



**City of Hermosa Beach,
California**

**Comprehensive
Annual
Financial
Report**

For the year ended June 30, 2012

CITY OF HERMOSA BEACH
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ended

June 30, 2012

Prepared by:

Finance Department

City of Hermosa Beach
Comprehensive Annual Financial Report
For the year ended June 30, 2012

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City of Hermosa Beach

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

February 4, 2013

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

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, 2012. 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 on page 3.

The City complied, as of last fiscal year, with the newest GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which was 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 are now 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.

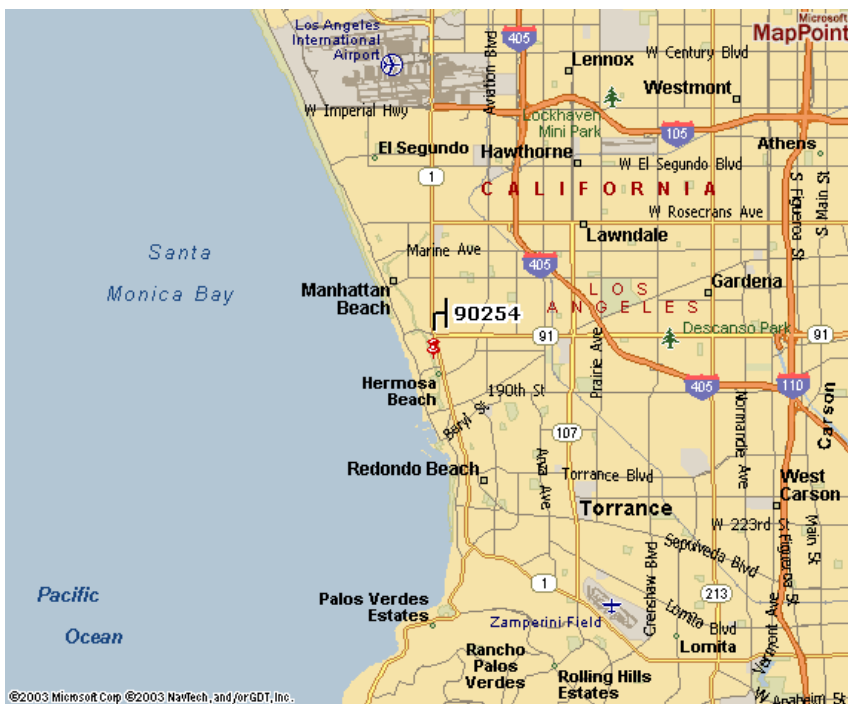
Audit

The City of Hermosa Beach's financial statements have been audited by Pun & McGeedy, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Hermosa Beach for the fiscal year ended June 30, 2012, 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, 2012, 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 19,574, 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 2011-12 fiscal year, beach attendance ranged from a low of 151,000 in March 2012 to a high of 853,000 in July 2011, 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 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 2010 Profile of the City of Hermosa Beach*, produced in 2011 by the Southern California Association of Governments (SCAG), is shown below. The report is produced every two years, with the next release in May 2013. Since the 2010 data is still useful to the reader, the information is included here along with selected information from the 2010 U.S. Census.

2010 STATISTICAL SUMMARY		US CENSUS BUREAU QUICK FACTS		
Category	Hermosa Beach	Category	Hermosa Beach	California
Median Age	39	Persons under 5 years, 2010	5.1%	6.8%
Non-Hispanic White	80.9%	Persons under 18 years, 2010	15.9%	25.0%
Hispanic	8.4%	Persons 65 years and over, 2010	9.0%	11.4%
Non-Hispanic Asian	5.6%	Female persons, 2010	47.3%	50.3%
Non-Hispanic Black	1.1%	Bachelor's Degree or higher, persons age 25+, 2007-2011	69.9%	30.2%
Non-Hispanic American Indian	0.1%	High School graduate or higher, persons age 25+, 2007-2011	98.5%	80.8%
Non-Hispanic All Other	3.9%	Per capita money income in the past 12 months (2011 dollars), 2007-2011	\$ 69,857.00	\$ 29,634.00
Homeownership Rate	44.0%	Persons below poverty level, 2007-2011	3.6%	14.4%
Average Household Size	2	Median value of owner-occupied housing units, 2007-2011	\$ 1,000,001.00	\$ 421,600.00
Median Household Income	\$111,230	Housing units in multi-unit structures, 2007-2011	48.4%	30.8%
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 pages 79-80. For non-major governmental funds with appropriated annual budgets, this comparison is presented as Supplementary Information, after the Notes to the Financial Statements.

Factors Affecting Financial Condition

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

Local economy. Hermosa Beach is a “bedroom community” as evidenced by a household count of +10,000 and an in-city business count of under 1,000 (excluding apartments and home occupations) Hermosa Beach had growth of 1.7% in secured and unsecured assessed valuation, as compared to 1.3% for Los Angeles County. In the past five years, the increase in assessed valuation averaged 4.97% as compared to 10.18% 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 2012 were \$1,065,000, compared to \$330,000 for Los Angeles County. The Hermosa Beach median home price for June 2011 was \$855,000 and the average median price was \$891,833. The average median home price for Hermosa Beach for fiscal year 2011-12 was \$965,375. 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 4.9%, compared with 11.1% for Los Angeles County, and 10.7% for California as of June 2012.

General Fund Secured property taxes increased 3% in 2011-12 and on average, 6%, over the past five years. As mentioned earlier, property adjacent to the beach has held its value as compared to property in the inland areas.

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 2011-12 are up 12% and are consistent with the sales tax revenue level in 2007-08. Receipts are not expected to remain at this level however since a pre-owned auto dealer recently moved to another City. The City’s highest category of sales tax is Eating and Drinking Places (35% of total) followed by Other Retail Stores (14% of total).

Transient occupancy tax (the tax on hotel stays) grew 12% over 2010-11 which is great news for the local economy. Receipts of almost \$1.9 million are back to the pre-recession level received in 2007-08. Average occupancy for 2011-12 was 76.9% for Hermosa Beach compared to last year’s rate of 69.3%. Hermosa Beach has eight hotels and one youth hostel, with rooms capacity ranging from 17 rooms to 106 rooms.

Utility user tax (UUT) revenue is virtually flat year over year at \$2.5 million and is approximately 10% less than the highest year of 2006-07. 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 fourth quarter and final quarterly UCLA Forecast for 2012 indicates growth through mid- 2012 will be less than 2% annually but pick up quickly and exceed 3% for most of 2014, with housing activity leading the way. Unemployment will stay close to 7.9% but gradually decline to

7.2% at the national level. In California, the prediction is that employment is expected to grow by 1.3% in 2013 and 2.4% in 2014. Real personal income growth is forecast to be 1.8% in 2013 and 43.1% in 2014. Unemployment is expected to fall through 2013 and will drop to 8.4% in 2014.. Hermosa Beach fares much better with unemployment estimated at 4.9%, stronger assessed valuations on property and positive local trends in revenue as discussed above. While trends suggest that the local economy is improving, the sustainability of these improved levels is what remains to be seen.

California Public Employees Retirement System (CalPERS). The City was successful in negotiating two tier rates for all bargaining units for new employees beginning in 2011-12, which reduced over 50% for miscellaneous employees and 60-67% for public safety employees. As of June 30, 2012, the City has nine (9) Tier 2 miscellaneous employees and three (3) Tier 2 safety employees. CalPERS rates for Tier 1 employees increase approximately 3 points (% of payroll) and less than 1 point for Tier 2 employees from 2011-12 to 2012-13.

CalPERS investment return as of June 2012 was a scant .1%, however the return as of this writing for calendar year 2012 is 13.3% which is the highest return since 2005.

The City created a Retirement Stabilization Fund in 2003-04 to plan for anticipated rate increases. This amount now appears as part of the “assigned” balance in the General Fund in the amount of \$760,482.

State Budget. The required dissolution of Redevelopment Agencies in California affected most cities in California. Hermosa Beach was not affected since we do not have a redevelopment agency. Historically, the State has often looked to city revenues to help close the State budget gap. With the passage of the Proposition 30 tax increase in November 2012 and an additional \$7-9 billion in additional revenue to the state, perhaps city revenue will be bypassed in the State budget balancing act for the near future.

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 2011-12, the City Council determined that all unspent funds in the General Fund (\$2,075,589) would be transferred to the Insurance Fund to fund insurance liabilities and costs of the MacPherson Oil lawsuit settlement and proposed new oil project which are discussed in detail in the Notes to the Financial Statements (Note 15). The City Council makes changes as necessary to the year- end transfer, depending on the equity in the funds or based on other needs.

For purposes of the financial statements, \$3.5 million is recorded in the Insurance Fund as a settlement payable related to the proposed oil development. Almost \$1.6 million has been committed in the General Fund in the 2012-13 Budget, so this liability may be moved in the future.

Prior to GASB 54, the Contingency Fund was a separate fund. The balance of \$3,967,339 is now in the General Fund as part of the "Assigned" balance.

The Compensated Absences Fund was also a separate fund. The balance of \$297,262 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 design of improvements for the Pacific Coast Highway/Aviation corridor, a strategic plan for the Civic Center Complex and installation of 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, corporate notes, certificates of deposit and the State Treasurer's investment pool. The average maturity was 28 months, with an average weighted yield on investments of .45%. 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 has paid employee contributions as a negotiated benefit for many years however, as of this writing, the City negotiated for employees to begin paying the entire share of the employee contribution over the next three years. 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 47 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 2011 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, 2011. This was the twenty-second 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 Vilma Warner, our new Accounting Supervisor and Gina Konrad, Finance Department Administrative Assistant. 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, Pun & McGeady, LLP, for their assistance and support in preparation of the report. Credit also must be given to the Mayor and the City Council for their continuing support for maintaining the highest standards of professionalism in the management of the City of Hermosa Beach's finances.

Respectfully submitted,



Viki Copeland
Finance Director

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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, 2011

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.



Christopher P. Mouill

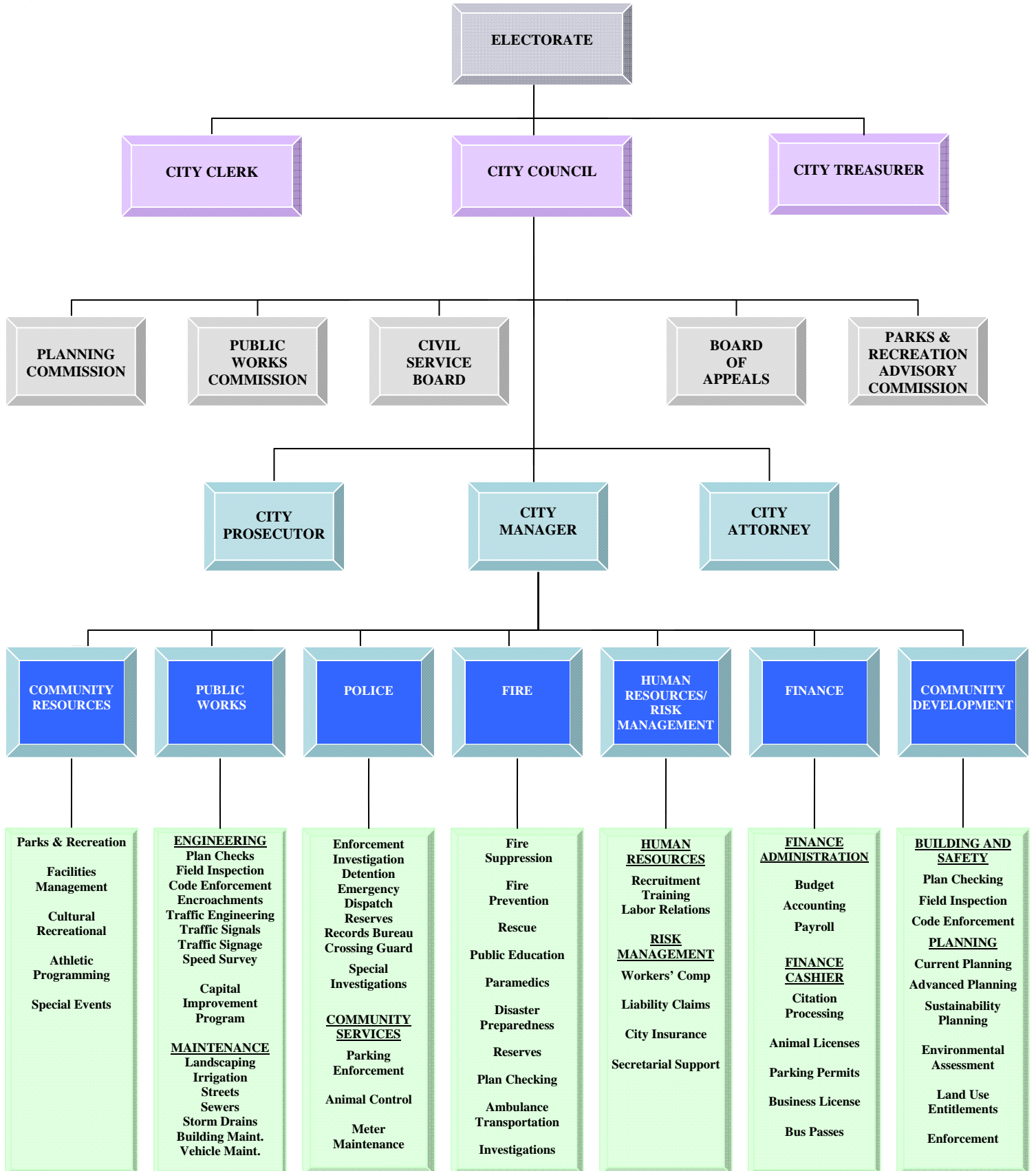
President

Jeffrey R. Emer

Executive Director



CITY OF HERMOSA BEACH ORGANIZATIONAL CHART



PRINCIPAL OFFICIALS OF THE CITY OF HERMOSA BEACH, CALIFORNIA

June 30, 2012

Elected and Administrative Officials

City Council

Jeff Duclos
Patrick "Kit" Bobko
Michael DiVirgilio
Peter Tucker
Howard Fishman

Mayor
Mayor Pro Tempore
Councilmember
Councilmember
Councilmember

Other Elected Officials

David Cohn
Elaine Doerfling

City Treasurer
City Clerk

Administrative Officials

Tom Bakaly
Diane Strickfaden

Viki Copeland
Ken Robertson

Steve Johnson
David Lantzer
Frank Senteno

City Manager
Assistant to the City
Manager
Finance Director
Community Development
Director
Interim Chief of Police
Fire Chief
Public Works Director

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INDEPENDENT AUDITORS' REPORT

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

We have audited 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 (the "City"), as of and for the year ended June 30, 2012, 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgets and Budgetary Accounting, Budgetary Comparison Schedule, and Schedule of Funding Progress for the City's Pension and OPEB Plans on page 3 to 13 and 78 to 81 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 basic financial statements. The accompanying Introductory Section, Combining and Individual Fund Financial Statements and Budgetary Comparison Schedules, and Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Combining and Individual Fund Financial Statements and Budgetary Comparison Schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining and Individual Fund Financial Statements and Budgetary Comparison Schedules are fairly stated in all material respects in relation to the basic financial statements as a whole. The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on them.

A handwritten signature in black ink that reads "Ron Mc Geady" followed by "LLP". The signature is written in a cursive, slightly slanted style.

Irvine, California
February 4, 2013

Management's Discussion and Analysis

As management of the City of Hermosa Beach, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Hermosa Beach for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages v-xi of this report.

Financial Highlights

- The net assets of the City of Hermosa Beach exceeded its liabilities at the close of the last fiscal year by \$79,968,000. Of this amount, \$10,590,000 are unrestricted net assets and may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets decreased by \$1,976,000. Net assets of governmental activities increased \$7,184,000 while net assets of business-type activities decreased \$ 9,160,000. The business-type activity decrease was due to the closure of the Downtown Enhancement Enterprise Fund into the General Fund. The decline in governmental activities was due to the recording of a \$3,500,000 liability for the oil settlement and proposed oil project in the Insurance Fund (See Note 15). If this transaction was not recorded, the increase in governmental activities would have been \$1,524,000.
- As of June 30, 2012, the City of Hermosa Beach's governmental funds reported combined ending fund balances of \$10,742,000, an increase of \$672,000 in comparison with the prior year. This increase is comprised of a 4% increase in revenue, a 4% decrease in expenditures.
- At the end of the current fiscal year, the City of Hermosa Beach's governmental fund balances of \$10,742,000 are comprised of: nonspendable funds, \$15,771; restricted, \$3,860,000; committed, \$128,000; and assigned, \$6,738,000 to indicate that funds are not available for new spending. The City has no unassigned fund balance at year end. Although funds are shown in the committed or assigned category, the City Council still does have discretion over the use of these funds and may change the committed or assigned use. Under that scenario, approximately 64%, or \$6,870,000 of the \$10,742,000 in funds could be redirected at the discretion of the City Council.
- In the General Fund, committed and assigned fund balance was \$5,787,000 or 24% of total General Fund expenditures.
- 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 basic financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

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

The **Statement of Net 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 mainly 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 until June 30, 2012 when this fund was closed to the General 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 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-four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the funds below, which are considered to be major funds:

General Fund Grant 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-two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the 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. In the future, these operations will be in the General Fund. **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 36-39 of this report.

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

The fiduciary fund financial statements can be found on page 44 of this report.

Notes to the basic 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 basic financial statements can be found on pages 47-76 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 pages 78-81 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. Combining and individual fund statements and schedules can be found on pages 88-126 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, 2012, assets exceeded liabilities by \$79,968,000.

By far the largest portion of the City of Hermosa Beach’s net assets, \$65,519,000 (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, 2012 (dollars in thousands)</i>						
	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
Current and Other Assets	\$ 30,787	\$ 28,472	\$ -	\$ (486)	\$ 30,787	\$ 27,986
Capital Assets	65,519	56,693	-	9,999	65,519	66,692
Total Assets	96,306	85,165	-	9,513	96,306	94,678
Current Liabilities	5,334	6,219	-	353	5,334	6,572
Long-term Liabilities	11,004	6,162	-	-	11,004	6,162
Total Liabilities	16,338	12,381	-	353	16,338	12,734
Net Assets:	79,968	72,784	-	9,160	79,968	81,944
Invested in Capital Assets	65,519	56,693	-	9,999	65,519	66,692
Restricted	3,860	1,968	-	-	3,860	1,968
Unrestricted	10,589	14,123	-	(839)	10,589	13,284
Total Net Assets	\$ 79,968	\$ 72,784	\$ -	\$ 9,160	\$ 79,968	\$ 81,944

A portion of the City of Hermosa Beach’s net assets \$3,860,000 or (5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$10,589,000 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 of the Downtown Enhancement Fund at June 30, 2012 were closed to the General Fund. The outstanding loans from the Equipment Replacement Fund and Insurance Fund for the storage facility carried by the Downtown Enhancement Fund were fully paid off so no liability was carried over to the General Fund.

