



**City of Hermosa Beach,
California**

**Comprehensive
Annual
Financial
Report**

For the year ended June 30, 2013

City of Hermosa Beach

Hermosa Beach, California

Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2013

Prepared by the
Finance Department of Hermosa Beach

**City of Hermosa Beach
Comprehensive Annual Financial Report
For the year ended June 30, 2013**

TABLE OF CONTENTS

	<u>Page</u>
<u>INTRODUCTORY SECTION (UNAUDITED)</u>	
Letter of Transmittal	v
Certificate of Achievement for Excellence in Financial Reporting – Government Finance Officers Association	xi
Organizational Chart.....	xii
Principal Officials of the City of Hermosa Beach	xiii
 <u>FINANCIAL SECTION</u>	
Independent Auditors’ Report	1
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	5
Management’s Discussion and Analysis (Required Supplementary Information) (Unaudited)	7
 Basic Financial Statements:	
 Government – Wide Financial Statements:	
Statement of Net Position.....	21
Statement of Activities	22
 Fund Financial Statements:	
 <i>Governmental Fund Financial Statements:</i>	
Balance Sheet.....	30
Reconciliation of the Governmental Funds Balance Sheet to the Government–Wide Statement of Net Position	31
Statement of Revenues, Expenditures and Changes in Fund Balances.....	32
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government–Wide Statement of Activities	33
 <i>Proprietary Fund Financial Statements:</i>	
Statement of Net Position	38
Statement of Revenues, Expenses and Changes in Net Position	39
Statement of Cash Flows	40
 <i>Fiduciary Fund Financial Statements:</i>	
Statement of Fiduciary Net Position	46
 Index to Notes to Basic Financial Statements	47
 Notes to Basic Financial Statements	49

**City of Hermosa Beach
Comprehensive Annual Financial Report
For the year ended June 30, 2013**

TABLE OF CONTENTS (Continued)

	<u>Page</u>
<u>FINANCIAL SECTION (Continued)</u>	
Required Supplementary Information (Unaudited)	78
Supplementary Information:	
<i>Nonmajor Governmental Funds:</i>	
Combining Balance Sheet	86
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	92
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual	
<i>Nonmajor Special Revenue Funds:</i>	
Lighting and Landscaping District	98
State Gas Tax	99
AB 939	100
Prop A Open Space	101
Tyco.....	102
Tyco Tidelands	103
Parks/Recreation Facilities Tax.....	104
Bayview Drive Administrative Expense	105
Lower Pier Administrative Expense.....	106
Myrtle District Administrative Expense.....	107
Loma District Administrative Expense	108
Beach Drive Assessment District Administrative Expense.....	109
Proposition “A” Transit.....	110
Proposition “C”	111
Measure “R”	112
Air Quality Management District.....	113
Supplemental Law Enforcement Services.....	114
Sewer	115
Asset Seizure and Forfeiture Fund	116
Fire Protection	117
Artesia Boulevard Relinquishment	118
Grants	119
<i>Nonmajor Capital Projects Fund:</i>	
Capital Improvement.....	120
<i>Internal Service Funds:</i>	
Combining Statement of Net Position.....	123
Combining Statement of Revenues, Expenses and Changes in Net Position.....	124
Combining Statement of Cash Flows	125
<i>Fiduciary Fund Financial Statements:</i>	
Combining Statement of Fiduciary Net Position.....	127
Combining Statement of Changes in Assets and Liabilities	129

City of Hermosa Beach
Comprehensive Annual Financial Report
For the year ended June 30, 2013

TABLE OF CONTENTS (Continued)

	<u>Page</u>
<u>STATISTICAL SECTION (Unaudited)</u>	
Net Position by Component	133
Changes in Net Position	134
Governmental Activities Tax Revenues By Source	138
Fund Balances of Governmental Funds	140
Changes in Fund Balances of Governmental Funds.....	142
General Government Tax Revenues By Source	144
Assessed Value and Estimated Actual Value of Taxable Property	145
Direct and Overlapping Property Tax Rates	146
Principal Property Taxpayers	147
Property Tax Levies and Collections	148
Construction Value and Property Value	149
Direct and Overlapping Debt	150
Legal Debt Margin Information	152
Demographic and Economic Statistics	154
Principal Employers	155
Full-Time and Part-Time City Employees by Function	156
Operating Indicators by Function	158
Capital Asset Statistics by Function	160

This page intentionally left blank.



City of Hermosa Beach

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

February 28, 2014

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

Introduction

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the City of Hermosa Beach for the fiscal year ended June 30, 2013. The report is intended to update readers on the status of the City's financial position and results of operations for the past fiscal year.

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

Audit

The City of Hermosa Beach's financial statements have been audited by Pun & McGeady, 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, 2013, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City of Hermosa Beach's financial statements for the fiscal year ended June 30, 2013, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.



Profile of the Government

The City of Hermosa Beach is a beachfront, bedroom community with a stable population, located four miles south of Los Angeles International Airport. The City occupies 1.4 square miles and serves a

population of 19,653, according to the State’s latest population estimate. However as a beach city, the City experiences a high visitor population and the associated costs. Due to this high visitor population, the City operates in many ways like a larger city. During the 2012-13 fiscal year, beach attendance ranged from a low of 84,800 in December 2012 to a high of 1,244,000 in August 2012, 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.

