	564

Source: Various city departments.

Note:

Indicators are not available for Fire emergency calls in 2001 or Fire inspections in 2001 and 2002.

Emergency calls for 2003-2008 were only available for January through June.

Fire Inspection totals for 2003 through 2005 were only available for January through June.

City of Hermosa Beach

Capital Asset Statistics by Function

Last Ten Fiscal Years

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Public safety										
Police:										
Police stations	1	1	1	1	1	1	1	1	1	1
Parking meters ¹	1,611	1,611	1,666	1,666	1,666	1,666	1,666	1,666	1,663	1,671 ²
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)	33	33	34	34	34	34	34	34	34	34
Streets (miles)	40	40	40	40	40	40	40	40	40	40
Streetlights	399	399	399	399	392	392	392	392	392	392
Storm drains (miles)	1	1	1	1	1	1	1	1	1	1
Traffic Signals	17	17	17	17	17	17	18	18	18	18
Infiltration (miles)										0.6

Source: City of Hermosa Beach Finance Department

¹Number of parking meters is not available for fiscal years 1997-2001.

²The City purchased 24 pay-by-space meters in fiscal year 2011. Eight of the machines were installed during the year and the remaining sixteen meters will be installed during fiscal year 2012.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the basic financial statements of the City of Hermosa Beach, California (City), as of and for the year ended June 30, 2011, and have issued our report thereon dated December 27, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the City Council and others within the City and is not intended to be and should not be used by anyone other than these specified parties.

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
Irvine, California
December 27, 2011