The government's net assets decreased by \$1,976,000 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, 2011 and June 30, 2012.

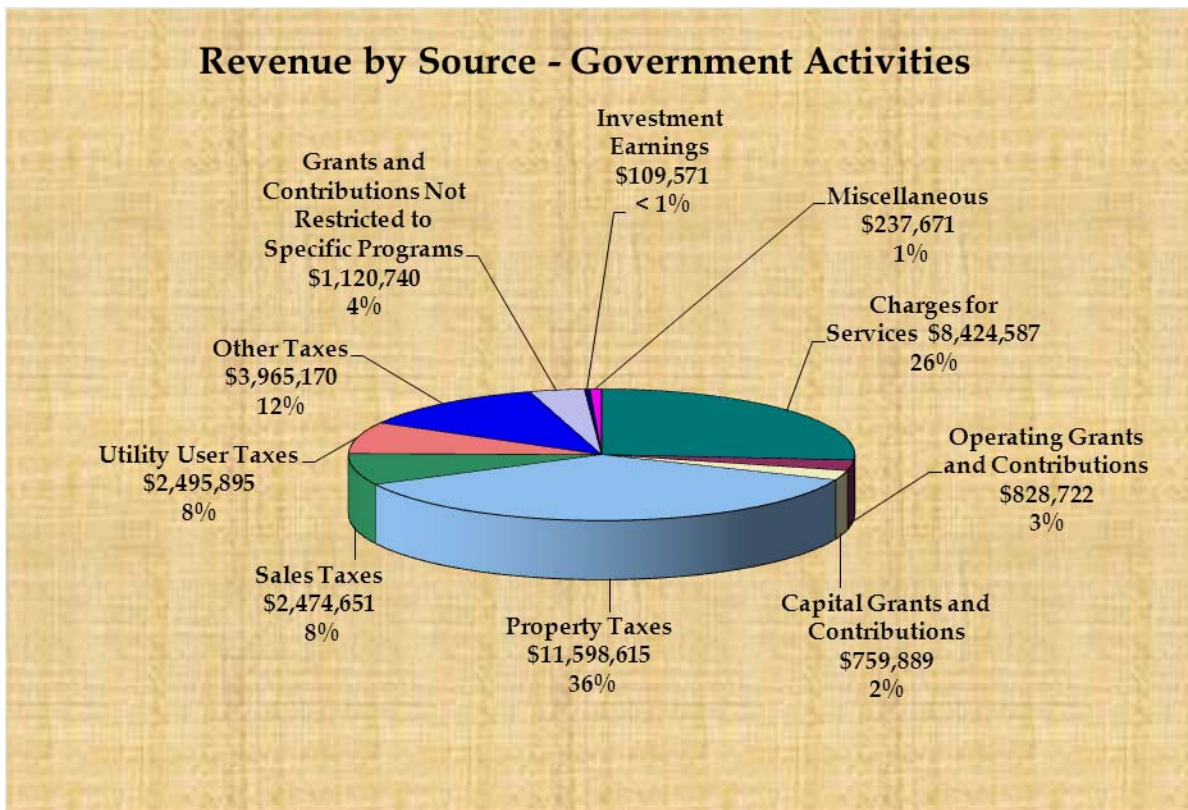
Governmental activities. Governmental activities increased the City of Hermosa Beach's net assets by \$7,184,000. Significant elements of this increase are as follows:

Changes in Net Assets						
June 30, 2012						
(dollars in thousands)						
	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues:						
Charges For Services	\$ 8,425	\$ 7,991	\$ 1,649	\$ 1,410	\$ 10,074	\$ 9,401
Operating Grants and Contributions	829	701	-	-	829	701
Capital Grants and Contributions	760	903	-	-	760	903
General Revenues:						
Property Taxes	11,599	11,519	-	-	11,599	11,519
Other Taxes	8,936	8,270	-	-	8,936	8,270
Grants and Contributions Not						
Restricted to Specific Programs	1,121	1,667	-	-	1,121	1,667
Other	347	444	11	35	358	479
Total Revenues	32,017	31,495	1,660	1,445	33,677	32,940
Expenses:						
Legislative and Legal	4,677	973	-	-	4,677	973
General Government	2,377	3,103	-	-	2,377	3,103
Public Safety	18,180	17,698	-	-	18,180	17,698
Community Development	1,235	1,224	-	-	1,235	1,224
Culture and Recreation	1,038	1,133	-	-	1,038	1,133
Public Works	7,239	6,725	-	-	7,239	6,725
Downtown Enhancement	-	-	907	878	907	878
Total Expenses	34,746	30,856	907	878	35,653	31,734
Increase (Decrease) in Net Assets						
Before Transfers	(2,729)	639	753	567	(1,976)	1,206
Transfers	66	259	(66)	(259)	-	-
Transfer of Operations of						
Downtown Enhancement Fund	9,847	-	(9,847)	-	-	-
Increase (Decrease) in Net Assets	7,184	898	(9,160)	308	(1,976)	1,206
Net Assets - 7/1/11	72,784	71,886	9,160	8,852	81,944	80,738
Net Assets - 6/30/12	\$ 79,968	\$ 72,784	\$ -	\$ 9,160	\$ 79,968	\$ 81,944

Revenue for Governmental Activities

- Charges for services increased \$434,000 or 5.4% primarily due to an increase across all divisions as a result of a user fee study. The most notable increases were in development related fees and ambulance transport fees which are set in accordance with Los Angeles County rates. Off street parking collections increased 18% due to the change from attended parking in the lots to pay by space meters.

- Other Taxes increased \$666,000, approximately 8%, as a result of 12% increases in sales tax revenue and 12% transient occupancy tax (tax on hotel stays). Business license tax revenue increased \$143,000 or 18% as a result of a voter approved business license tax increase.
- Capital Grants and Contributions decreased by \$143,000 or 16%. Grant amounts vary from year to year. In 2011, grant revenue of \$903,000 was comprised primarily of grants for the Pier Avenue Improvement Project and the 8th Street Improvement. In 2012, grants of approximately \$760,000 are related to the rehabilitation of beach restrooms, Pier structural repairs, energy efficient street lights and the traffic signal at Valley Middle School.
- Grants and Contributions Not Restricted to Specific Programs decreased by \$546,000 or 33% due to a prior year Proposition A Fund exchange of \$544,000.
- Other revenue decreased primarily due to a one-time donation of \$50,000 received in 2011 for the Hermosa Surfer's Wall of Fame.



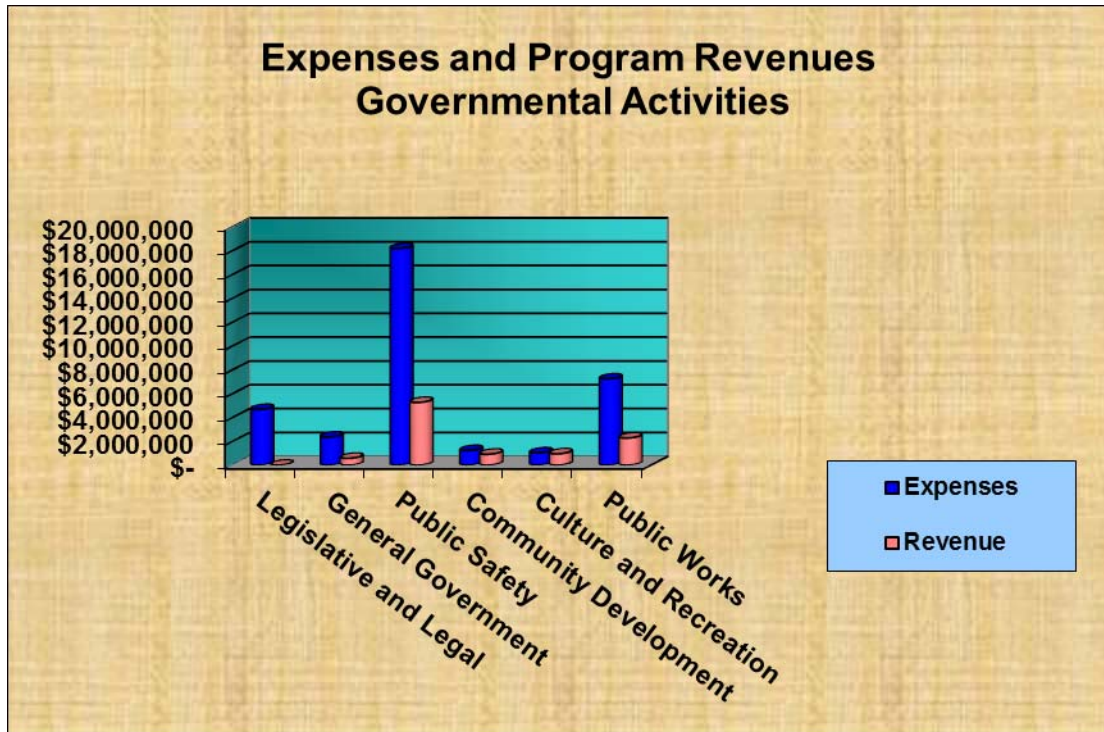
Expenses for Governmental Activities

Expenses for Governmental Activities increased by \$3,890,000, primarily due to the recording of the liability related to the oil settlement and proposed oil project. Without the recording of that liability, expenses increased \$390,000, or only 1%.

Legislative and Legal expenses increased \$3,704,000 primarily due to the recording of a \$3,500,000 liability for settlement of the MacPherson Oil Company litigation and a newly proposed oil development, which is discussed in Note 15 of the Notes to the Basic Financial Statements. The increase otherwise is related primarily to an increase in legal fees for litigation and costs of an election.

General Government decreased by (\$726,000) or 24%. The primary reason for the decrease was a Proposition A fund exchange in the prior year. Increases included funding for online and phone citation payments, online business license renewals and funding for the solid waste franchise agreement.

Public Safety increased by \$482,000 or 3%. The increase is mainly related to Insurance Fund costs, which are allocated in total among the various functions for purposes of the government-wide statement. Public Safety received a high share based on claims activity and vehicle charges.



Culture and Recreation decreased by (\$95,000) or 8%. There were lower expenditures for part time employees in the amount of \$49,000 and decreases in equipment charges of \$45,000.

Public Works increased by \$514,000 or 8%. The increase in expense is related to capital projects that are added as maintenance expense rather than capital assets. In the Street Light and Landscaping fund, contract services increased by \$9,000 with the addition of the Pier Avenue Palm landscape maintenance, Utilities and Materials increased by \$24,000.

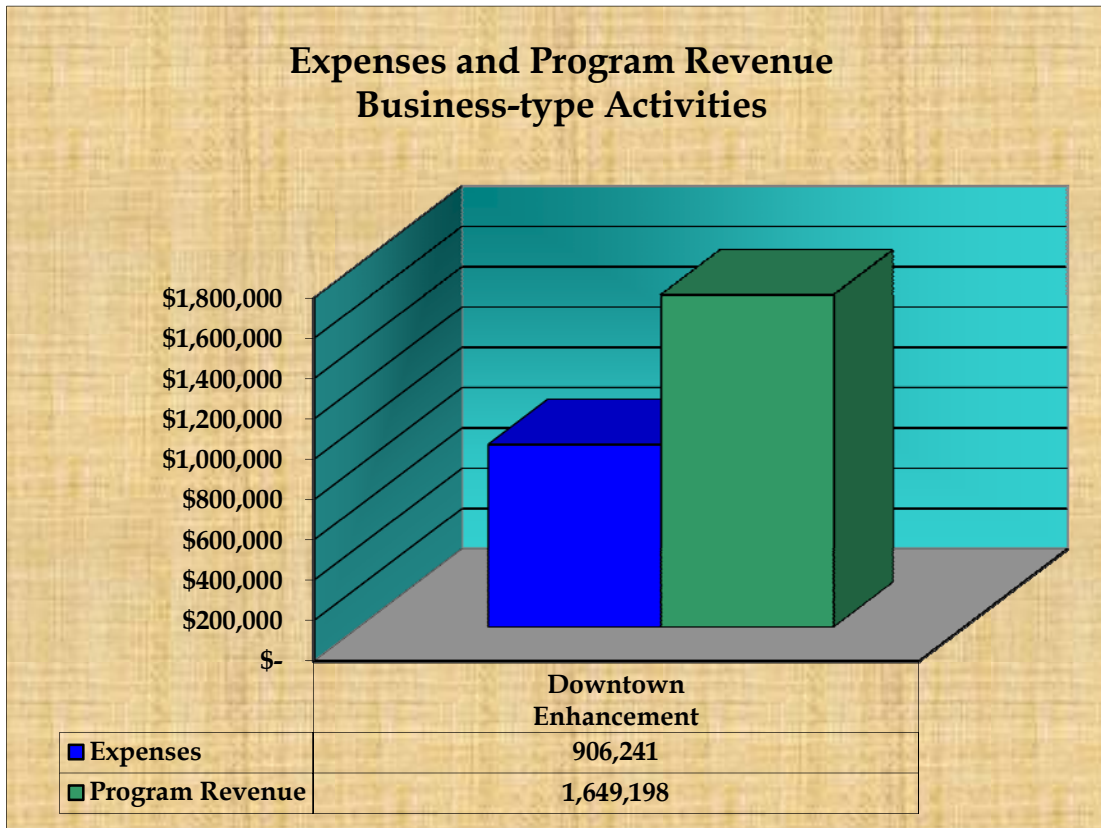
Business-type activities. Net assets for business-type activities decreased by \$9,160,000 as a result of closing the Downtown Enhancement Fund into the General Fund. The primary activity in this fund is off-street parking.

Revenue for Business- type Activities

- Charges for Services increased due to the installation of pay-by-space parking meters in the downtown parking lots and the North Pier Parking Structure in place of attended parking. These meters allow the use of credit or debit cards to pay for parking fees as well as cash keys and coins.

Expenses for Business-type Activities

- Primary expenses of the Downtown Enhancement operation are lot operating expenditures and the 50% share of revenue paid to Los Angeles County Beaches and Harbors who provided funds to build the structure. Due to the installation of pay-by-space meters, the County's share of the parking structure net income increased by 21% over 2010-11.



Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City of Hermosa Beach's governmental funds reported combined ending fund balances of \$10,742,000, an increase of \$672,000 (6%), in comparison with the prior fiscal year. The total fund balance of the governmental funds consists of the following:

- Nonspendable fund balance of \$15,771 represents prepaid items.
- Restricted fund balance of \$3,860,192, which have restrictions imposed by external parties or enabling legislation.
- Committed fund balance of \$128,007 which have reserves for capital outlay and future renovations.
- Assigned fund balance of \$6,737,751 which includes the amounts to be used for specific purposes of the City, but do not meet the criteria to be classified as restricted or committed.

Two funds qualified as major funds under the GASB Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*, reporting criteria: the General Fund and the Grant Fund.

The General Fund balance increased in fiscal year 2011-12 by \$203,000. Overall, the General Fund's performance resulted in revenues exceeding expenditures in the year ended June 30, 2012 by \$3,905,000. Overall revenue increased by 5%, with significant changes as follows; Taxes increased by \$704,000 or 4%, mainly as result of an increase in sales tax and transient occupancy tax. Parking fines increased \$286,000 or 14% as a result of converting attended lots to pay by space meters; The Use of the Money and Property generated increased revenue of \$161,615 due to higher Community Center revenue; Charges for services increased \$341,000 mainly due to an increase across all divisions as a result of a user fee study. The most notable increases were in development related fees and ambulance transport fees which are set in accordance with Los Angeles County rates.

Appropriations increased by only 2%. Funds in the amount of \$566,343 will be re-appropriated to 2012-13; over \$1,000,000 was transferred out for capital improvements and \$2,075,589 was transferred to the Insurance Fund at year end.

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.

On June 30, 2012, the Downtown Enhancement enterprise Fund was closed out to the General Fund. See Note 12 of the Notes to the Basic Financial Statements. See also the earlier discussion of business-type activities which relates only to the Downtown Enhancement Fund.

General Fund Budgetary Highlights

The final amended budget for revenue other than transfers is .08% more than the original budget. Actual revenue was higher than the final budget by \$712,000 or 3% for the following reasons:

- Other taxes revenue collections were 5% higher than budget primarily due to conservative estimates for transient occupancy tax, sales tax, utility users' tax and business license tax.
- Charges for Services were 4% higher than the budget with increases across all divisions and significant increases in Parking Meters and Ambulance Transport.
- Use of Money and Property increased by 47% primarily due to an increase in the Community Center Rentals, an increase in revenue from Special Events and a Community Development Block Grant funds exchange.

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

Actual expenditures were less than the final appropriations by \$1,886,000 (7%). The largest variances can be summarized as follows:

- General Government expenditures were less than budget by \$275,000 due to the following: the Assistant to the City Manager position was not filled and contract services for online and telephone citation processing will be paid in 2012-13.
- Public Safety expenditures were less than budget by \$1,150,000 primarily due to the early unfilled paramedic positions, a police captain, and three non-sworn employees in the Police Department.

- Less coverage of the Senior Building Inspector unfilled vacancy was the main factor for Community Development expenditures being under budget by \$70,000.
- Expenditures in the Capital Outlay category were less than budgeted by \$212,000; capital outlay projects are normally executed in more than one year.

The City implemented Governmental Accounting Standards Board (GASB) Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in last year's CAFR which required Contingencies, Compensated Absences and Retirement Stabilization Special Revenue Funds to be reported as part of the General Fund and shown as assigned fund balances. Since the change was made in the 2010-11 CAFR and in the 2011-12 Budget, a budget timing difference (budget to actual) appears in the 2011-12 CAFR.

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, 2012, amounts to \$65,519,000 (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 decrease in the City of Hermosa Beach's investment in capital assets for the 2011-12 fiscal year was less than 2%.

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

Governmental Activities

- Completion of a major renovation of the Pier Avenue/Hermosa Avenue to PCH street project started in January 2010.
- Electric vehicle charging stations and pay-by-space meters were installed in 2011-12.
- Construction in progress on Beach Restroom Rehabilitation was \$1,025,000 at the end of the fiscal year.
- Installation of a traffic signal at Valley Drive School with \$129,000 cost.
- The Energy Efficiency and Conservation Block Grant of \$108,000 was used for the replacement of energy saving streets lights.

Additional information on the City of Hermosa Beach's capital assets can be found in Note 6 on pages 61-63 of this report.

Economic Factors and Next Year's Budgets and Rates

On June 27, 2012, the Council adopted a balanced budget for 2012-13 Budget, while managing to maintain the goal amount of 15% of appropriations for contingencies, increasing funds committed for Retirement Stabilization by almost \$240,000 to a total of \$1,000,000 and committing almost \$1,600,000 for contingencies associated with the newly proposed oil agreement.

After implementing a two tier retirement system effective July 2011 and completing two rounds of early retirement incentives, the budgeted salary costs for 2012-13 are 11% lower than 2009-10. There was a 13% reduction in positions over the same period.