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

Summary information from the *May 2013 Profile of the City of Hermosa Beach*, produced in 2013 by the Southern California Association of Governments (SCAG), is shown below along with selected information from the 2010 U.S. Census. The report is produced every two years, with the next release in May 2015.

Category	2012 STATISTICAL SUMMARY	2010 STATISTICAL SUMMARY
	Hermosa Beach	Hermosa Beach
Median Age	38	39
Non-Hispanic White	80.3%	80.90%
Hispanic	8.5%	8.40%
Non-Hispanic Asian	5.9%	5.60%
Non-Hispanic Black	1.2%	1.10%
Non-Hispanic American Indian	0.1%	0.10%
Non-Hispanic All Other	4.1%	3.90%
Homeownership Rate	44.7%	44.00%
Average Household	2	2
Median Household Income	\$93,017	\$111,230
Mean Travel Time to Work	32 minutes	36 minutes

US CENSUS BUREAU QUICK FACTS					
Category	Hermosa Beach	California	Category	Hermosa Beach	California
Persons under 5 years, 2010	5.1%	6.8%	Per capita money income in the past 12 months (2011 dollars), 2007-2011	\$69,857	\$29,634
Persons under 18 years, 2010	15.9%	25.0%	Persons below poverty level, 2007-2011	3.6%	14.4%
Persons 65 years and over, 2010	9.0%	11.4%	Median value of owner-occupied housing units, 2007-2011	\$1,000,001	\$421,600
Female persons, 2010	47.3%	50.3%	Housing units in multi-unit structures, 2007-2011	48.4%	30.8%
Bachelor's Degree or higher, persons age 25+, 2007-2011	69.9%	30.2%	High School graduate or higher, persons age 25+, 2007-2011	98.5%	80.8%

Further data regarding the City may be found in the Statistical Section.

The annual budget serves as the foundation for the City of Hermosa Beach’s financial planning and control and is based on the Strategic Plan adopted by the City Council. All departments of the City of Hermosa Beach are required to submit requests for appropriation to the City Manager according to a budget calendar. The City Manager uses these requests as the starting point for developing a proposed budget, which is presented to the City Council for review by May 15. At least one public budget workshop is held prior to the required public hearing, with adoption required no later than June 30th. If the City Council fails to adopt a budget by that date, the budget submitted by the City Manager, as amended by the City Council, if applicable, is the appropriated budget except for capital improvement outlays. The appropriated budget is prepared by fund and department (e.g., Police Department). The City Manager may make transfers of appropriations between departments within each fund; transfers of appropriations between funds, however, require the approval of the City Council. The City Council receives monthly revenue and expenditure reports during the year and a midyear budget review is conducted after the first six months of the fiscal year to ensure estimates are on target. Budget-to-actual comparisons are provided in this CAFR for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund and major governmental funds with appropriated annual budgets, this comparison is presented as Required Supplementary Information on page 79. 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 3% in secured and unsecured assessed valuation, as compared to 2.2% for

Los Angeles County. The 3% growth was the 15th highest of 88 cities in Los Angeles County. Median home prices in Hermosa Beach as of June 2013 were \$1,160,000, compared to \$425,000 for Los Angeles County. The Hermosa Beach median home price for June 2012 was \$1,065,000 and the average median price was \$965,375. The average median home price for Hermosa Beach for fiscal year 2012-13 was \$988,625. Home values adjacent to the increased for the second year in a row after declining 2009-2011.

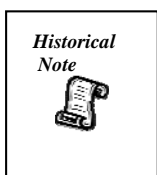
As a beach city, the three highest occupations are management, sales, and administrative support, however residents enjoy access to a much more diverse employment base with the close proximity of all of the other cities in Los Angeles County. The unemployment rate in Hermosa Beach is 4.5%, compared with 10.2% for Los Angeles County, and 8.9% for California as of June 2013.

General Fund Secured property taxes increased 4% in 2012-13. Property adjacent to the beach has held its value as compared to property in the inland areas.

Sales tax receipts for 2012-13 are up 5% and are consistent with the sales tax revenue level in 2007-08.

Transient occupancy tax (the tax on hotel stays) grew 6% over 2011-12 which is good 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 2012-13 was 78.1% for Hermosa Beach compared to last year's rate of 76.9%. Hermosa Beach has eight hotels and one youth hostel, with rooms capacity ranging from 17 rooms to 106 rooms.

Utility user tax (UUT) revenue remains 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 and loss of prepaid cellular tax revenue. 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/State Economy. The June 2013 ULCA Forecast is for a “slightly better future than the recent past and 2015 is expected to be better than 2014”. The employment rate will fall to 6.6% by 2015. The report indicates that the good news is that we are in the early stages of a housing recovery.

The California forecast says that California is consistently among the top 10 states in employment growth. Strength lies in the technology and knowledge sectors. Unemployment is expected to drop to 8.1% in 2014 and then to 7.1%.