Revenue Trends and Assumptions. As previously presented in this report, the Downtown Enhancement Fund was combined with the General Fund. Total revenue for the General Fund is estimated at approximately \$30 million. The overall revenue increase is 8%, with 5.5% of that increase resulting from the addition of Downtown Enhancement Fund revenue to the General Fund. User fee increases adopted as a result of the cost of service study are being implemented over two years; the first phase was effective on 9/1/2011; the second phase was effective on 9/1/2012. Also, an increase to business licenses schedule was amended by voters in November 2011. Property tax is estimated to increase by 2% while sales tax is estimated to increase by 8%.

New Labor Agreements. Since the end of the 2011-12 reporting period, the City reached agreement with all six employee bargaining units for three year agreements for 2012-2015. At the end of the three year period, the City will no longer pay the employee's contribution to the retirement system. The cost will be fully borne by the employee. The State also adopted pension reform which is effective 1/1/13 that will provide new reduced formula plans for all employees that are new members of the retirement system.

Hermosa Beach has no debt and no redevelopment agency, therefore has no adverse affects in these areas.

Requests for Information

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

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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City of Hermosa Beach
Statement of Net Assets
June 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities (1)	Total
ASSETS			
Current assets:			
Cash and investments	\$ 27,801,497	\$ -	\$ 27,801,497
Accounts receivable	1,374,128	-	1,374,128
Property taxes receivable, net	727,369	-	727,369
Reimbursable grants receivable	431,700	-	431,700
Interest receivable on investments	29,515	-	29,515
Other receivables	6,842	-	6,842
Deposits	165,000	-	165,000
Other assets	251,593	-	251,593
Total current assets	30,787,644	-	30,787,644
Noncurrent assets:			
Capital assets:			
Non-depreciable	24,209,338	-	24,209,338
Depreciable, net	41,309,398	-	41,309,398
Total capital assets, net	65,518,736	-	65,518,736
Total noncurrent assets	65,518,736	-	65,518,736
Total assets	96,306,380	-	96,306,380
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	1,439,576	-	1,439,576
Accrued wages and benefits payable	843,061	-	843,061
Refundable deposits	359,465	-	359,465
Unearned revenue	250,557	-	250,557
Workers' compensation claims payable - due within one year	933,282	-	933,282
General liability claims payable - due within one year	417,109	-	417,109
Compensated absences - due within one year	1,090,963	-	1,090,963
Total current liabilities	5,334,013	-	5,334,013
Noncurrent liabilities:			
Workers' compensation claims payable - due in more than one year	6,023,268	-	6,023,268
General liability claims payable - due in more than one year	641,404	-	641,404
Compensated absences - due in more than one year	839,260	-	839,260
Settlement payable	3,500,000	-	3,500,000
Total noncurrent liabilities	11,003,932	-	11,003,932
Total liabilities	16,337,945	-	16,337,945
NET ASSETS			
Invested in capital assets	65,518,736	-	65,518,736
Restricted for:			
Capital projects	225,547	-	225,547
Street and sewer purposes	1,602,706	-	1,602,706
Transportation purposes	913,317	-	913,317
Public works	231,726	-	231,726
Public safety	511,173	-	511,173
Culture and recreation	336,770	-	336,770
Undergrounding Districts	38,953	-	38,953
Total restricted assets	3,860,192	-	3,860,192
Unrestricted	10,589,507	-	10,589,507
Total net assets	\$ 79,968,435	\$ -	\$ 79,968,435

(1) All assets, net of liabilities, were transferred to Governmental Activities on June 30, 2012. See Note 12.

City of Hermosa Beach
Statement of Activities
For the year ended June 30, 2012

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	\$ 4,677,233	\$ -	\$ -	\$ -	\$ -
General government	2,376,929	555,607	22,529	-	578,136
Public safety	18,179,929	5,112,011	155,850	1,315	5,269,176
Community development	1,235,058	860,158	63,000	-	923,158
Culture and recreation	1,037,790	957,989	-	-	957,989
Public works	7,239,076	938,822	587,343	758,574	2,284,739
Total governmental activities	34,746,015	8,424,587	828,722	759,889	10,013,198
Business-type activities:					
Downtown enhancement	906,244	1,649,197	-	-	1,649,197
Total business-type activities	906,244	1,649,197	-	-	1,649,197
Total primary government	\$ 35,652,259	\$ 10,073,784	\$ 828,722	\$ 759,889	\$ 11,662,395

City of Hermosa Beach
Statement of Activities, Continued
For the year ended June 30, 2012

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets		
	Governmental Activities	Business-type Activities	Total
Primary government:			
Governmental activities:			
Legislative and legal	\$ (4,677,233)	\$ -	\$ (4,677,233)
General government	(1,798,793)	-	(1,798,793)
Public safety	(12,910,753)	-	(12,910,753)
Community development	(311,900)	-	(311,900)
Culture and recreation	(79,801)	-	(79,801)
Public works	(4,954,337)	-	(4,954,337)
Total governmental activities	(24,732,817)	-	(24,732,817)
Business-type activities:			
Downtown enhancement	-	742,953	742,953
Total business-type activities	-	742,953	742,953
Total primary government	(24,732,817)	742,953	(23,989,864)
General Revenues:			
Taxes:			
Property taxes	11,598,615	-	11,598,615
Sales taxes	2,474,651	-	2,474,651
Real property transfer tax	177,555	-	177,555
Franchise fees	730,954	-	730,954
Transient occupancy tax	1,884,020	-	1,884,020
Business license	950,803	-	950,803
Utility users tax	2,495,895	-	2,495,895
½ cent sales tax for public safety	180,493	-	180,493
Motor vehicle in-lieu tax	41,345	-	41,345
Total taxes	20,534,331	-	20,534,331
Grants and contributions not restricted to specific programs	1,121,380	-	1,121,380
Investment earnings	109,571	6,418	115,989
Miscellaneous	237,670	4,684	242,354
Transfers	66,993	(66,993)	-
Transfer of operations of Downtown Enhancement Fund (Note 12)	9,846,982	(9,846,982)	-
Total general revenues and transfers	31,916,927	(9,902,873)	22,014,054
Change in net assets	7,184,110	(9,159,920)	(1,975,810)
Net assets - beginning of year	72,784,325	9,159,920	81,944,245
Net assets - end of year	\$ 79,968,435	\$ -	\$ 79,968,435

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FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements

Proprietary Fund Financial Statements

Fiduciary Fund Financial Statements

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

The Governmental Funds of the City are outlined below:

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

Grants Special Revenue Fund - The Grants Fund accounts for State and Federal grants for specific projects and for smaller grants from miscellaneous sources.

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

City of Hermosa Beach
Balance Sheet
Governmental Funds
June 30, 2012

	Major Funds		Nonmajor Governmental Funds	Total
	General	Grants Special Revenue		
ASSETS				
Cash and investments	\$ 7,133,088	\$ -	\$ 4,799,196	\$ 11,932,284
Accounts receivable	1,279,684	-	94,444	1,374,128
Property taxes receivable, net	697,239	-	30,130	727,369
Reimbursable grants receivable	-	431,700	-	431,700
Interest receivable on investments	20,509	-	9,006	29,515
Other receivable	3,842	-	3,000	6,842
Other assets	121,680	-	1,500	123,180
Due from other funds	288,499	-	-	288,499
Total assets	\$ 9,544,541	\$ 431,700	\$ 4,937,276	\$ 14,913,517
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 1,025,818	\$ 136,356	\$ 211,083	\$ 1,373,257
Accrued wages and benefits payable	1,852,138	-	47,880	1,900,018
Refundable deposits	359,465	-	-	359,465
Deferred revenues	250,557	-	-	250,557
Due to other funds	-	288,499	-	288,499
Total liabilities	3,487,978	424,855	258,963	4,171,796
Fund Balances:				
Nonspendable	14,271	-	1,500	15,771
Restricted	255,200	6,845	3,598,147	3,860,192
Committed	10,592	-	117,415	128,007
Assigned	5,776,500	-	961,251	6,737,751
Total fund balances	6,056,563	6,845	4,678,313	10,741,721
Total liabilities and fund balances	\$ 9,544,541	\$ 431,700	\$ 4,937,276	\$ 14,913,517

City of Hermosa Beach
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2012

Total Fund Balances - Total Governmental Funds \$ 10,741,721

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

	Government- 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	\$ 24,209,338	\$ (103,841)	24,105,497
Depreciable, net	41,309,398	(1,792,441)	39,516,957
Total capital assets	\$ 65,518,736	\$ (1,896,282)	63,622,454

Internal Service Funds were used by management to charge the costs of certain activities, such as insurance and equipment replacement to individual funds. The assets and liabilities of the Internal Service Funds were included in the governmental activities in the Government-Wide Statement of Net Assets.

Insurance Fund	383,973
Equipment Replacement Fund	6,070,764
Total Internal Service Funds	6,454,737

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

(850,477)

Net Assets of Governmental Activities \$ 79,968,435

City of Hermosa Beach
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2012

	Major Funds		Nonmajor Governmental Funds	Total
	General	Grants Special Revenue		
REVENUES:				
Property taxes	\$ 11,598,615	\$ -	\$ 457,933	\$ 12,056,548
Other taxes	8,894,371	-	827,665	9,722,036
Licenses and permits	668,405	-	-	668,405
Fines and forfeitures	2,430,891	-	44,420	2,475,311
Use of money and property	502,467	-	312,900	815,367
Intergovernmental	159,765	367,474	1,027,858	1,555,097
Charges for services	4,205,238	-	96,733	4,301,971
Miscellaneous	153,380	-	45,478	198,858
Interest earned on investments	61,758	-	47,428	109,186
Total revenues	28,674,890	367,474	2,860,415	31,902,779
EXPENDITURES:				
Current:				
Legislative and legal	1,170,820	-	-	1,170,820
General government	2,059,065	-	234,337	2,293,402
Public safety	16,374,168	16,590	213,937	16,604,695
Community development	1,165,468	-	12,228	1,177,696
Culture and recreation	961,349	-	27,916	989,265
Public works	2,755,086	1,953	1,095,279	3,852,318
Capital outlay	283,968	357,676	1,772,863	2,414,507
Total expenditures	24,769,924	376,219	3,356,560	28,502,703
REVENUES OVER (UNDER) EXPENDITURES	3,904,966	(8,745)	(496,145)	3,400,076
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of assets	2,360	-	-	2,360
Transfers in	414,771	-	1,496,329	1,911,100
Transfers out	(4,118,991)	-	(522,778)	(4,641,769)
Total other financing sources (uses)	(3,701,860)	-	973,551	(2,728,309)
NET CHANGE IN FUND BALANCES	203,106	(8,745)	477,406	671,767
FUND BALANCES:				
Beginning of year	5,853,457	15,590	4,200,907	10,069,954
End of year	\$ 6,056,563	\$ 6,845	\$ 4,678,313	\$ 10,741,721

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
For the year ended June 30, 2012

Net Change in Fund Balances - Total Governmental Funds \$ 671,767

Governmental activities in the Statement of Activities were reported differently because:

Governmental Funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The amount of capital assets recorded in the current period is listed below.

Total capital outlay expenditures reported in governmental funds	2,414,507
Less: repair and maintenance expenditures	<u>(112,558)</u>
Total	<u>2,301,949</u>

The net effect of various miscellaneous adjustments involving capital assets. (599,487)

Depreciation expense of capital assets is reported in the Government-Wide Statement of Activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds except for the Internal Service Fund amounts listed below.

Total depreciation reported in Government-Wide Statement of Activities	(2,987,824)
Less: depreciation reported in Internal Service Funds	<u>385,607</u>
Total	<u>(2,602,217)</u>

Transfer of long-term assets and liabilities from Downtown Enhancement Enterprise Fund to governmental activities. These items were not reported in the governmental funds.

Transfer of capital assets	9,858,200
Transfer of compensated absences	<u>(11,218)</u>
Total	<u>9,846,982</u>

Compensated absences were reported in the Government-Wide Statement of Activities, but they did not require the use of current financial resources. Therefore, compensated absences were not reported as expenditures in the governmental funds. 163,179

Internal Service Funds are used by management to charge the costs of certain activities, such as insurance and equipment replacement, to individual funds. The net revenue of the Internal Service Funds is reported in governmental activities. (2,598,063)

Change in Net Assets of Governmental Activities \$ 7,184,110

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PROPRIETARY FUND FINANCIAL STATEMENTS

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PROPRIETARY FUND FINANCIAL STATEMENTS

Downtown Enhancement Enterprise 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. On June 30, 2012, the Downtown Enhancement Enterprise Fund was closed out to the General Fund.

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

City of Hermosa Beach
Statement of Net Assets
Proprietary Funds
June 30, 2012

	Major Enterprise Fund Downtown Enhancement (1)	Governmental Activities Internal Service Funds
ASSETS		
Current assets:		
Cash and investments	\$ -	\$ 15,869,213
Deposits	-	165,000
Other assets	-	128,413
Total current assets	-	16,162,626
Noncurrent assets:		
Nondepreciable capital assets	-	103,841
Depreciable capital assets, net of accumulated depreciation	-	1,792,441
Total noncurrent assets	-	1,896,282
Total assets	-	18,058,908
LIABILITIES		
Current liabilities:		
Accounts payable	-	66,319
Accrued wages and benefits payable	-	22,789
Advances from other funds	-	-
Unearned revenue	-	-
Workers' compensation claims payable - due within one year		933,282
General liability claims payable - due within one year	-	417,109
Total current liabilities	-	1,439,499
Long-term liabilities:		
Workers' compensation claims payable - due in more than one year	-	6,023,268
General liability claims payable - due in more than one year	-	641,404
Settlement payable	-	3,500,000
Total long-term liabilities	-	10,164,672
Total liabilities	-	11,604,171
NET ASSETS		
Invested in capital assets	-	1,896,282
Unrestricted	-	4,558,455
Total net assets	\$ -	\$ 6,454,737

(1) This fund was closed as of June 30, 2012. See Note 12.

City of Hermosa Beach
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the year ended June 30, 2012

	Major Enterprise Fund Downtown Enhancement	Governmental Activities Internal Service Funds
OPERATING REVENUES:		
Lease revenues	\$ 256,714	\$ -
Charges for services	1,392,483	3,943,194
Miscellaneous revenue	4,684	110,371
Total operating revenues	1,653,881	4,053,565
OPERATING EXPENSES:		
Salaries and wages	59,870	238,613
Contractor services	318,572	2,268,782
Reimbursement agreement with Los Angeles County	340,790	-
Supplies	46,543	337,243
Claims expense	-	2,729,545
Depreciation	140,469	385,607
Total operating expenses	906,244	5,959,790
OPERATING INCOME (LOSS)	747,637	(1,906,225)
NONOPERATING REVENUES (EXPENSES):		
Interest earned on investments	6,418	-
Gain on disposal of capital assets	-	7,500
Settlement expense	-	(3,500,000)
Total nonoperating revenues (expenses)	6,418	(3,492,500)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	754,055	(5,398,725)
CONTRIBUTIONS AND TRANSFERS:		
Contributions	-	3,000
Transfers in	-	2,797,662
Transfers out	(66,993)	-
Transfer of long-term assets and liabilities to governmental activities (Note 12)	(9,846,982)	-
Total contributions and transfers	(9,913,975)	2,800,662
Change in net assets	(9,159,920)	(2,598,063)
NET ASSETS:		
Beginning of the year	9,159,920	9,052,800
End of the year	\$ -	\$ 6,454,737

City of Hermosa Beach
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2012

	Major Enterprise Fund	Governmental Activities
	Downtown Enhancement	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 1,666,470	\$ -
Cash received for services from other funds	-	3,945,872
Cash payments to suppliers for goods and services	(630,181)	(2,922,492)
Cash payments to employees for services	(58,756)	(249,846)
Insurance premiums and settlements	-	(1,586,734)
Net cash provided by (used in) operating activities	977,533	(813,200)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Contributions	-	3,000
Transfers in	-	2,797,662
Transfers out	(484,372)	-
Net cash provided by (used in) noncapital financing activities	(484,372)	2,800,662
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Repayment of advances to other funds	(1,023,760)	-
Cash receipts from advances to other funds	-	851,173
Acquisition of capital assets	-	(252,399)
Proceed from sale of capital assets	-	7,500
Net cash provided by (used in) capital and related financing activities	(1,023,760)	606,274
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest receivable on investments	7,948	-
Net cash provided by (used in) for investing activities	7,948	-
Net increase (decrease) in cash and cash equivalents	(522,651)	2,593,736
CASH AND CASH EQUIVALENTS:		
Beginning of year	522,651	13,275,477
End of year	\$ -	\$ 15,869,213
Noncash from operating activities:		
Transfer of operations to General Fund	\$ 417,379	\$ -
Transfer of compensated absences to the Governmental Activities	11,218	-
Total noncash from operating activities	\$ 428,597	\$ -
Noncash from capital and related financing activities:		
Transfer of capital assets to the Governmental Activities	\$ (9,858,200)	\$ -

See accompanying Notes to Basic Financial Statements.

City of Hermosa Beach
Statement of Cash Flows, Continued
Proprietary Funds
For the year ended June 30, 2012

	<u>Major Enterprise Fund Downtown Enhancement</u>	<u>Governmental Activities Internal Service Funds</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating income (loss)	\$ 747,637	\$ (1,906,225)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	140,469	385,607
Changes in operating assets and liabilities:		
Other accounts receivable	12,589	2,678
Other assets	-	(21,577)
Accounts payable	75,724	(294,890)
Accrued wages and benefits payable	1,114	(11,233)
Refundable deposits	-	-
Workers' compensation claims payable	-	1,414,315
General liability claims payable	-	(381,875)
Total adjustments	<u>229,896</u>	<u>1,093,025</u>
Net cash provided by (used in) operating activities	<u><u>\$ 977,533</u></u>	<u><u>\$ (813,200)</u></u>

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FIDUCIARY FUND FINANCIAL STATEMENTS

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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, 2012

	Agency Funds
ASSETS	
Cash and investments	\$ 491,012
Interest receivable	942
Other accounts receivable	25,222
Total assets	\$ 517,176
 LIABILITIES	
Assessment:	
Installment account	\$ 504,176
Reserve requirement	13,000
Total liabilities	\$ 517,176

City of Hermosa Beach
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For the year ended June 30, 2012

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City of Hermosa Beach
Notes to Basic Financial Statements
For the year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

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

The basic financial statements present the City and its component units, entities for which the City is considered to be financially accountable. 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 and has a governing board that is substantially the same as the City's. Management determined that the following entities should be reported as blended component units based on the criteria above:

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

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

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

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

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

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

The above component units do not issue separate financial statements.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus

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

Government-Wide Financial Statements

The City's Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities. 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 Government-Wide Financial Statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net 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.

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

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

Certain eliminations have been made in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net 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; however, those transactions between governmental and business-type activities have not been eliminated. The following interfund activities have been eliminated:

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

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 GASB. 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, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Governmental Fund Financial Statements

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 nonmajor funds in aggregate. An accompanying schedule is presented to reconcile and explain the differences in fund balances 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 the qualifications for major fund reporting.