California Public Employees Retirement System (CalPERS). CalPERS investment return as of June 2013 was 13.2%, which is welcome news after some widely varying rates of return during the recession starting in 2008.

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 \$1,000,000.

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

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

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

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

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

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

The City also has a financial policy of transferring funds unspent in the General Fund at year-end to the Insurance Fund, Equipment Replacement Fund, Capital Improvement Fund and to add to Contingency funds. For 2012-13, the City Council set aside \$2.5 million of unrestricted net position in the Insurance Internal Service Fund, in addition to \$3.5 million recorded as a liability, for the costs of the MacPherson Oil lawsuit settlement and proposed new oil project which are discussed in detail in the Notes to the Basic Financial Statements (Note 13). The City Council makes changes as necessary to the year-end transfer, depending on the equity in the funds or based on other needs.

The City's long term financial planning focuses on the Five Year Financial Forecast and 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, and a strategic plan for the 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, the State Treasurer's investment pool and the Los Angeles County pool. The average maturity was 26 months, with an average weighted yield on investments of .55%. Investment income includes changes in the fair value of investments. Changes in fair value during the current year, however, do not necessarily represent trends that will continue nor do such amounts necessarily become realized, since the City intends to hold the investments to maturity.

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

The City purchases workers' compensation coverage through a self-insured program available through ICRMA. The City maintains a \$500,000 self-insured retention limit and participates in a self-insured risk sharing pool through the ICRMA 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's risk management activity can be found in Note 8 of the Notes to the Basic Financial Statements.

Pension and other post-employment benefits. The City provides pension benefits to safety and non-safety employees through the California Public Employees' Retirement System (CalPERS). CalPERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The City was successful in negotiating two tier rates for new employees in all bargaining units beginning in 2011-12. As of June 30, 2013, the City has seventeen (17) Tier 2 employees. With the State's pension reform implemented 1/1/13, the City now has three tiers. As of 6/30/13 there are eight (8) employees in Tier 3. The City has paid employee contributions as a negotiated benefit for many years however in 2012-13 the City negotiated for employees to begin paying the entire share of the employee contribution over three years, which will be achieved by 2014-15. All of these changes will reduce pension costs over time as demonstrated by the decrease of 6% in pension costs from 2011-12 to 2012-13. City employer contributions are actuarially determined on an annual basis.

The City also provides post-employment health care benefits for certain retirees. As of the end of the current fiscal year, there were 49 retirees receiving these benefits.

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

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

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a 2012 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, 2012. This was the twenty-third consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a report must be published that satisfies both GAAP and applicable legal requirements.

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

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Department. We would also like to express our appreciation to the City Manager and all of the departments, including the City Clerk and City Treasurer, and to our auditors, 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



Government Finance Officers Association

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

Presented to

**City of Hermosa Beach
California**

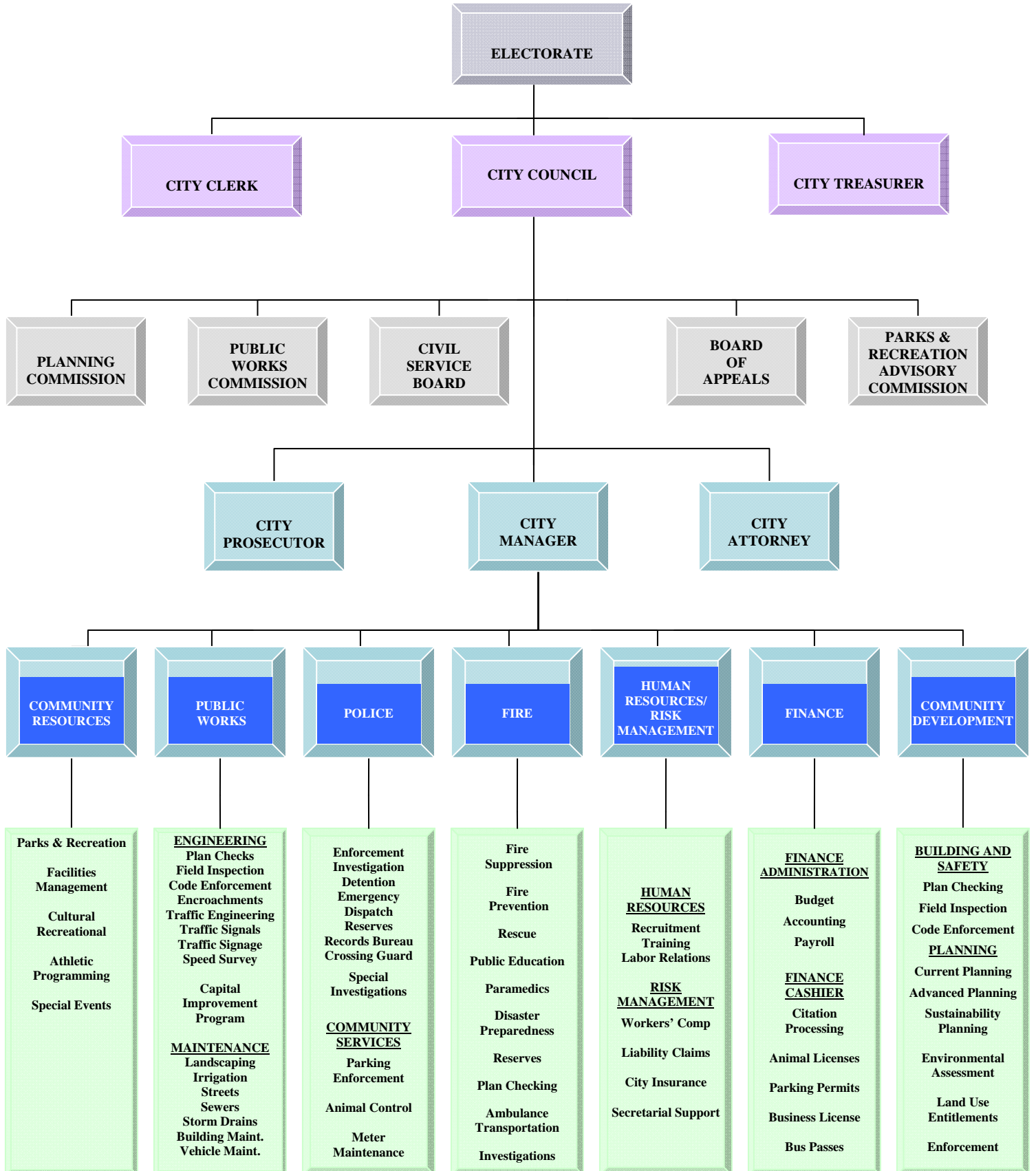
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO



CITY OF HERMOSA BEACH ORGANIZATIONAL CHART



PRINCIPAL OFFICIALS OF THE CITY OF HERMOSA BEACH, CALIFORNIA

June 30, 2013

Elected and Administrative Officials

City Council

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

Mayor
Mayor Pro Tempore
Councilmember
Councilmember
Councilmember

Other Elected Officials

Elaine Doerfling

City Clerk

Administrative Officials

Tom Bakaly
Diane Strickfaden

Viki Copeland
Ken Robertson

Michael McCrary
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

This page intentionally left blank.



9 Corporate Park
Suite 130
Irvine, California 92606

Phone: (949) 777-8800
Fax: (949) 777-8850
www.pm-llp.com

INDEPENDENT AUDITORS' REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Hermosa Beach, California (the "City"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2013, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Schedules, and Schedules of Funding Progress on pages 7 through 15 and 78 through 80 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Paul J. McGeady LLP". The signature is written in a cursive style with a large, stylized "P" and "M".

Irvine, California
February 28, 2014

This page intentionally left blank



9 Corporate Park
Suite 130
Irvine, California 92606

Phone: (949) 777-8800
Fax: (949) 777-8850
www.pm-llp.com

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

Independent Auditors' Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Hermosa Beach, California (the "City"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 28, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

 Paul J. McGeady LLP

Irvine, California
February 28, 2014

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, 2013. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages v – x of this report.

Financial Highlights

- The net position¹ of the City of Hermosa Beach exceeded its liabilities at the close of the last fiscal year by \$85,480,868. Of this amount, \$17,294,405 are unrestricted net position and may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$5,512,433. The recording of a \$3,500,000 liability for the oil settlement was record in the prior year. This one-time transaction caused prior year expenses to rise by \$3,500,000. Without this transaction, net position would have increased by \$2,012,433.
- As of June 30, 2013, the City of Hermosa Beach's governmental funds reported combined ending fund balances of \$11,622,758, an increase of \$881,037 in comparison with the prior year. This increase is comprised of a 9.1% increase in revenue, a 3.6% increase in expenditures.
- At the end of the current fiscal year, the City of Hermosa Beach's governmental fund balances of \$11,622,758 are comprised of nonspendable funds; \$21,589, restricted; \$4,050,722, committed; \$153,223; or assigned; \$7,397,224 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 65%, or \$7,550,447 of the \$11,622,758 in funds could be redirected at the discretion of the City Council.
- In the General Fund, committed and assigned fund balance was \$6,560,550 or 25% 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 financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

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

The **Statement of Net Position** presents information on all of the City of Hermosa Beach's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Hermosa Beach is improving or deteriorating.

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

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

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

The Government-Wide Financial Statements can be found on pages 21-23 of this report.

Fund financial statements. A fund *is* a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City 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-five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the funds below, which are considered to be a major fund:

General Fund

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

Data from the other twenty-four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these 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 governmental fund financial statements can be found on pages 30-33 of this report.

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

Internal service funds are used to accumulate and allocate costs internally among the City of Hermosa Beach's various functions. The City of Hermosa Beach uses internal service funds to account for its fleet of vehicles, information systems and equipment, and risk management/insurance activities. Because these services

predominantly benefit governmental rather than business-type functions, they have been included within **governmental activities** in the government-wide financial statements.

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

The proprietary fund financial statements can be found on pages 38-41 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. Other Post-Employment Benefits (OPEB) funds that were held previously as fiduciary funds by the City, were placed in a trust fund administered by Public Agency Retirement Services in August 2007.

The fiduciary fund financial statements can be found on page 46 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 49-76 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 page 78 of this report.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 86-120 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As of June 30, 2013, assets exceeded liabilities by \$85,480,868.

By far the largest portion of the City of Hermosa Beach's net position, \$64,135,741 (75%), 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.

Net Position June 30, 2013 (dollars in thousands)		
	Governmental Activities	
	2013	2012
Current and Other Assets	38,764	30,787
Capital Assets	64,255	65,519
Total Assets	103,019	96,306
Current Liabilities	6,543	5,334
Long-term Liabilities	10,995	11,004
Total Liabilities	17,538	16,338
Net Assets:	85,481	79,968
Invested in Capital Assets	64,136	65,519
Restricted	4,051	3,860
Unrestricted	17,294	10,589
Total Net Position	85,481	79,968

A portion of the City of Hermosa Beach's net position \$4,050,722 or (5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$17,294,405 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 position, both for the government as a whole, as well as for its separate governmental activities.

The government's net position increased by \$5,512,433 during the current fiscal year. The following is the condensed Statement of Activities and Changes in Net Position for the fiscal years ending June 30, 2011, June 30, 2012 and June 30, 2013.

Governmental activities. Governmental activities increased the City of Hermosa Beach's net position by \$5,512,433. Significant elements of this increase are as follows:

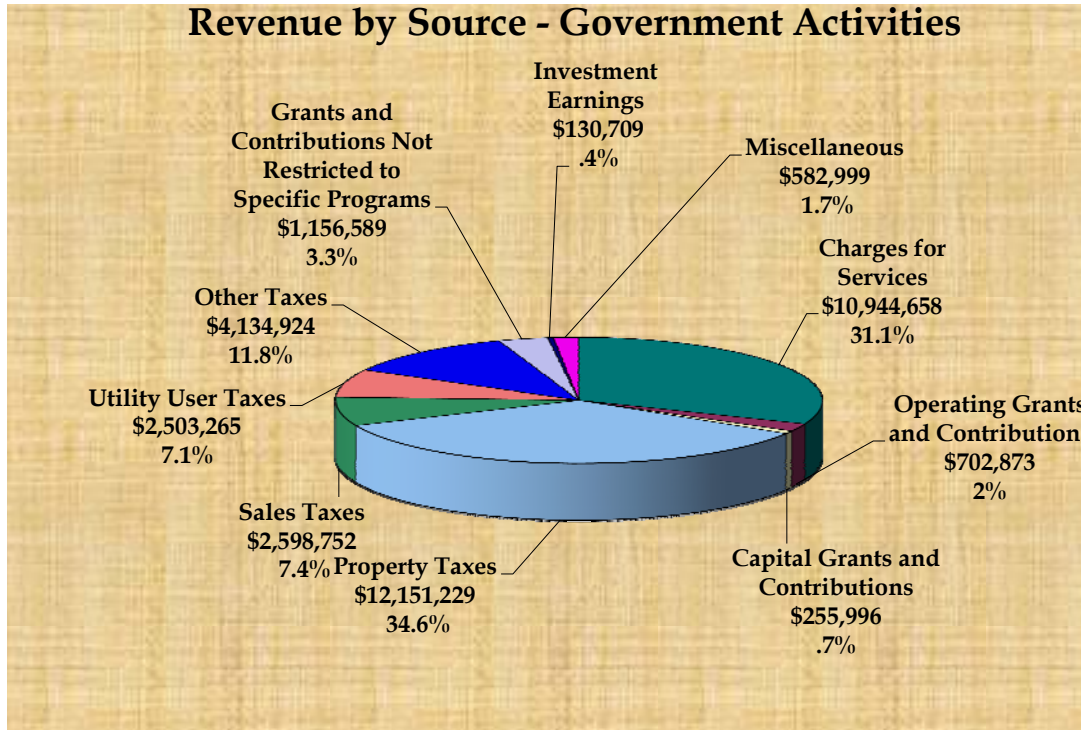
Changes in Net Positions
June 30, 2013
(dollars in thousands)

	<u>Governmental Activities</u>	
	2013	2012
Revenues:		
Program Revenues:		
Charges For Services	10,945	8,425
Operating Grants and Contributions	703	829
Capital Grants and Contributionsd	256	760
General Revenues:		
Property Taxes	12,151	11,599
Other Taxes	9,237	8,936
Grants and Contributions Not		
Restricted to Specific Programs	1,156	1,121
Other	714	347
Total Revenues	35,162	32,017
Expenses:		
Legislative and Legal	882	4,677
General Government	2,458	2,377
Public Safety	16,432	18,180
Community Development	1,261	1,235
Culture and Recreation	1,087	1,038
Public Works	7,529	7,239
Downtown Enhancement		
Total Expenses	29,649	34,746
Increase (Decrease) in Net Positions		
Before Transfers	5,513	(2,729)
Transfers	-	66
Transfer of Operations of Downtown	-	9,847
Increase (Decrease) in Net Positions	5,513	7,184
Net Positions - 7/1/12	79,968	72,784
Net Positions - 6/30/13	85,481	79,968

Revenue for Governmental Activities

- **Charges for services** increased \$2,520,071 or 29.9%. The Downtown Enhancement Fund was combined with the General Fund so revenue for the downtown parking structure and lots are now reflected in this category. The second phase of an updated user fee study was implemented which increased service charges to recover the cost of the service.
- **Operating and capital grants and contributions** decreased \$629,742 or 39.6%, primarily due to the receipt of grants for the rehabilitation of beach restrooms, Pier structural repairs, energy efficient street lights and traffic signal at Valley Middle School in 2012.