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

Revenues are recorded when received in cash, except those revenues subject to accrual (generally 60 days after year-end) which are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property taxes, intergovernmental revenues and other taxes. 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 potential revenues do not meet both the “*measurable*” and “*available*” criteria for recognition in the current period; when the City 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 both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue is removed from the balance sheet and revenue is recognized.

The City reports the following major governmental funds:

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

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Governmental Fund Financial Statements, Continued

Grants Special Revenue Fund – The Grants Fund accounts for State and Federal grants for specific projects and for smaller grants from miscellaneous sources.

Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in 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 internal service funds are used to account for equipment replacement and insurance provided to other City 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 noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in 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.

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

The City reports the following major enterprise fund:

Downtown Enhancement Fund – The Downtown Enhancement Fund accounts for downtown parking lot and parking structure operations and expenses related to the promotion of business in general. Management decided to close this fund at the end of fiscal year 2012. See Note 12 for further discussion.

Fiduciary Fund Financial Statements

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

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Cash and Investments

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

Investments are stated at fair value (quoted market price or best available estimate thereof).

D. Property Taxes Receivable

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

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

E. Interfund Transactions

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due from/to other funds" (i.e., current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the Government-Wide Financial Statements as "internal balances".

F. Capital Assets

In the Government-Wide Financial Statements, capital assets, which include land, buildings, improvements, equipment, furniture, and infrastructure assets (e.g., roads, sidewalks, and similar items), are recorded at cost where historical records are available and at an estimated original cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date donated. City policy has set the capitalization threshold for reporting capital assets at \$5,000 and infrastructure at \$100,000.

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, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

F. 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”.

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

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

G. 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.

H. Compensated Absences Payable

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

I. 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.

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.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

J. Net Assets

In the Government-Wide Financial Statements and proprietary fund financial statements, net assets are classified as follows:

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".

K. Fund Balances

In the Governmental Fund Financial Statements, fund balances are classified as follows:

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

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

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

Assigned - Assigned fund balances are limitations imposed by management based on the intended use of the funds. Modifications or rescissions of the constraints can be removed by the same type of action that limited the use of the funds.

Unassigned - 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.

L. Spending Policy

Government - Wide Financial Statements and the Proprietary Fund Financial Statements

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

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

L. Spending Policy, Continued

Governmental Fund Financial Statements

When an expenditure is 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

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, and Capital Improvement Capital Projects Fund and to add to Contingency funds. For 2011-12, the City Council determined that all unspent funds in the General Fund (\$2,075,589) would be transferred to the Insurance Fund to fund insurance liabilities and settlement costs of the MacPherson Oil lawsuit and proposed oil project, which is discussed in Note 15. 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 U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

2. CASH AND INVESTMENTS

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

The City had the following cash and investments at June 30, 2012:

	Government-Wide Statement of Net Assets	Statement of Fiduciary Net Assets	Total
	Governmental Activities		
Cash and investments	\$ 27,801,497	\$ 491,012	\$ 28,292,509

The City's cash and investments at June 30, 2012 in more detail:

Cash and cash equivalents:	
Demand deposits	\$ 993,324
Petty cash	1,900
Total cash and cash equivalents	995,224
Investments:	
Local Agency Investment Fund	21,803,265
Non-negotiable certificates of deposit	2,476,968
Negotiable certificates of deposit	2,010,570
U.S. government-sponsored enterprise securities	250,010
Corporate medium-term notes	756,472
Total investments	27,297,285
Total cash and investments	\$ 28,292,509

A. Deposits

The carrying amounts of the City's demand deposits were \$993,324 at June 30, 2012. Bank balances at that date were \$1,354,419, the total amount of which was collateralized or insured with accounts held by the pledging financial institutions in the City's name as discussed below.

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

The market value of pledged securities must equal at least 110% of the City's cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total cash deposits. The City may waive collateral requirements for cash deposits; however, the City has not waived the collateralization requirements. Noninterest-bearing transaction accounts have unlimited coverage by the Federal Depository Insurance Corporation ("FDIC") through December 31, 2012. As a result, the City's demand deposits at June 30, 2012 were fully insured by the FDIC.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

2. CASH AND INVESTMENTS, Continued

A. 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 earned on pooled cash and investments is allocated on an accounting period basis to the various funds based on the period-end cash and investment balances, however, interest is not allocated to funds created to advance costs for utility undergrounding districts, reimbursable grant funds or internal service funds.

B. Investments

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

- Not more than fifty percent (50%) of the City's idle funds will be invested for any extended period of time with the Local Agency Investment Fund ("LAIF")
- Medium-term corporate notes shall have a Moody or Standard & Poor's rating of at least AA and mature in 5 years or less

The City is a participant in LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City's investments with LAIF at June 30, 2012 included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities, which included the following:

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

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

As of June 30, 2012, the City had \$21,803,265 invested in LAIF, which had invested 3.47% of the pool investment funds in Structured Notes and Asset-Backed Securities.

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.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

2. CASH AND INVESTMENTS, Continued

C. Risk Disclosures, Continued

At June 30, 2012, the City had the following investment maturities:

Investment Type	Fair value	Investment Maturities (in Years)					
		Less than 1	1 to 2	2 to 3	3 to 4	4 to 5	More than 5
Local Agency Investment Fund	\$ 21,803,265	\$ 21,803,265	\$ -	\$ -	\$ -	\$ -	\$ -
Certificates of deposit	4,487,538	1,239,738	1,485,988	749,364	506,747	257,701	248,000
U.S. government-sponsored enterprise securities	250,010	-	-	-	250,010	-	-
Corporate medium-term notes	756,472	-	756,472	-	-	-	-
Total	\$ 27,297,285	\$ 23,043,003	\$ 2,242,460	\$ 749,364	\$ 756,757	\$ 257,701	\$ 248,000

Credit Risk – State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. It is the City’s policy to limit its investments in these investment types to the top rating issued by Standard & Poor’s and Moody’s Investor Service. At June 30, 2012, the City’s credit risks, expressed on a percentage basis, were as follows:

Credit Quality Distribution for Securities with Credit Exposure as a Percentage of Total Investments			
Investment Type	Moody's Credit Rating	S&P's Credit Rating	% of Investments with Interest Rate Risk
Local Agency Investment Fund (LAIF)	Not Rated	Not Rated	79.87%
Certificates of Deposits	Not Rated	Not Rated	7.37%
Corporate medium-term notes:			
General Electric Capital Corp.	A1	AA+	1.85%
Principal Life	Aa3	A+	0.92%
Federal Farm Credit Bank	Aaa	AA+	0.92%
Total			90.93%

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

Concentration of credit risk – The City’s investment policy does not allow for investments in any one institution that is in excess of 5% of the City’s total portfolio, except for LAIF, where the limit is 50%. The City is in compliance with the investment policy related to the concentration of credit risk for the year ended June 30, 2012, except for LAIF. The City is in the process to reduce the concentration to below 50% by February 2013.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

3. RECEIVABLES

Government-Wide Financial Statements

At June 30, 2012, the Government-Wide Financial Statements show the following receivables, net of allowances for uncollectible amounts, if any:

	Government-Wide Statement of Net Assets Governmental Activities	Statement of Fiduciary Net Assets	Total
Accounts receivable	\$ 1,374,128	\$ -	\$ 1,374,128
Property taxes receivable, net	727,369	-	727,369
Reimbursable grants receivable	431,700	-	431,700
Interest receivable on investments	29,515	942	30,457
Other receivables	6,842	25,222	32,064
Total	\$ 2,569,554	\$ 26,164	\$ 2,595,718

Fund Financial Statements

At June 30, 2012, 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 nonmajor funds in the aggregate as of June 30, 2012, were as follows:

Governmental funds:	
General Fund	\$ 1,279,684
Nonmajor Funds	94,444
Total governmental funds	1,374,128
Total accounts receivable	\$ 1,374,128

B. Taxes Receivable

At June 30, 2012, the City had property taxes receivable, net of allowance for delinquent property taxes receivables, in the following major fund and nonmajor funds in the aggregate:

	Property taxes	Allowance for delinquent tax receivables	Property taxes, net of allowance
Governmental Funds:			
General Fund	\$ 1,692,944	\$ (995,705)	\$ 697,239
Nonmajor funds	48,849	(18,719)	30,130
Total	\$ 1,741,793	\$ (1,014,424)	\$ 727,369

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

3. RECEIVABLES, Continued

C. Reimbursable Grants Receivable

Grants receivable consists of a variety of reimbursable grants from other agencies. The total amount of reimbursable grants receivable as of June 30, 2012 was as follows:

Governmental Funds:	
Grants Special Revenue Fund	\$ 431,700
Total reimbursable grants receivable	\$ 431,700

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 Enterprise Fund and Prop A Open Space funding contributed by the Los Angeles County Department of Beaches and Harbors (“County”). In consideration of the County contribution, 50% of the annual net income derived from the parking structure must be shared with the County each year by September 1. The payment made to the County for fiscal year 2011-2012 is \$340,790.

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 \$2,652.

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 \$15,802.

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.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

4. LEASE REVENUES, Continued

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

Year ending June 30,		
2013	\$	198,833
2014		200,920
2015		36,772
2016		36,772
2017		36,772
2018-2022		183,857
2023-2027		183,857
2028-2032		183,857
2033-2037		183,857
2038-2042		183,857
2043-2047		183,857
2048-2051		128,700
Total	\$	1,741,911

Lease revenue for the year ended June 30, 2012 was \$316,727, which comprised of \$60,013 recorded in the General Fund and \$256,714 recorded in the Downtown Enhancement Enterprise Fund.

5. INTERFUND TRANSACTIONS

Due From/To Other Funds – At June 30, 2012, the City had the following due from/to other funds:

Due To Other Funds	Due From Other Funds	
	General Fund	
Grants Special Revenue Fund	\$	288,499
Total	\$	288,499

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

Transfers

At June 30, 2012, the City had the following transfers:

Transfers out	Transfers in			
	General Fund	Nonmajor Governmental Funds	Internal Service Funds	Total
General Fund	\$ -	\$ 1,321,329	\$ 2,797,662	\$ 4,118,991
Nonmajor Governmental Funds	347,778	175,000	-	522,778
Downtown Enhancement Enterprise Fund	66,993	-	-	66,993
Total	\$ 414,771	\$ 1,496,329	\$ 2,797,662	\$ 4,708,762

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

5. INTERFUND TRANSACTIONS, Continued

Transfers, Continued

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, 2012, the following one-time transfer was made:

The Downtown Enhancement Enterprise Fund transferred \$66,993 to the General Fund to merge the activities of the Downtown Enhancement Enterprise Fund to the General Fund. See Note 12 for further discussion.

6. CAPITAL ASSETS

A. Government-Wide Financial Statements

The following is a summary of changes in the capital assets for the governmental activities for the year ended June 30, 2012:

	Balance July 1, 2011	Additions	Deletions	Reclassifications	Transfers from Downtown Enhancement	Balance June 30, 2012
<i>Capital assets not being depreciated:</i>						
Land	\$ 17,552,076	\$ -	\$ -	\$ -	\$ 5,188,092	\$ 22,740,168
Construction in progress	590,972	1,173,375	-	(295,177)	-	1,469,170
Total capital assets not being depreciated	<u>18,143,048</u>	<u>1,173,375</u>	<u>-</u>	<u>(295,177)</u>	<u>5,188,092</u>	<u>24,209,338</u>
<i>Capital assets being depreciated:</i>						
Buildings and structures	5,632,113	-	-	-	5,879,099	11,511,212
Improvements other than buildings	14,058,737	-	-	255,177	5,610	14,319,524
Machinery and equipment	3,614,101	250,148	(43,855)	-	19,267	3,839,661
Vehicles	3,149,276	169,782	(94,441)	-	-	3,224,617
Infrastructure	46,637,695	961,039	(887,648)	40,000	261,815	47,012,901
Total capital assets being depreciated	<u>73,091,922</u>	<u>1,380,969</u>	<u>(1,025,944)</u>	<u>295,177</u>	<u>6,165,791</u>	<u>79,907,915</u>
Less accumulated depreciation for:						
Buildings and structures	(2,122,272)	(101,992)	-	-	(1,454,935)	(3,679,199)
Improvements other than buildings	(8,467,655)	(1,003,565)	-	-	(1,967)	(9,473,187)
Machinery and equipment	(2,488,065)	(310,453)	30,755	-	(16,744)	(2,784,507)
Vehicles	(2,170,785)	(218,827)	94,441	-	-	(2,295,171)
Infrastructure	(19,292,690)	(1,352,987)	301,261	-	(22,037)	(20,366,453)
Total accumulated depreciation	<u>(34,541,467)</u>	<u>(2,987,824)</u>	<u>426,457</u>	<u>-</u>	<u>(1,495,683)</u>	<u>(38,598,517)</u>
Total capital assets being depreciated, net	<u>38,550,455</u>	<u>(1,606,855)</u>	<u>(599,487)</u>	<u>295,177</u>	<u>4,670,108</u>	<u>41,309,398</u>
Total governmental activities	<u>\$ 56,693,503</u>	<u>\$ (433,480)</u>	<u>\$ (599,487)</u>	<u>\$ -</u>	<u>\$ 9,858,200</u>	<u>\$ 65,518,736</u>

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

6. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

Depreciation expense was charged to functions/programs of the governmental activities for the fiscal year ended June 30, 2012 as follows:

General government	\$	55,610
Public safety		143,717
Community development		7,511
Culture and recreation		51,849
Public works		990,542
Infrastructure		1,352,985
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets		385,610
Total depreciation expense	\$	2,987,824

The following is a summary of changes in the capital assets for the business-type activities for the year ended June 30, 2012:

	Balance July 1, 2011	Additions	Transfers to Governmental Activities	Balance June 30, 2012
Capital assets not being depreciated:				
Land	\$ 5,188,092	\$ -	\$ (5,188,092)	\$ -
Total capital assets not being depreciated	5,188,092	-	(5,188,092)	-
Capital assets being depreciated:				
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	261,815	-	(261,815)	-
Total capital assets, being depreciated	6,165,791	-	(6,165,791)	-
Less accumulated depreciation for:				
Buildings and structures	(1,329,156)	(125,779)	1,454,935	-
Improvements other than buildings	(1,686)	(281)	1,967	-
Machinery and equipment	(15,426)	(1,318)	16,744	-
Infrastructure	(8,946)	(13,091)	22,037	-
Total accumulated depreciation	(1,355,214)	(140,469)	1,495,683	-
Total capital assets being depreciated, net	4,810,577	(140,469)	(4,670,108)	-
Total business-type activities	\$ 9,998,669	\$ (140,469)	\$ (9,858,200)	\$ -

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

6. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

Depreciation expense for business-type activities for the fiscal year ended June 30, 2012 was charged as follows:

Downtown Enhancement	\$ 140,469
Total depreciation expense	\$ 140,469

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.

7. COMPENSATED ABSENCES

The following is a summary of changes in compensated absences for the year ended June 30, 2012:

				Classification		
	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012	Due within One Year	Due in more than One Year
Compensated absences	\$ 1,002,438	\$ 2,190,036	\$ (1,262,251)	\$ 1,930,223	\$ 1,090,963	\$ 839,260

The compensated absences payable has been accrued for the governmental activities on the Government-Wide Financial Statements. Typically, the General Fund (major fund), the Lighting and Landscaping District Fund, AB 939 Fund and the Sewer Fund (nonmajor 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, 2012 was \$1,930,223.

8. OTHER REQUIRED FUND DISCLOSURES

A. Expenditures Exceeding Appropriations

For the year ended June 30, 2012, expenditures exceeded appropriations in amount of \$4,325 in the Proposition "A" Transit Special Revenue Fund for the public safety function due to an increase in the usage of the Taxi Voucher Program between January and May 2012.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

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 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 \$543,343 for the fiscal year 2011-2012 are in accordance with formulas established by ICRMA. The City is liable for possible additional assessments and withdrawal costs under terms of the membership agreement; however, there has never been an additional assessment since the pool was formed.

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

The workers' compensation and general liability claims payable of \$8,015,063 reported at June 30, 2012 includes the liability for claims in which it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

9. RISK MANAGEMENT, Continued

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

	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Year Liability	Amounts Due within One Year	Amounts Due in more than One Year
<i>Workers' Compensation</i>						
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
2011-2012	5,542,235	2,804,809	(1,390,494)	6,956,550	933,282	6,023,268
<i>General Liability</i>						
2009-2010	\$ 1,304,492	\$ (18,415)	\$ (164,427)	\$ 1,121,650	\$ 471,313	\$ 650,337
2010-2011	1,121,650	1,046,533	(727,795)	1,440,388	407,146	1,033,242
2011-2012	1,440,388	951,543	(1,333,418)	1,058,513	417,109	641,404

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 Employees' 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.

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 \$801,997 for the year ended June 30, 2012. The City, as the employer, is required to contribute for fiscal year 2011-2012 at actuarially determined rates which are applied to annual covered payroll. The 2011-2012 rate is 16.036% for first tier miscellaneous employees, 8.197% for second tier miscellaneous employees, 55.353% for first tier police employees, 21.387% for second tier police employees and 40.425% for fire employees. The contribution requirements of City employees and the City employer are established and may be amended by CalPERS.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

10. RETIREMENT PLANS, Continued

A. Public Employees Retirement System, Continued

Annual Pension Cost

For fiscal year 2011-2012, the City's annual pension cost of \$3,312,935 for CalPERS was equal to the City's required and actual contributions, of which \$774,370 is for the miscellaneous plan, \$1,801,487 for the police plan and \$737,078 for the fire plan.

THREE-YEAR TREND INFORMATION FOR CALPERS

Miscellaneous Plan

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2010	\$ 820,766	100%	\$ -
6/30/2011	757,889	100%	-
6/30/2012	774,370	100%	-

Police Plan

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2010	\$ 1,642,334	100%	\$ -
6/30/2011	1,587,832	100%	-
6/30/2012	1,801,487	100%	-

Fire Plan

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2010	\$ 841,697	100%	\$ -
6/30/2011	741,469	100%	-
6/30/2012	737,078	100%	-

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

10. RETIREMENT PLANS, Continued

A. Public Employees Retirement System, Continued

Actuarial Assumptions

A summary of principal assumptions and methods used to determine the ARC is as follows for the cost-sharing multiple-employer defined benefit plan:

Valuation Date:	June 30, 2009
Actuarial Cost Method:	Entry Age Normal Cost Method
Amortization Method:	Level Percent of Projected Payroll
Average Remaining Period:	18 Years for Miscellaneous and Police, 17 Years for Fire
Asset Valuation Method:	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return:	7.75% (net of administrative expenses)
Projected Salary Increases:	3.55% 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%.

B. Other Postemployment 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 postemployment benefits for city employees. Funds in the amount of \$1,401,000 that were previously set aside were forwarded to Union Bank pursuant to the agreement to establish the trust. Contributions are forwarded on a monthly basis.

Plan Description

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

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

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

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

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

10. RETIREMENT PLANS, Continued

B. Other Postemployment Benefits, Continued

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, 2012 were as follows:

Participants	Total
Active employees	116
Retirees	47
Total	163

Funding Policy

The contribution requirements for Plan members and the City are established by a MOU as negotiated by each group or bargaining unit. The City is funding 100% of the annual required contribution as calculated based on the actuarial valuation. For fiscal year 2012, the City contributed \$540,218. Plan members receiving benefits contributed \$228,348 of the total premiums, as their required contributions.

Annual OPEB Cost and Net OPEB Obligation

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

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

	Total
Annual required contribution	\$ 545,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	(4,782)
Annual OPEB cost (expense)	540,218
Contributions made	(540,218)
Increase in net OPEB obligation	-
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	\$ -

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

10. RETIREMENT PLANS, Continued

B. Other Postemployment Benefits, Continued

Annual OPEB Cost and Net OPEB Obligation, Continued

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation for year ended June 30, 2012 and the preceding two years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions	% of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	\$ 595,482	\$ 595,482	100.00%	\$ -
6/30/2011	539,468	539,468	100.00%	-
6/30/2012	540,218	540,218	100.00%	-

Funded Status and Funding Progress

As of June 30, 2011, the Actuarial Accrued Liability for benefits was \$10,221,000 and the actuarial value of assets as of June 30, 2011 was \$3,491,000, resulting in an UAAL of \$6,730,000. The funded ratio was 34.2 percent. The covered payroll (annual payroll of active employees covered by the Plan) was \$9,030,000, and the ratio of UAAL to the covered payroll was 74.53 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 ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information following the Notes to the Basic Financial Statements, presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the Actuarial Accrued Liabilities for benefits.

Actuarial Methods and Assumptions

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

In the June 30, 2011 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions include a 6.25 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's Plan does not provide postretirement benefit increases. The UAAL is amortized as a level percentage of future payroll on a 20-year closed amortization period. The remaining amortization period at June 30, 2011 was 15 years.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

11. CLASSIFICATION OF FUND BALANCES

At June 30, 2012, fund balances are classified in the governmental funds as follows:

	General Fund	Grants Special Revenue Fund	Nonmajor Governmental Funds	Total
Nonspendable				
Prepaid items	\$ 14,271	\$ -	\$ 1,500	\$ 15,771
Total nonspendable	<u>14,271</u>	<u>-</u>	<u>1,500</u>	<u>15,771</u>
Restricted				
Affordable Housing	41,831	-	-	41,831
General Plan Maintenance	64,499	-	-	64,499
Broadcasting Grant	40,870	-	-	40,870
Civic Theatre Donation	45,000	-	-	45,000
CDBG Fund Exchange	63,000	-	-	63,000
Lighting District	-	-	62,182	62,182
Gas Tax	-	-	575,538	575,538
Source Reduction/Recycling	-	-	123,079	123,079
Parks Projects	-	-	154,550	154,550
Undergrounding Districts	-	-	38,953	38,953
Transit	-	-	913,317	913,317
Clean Air Projects	-	-	108,647	108,647
SLESF Law Enforcement	-	-	198,693	198,693
Sewers and Storm Drains	-	-	964,986	964,986
Asset Forfeiture - drug enforcement and education	-	-	267,347	267,347
Fire Protection	-	-	45,133	45,133
Grants	-	6,845	-	6,845
Capital Improvements	-	-	145,722	145,722
Total restricted	<u>255,200</u>	<u>6,845</u>	<u>3,598,147</u>	<u>3,860,192</u>
Committed				
Capital Outlay - Parking Facilities	9,592	-	-	9,592
Clark Building	1,000	-	-	1,000
Tyco	-	-	109,589	109,589
Artesia Boulevard relinquishment	-	-	7,826	7,826
Total committed	<u>10,592</u>	<u>-</u>	<u>117,415</u>	<u>128,007</u>
Assigned				
Sales Tax In-lieu	131,259	-	-	131,259
General government	71,502	-	-	71,502
Public safety	49,809	-	-	49,809
Community development	40,300	-	-	40,300
Community resources	3,854	-	-	3,854
Public works	418,227	-	-	418,227
Contingencies	3,967,339	-	-	3,967,339
Retirement rate stabilization	760,482	-	-	760,482
Compensated absences	297,262	-	-	297,262
Community events	36,466	-	-	36,466
Capital projects	-	-	961,251	961,251
Total assigned	<u>5,776,500</u>	<u>-</u>	<u>961,251</u>	<u>6,737,751</u>
Total fund balances	<u>\$ 6,056,563</u>	<u>\$ 6,845</u>	<u>\$ 4,678,313</u>	<u>\$ 10,741,721</u>

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

12. CLOSING OF DOWNTOWN ENHANCEMENT ENTERPRISE FUND

During the year ended June 30, 2012, the City reviewed the accounting of the Downtown Enhancement Enterprise Fund and determined that the City parking lot/garage operations are not required to be reported as an enterprise fund. Governments are not required to report an activity as an enterprise fund for which there are charges for services as a principal revenue source unless one of the following criteria are met: 1) the activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; 2) laws or regulations required that the activity's costs of providing services be recovered with fees and charges; and 3) pricing policies of the activity establish fees and charges designed to recover its costs. The activities of the City parking lot/garage did not meet any of the criteria. In June 2012, the City Council approved the merging of the Downtown Enhancement Enterprise Fund into the General Fund. The future activities of the parking lot and parking garage operations fund will be reported in the General Fund. On June 30, 2012, all current assets, net of liabilities, of the Downtown Enhancement Enterprise Fund in the amount of \$66,993 were transferred to the General Fund, while the capital assets and compensated absences, in the amounts of \$9,858,200 and \$11,218, respectively, were transferred to the governmental activities.

13. NON-CITY OBLIGATIONS

At June 30, 2012, the following special assessment bonds are payable from the proceeds of the special assessment levied and collected on all real property within the special districts. The City is in no way obligated to repay the debt in the event of default and the debt is not recorded in the accompanying financial statements.

1998 Lower Pier Special Assessment Bonds

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

The annual debt service requirements by year are as follows:

Year ending June 30,	Principal	Interest	Total
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	35,000	3,450	38,450
2018	35,000	1,100	36,100
Total	\$ 180,000	\$ 37,701	\$ 217,701

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

13. NON-CITY OBLIGATIONS, 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	Total
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	75,000	11,069	86,069
2018-2020	225,000	24,276	249,276
Total	\$ 550,000	\$ 133,705	\$ 683,705

1999 Loma Utility Underground District Special Assessment Bonds

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

The annual debt service requirements by year are as follows:

Year ending June 30,	Principal	Interest	Total
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
2017	80,000	12,362	92,362
2018-2020	255,000	27,149	282,149
Total	\$ 605,000	\$ 148,146	\$ 753,146

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

13. NON-CITY OBLIGATIONS, 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	Total
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	20,970	10,528	31,498
2018-2022	120,952	33,102	154,054
2023-2025	87,413	9,337	96,750
	<u>\$ 304,043</u>	<u>\$ 104,381</u>	<u>\$ 408,424</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	Total
2013	\$ 29,972	\$ 23,963	\$ 53,935
2014	31,671	22,653	54,324
2015	33,441	21,270	54,711
2016	35,288	19,810	55,098
2017	37,212	18,268	55,480
2018-2022	212,922	64,287	277,209
2023-2026	198,320	17,427	215,747
Total	<u>\$ 578,826</u>	<u>\$ 187,678</u>	<u>\$ 766,504</u>

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

14. COMMITMENTS AND CONTINGENCIES

A. Commitments

The City had several outstanding or planned construction projects as of June 30, 2012. These projects are evidenced by contractual commitments with contractors and include:

Project	Spent to Date	Commitment Remaining
Pier Avenue / Hermosa Avenue to PCH	\$ 61,989	\$ 265,490
City-wide street improvements / various locations	813,816	806,255
Beach restroom rehabilitation	1,024,572	58,566
Hermosa Strand infiltration trench	63,626	57,466
Total	\$ 1,964,003	\$ 1,187,777

The infrastructure projects are funded by multiple funds including the Capital Improvement Fund, State grant funding and Proposition A & C funds. 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. The Hermosa Strand Infiltration Project is funded with State grant funding and the Capital Improvement 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 noncompliance were disclosed by the audit of the financial statements or single audit of the Federal grant programs, grantor agencies may subject grant programs to additional compliance tests, which may result in disallowed costs. In the opinion of management, future disallowances of current or prior grant expenditures, if any, would not have a material adverse effect on the financial position of the City.

15. 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, 2012

15. 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, 2012

15. 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 was back on track for a jury trial. Trial was scheduled for January 18, 2012, but then continued to April 2012.

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

Under the settlement, the residents of Hermosa Beach will be asked by way of a ballot measure, no earlier than spring of 2014, whether the City-wide ban on oil drilling should be modified to allow a new oil and natural gas production project proposed by E&B within the City limits. Placement of the ballot measure on the ballot will be preceded by preparation of an environmental impact report in accordance with the California Environmental Quality Act ("CEQA"). Should the ballot measure fail and/or should E&B not succeed in obtaining a drilling permit to pursue its project, the City will pay E&B the sum of \$17.5 million. In the event that E&B acquires a drilling permit, then the City will pay E&B the sum of \$3.5 million, which may be paid from royalties due and owing the City from oil production.

Accordingly, the City's outside financial exposure under the settlement is \$17.5 million; the minimum the City is obligated to pay is \$3.5 million. While E&B has agreed as a part of the settlement to pay a substantial portion of the City's consultant and staff costs incurred processing its application, it is anticipated that the City will incur some additional costs in that process. The settlement payable has been accrued in the Insurance Internal Service Fund in the amount of \$3.5 million as of June 30, 2012.

16. SUBSEQUENT EVENT

On December 11, 2012, the City Council approved changes to the MOUs for all bargaining groups. One of the changes requires City employees to pay the employee share of their retirement contributions, according to the following schedule:

Effective Date	Safety Employees		Miscellaneous Employees	
	Contribution Increase	Aggregate Contribution	Contribution Increase	Aggregate Contribution
1/1/2013	3.0%	3.0%	2.5%	2.5%
7/1/2013	3.0%	6.0%	2.5%	5.0%
7/1/2014	3.0%	9.0%	2.0%	7.0%
Total	9.0%		7.0%	

By the end of the three year contract, each employee will be paying the full amount of their employee contribution.

**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

City of Hermosa Beach
Required Supplementary Information (Unaudited)
For the year ended June 30, 2012

1. BUDGETARY CONTROL AND ACCOUNTING POLICY

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

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

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

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

Following are the budget comparison schedules for the General Fund and Grants Special Revenue Fund for which an annual operating budget was adopted.

City of Hermosa Beach
Required Supplementary Information (Unaudited), Continued
For the year ended June 30, 2012

1. BUDGETARY CONTROL AND ACCOUNTING POLICY, Continued

Budgetary Comparison Schedule - General Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Fund Balance, July 1, 2011	\$ 426,670	\$ 5,853,457	\$ 5,853,457	\$ -
Resources (inflows):				
Property taxes	11,506,175	11,715,322	11,598,615	(116,707)
Other taxes	8,294,321	8,442,049	8,894,371	452,322
Licenses and permits	642,005	672,157	668,405	(3,752)
Fines and forfeitures	2,112,044	2,377,220	2,430,891	53,671
Use of money and property	318,391	409,000	502,467	93,467
Intergovernmental	194,073	126,839	159,765	32,926
Charges for services	3,844,651	4,044,934	4,205,238	160,304
Miscellaneous	58,504	126,474	153,380	26,906
Interest earned on investments	-	48,966	61,758	12,792
Proceeds from sale of assets	-	2,360	2,360	-
Transfers in	351,947	5,377,259	414,771	(4,962,488)
Amount available for appropriation	27,748,781	39,196,037	34,945,478	(4,250,559)
Charges to appropriations (outflows):				
Legislative and legal	875,037	1,057,037	1,170,820	(113,783)
General government	2,359,821	2,334,337	2,059,065	275,272
Public safety	17,519,699	17,524,650	16,374,168	1,150,482
Community development	1,186,714	1,236,381	1,165,468	70,913
Culture and recreation	1,077,418	1,093,395	961,349	132,046
Public works	2,810,421	2,914,097	2,755,086	159,011
Capital outlay	201,242	496,426	283,968	212,458
Transfers out	1,321,329	2,043,402	4,118,991	(2,075,589)
Total charges to appropriations	27,351,681	28,699,725	28,888,915	(189,190)
Fund Balance, June 30, 2012	\$ 397,100	\$ 10,496,312	\$ 6,056,563	\$ (4,439,749)

City of Hermosa Beach
Required Supplementary Information (Unaudited), Continued
For the year ended June 30, 2012

1. BUDGETARY CONTROL AND ACCOUNTING POLICY, Continued

Budgetary Comparison Schedule – Grants Special Revenue Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Fund Balance, July 1, 2011	\$ 15,590	\$ 15,590	\$ 15,590	\$ -
Resources (inflows):				
Intergovernmental	932,695	932,695	367,474	(565,221)
Amount available for appropriation	948,285	948,285	383,064	(565,221)
Charges to appropriations (outflows):				
Public safety	35,102	35,102	16,590	18,512
Public works	5,330	5,330	1,953	3,377
Capital outlay	892,169	892,169	357,676	534,493
Total charges to appropriations	932,601	932,601	376,219	556,382
Fund Balance, June 30, 2012	\$ 15,684	\$ 15,684	\$ 6,845	\$ (8,839)

City of Hermosa Beach
Required Supplementary Information (Unaudited), Continued
For the year ended June 30, 2012

2. PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Schedule of Funding Progress - Miscellaneous and Safety Employees

In fiscal year ended June 30, 2004, CalPERS established a risk pool for cities and other government entities that have less than 100 active members. Actuarial valuations performed included other participants within the same risk pool. Therefore, stand alone information of the schedule of funding progress for the City's miscellaneous and safety (police and fire) employees is no longer available nor disclosed.

3. OTHER POSTEMPLOYMENT BENEFITS

Schedule of Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	Unfunded Actuarial Accrued Liability ("UAAL") (A - B)	Funded Ratio (A / B)	Covered Payroll (C)	UAAL as a % of Payroll (A - B) / C
6/30/2005	\$ -	\$ 4,839,000	\$ (4,839,000)	0.0%	\$ 7,934,000	60.99%
6/30/2008	1,890,000	5,830,000	(3,940,000)	32.4%	9,182,000	42.91%
6/30/2011	3,491,000	10,221,000	(6,730,000)	34.2%	9,030,000	74.53%

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SUPPLEMENTARY INFORMATION

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NONMAJOR 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.

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.

NONMAJOR GOVERNMENTAL FUNDS, Continued

Special Revenue Funds, Continued:

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

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

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

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

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

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 projects.

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.

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.

Capital Projects Fund:

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

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City of Hermosa Beach
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012

Special Revenue Funds

	Lighting and Landscaping District	State Gas Tax	AB 939	Prop A Open Space
ASSETS				
Cash and investments	\$ 86,069	\$ 519,741	\$ 141,459	\$ 121,616
Accounts receivable	-	56,777	3,469	-
Property taxes receivable, net	30,130	-	-	-
Interest receivable	164	996	271	-
Other receivable	-	-	-	-
Other assets	-	-	-	-
Total assets	\$ 116,363	\$ 577,514	\$ 145,199	\$ 121,616
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 30,338	\$ 1,976	\$ 16,428	\$ 2,396
Accrued wages and benefits payable	23,843	-	5,692	-
Total liabilities	54,181	1,976	22,120	2,396
Fund Balances:				
Nonspendable	-	-	-	-
Restricted	62,182	575,538	123,079	119,220
Committed	-	-	-	-
Assigned	-	-	-	-
Total fund balances	62,182	575,538	123,079	119,220
Total liabilities and fund balances	\$ 116,363	\$ 577,514	\$ 145,199	\$ 121,616

(Continued)

City of Hermosa Beach
Combining Balance Sheet, Continued
Nonmajor Governmental Funds
June 30, 2012

Special Revenue Funds

	Tyco	Tyco Tidelands	Parks/ Recreation Facilities Tax	Bayview Drive Administrative Expense
ASSETS				
Cash and investments	\$ 167,245	\$ 37,540	\$ 154,261	\$ 1,900
Accounts receivable	-	-	-	-
Property taxes receivable, net	-	-	-	-
Interest receivable	349	70	289	4
Other receivable	-	-	-	-
Other assets	-	-	-	-
Total assets	\$ 167,594	\$ 37,610	\$ 154,550	\$ 1,904
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 58,005	\$ 11,108	\$ -	\$ 360
Accrued wages and benefits payable	-	-	-	-
Total liabilities	58,005	11,108	-	360
Fund Balances:				
Nonspendable	-	-	-	-
Restricted	-	26,502	154,550	1,544
Committed	109,589	-	-	-
Assigned	-	-	-	-
Total fund balances	109,589	26,502	154,550	1,544
Total liabilities and fund balances	\$ 167,594	\$ 37,610	\$ 154,550	\$ 1,904

(Continued)

City of Hermosa Beach
Combining Balance Sheet, Continued
Nonmajor Governmental Funds
June 30, 2012

	Special Revenue Funds			
	Lower Pier Administrative Expense	Myrtle District Administrative Expense	Loma District Administrative Expense	Beach Drive Assessment District Admin Expense
ASSETS				
Cash and investments	\$ 4,889	\$ 13,628	\$ 18,304	\$ 2,083
Accounts receivable	-	-	-	-
Property taxes receivable, net	-	-	-	-
Interest receivable	-	26	35	4
Other receivable	-	-	-	-
Other assets	-	-	-	-
Total assets	\$ 4,889	\$ 13,654	\$ 18,339	\$ 2,087
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 303	\$ 420	\$ 494	\$ 343
Accrued wages and benefits payable	-	-	-	-
Total liabilities	303	420	494	343
Fund Balances:				
Nonspendable	-	-	-	-
Restricted	4,586	13,234	17,845	1,744
Committed	-	-	-	-
Assigned	-	-	-	-
Total fund balances	4,586	13,234	17,845	1,744
Total liabilities and fund balances	\$ 4,889	\$ 13,654	\$ 18,339	\$ 2,087

(Continued)

City of Hermosa Beach
Combining Balance Sheet, Continued
Nonmajor Governmental Funds
June 30, 2012

Special Revenue Funds

	Special Revenue Funds			
	Proposition "A" Transit	Proposition "C"	Measure "R"	Air Quality Management District
ASSETS				
Cash and investments	\$ 203,773	\$ 400,777	\$ 328,219	\$ 102,389
Accounts receivable	-	-	-	6,062
Property taxes receivable, net	-	-	-	-
Interest receivable	391	805	636	196
Other receivable	3,000	-	-	-
Other assets	-	-	-	-
Total assets	\$ 207,164	\$ 401,582	\$ 328,855	\$ 108,647
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 23,954	\$ -	\$ -	\$ -
Accrued wages and benefits payable	330	-	-	-
Total liabilities	24,284	-	-	-
Fund Balances:				
Nonspendable	-	-	-	-
Restricted	182,880	401,582	328,855	108,647
Committed	-	-	-	-
Assigned	-	-	-	-
Total fund balances	182,880	401,582	328,855	108,647
Total liabilities and fund balances	\$ 207,164	\$ 401,582	\$ 328,855	\$ 108,647