- **Property taxes revenue** increased \$552,614 or 4.8%. Property values at the beach are increasing at a faster pace than other areas.
- **In the Other Tax Category:**
 - **Sales Tax** revenue increased \$124,101 or 5.0%
 - **Transient Occupancy Tax** revenue increased \$112,154 or 6.0%. Occupancy rates for 2012/13 were 78.1% compared to 76.9%.
 - **Utility User Tax** revenue increased \$7,370 or 0.3%.
 - **Other Taxes** revenue increased \$57,600 approximately 2.8%.



Expenses for Governmental Activities

Expenses for Governmental Activities decreased by \$5,096,454. The one-time recorded liability for the oil settlement in the prior year inflates the decrease from the prior year. Without this entry, the expenses declined by 5% overall due to the personnel vacancies across all departments.

Legislative and Legal expenses decreased \$3,795,677, or \$295,677 with the above mentioned recorded liability. The decrease is primarily due to lower legal fees and no election in 2012-13.

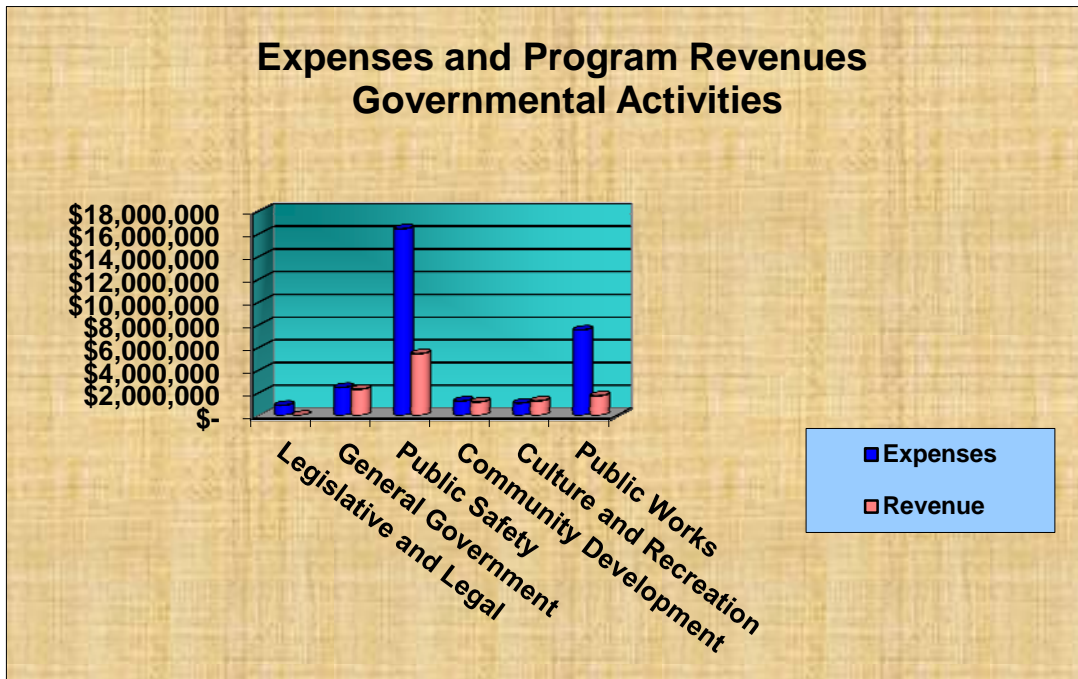
General Government expenses increased by \$81,619 or 3.4%.

Public Safety expenses decreased by \$1,747,967 or 9.6%. The decrease is mainly related to the above mentioned reductions in positions.

Community Development expenses increased by \$25,938 or 2.1%.

Culture and Recreation expenses increased by \$49,210 or 4.7%.

Public Works expenses increased by \$290,423 or 4%.



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 and Special Revenue funds.

As of the end of the current fiscal year, the City of Hermosa Beach's governmental funds reported combined ending fund balances of \$11,622,758, an increase of \$881,037 (8.2%), in comparison with the prior fiscal year. See Note 11 for more information. The total fund balances of the governmental funds consist of the following:

- Nonspendable fund balance of \$21,589 represents prepaid items.
- Restricted fund balance of \$4,050,722, which have restrictions imposed by external parties or enabling legislation. Funds in this category include Lighting District Funds, Proposition A and C Transportation Funds, Asset Forfeiture Funds and Supplemental Law Enforcement Funds (COPS).
- Committed fund balance of \$ 153,223 which have reserves for capital outlay and future renovations.
- Assigned fund balance of \$7,397,224 which includes the amounts to be used for specific purposes of the City, but do not meet the criteria to be classified as restricted or committed. Funds in this category include Contingency funds ("rainy day" funds), Retirement Stabilization funds and Compensated Absences Funds.