(Continued)

City of Hermosa Beach
Combining Balance Sheet, Continued
Nonmajor Governmental Funds
June 30, 2012

Special Revenue Funds

	Special Revenue Funds			
	Supplemental Law Enforcement Services	Sewer	Asset Seizure and Forfeiture	Fire Protection
ASSETS				
Cash and investments	\$ 190,801	\$ 994,594	\$ 246,266	\$ 45,047
Accounts receivable	7,528	-	20,608	-
Property taxes receivable, net	-	-	-	-
Interest receivable	364	1,890	473	86
Other receivable	-	-	-	-
Other assets	-	1,500	-	-
Total assets	\$ 198,693	\$ 997,984	\$ 267,347	\$ 45,133
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ 14,728	\$ -	\$ -
Accrued wages and benefits payable	-	16,770	-	-
Total liabilities	-	31,498	-	-
Fund Balances:				
Nonspendable	-	1,500	-	-
Restricted	198,693	964,986	267,347	45,133
Committed	-	-	-	-
Assigned	-	-	-	-
Total fund balances	198,693	966,486	267,347	45,133
Total liabilities and fund balances	\$ 198,693	\$ 997,984	\$ 267,347	\$ 45,133

(Continued)

City of Hermosa Beach
Combining Balance Sheet, Continued
Nonmajor Governmental Funds
June 30, 2012

	Special Revenue Funds	Capital Projects Fund	
	Artesia Boulevard Relinquishment	Capital Improvement	Total Nonmajor Governmental Funds
ASSETS			
Cash and investments	\$ 8,371	\$ 1,010,224	\$ 4,799,196
Accounts receivable	-	-	94,444
Property taxes receivable, net	-	-	30,130
Interest receivable	25	1,932	9,006
Other receivable	-	-	3,000
Other assets	-	-	1,500
Total assets	\$ 8,396	\$ 1,012,156	\$ 4,937,276
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 570	\$ 49,660	\$ 211,083
Accrued wages and benefits payable	-	1,245	47,880
Total liabilities	570	50,905	258,963
Fund Balances:			
Nonspendable	-	-	1,500
Restricted	-	-	3,598,147
Committed	7,826	-	117,415
Assigned	-	961,251	961,251
Total fund balances	7,826	961,251	4,678,313
Total liabilities and fund balances	\$ 8,396	\$ 1,012,156	\$ 4,937,276

(Concluded)

City of Hermosa Beach
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the year ended June 30, 2012

	Special Revenue Funds			
	Lighting and Landscaping District	State Gas Tax	AB 939	Prop A Open Space
REVENUES:				
Property taxes	\$ 457,933	\$ -	\$ -	\$ -
Other taxes	-	-	-	-
Fines and forfeitures	-	-	-	-
Use of money and property	-	-	-	-
Intergovernmental	-	547,519	-	433,957
Charges for services	-	-	55,172	-
Miscellaneous	582	-	119	-
Interest earned on investments	711	4,908	2,053	-
Total revenues	459,226	552,427	57,344	433,957
EXPENDITURES:				
Current:				
General government	-	-	167,323	-
Public safety	-	-	-	-
Community development	-	-	-	-
Culture and recreation	-	-	-	-
Public works	550,358	-	-	-
Capital outlay	-	341,475	-	294,180
Total expenditures	550,358	341,475	167,323	294,180
REVENUES OVER (UNDER) EXPENDITURES	(91,132)	210,952	(109,979)	139,777
OTHER FINANCING SOURCES(USES):				
Transfers in	89,270	-	-	-
Transfers out	(10,796)	(304,317)	-	(20,557)
Total other financing sources(uses)	78,474	(304,317)	-	(20,557)
CHANGE IN FUND BALANCES	(12,658)	(93,365)	(109,979)	119,220
FUND BALANCES:				
Beginning of year	74,840	668,903	233,058	-
End of year	\$ 62,182	\$ 575,538	\$ 123,079	\$ 119,220

(Continued)

City of Hermosa Beach

Combining Statement of Revenues, Expenditures and Changes in Fund Balances, Continued Nonmajor Governmental Funds For the year ended June 30, 2012

	Special Revenue Funds			
	Tyco	Tyco Tidelands	Parks/ Recreation Facility Tax	Bayview Drive Administrative Expense
REVENUES:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	20,439	-
Fines and forfeitures	-	-	-	-
Use of money and property	312,900	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Miscellaneous	-	-	-	4,330
Interest earned on investments	3,795	471	1,605	27
Total revenues	316,695	471	22,044	4,357
EXPENDITURES:				
Current:				
General government	-	-	-	1,552
Public safety	-	-	-	-
Community development	-	-	-	-
Culture and recreation	-	-	-	-
Public works	-	-	-	-
Capital outlay	830,930	20,039	-	-
Total expenditures	830,930	20,039	-	1,552
REVENUES OVER (UNDER) EXPENDITURES	(514,235)	(19,568)	22,044	2,805
OTHER FINANCING SOURCES(USES):				
Transfers in	-	-	-	-
Transfers out	(175,000)	-	-	(2,718)
Total other financing sources(uses)	(175,000)	-	-	(2,718)
CHANGE IN FUND BALANCES	(689,235)	(19,568)	22,044	87
FUND BALANCES:				
Beginning of year	798,824	46,070	132,506	1,457
End of year	\$ 109,589	\$ 26,502	\$ 154,550	\$ 1,544

(Continued)

City of Hermosa Beach

Combining Statement of Revenues, Expenditures and Changes in Fund Balances, Continued Nonmajor Governmental Funds For the year ended June 30, 2012

	Special Revenue Funds			
	Lower Pier Administrative Expense	Myrtle District Administrative Expense	Loma District Administrative Expense	Beach Drive Assessment District Admin Expense
REVENUES:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	-
Fines and forfeitures	-	-	-	-
Use of money and property	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Miscellaneous	2,600	9,000	10,000	3,000
Interest earned on investments	-	165	218	27
Total revenues	2,600	9,165	10,218	3,027
EXPENDITURES:				
Current:				
General government	1,329	5,304	5,597	1,511
Public safety	-	-	-	-
Community development	-	-	-	-
Culture and recreation	-	-	-	-
Public works	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	1,329	5,304	5,597	1,511
REVENUES OVER (UNDER) EXPENDITURES	1,271	3,861	4,621	1,516
OTHER FINANCING SOURCES(USES):				
Transfers in	-	-	-	-
Transfers out	(1,142)	(3,310)	(3,783)	(1,155)
Total other financing sources(uses)	(1,142)	(3,310)	(3,783)	(1,155)
CHANGE IN FUND BALANCES	129	551	838	361
FUND BALANCES:				
Beginning of year	4,457	12,683	17,007	1,383
End of year	\$ 4,586	\$ 13,234	\$ 17,845	\$ 1,744

(Continued)

City of Hermosa Beach

Combining Statement of Revenues, Expenditures and Changes in Fund Balances, Continued Nonmajor Governmental Funds For the year ended June 30, 2012

Special Revenue Funds

	Proposition "A" Transit	Proposition "C"	Measure "R"	Air Quality Management District
REVENUES:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other taxes	292,099	238,108	177,019	-
Fines and forfeitures	-	-	-	-
Use of money and property	-	-	-	-
Intergovernmental	-	-	-	24,529
Charges for services	6,811	-	-	-
Miscellaneous	-	-	-	-
Interest earned on investments	1,603	3,658	2,955	1,044
Total revenues	300,513	241,766	179,974	25,573
EXPENDITURES:				
Current:				
General government	51,331	-	-	390
Public safety	73,325	-	-	-
Community development	12,228	-	-	-
Culture and recreation	27,916	-	-	-
Public works	-	22,297	-	-
Capital outlay	-	8,661	101,518	2,184
Total expenditures	164,800	30,958	101,518	2,574
REVENUES OVER (UNDER) EXPENDITURES	135,713	210,808	78,456	22,999
OTHER FINANCING SOURCES(USES):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources(uses)	-	-	-	-
CHANGE IN FUND BALANCES	135,713	210,808	78,456	22,999
FUND BALANCES:				
Beginning of year	47,167	190,774	250,399	85,648
End of year	<u>\$ 182,880</u>	<u>\$ 401,582</u>	<u>\$ 328,855</u>	<u>\$ 108,647</u>

(Continued)

City of Hermosa Beach

Combining Statement of Revenues, Expenditures and Changes in Fund Balances, Continued Nonmajor Governmental Funds For the year ended June 30, 2012

	Special Revenue Funds			
	Supplemental Law Enforcement Services	Sewer	Asset Seizure and Forfeiture	Fire Protection
REVENUES:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other taxes	100,000	-	-	-
Fines and forfeitures	-	-	44,420	-
Use of money and property	-	-	-	-
Intergovernmental	-	21,853	-	-
Charges for services	-	26,788	-	7,962
Miscellaneous	-	303	1,000	-
Interest earned on investments	2,435	9,404	2,764	462
Total revenues	102,435	58,348	48,184	8,424
EXPENDITURES:				
Current:				
General government	-	-	-	-
Public safety	133,745	-	6,867	-
Community development	-	-	-	-
Culture and recreation	-	-	-	-
Public works	-	413,737	-	-
Capital outlay	34,490	10,030	24,665	-
Total expenditures	168,235	423,767	31,532	-
REVENUES OVER (UNDER) EXPENDITURES	(65,800)	(365,419)	16,652	8,424
OTHER FINANCING SOURCES(USES):				
Transfers in	-	700,000	-	-
Transfers out	-	-	-	-
Total other financing sources(uses)	-	700,000	-	-
CHANGE IN FUND BALANCES	(65,800)	334,581	16,652	8,424
FUND BALANCES:				
Beginning of year	264,493	631,905	250,695	36,709
End of year	\$ 198,693	\$ 966,486	\$ 267,347	\$ 45,133

(Continued)

City of Hermosa Beach
Combining Statement of Revenues, Expenditures and Changes in Fund Balances, Continued
Nonmajor Governmental Funds
For the year ended June 30, 2012

	<u>Revenue Funds</u>	<u>Projects Fund</u>	
	Artesia Boulevard Relinquishment	Capital Improvement	Total Nonmajor Governmental Funds
REVENUES:			
Property taxes	\$ -	\$ -	\$ 457,933
Other taxes	-	-	827,665
Fines and forfeitures	-	-	44,420
Use of money and property	-	-	312,900
Intergovernmental	-	-	1,027,858
Charges for services	-	-	96,733
Miscellaneous	-	14,544	45,478
Interest earned on investments	150	8,973	47,428
Total revenues	<u>150</u>	<u>23,517</u>	<u>2,860,415</u>
EXPENDITURES:			
Current:			
General government	-	-	234,337
Public safety	-	-	213,937
Community development	-	-	12,228
Culture and recreation	-	-	27,916
Public works	1,625	107,262	1,095,279
Capital outlay	-	104,691	1,772,863
Total expenditures	<u>1,625</u>	<u>211,953</u>	<u>3,356,560</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(1,475)</u>	<u>(188,436)</u>	<u>(496,145)</u>
OTHER FINANCING SOURCES(USES):			
Transfers in	-	707,059	1,496,329
Transfers out	-	-	(522,778)
Total other financing sources(uses)	<u>-</u>	<u>707,059</u>	<u>973,551</u>
CHANGE IN FUND BALANCES	(1,475)	518,623	477,406
FUND BALANCES:			
Beginning of year	<u>9,301</u>	<u>442,628</u>	<u>4,200,907</u>
End of year	<u>\$ 7,826</u>	<u>\$ 961,251</u>	<u>\$ 4,678,313</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, 2012

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2011	\$ 74,840	\$ 74,840	\$ -
Resources (inflows):			
Property taxes	457,104	457,933	829
Miscellaneous	-	582	582
Interest earned on investments	480	711	231
Transfers in	89,270	89,270	-
Amount available for appropriation	<u>621,694</u>	<u>623,336</u>	<u>1,642</u>
Charges to appropriations (outflows):			
Public works	579,982	550,358	29,624
Transfers out	10,796	10,796	-
Total charges to appropriations	<u>590,778</u>	<u>561,154</u>	<u>29,624</u>
Fund balance, June 30, 2012	<u>\$ 30,916</u>	<u>\$ 62,182</u>	<u>\$ 31,266</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, 2012

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2011	\$ 668,903	\$ 668,903	\$ -
Resources (inflows):			
Intergovernmental	527,576	547,519	19,943
Interest earned on investments	3,720	4,908	1,188
Amount available for appropriation	<u>1,200,199</u>	<u>1,221,330</u>	<u>21,131</u>
Charges to appropriations (outflows):			
Capital outlay	416,296	341,475	74,821
Transfers out	304,317	304,317	-
Total charges to appropriations	<u>720,613</u>	<u>645,792</u>	<u>74,821</u>
Fund balance, June 30, 2012	<u>\$ 479,586</u>	<u>\$ 575,538</u>	<u>\$ 95,952</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, 2012

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2011	\$ 233,058	\$ 233,058	\$ -
Resources (inflows):			
Charges for services	58,260	55,172	(3,088)
Miscellaneous	-	119	119
Interest earned on investments	2,024	2,053	29
Amount available for appropriation	<u>293,342</u>	<u>290,402</u>	<u>(2,940)</u>
Charges to appropriations (outflows):			
General government	<u>248,280</u>	<u>167,323</u>	<u>80,957</u>
Total charges to appropriations	<u>248,280</u>	<u>167,323</u>	<u>80,957</u>
Fund balance, June 30, 2012	<u><u>\$ 45,062</u></u>	<u><u>\$ 123,079</u></u>	<u><u>\$ 78,017</u></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, 2012

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2011	\$ -	\$ -	\$ -
Resources (inflows):			
Intergovernmental	583,957	433,957	(150,000)
Amount available for appropriation	583,957	433,957	(150,000)
Charges to appropriations (outflows):			
Capital outlay	563,400	294,180	269,220
Transfers out	20,557	20,557	-
Total charges to appropriations	583,957	314,737	269,220
Fund balance, June 30, 2012	<u>\$ -</u>	<u>\$ 119,220</u>	<u>\$ 119,220</u>

City of Hermosa Beach
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Tyco
For the year ended June 30, 2012

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2011	\$ 798,824	\$ 798,824	\$ -
Resources (inflows):			
Use of money and property	312,900	312,900	-
Interest earned on investments	5,606	3,795	(1,811)
Amount available for appropriation	<u>1,117,330</u>	<u>1,115,519</u>	<u>(1,811)</u>
Charges to appropriations (outflows):			
Capital outlay	794,446	830,930	(36,484)
Transfers out	175,000	175,000	-
Total charges to appropriations	<u>969,446</u>	<u>1,005,930</u>	<u>(36,484)</u>
Fund balance, June 30, 2012	<u>\$ 147,884</u>	<u>\$ 109,589</u>	<u>\$ (38,295)</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, 2012

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2011	\$ 46,070	\$ 46,070	\$ -
Resources (inflows):			
Interest earned on investment	696	471	(225)
Amount available for appropriation	46,766	46,541	(225)
Charges to appropriations (outflows):			
Capital outlay	43,246	20,039	23,207
Total charges to appropriations	43,246	20,039	23,207
Fund balance, June 30, 2012	<u>\$ 3,520</u>	<u>\$ 26,502</u>	<u>\$ 22,982</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, 2012

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2011	\$ 132,506	\$ 132,506	\$ -
Resources (inflows):			
Other taxes	20,439	20,439	-
Charges for services	14,566	-	(14,566)
Interest earned on investments	579	1,605	1,026
Amount available for appropriation	<u>168,090</u>	<u>154,550</u>	<u>(13,540)</u>
Charges to appropriations (outflows):			
Capital outlay	<u>20,000</u>	<u>-</u>	<u>20,000</u>
Total charges to appropriations	<u>20,000</u>	<u>-</u>	<u>20,000</u>
Fund balance, June 30, 2012	<u><u>\$ 148,090</u></u>	<u><u>\$ 154,550</u></u>	<u><u>\$ 6,460</u></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, 2012

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2011	\$ 1,457	\$ 1,457	\$ -
Resources (inflows):			
Miscellaneous	4,330	4,330	-
Interest earned on investments	34	27	(7)
Amount available for appropriation	<u>5,821</u>	<u>5,814</u>	<u>(7)</u>
Charges to appropriations (outflows):			
General government	1,700	1,552	148
Transfers out	2,718	2,718	-
Total charges to appropriations	<u>4,418</u>	<u>4,270</u>	<u>148</u>
Fund balance, June 30, 2012	<u>\$ 1,403</u>	<u>\$ 1,544</u>	<u>\$ 141</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, 2012

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2011	\$ 4,457	\$ 4,457	\$ -
Resources (inflows):			
Miscellaneous	2,600	2,600	-
Amount available for appropriation	<u>7,057</u>	<u>7,057</u>	<u>-</u>
Charges to appropriations (outflows):			
General government	1,500	1,329	171
Transfers out	<u>1,142</u>	<u>1,142</u>	<u>-</u>
Total charges to appropriations	<u>2,642</u>	<u>2,471</u>	<u>171</u>
Fund balance, June 30, 2012	<u>\$ 4,415</u>	<u>\$ 4,586</u>	<u>\$ 171</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, 2012

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2011	\$ 12,683	\$ 12,683	\$ -
Resources (inflows):			
Miscellaneous	9,000	9,000	-
Interest earned on investments	123	165	42
Amount available for appropriation	<u>21,806</u>	<u>21,848</u>	<u>42</u>
Charges to appropriations (outflows):			
General government	6,000	5,304	696
Transfers out	3,310	3,310	-
Total charges to appropriations	<u>9,310</u>	<u>8,614</u>	<u>696</u>
Fund balance, June 30, 2012	<u>\$ 12,496</u>	<u>\$ 13,234</u>	<u>\$ 738</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, 2012

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2011	\$ 17,007	\$ 17,007	\$ -
Resources (inflows):			
Miscellaneous	10,000	10,000	-
Interest earned on investments	163	218	55
Amount available for appropriation	<u>27,170</u>	<u>27,225</u>	<u>55</u>
Charges to appropriations (outflows):			
General government	6,200	5,597	603
Transfers out	3,783	3,783	-
Total charges to appropriations	<u>9,983</u>	<u>9,380</u>	<u>603</u>
Fund balance, June 30, 2012	<u>\$ 17,187</u>	<u>\$ 17,845</u>	<u>\$ 658</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, 2012

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2011	\$ 1,383	\$ 1,383	\$ -
Resources (inflows):			
Miscellaneous	3,000	3,000	-
Interest earned on investments	17	27	10
Amount available for appropriation	<u>4,400</u>	<u>4,410</u>	<u>10</u>
Charges to appropriations (outflows):			
General government	1,650	1,511	139
Transfers out	1,155	1,155	-
Total charges to appropriations	<u>2,805</u>	<u>2,666</u>	<u>139</u>
Fund balance, June 30, 2012	<u>\$ 1,595</u>	<u>\$ 1,744</u>	<u>\$ 149</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, 2012

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2011	\$ 47,167	\$ 47,167	\$ -
Resources (inflows):			
Other taxes	269,761	292,099	22,338
Charges for services	6,900	6,811	(89)
Interest earned on investments	819	1,603	784
Amount available for appropriation	<u>324,647</u>	<u>347,680</u>	<u>23,033</u>
Charges to appropriations (outflows):			
General government	64,240	51,331	12,909
Public safety	69,000	73,325	(4,325)
Community development	23,077	12,228	10,849
Culture and recreation	40,000	27,916	12,084
Capital outlay	2,650	-	2,650
Total charges to appropriations	<u>198,967</u>	<u>164,800</u>	<u>34,167</u>
Fund balance, June 30, 2012	<u>\$ 125,680</u>	<u>\$ 182,880</u>	<u>\$ 57,200</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, 2012

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2011	\$ 190,774	\$ 190,774	\$ -
Resources (inflows):			
Other taxes	223,760	238,108	14,348
Interest earned on investments	2,116	3,658	1,542
Amount available for appropriation	<u>416,650</u>	<u>432,540</u>	<u>15,890</u>
Charges to appropriations (outflows):			
Public works	40,000	22,297	17,703
Capital outlay	125,617	8,661	116,956
Total charges to appropriations	<u>165,617</u>	<u>30,958</u>	<u>134,659</u>
Fund balance, June 30, 2012	<u>\$ 251,033</u>	<u>\$ 401,582</u>	<u>\$ 150,549</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, 2012

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2011	\$ 250,399	\$ 250,399	\$ -
Resources (inflows):			
Other taxes	167,821	177,019	9,198
Interest earned on investments	1,888	2,955	1,067
Amount available for appropriation	<u>420,108</u>	<u>430,373</u>	<u>10,265</u>
Charges to appropriations (outflows):			
Capital outlay	<u>299,994</u>	<u>101,518</u>	<u>198,476</u>
Total charges to appropriations	<u>299,994</u>	<u>101,518</u>	<u>198,476</u>
Fund balance, June 30, 2012	<u>\$ 120,114</u>	<u>\$ 328,855</u>	<u>\$ 208,741</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, 2012

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2011	\$ 85,648	\$ 85,648	\$ -
Resources (inflows):			
Intergovernmental	22,000	24,529	2,529
Interest earned on investments	736	1,044	308
Amount available for appropriation	<u>108,384</u>	<u>111,221</u>	<u>2,837</u>
Charges to appropriations (outflows):			
General government	3,600	390	3,210
Capital outlay	102,531	2,184	100,347
Total charges to appropriations	<u>106,131</u>	<u>2,574</u>	<u>103,557</u>
Fund balance, June 30, 2012	<u>\$ 2,253</u>	<u>\$ 108,647</u>	<u>\$ 106,394</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, 2012

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2011	\$ 264,493	\$ 264,493	\$ -
Resources (inflows):			
Other taxes	100,000	100,000	-
Interest earned on investments	2,054	2,435	381
Amount available for appropriation	<u>366,547</u>	<u>366,928</u>	<u>381</u>
Charges to appropriations (outflows):			
Public safety	170,214	133,745	36,469
Capital outlay	37,283	34,490	2,793
Total charges to appropriations	<u>207,497</u>	<u>168,235</u>	<u>39,262</u>
Fund balance, June 30, 2012	<u>\$ 159,050</u>	<u>\$ 198,693</u>	<u>\$ 39,643</u>

City of Hermosa Beach
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Sewer
For the year ended June 30, 2012

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2011	\$ 631,905	\$ 631,905	\$ -
Resources (inflows):			
Intergovernmental	30,729	21,853	(8,876)
Charges for services	31,434	26,788	(4,646)
Miscellaneous	-	303	303
Interest earned on investments	6,147	9,404	3,257
Transfers in	700,000	700,000	-
Amount available for appropriation	<u>1,400,215</u>	<u>1,390,253</u>	<u>(9,962)</u>
Charges to appropriations (outflows):			
Public works	610,866	413,737	197,129
Capital outlay	653,776	10,030	643,746
Total charges to appropriations	<u>1,264,642</u>	<u>423,767</u>	<u>840,875</u>
Fund balance, June 30, 2012	<u>\$ 135,573</u>	<u>\$ 966,486</u>	<u>\$ 830,913</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, 2012

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2011	\$ 250,695	\$ 250,695	\$ -
Resources (inflows):			
Fines and forfeitures	38,000	44,420	6,420
Miscellaneous	1,000	1,000	-
Interest earned on investments	2,078	2,764	686
Amount available for appropriation	<u>291,773</u>	<u>298,879</u>	<u>7,106</u>
Charges to appropriations (outflows):			
Public safety	16,128	6,867	9,261
Capital outlay	25,000	24,665	335
Total charges to appropriations	<u>41,128</u>	<u>31,532</u>	<u>9,596</u>
Fund balance, June 30, 2012	<u>\$ 250,645</u>	<u>\$ 267,347</u>	<u>\$ 16,702</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, 2012

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
Fund balance, July 1, 2011	\$ 36,709	\$ 36,709	\$ -
Resources (inflows):			
Charges for services	13,000	7,962	(5,038)
Interest earned on investments	165	462	297
Amount available for appropriation	<u>49,874</u>	<u>45,133</u>	<u>(4,741)</u>
Fund balance, June 30, 2012	<u>\$ 49,874</u>	<u>\$ 45,133</u>	<u>\$ (4,741)</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, 2012

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2011	\$ 9,301	\$ 9,301	\$ -
Resources (inflows):			
Interest earned on investments	125	150	25
Amount available for appropriation	9,426	9,451	25
Charges to appropriations (outflows):			
Public works	4,000	1,625	2,375
Total charges to appropriations	4,000	1,625	2,375
Fund balance, June 30, 2012	<u>\$ 5,426</u>	<u>\$ 7,826</u>	<u>\$ 2,400</u>

City of Hermosa Beach
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Capital Improvement Capital Projects Fund
For the year ended June 30, 2012

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2011	\$ 442,628	\$ 442,628	\$ -
Resources (inflows):			
Miscellaneous	386	14,544	14,158
Interest earned on investments	5,236	8,973	3,737
Transfers in	707,059	707,059	-
Amount available for appropriation	<u>1,155,309</u>	<u>1,173,204</u>	<u>17,895</u>
Charges to appropriations (outflows):			
Public works	128,990	107,262	21,728
Capital outlay	891,603	104,691	786,912
Total charges to appropriations	<u>1,020,593</u>	<u>211,953</u>	<u>808,640</u>
Fund balance, June 30, 2012	<u>\$ 134,716</u>	<u>\$ 961,251</u>	<u>\$ 826,535</u>

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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, 2012

	Insurance Fund	Equipment Replacement Fund	Total
ASSETS			
Current assets:			
Cash and investments	\$ 11,685,277	\$ 4,183,936	\$ 15,869,213
Other accounts receivables	-	-	-
Deposits	165,000	-	165,000
Advances to other funds	-	-	-
Other assets	81,090	47,323	128,413
Total current assets	<u>11,931,367</u>	<u>4,231,259</u>	<u>16,162,626</u>
Capital assets:			
Nondepreciable	-	103,841	103,841
Depreciable, net	-	1,792,441	1,792,441
Total capital assets	<u>-</u>	<u>1,896,282</u>	<u>1,896,282</u>
Total assets	<u>11,931,367</u>	<u>6,127,541</u>	<u>18,058,908</u>
LIABILITIES			
Current liabilities:			
Accounts payable	25,565	40,754	66,319
Accrued wages and benefits payable	6,766	16,023	22,789
Workers' compensation claims payable, due in one year	933,282	-	933,282
General liability claims payable, due in one year	417,109	-	417,109
Total current liabilities	<u>1,382,722</u>	<u>56,777</u>	<u>1,439,499</u>
Long-term liabilities:			
Workers' compensation claims payable, due in more than one year	6,023,268	-	6,023,268
General liability claims payable, due in more than one year	641,404	-	641,404
Settlement payable	3,500,000	-	3,500,000
Total long-term liabilities	<u>10,164,672</u>	<u>-</u>	<u>10,164,672</u>
Total liabilities	<u>11,547,394</u>	<u>56,777</u>	<u>11,604,171</u>
NET ASSETS			
Invested in capital assets	-	1,896,282	1,896,282
Unrestricted	383,973	4,174,482	4,558,455
Total net assets	<u>\$ 383,973</u>	<u>\$ 6,070,764</u>	<u>\$ 6,454,737</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, 2012

	Insurance Fund	Equipment Replacement Fund	Total
OPERATING REVENUES:			
Charges for services	\$ 2,295,005	\$ 1,648,189	\$ 3,943,194
Miscellaneous	108,837	1,534	110,371
Total operating revenues	2,403,842	1,649,723	4,053,565
OPERATING EXPENSES:			
Salaries and wages	50,987	187,626	238,613
Contractor services	1,871,722	397,060	2,268,782
Supplies	38	337,205	337,243
Claims expense	2,729,545	-	2,729,545
Depreciation	-	385,607	385,607
Total operating expenses	4,652,292	1,307,498	5,959,790
OPERATING INCOME(LOSS)	(2,248,450)	342,225	(1,906,225)
NONOPERATING REVENUES(EXPENSES):			
Gain(Loss) on disposal of capital assets	-	7,500	7,500
Settlement	(3,500,000)	-	(3,500,000)
Total nonoperating revenues(expenses)	(3,500,000)	7,500	(3,492,500)
INCOME(LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(5,748,450)	349,725	(5,398,725)
Contributions	-	3,000	3,000
Transfers in	2,797,662	-	2,797,662
Total contributions and transfers	2,797,662	3,000	2,800,662
Change in net assets	(2,950,788)	352,725	(2,598,063)
NET ASSETS			
Beginning of the year	3,334,761	5,718,039	9,052,800
End of the year	\$ 383,973	\$ 6,070,764	\$ 6,454,737

City of Hermosa Beach
Combining Statement of Cash Flows
All Internal Service Funds
For the year ended June 30, 2012

	Insurance Fund	Equipment Replacement Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received for services from other funds	\$ 2,295,005	\$ 1,650,867	\$ 3,945,872
Cash payments to suppliers of goods and services	(1,858,689)	(1,063,803)	(2,922,492)
Cash payments to employees for services	(51,103)	(198,743)	(249,846)
Insurance premiums, settlements and recovery	(1,588,268)	1,534	(1,586,734)
Net cash provided by (used in) operating activities	(1,203,055)	389,855	(813,200)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Contributions	-	3,000	3,000
Transfers in	2,797,662	-	2,797,662
Net cash provided by (used in) noncapital financing activities	2,797,662	3,000	2,800,662
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Repayment of advances to other funds	425,586	425,587	851,173
Acquisition of capital assets	-	(252,399)	(252,399)
Proceeds from sale of capital assets	-	7,500	7,500
Net cash provided by (used in) capital and related financing activities	425,586	180,688	606,274
Net increase (decrease) in cash and cash equivalents	2,020,193	573,543	2,593,736
CASH AND CASH EQUIVALENTS:			
Beginning of year	9,665,084	3,610,393	13,275,477
End of year	\$ 11,685,277	\$ 4,183,936	\$ 15,869,213
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Operating income (loss)	\$ (2,248,450)	\$ 342,225	\$ (1,906,225)
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	-	385,607	385,607
Changes in current assets and liabilities:			
Other accounts receivable	-	2,678	2,678
Other assets	1,405	(22,982)	(21,577)
Accounts payable	11,666	(306,556)	(294,890)
Accrued wages and benefits payable	(116)	(11,117)	(11,233)
Workers' compensation claims payable	1,414,315	-	1,414,315
General liability claims payable	(381,875)	-	(381,875)
Total adjustments	1,045,395	47,630	1,093,025
Net cash provided by (used in) operating activities	\$ (1,203,055)	\$ 389,855	\$ (813,200)

FIDUCIARY FUNDS

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

City of Hermosa Beach
Combining Statement of Fiduciary Net Assets
All Agency Funds
June 30, 2012

	<u>Bayview Drive Redemption</u>	<u>Bayview Drive Reserve</u>	<u>Lower Pier Avenue Assessment District Redemption</u>	<u>Beach Drive Assessment District Redemption</u>
ASSETS				
Cash and investments	\$ 136,239	\$ 13,191	\$ 38,703	\$ 66,512
Interest receivable	262	25	74	128
Other accounts receivable	2,424	-	7,089	1,743
Total assets	<u>\$ 138,925</u>	<u>\$ 13,216</u>	<u>\$ 45,866</u>	<u>\$ 68,383</u>
LIABILITIES				
Assessment:				
Installment account	\$ 138,925	\$ 3,216	\$ 45,866	\$ 68,383
Reserve requirement	-	10,000	-	-
Total liabilities	<u>\$ 138,925</u>	<u>\$ 13,216</u>	<u>\$ 45,866</u>	<u>\$ 68,383</u>

City of Hermosa Beach
Combining Statement of Fiduciary Net Assets, Continued
All Agency Funds
June 30, 2012

	Beach Drive Assessment District Reserve	Myrtle Avenue Utility Undergrounding Assessment District	Loma Drive Utility Undergrounding Assessment District	Total
ASSETS				
Cash and investments	\$ 4,015	\$ 103,717	\$ 128,635	\$ 491,012
Interest receivable	7	199	247	942
Other accounts receivable	-	9,613	4,353	25,222
Total assets	\$ 4,022	\$ 113,529	\$ 133,235	\$ 517,176
LIABILITIES				
Assessment:				
Installment account	\$ 1,022	\$ 113,529	\$ 133,235	\$ 504,176
Reserve requirement	3,000	-	-	13,000
Total liabilities	\$ 4,022	\$ 113,529	\$ 133,235	\$ 517,176

City of Hermosa Beach
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
For the year ended June 30, 2012

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
ASSETS				
Bayview Drive Redemption Fund:				
Cash and investments	\$ 136,315	\$ 61,396	\$ (61,472)	\$ 136,239
Interest receivable	275	537	(550)	262
Other accounts receivable	1,592	2,652	(1,820)	2,424
Bayview Drive Reserve Fund:				
Cash and investments	13,036	246	(91)	13,191
Interest receivable	28	52	(55)	25
Lower Pier District Redemption Fund:				
Cash and investments	45,056	32,665	(39,018)	38,703
Interest receivable	96	169	(191)	74
Other accounts receivable	1,459	7,089	(1,459)	7,089
Beach Drive Assessment District Redemption Fund:				
Cash and investments	66,937	31,605	(32,030)	66,512
Interest receivable	142	271	(285)	128
Other accounts receivable	757	1,743	(757)	1,743
Beach Drive Assessment District Reserve Fund:				
Cash and investments	3,969	73	(27)	4,015
Interest receivable	8	16	(17)	7
Myrtle Avenue Assessment Fund:				
Cash and investments	103,017	101,945	(101,245)	103,717
Interest receivable	219	418	(438)	199
Other accounts receivable	9,178	9,614	(9,179)	9,613
Loma Drive Assessment Fund:				
Cash and investments	120,864	103,752	(95,981)	128,635
Interest receivable	257	504	(514)	247
Other accounts receivable	4,694	4,353	(4,694)	4,353
Total assets	\$ 507,899	\$ 359,100	\$ (349,823)	\$ 517,176
LIABILITIES				
Bayview Drive Redemption Fund:				
Assessment installment account	\$ 138,182	\$ 64,585	\$ (63,842)	\$ 138,925
Bayview Drive Reserve Fund:				
Assessment installment account	-	3,216	-	3,216
Assessment reserve requirement	13,064	-	(3,064)	10,000
Lower Pier District Redemption Fund:				
Assessment installment account	46,611	39,923	(40,668)	45,866
Beach Drive Assessment District Redemption Fund:				
Assessment installment account	67,836	33,619	(33,072)	68,383
Beach Drive Assessment District Reserve Fund:				
Assessment installment account	-	1,023	-	1,023
Assessment reserve requirement	3,977	-	(978)	2,999
Myrtle Avenue Assessment Fund:				
Assessment installment account	112,414	111,977	(110,862)	113,529
Loma Drive Assessment Fund:				
Assessment installment account	125,815	108,609	(101,189)	133,235
Total liabilities	\$ 507,899	\$ 362,952	\$ (353,675)	\$ 517,176



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**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 Members of the 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 (the "City"), as of and for the year ended June 30, 2012, and have issued our report thereon dated February 4, 2013. 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

Management of the City is responsible for establishing and maintaining effective 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 auditing procedures for the purpose of expressing our opinions on the financial statements, but 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 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.

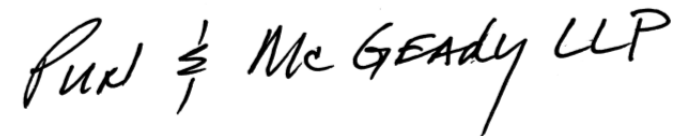
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material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

To the Honorable Mayor and Members of the 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, others within the City, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Rick Mc Geady LLP". The signature is written in a cursive, slightly slanted style.