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 2012-13 by \$917,080. This increase is a result of the addition of funds to the Contingency balance to meet our goal of 15% of operating appropriations and addition of funds to the Retirement Stabilization to bring the balance to \$1,000,000.

Overall revenue increased by 11.5%, almost 6% of which resulted from combining the Downtown Enhancement Fund with the General Fund. The remaining increase of approximately 6% is a result of the following: additional property tax and sales tax revenue of 5% each; increased transient occupancy tax revenue of 6%; a 30% increase in building permit revenue of 30%; service charge increases of 15% (without Downtown Enhancement Funds).

General Fund expenditures show an increase of 5% however approximately 2.5% of that is due to the combining of the Downtown Enhancement Fund with the General Fund. The actual increase is only 2.5%. \$2,805,490 was transferred at year end to the Insurance Fund and almost \$1.6 million was transferred to the Insurance Fund as a Contingency for the Oil Settlement.

General Fund Budgetary Highlights

The final amended budget for revenue other than transfers is 3% more than the original budget. Actual revenue was higher than the final budget by \$900,306 or 2.9% for the following reasons:

- Tax revenue collections were 2% 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 6% than the budget due to the unpredictability of estimates for the second phase of increases related to the update of the user fee study.

The final amended budget for appropriations other than Transfers Out is more than the original budget by 3%.

Actual expenditures were less than the final appropriations by 6% due primarily to salary and benefit savings from personnel vacancies.

Capital Asset and Debt Administration

Capital assets. The City of Hermosa Beach's net investment in capital assets for its governmental as of June 30, 2013, amounts to \$64,135,741 (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 2012-13 fiscal year was approximately 2%.

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

Governmental Activities

- Completion of the Beach Restroom Rehabilitation project.
- Completion of the Sewer pipeline project.
- Construction in progress on Citywide Street Improvements was \$315,075 at the end of the fiscal year.

Additional information on the City of Hermosa Beach's capital assets can be found in Note 6 on pages 63-64 of this report.

Economic Factors and Next Year's Budgets and Rates

- The 2013-14 Budget adds over \$500,000 to the Contingency in the General Fund to increase our goal amount from 15% of operating expenditures to 16% in line with the Council goal for a "Financially Sound City Government".
- \$903,168 was also added to the Contingency for Oil Settlement to bring the total to \$2.5 million. An additional \$3.5 million is recorded as a liability in the Insurance Fund in compliance with accounting requirements for potential liabilities. This brings the total funds available for payment in relation to the oil settlement to \$6 million.

- The City has agreement with all six employee bargaining units for three year agreements for 2012-2015. As of 7/1/2014, 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, thereby creating a third tier for the city which is effective 1/1/13 that will provide new reduced formula plans for all employees that are new members of the retirement system.

Revenue Trends and Assumptions. The 2013-14 Budget demonstrates continuing improvement in the local economy and a balanced budget, with some added personnel, replacement of 13 vehicles and several one-time studies that will move the city forward toward the goals set forth in the strategic plan. Revenue growth of 3% is anticipated in the 2013-14 Budget. Property tax is estimated to increase by 2% while sales tax is estimated to remain flat due to loss of a new car dealership. Fine and Forfeiture revenue will increase as a result of enforcement until 2:00 a.m. An increase to the business license schedule, amended by voters in November 2011, is expected to bring in \$1,000,000 as compared to the previous \$800,000 per year. The city overall appears to be on a positive path.

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.

1 Net position is new terminology required by the Governmental Accounting Standards Board (GASB) Statement 63, effective for statement periods beginning after 12/15/11, in place of net assets, proprietary or fiduciary fund balance, or equity.

This page intentionally left blank.

BASIC FINANCIAL STATEMENTS

This page intentionally left blank.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

This page intentionally left blank.

City of Hermosa Beach
Statement of Net Position
June 30, 2013

	Primary Governmental Activities
ASSETS	
Current assets:	
Cash and investments	\$ 36,299,433
Accounts receivable	1,485,699
Property taxes receivable, net	237,831
Reimbursable grants receivable	270,116
Interest receivable on investments	31,601
Other receivables	6,075
Deposits	165,000
Other assets	268,228
Total current assets	38,763,983
Noncurrent assets:	
Net other postemployment benefit assets	119,872
Capital assets:	
Nondepreciable	23,303,382
Depreciable, net	40,832,359
Total capital assets, net	64,135,741
Total noncurrent assets	64,255,613
Total assets	103,019,596
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	2,337,750
Accrued wages and benefits payable	799,440
Refundable deposits	369,076
Unearned revenue	321,502
Workers' compensation claims payable - due within one year	1,064,488
General liability claims payable - due within one year	432,907
Compensated absences - due within one year	1,218,326
Total current liabilities	6,543,489
Noncurrent liabilities:	
Workers' compensation claims payable - due in more than one year	5,870,758
General liability claims payable - due in more than one year	746,764
Compensated absences - due in more than one year	877,717
Settlement payable (Note 14)	3,500,000
Total noncurrent liabilities	10,995,239
Total liabilities	17,538,728
NET POSITION	
Net investment in capital assets	64,135,741
Restricted for:	
Capital projects	298,282
Street and sewer purposes	1,454,481
Transportation purposes	1,274,461
Public works	129,850
Public safety	512,318
Culture and recreation	338,882
Undergrounding Districts	42,448
Total restricted	4,050,722
Unrestricted	17,294,405
Total net position	\$ 85,480,868