Irvine, California
February 4, 2013

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	134
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	146
These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.	
Debt Capacity	152
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	156
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	160
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 Ten 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	\$ 68,125,128	71,551,068	75,287,448	75,479,766	74,486,411
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	\$ 8,441,238	7,708,706	8,583,838	8,535,614	8,707,211
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	\$ 76,566,366	79,259,774	83,871,286	84,015,380	83,193,622

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

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

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

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

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

	Fiscal Year				
	2003	2004	2005	2006	2007
Expenses:					
Governmental activities:					
Legislative and legal	\$ 810,589	755,591	737,903	962,682	867,481
General government	1,415,000	1,816,801	1,727,484	1,999,234	2,523,060
Public safety	10,415,111	11,219,997	12,855,036	15,167,715	17,237,156
Community development	968,000	1,115,600	1,355,888	1,349,891	1,424,766
Culture and recreation	1,045,567	965,440	996,021	1,149,070	1,253,882
Public works	4,136,564	4,592,460	6,687,811	7,980,811	7,106,083
Total governmental activities expenses	<u>18,790,831</u>	<u>20,465,889</u>	<u>24,360,143</u>	<u>28,609,403</u>	<u>30,412,428</u>
Business-type activities:					
Downtown Enhancement	909,137	939,576	166,732	1,130,499	1,096,039
Parking	1,525,371	1,632,093	1,701,775	-	-
Proposition "A" Transit	302,907	310,113	-	-	-
Proposition "C" Transit	103,091	48,119	-	-	-
Total business-type activities expenses	<u>2,840,506</u>	<u>2,929,901</u>	<u>1,868,507</u>	<u>1,130,499</u>	<u>1,096,039</u>
Total primary government expenses	<u>21,631,337</u>	<u>23,395,790</u>	<u>26,228,650</u>	<u>29,739,902</u>	<u>31,508,467</u>
Program revenues:					
Governmental activities:					
Charges for services:					
General government	89,037	84,745	88,375	458,900	497,423
Public safety	833,755	914,655	1,063,594	3,891,881	4,078,709
Community development	768,241	929,695	1,245,622	1,393,212	1,179,786
Culture and recreation	708,296	793,748	874,111	986,137	944,229
Public works	203,533	689,457	2,368,076	808,091	835,845
Operating grants and contributions	642,214	674,451	721,198	725,136	755,716
Capital grants and contributions	475,933	665,806	2,465,698	1,042,854	286,930
Total governmental activities program revenues:	<u>3,721,009</u>	<u>4,752,557</u>	<u>8,826,674</u>	<u>9,306,211</u>	<u>8,578,638</u>
Business-type activities:					
Charges for services:					
Downtown Enhancement	774,865	879,495	906,857	1,187,249	1,144,666
Parking	2,503,330	2,895,143	3,247,478	-	-
Proposition A Transit	14,381	14,384	-	-	-
Operating grants and contributions	-	-	-	-	-
Capital grants and contributions	-	-	-	-	-
Total business-type activities program revenues:	<u>3,292,576</u>	<u>3,789,022</u>	<u>4,154,335</u>	<u>1,187,249</u>	<u>1,144,666</u>
Total primary government program revenues:	<u>7,013,585</u>	<u>8,541,579</u>	<u>12,981,009</u>	<u>10,493,460</u>	<u>9,723,304</u>

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

	Fiscal Year				
	2003	2004	2005	2006	2007
Net revenues (expenses):					
Governmental activities	(15,069,822)	(15,713,332)	(15,533,469)	(19,303,192)	(21,833,790)
Business-type activities	452,070	859,121	2,285,828	56,750	48,627
Total net revenues (expenses)	<u>(14,617,752)</u>	<u>(14,854,211)</u>	<u>(13,247,641)</u>	<u>(19,246,442)</u>	<u>(21,785,163)</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	9,383,544
Sales tax	2,508,346	2,596,135	2,584,015	2,511,004	2,395,390
Other taxes	5,166,212	5,559,070	5,897,908	6,186,641	6,414,534
Grants and contributions not restricted to specific programs	3,111,569	1,229,911	2,318,501	1,537,667	1,273,625
Investment income	439,050	177,757	467,923	753,746	1,097,128
Other general revenues	400,658	615,309	272,664	113	170,325
Transfers	990,593	2,356,585	1,507,304	144,451	11,255
Total governmental activities	<u>17,898,575</u>	<u>18,420,247</u>	<u>19,269,850</u>	<u>19,495,510</u>	<u>20,745,801</u>
Business-type activities:					
Investment income	96,117	73,519	96,365	33,154	48,113
Other general revenues	498,276	530,773	-	-	-
Miscellaneous	10,812	12,966	243	6,323	86,112
Transfers	(990,593)	(2,356,585)	(1,507,304)	(144,451)	(11,255)
Total business-type activities	<u>(385,388)</u>	<u>(1,739,327)</u>	<u>(1,410,696)</u>	<u>(104,974)</u>	<u>122,970</u>
Total primary government	<u>17,513,187</u>	<u>16,680,920</u>	<u>17,859,154</u>	<u>19,390,536</u>	<u>20,868,771</u>
Changes in net assets					
Governmental activities:	2,828,753	2,706,915	3,736,381	192,318	(1,087,989)
Business-type activities:	66,682	(880,206)	875,132	(48,224)	171,597
Total primary government	<u>\$ 2,895,435</u>	<u>1,826,709</u>	<u>4,611,513</u>	<u>144,094</u>	<u>(916,392)</u>

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 Ten Fiscal Years
(accrual basis of accounting)

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

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

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

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 Ten Years
(accrual basis of accounting)

Fiscal year ended June 30	Property tax	Sales tax	Real property transfer tax	Franchise fees	1/2 cent sales tax extension for public safety	Transient occupancy tax	Utility user's tax	Business license	Total
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
2012	11,639,960	2,474,651	177,555	730,954	180,493	1,884,020	2,495,895	950,803	20,534,331

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

	Fiscal Year				
	2003	2004	2005	2006	2007
General Fund:					
Reserved	\$ 231,701	\$ 230,527	\$ 103,014	\$ 158,854	\$ 142,604
Unreserved	461,115	403,455	373,817	211,191	168,089
Non-spendable					
Restricted					
Committed					
Assigned					
Unassigned					
Total general fund	<u>\$ 692,816</u>	<u>\$ 633,982</u>	<u>\$ 476,831</u>	<u>\$ 370,045</u>	<u>\$ 310,693</u>
All other governmental funds:					
Reserved	\$ 909,806	\$ 1,459,679	\$ 4,107,762	\$ 3,845,091	\$ 3,875,682
Unreserved, reported in:					
Special revenue funds	11,053,526	12,038,695	10,516,612	10,900,400	8,864,333
Non-spendable					
Restricted					
Committed					
Assigned					
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>
Total governmental funds	<u><u>\$ 12,656,148</u></u>	<u><u>\$ 14,132,356</u></u>	<u><u>\$ 15,101,205</u></u>	<u><u>\$ 15,115,536</u></u>	<u><u>\$ 13,050,708</u></u>

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

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

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

	Fiscal Year				
	2003	2004	2005	2006	2007
Revenues:					
Property taxes	\$ 5,736,937	6,339,123	6,668,515	8,818,051	9,834,400
Other taxes	7,323,267	8,262,205	9,085,304	9,404,925	9,488,447
Licenses and permits	571,682	664,169	701,468	868,085	772,832
Fines and forfeitures	278,334	371,802	459,106	1,627,274	1,615,777
Use of money and property	2,185,382	590,605	871,782	612,248	656,966
Intergovernmental	2,175,932	2,168,077	4,333,949	2,278,769	1,299,426
Charges for services	1,254,917	1,414,665	1,852,726	3,905,640	4,125,954
Miscellaneous	645,335	793,633	2,053,250	388,532	349,856
Interest earned on investments	450,116	177,757	467,925	753,746	1,097,128
Total revenues	20,621,902	20,782,036	26,494,025	28,657,270	29,240,786
Expenditures					
Current:					
Legislative and legal	832,157	752,541	727,026	963,031	858,017
General government	1,245,306	1,259,275	1,340,435	2,220,062	2,426,179
Public safety	10,040,618	10,555,169	12,139,133	14,444,334	16,236,080
Community development	951,856	1,089,056	1,325,219	1,346,996	1,417,596
Culture and recreation	966,621	932,447	940,158	1,124,347	1,205,653
Public works	3,082,096	3,189,361	3,374,363	3,785,554	3,895,291
Capital outlay	4,281,144	3,119,265	6,425,895	3,406,570	4,722,412
Debt service:	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
Excess (deficiency) of revenues over (under) expenditures	(777,896)	(115,078)	221,796	1,366,376	(1,520,442)
Other financing sources (uses)					
Proceeds from sale of assets					
Transfers in	4,016,062	6,962,841	7,368,202	4,273,743	2,550,370
Transfers out	(3,625,668)	(5,371,555)	(6,621,149)	(5,625,788)	(3,094,756)
Total other financing sources (uses)	390,394	1,591,286	747,053	(1,352,045)	(544,386)
Net change in fund balances	\$ (387,502)	1,476,208	968,849	14,331	(2,064,828)
 Debt service as a percentage of noncapital expenditures	 0.0%	 0.0%	 0.0%	 0.0%	 0.0%

The City has no debt, therefore Debt Service as a percentage of noncapital expenditures is 0.0% for all years.

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

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

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 Ten Fiscal Years
(modified accrual basis of accounting)

Fiscal year ended June 30	Property tax	Sales tax	Real property transfer tax	Franchise fees	Transient occupancy tax	Utility user's tax	Other	Total
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
2012	12,056,548	2,474,650	177,555	730,954	1,884,020	2,495,895	1,958,962	21,778,584

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
2003	2,342,017	175,517	7,340	101,252	(29,039)	2,597,087	1.00	2,626,126	
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)	4,862,224	1.00	4,909,030	0.80%
2012	4,479,178	407,825	11,156	92,987	(46,205)	4,944,941	1.00	4,991,146	1.70%

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	
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
2012	1.000000	0.016904	0.016884	-	-	0.003700	1.037488

Source: Los Angeles County Auditor-Controller

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

Taxpayer	2012		2003	
	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)	73,297,264.00	1.48%		
EQR Gallery Apartments Limited Partnership (1)	58,125,092.00	1.18%		
1601 PCH, LLP (1)	27,292,872.00	0.55%		
Diana Albergate Trust (5)	25,034,205.00	0.51%		
William Stirton Trust (5)	17,369,670.00	0.35%		
Hermosa Hotel Investments (1)	16,434,756.00	0.33%		
Sepulveda Blvd Properties, LLC (5)	14,411,671.00	0.29%		
Regency Centers Limited Partnership (7)	14,377,990.00	0.29%	12,469,183	0.48%
Beta Group (2)	12,415,086.00	0.25%	10,770,000	0.41%
Boris LLC (1)	12,372,198.00	0.25%		
Robert J. & Ranae R. Desantis Trust (1)			10,404,000	0.40%
International Church of the Foursquare (7)			13,783,187	0.53%
Playa Pacifica Limited (2)			11,574,185	0.45%
Vasek & Anna Polak Charitable Found Inc (13)			8,228,211	0.32%
Cheng Yi and Ying Yin Chang (1)			7,214,610	0.28%
SII Trust (1)			5,988,216	0.23%
Roger E. Bacon (5)			5,706,996	0.22%
Marina Cypress Associates			5,482,500	0.21%
	<u>\$ 271,130,804</u>	<u>5.48%</u>	<u>\$ 91,621,088</u>	<u>3.53%</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
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%		9,789,691	95.06%
2012	10,477,164	9,971,097	95.17%		9,971,097	95.17%

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	
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
2012	410	15,944,064	82	3,597,461	4,944,940,538

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

City of Hermosa Beach
Direct and Overlapping Debt
June 30, 2012

City assessed valuation	\$ 4,944,940,538		
Redevelopment agency incremental valuation	-		
Total assessed valuation	<u>\$ 4,944,940,538</u>		
	<u>Percentage applicable</u>	<u>Outstanding debt 6/30/12</u>	<u>Estimated share of overlapping debt</u>
Overlapping debt repaid with property taxes:			
West Basin Water District debt service	0.573%	94,031,705	538,631
El Camino Community College District 2002 series 2003A	6.165%	3,495,000	215,460
El Camino Community College District 2005 refunding	6.165%	28,128,953	1,734,099
El Camino Community College District 2002 series 2006B	6.165%	<u>135,100,000</u>	<u>8,328,670</u>
Total overlapping debt repaid with property taxes		<u>\$ 260,755,658</u>	<u>10,816,860</u>
City direct debt			
Hermosa Beach City School District debt service 2002	100.000%		854,401
Hermosa Beach School District debt service 2005	100.000%		3,994,298
Hermosa Beach School District debt service 2005 refunding	100.000%		<u>5,240,074</u>
Total city direct debt			<u>10,088,773</u>
Total direct and overlapping debt			<u>\$ 20,905,633</u>
Direct Debt	0.200%		
Overlapping Debt	0.220%		
Total Debt	0.420%		

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.

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

	Fiscal Year				
	2003	2004	2005	2006	2007
Assessed valuation	\$ 2,626,125,947	\$ 2,874,383,847	\$ 3,141,870,060	\$ 3,497,977,443	\$ 3,930,224,784
Conversion percentage	25%	25%	25%	25%	25%
Adjusted assessed valuation	\$ 656,531,487	\$ 718,595,962	\$ 785,467,515	\$ 874,494,361	\$ 982,556,196
Debt limit percentage	15%	15%	15%	15%	15%
Debt limit	\$ 98,479,723	\$ 107,789,394	\$ 117,820,127	\$ 131,174,154	\$ 147,383,429
Total net debt applicable to limit	\$ -	\$ -	\$ -	\$ -	\$ -
Legal debt margin	<u>\$ 98,479,723</u>	<u>\$ 107,789,394</u>	<u>\$ 117,820,127</u>	<u>\$ 131,174,154</u>	<u>\$ 147,383,429</u>
Total debt applicable to the limit as a percentage of debt limit	0%	0%	0%	0%	0%

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

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

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

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

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

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

City of Hermosa Beach
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)
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	19,510	420,913,463	42,564	-	5.5%	1,420
2012	19,574	-	-	-	4.9%	1,608

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 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 Ten Years Ago**

Employer	2012		2003	
	Number of employees	Percent of total employment	Number of employees	Percent of total employment
24 Hour Fitness	171	4.54%		
24 Hour Fitness - Retail	165	4.38%		
City of Hermosa Beach	116	3.08%	136	9.32%
Ralph's Grocery	105	2.79%		
Sangria	101	2.68%		
Shorewood Realtors, Incorporated	100	2.65%	117	8.01%
First Steps for Kids, Inc.	83	2.20%		
Hennesey's Tavern	78	2.07%		
Hermosa Beach School District	78	2.07%		
Abigaile & Ocean Bar	76	2.02%		
Von's Companies			124	8.49%
Pacific Volkswagon - Auto Sales			84	5.75%
Pacific Volkswagon - Auto Repair			81	5.55%
South Bay BMW - New Car Sales			80	5.48%
Hennesey's Tavern			70	4.79%
Rocky Cola			56	3.84%
Comedy & Magic Club			55	3.77%
Albertson's Store #06101			54	3.70%

Source: City of Hermosa Beach Finance Department

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

<u>Function</u>	Full-time employees as of June 30									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General government	20	20	19	18	19	23	19	16	16	13
Public safety	88	89	98	89	90	87	92	95	72	74
Community development	9	9	8	8	9	6	8	8	9	8
Culture and recreation	4	5	5	5	4	4	4	2	3	3
Public works	23	20	23	20	20	24	20	20	16	17
Total	<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>115</u>

<u>Function</u>	Part-time employees as of June 30									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General government	-	-	-	-	-	-	-	-	-	-
Public safety	26	17	17	23	13	9	14	13	26	12
Community development	2	2	3	3	1	2	2	-	1	1
Culture and recreation	25	27	32	35	32	29	24	22	20	19
Public works	-	1	-	2	1	-	-	-	-	1
Total	<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>	<u>33</u>

Source: City of Hermosa Beach Finance Department

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

	Fiscal Year				
	2003	2004	2005	2006	2007
Public safety					
Police:					
Physical arrests	1,343	1,413	1,064	887	896
Traffic citations issued	3,631	3,372	2,101	1,518	1,681
Parking citations issued	46,342	49,379	54,010	47,770	48,329
Fire:					
Number of emergency calls	1,717	1,923	2,023	2,136	2,255
Inspections	391	28	182	467	751
Community development:					
Building permits issued	691	676	696	762	597
Culture and recreation:					
Number of recreation classes	139	135	159	165	186
Total enrollment	4,778	4,616	5,969	5,228	5,128
Public works:					
Graffiti removal (hours)	410	456	217	414	474
Permits issued	567	529	706	875	821

Source: Various city departments.

Note:

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
Operating Indicators by Function, Continued
Last Ten Fiscal Years

	Fiscal Year				
	2008	2009	2010	2011	2012
Public safety					
Police:					
Physical arrests	933	648	665	795	781
Traffic citations issued	2,490	2,503	2,798	1,593	2,290
Parking citations issued	59,656	52,080	47,620	63,010	68,193
Fire:					
Number of emergency calls	2,088	2,273	2,162	2,149	2,487
Inspections	312	965	908	436	559
Community development:					
Building permits issued	637	511	441	567	492
Culture and recreation:					
Number of recreation classes	171	138	165	172	169
Total enrollment	4,272	3,744	3,776	3,798	4,327
Public works:					
Graffiti removal (hours)	461	341	540	468	383
Permits issued	1,071	643	611	564	718

Source: Various city departments.

Note:

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				
	2003	2004	2005	2006	2007
Public safety					
Police:					
Police stations	1	1	1	1	1
Parking meters	1,611	1,666	1,666	1,666	1,666
Fire:					
Fire stations	1	1	1	1	1
Culture and recreation					
Community centers	1	1	1	1	1
Community theatres	1	1	1	1	1
Public works:					
Beach (acres)	36.5	36.5	36.5	36.5	36.5
Greenbelt (acres)	19.5	19.5	19.5	19.5	19.5
Parks	20	20	20	20	20
Parks (acres)	21.7	21.7	21.7	21.7	21.7
Sanitary sewers (miles)	33	34	34	34	34
Streets (miles)	40	40	40	40	40
Streetlights	399	399	399	392	392
Storm drains (miles)	1	1	1	1	1
Traffic Signals	17	17	17	17	17
Infiltration (miles) ¹					

Source: City of Hermosa Beach Finance Department

¹This is a system for monitoring the water quality before it reaches the Pacific Ocean. The project was funded by a Federal ARRA Grant passed through the California State Water Control Board. Grant approval required the submission of an ongoing monitoring plan that was accepted by the grantor. The project received an award from the American Public Works Association in 2010.

²The City purchased 24 pay-by-space meters in fiscal year 2011. Fourteen of the machines are installed in City parking lots (which are reflected in this figure), with the remaining ten meters being returned for single head meters for on-street parking.

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

	Fiscal Year				
	2008	2009	2010	2011	2012
Public safety					
Police:					
Police stations	1	1	1	1	1
Parking meters	1,666	1,666	1,663	1,671 ²	1,677
Fire:					
Fire stations	1	1	1	1	1
Culture and recreation					
Community centers	1	1	1	1	1
Community theatres	1	1	1	1	1
Public works:					
Beach (acres)	36.5	36.5	36.5	36.5	36.5
Greenbelt (acres)	19.5	19.5	19.5	19.5	19.5
Parks	20	20	20	20	20
Parks (acres)	21.7	21.7	21.7	21.7	21.7
Sanitary sewers (miles)	34	34	34	34	34
Streets (miles)	40	40	40	40	40
Streetlights	392	392	392	392	392
Storm drains (miles)	1	1	1	1	1
Traffic Signals	18	18	18	18	19
Infiltration (miles) ¹				0.6	0.6

Source: City of Hermosa Beach Finance Department

¹This is a system for monitoring the water quality before it reaches the Pacific Ocean. The project was funded by a Federal ARRA Grant passed through the California State Water Control Board. Grant approval required the submission of an ongoing monitoring plan that was accepted by the grantor. The project received an award from the American Public Works Association in 2010.

²The City purchased 24 pay-by-space meters in fiscal year 2011. Fourteen of the machines are installed in City parking lots (which are reflected in this figure), with the remaining ten meters being returned for single head meters for on-street parking.