See accompanying Notes to Basic Financial Statements.

City of Hermosa Beach
Statement of Activities
For the year ended June 30, 2013

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	\$ 881,556	\$ -	\$ -	\$ -	\$ -
General government	2,458,548	2,275,297	23,613	-	2,298,910
Public safety	16,431,962	5,282,223	151,664	-	5,433,887
Community development	1,260,996	1,125,637	55,739	-	1,181,376
Culture and recreation	1,087,000	1,271,845	-	-	1,271,845
Public works	7,529,499	989,656	471,857	255,996	1,717,509
Total governmental activities	<u>\$ 29,649,561</u>	<u>\$ 10,944,658</u>	<u>\$ 702,873</u>	<u>\$ 255,996</u>	<u>\$ 11,903,527</u>

City of Hermosa Beach
Statement of Activities (Continued)
For the year ended June 30, 2013

Functions/Programs	Net (Expense) Revenue and Changes in Net Position
Primary government:	
Governmental activities:	
Legislative and legal	\$ (881,556)
General government	(159,638)
Public safety	(10,998,075)
Community development	(79,620)
Culture and recreation	184,845
Public works	(5,811,990)
Total governmental activities	(17,746,034)
General Revenues:	
Taxes:	
Property taxes	12,151,229
Sales taxes	2,598,752
Real property transfer tax	233,412
Franchise fees	752,586
Transient occupancy tax	1,996,174
Business license	950,526
Utility users tax	2,503,265
½ cent sales tax for public safety	192,175
Motor vehicle in-lieu tax	10,051
Total taxes	21,388,170
Grants and contributions not restricted to specific programs	1,156,589
Investment earnings	130,709
Miscellaneous	582,999
Total general revenues	23,258,467
Change in net position	5,512,433
Net position - beginning of year	79,968,435
Net position - end of year	\$ 85,480,868

This page intentionally left blank.

FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements

Proprietary Fund Financial Statements

Fiduciary Fund Financial Statements

This page intentionally left blank.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

This page intentionally left blank.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

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.

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, 2013

	<u>Major Fund</u>	Nonmajor	
	General	Governmental Funds	<u>Total</u>
ASSETS			
Cash and investments	\$ 8,934,842	\$ 5,359,484	\$ 14,294,326
Accounts receivable	1,417,522	68,177	1,485,699
Property taxes receivable, net	228,932	8,899	237,831
Reimbursable grants receivable	-	270,116	270,116
Interest receivable on investments	22,484	9,117	31,601
Other receivable	6,075	-	6,075
Other assets	172,739	-	172,739
Due from other funds	113,148	-	113,148
Total assets	<u>\$ 10,895,742</u>	<u>\$ 5,715,793</u>	<u>\$ 16,611,535</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 1,369,657	\$ 829,372	\$ 2,199,029
Accrued wages and benefits payable	1,941,575	44,447	1,986,022
Refundable deposits	369,076	-	369,076
Deferred revenues	241,791	79,711	321,502
Due to other funds	-	113,148	113,148
Total liabilities	<u>3,922,099</u>	<u>1,066,678</u>	<u>4,988,777</u>
Fund Balances:			
Nonspendable	21,589	-	21,589
Restricted	391,504	3,659,218	4,050,722
Committed	10,592	142,631	153,223
Assigned	6,549,958	847,266	7,397,224
Total fund balances	<u>6,973,643</u>	<u>4,649,115</u>	<u>11,622,758</u>
Total liabilities and fund balances	<u>\$ 10,895,742</u>	<u>\$ 5,715,793</u>	<u>\$ 16,611,535</u>

City of Hermosa Beach
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2013

Total Fund Balances - Total Governmental Funds \$ 11,622,758

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

	Government- Wide Statement of Net Position	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.			
Nondepreciable	\$ 23,303,382	\$ (163,841)	23,139,541
Depreciable, net	40,832,359	(1,641,669)	39,190,690
Total capital assets	\$ 64,135,741	\$ (1,805,510)	62,330,231

Net other postemployment benefit assets are not available to pay for current period expenditures and therefore, are not reported in the governmental funds. 119,872

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

Insurance Fund	5,846,916
Equipment Replacement Fund	6,438,808
Total Internal Service Funds	12,285,724

Compensated absences were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet. (877,717)

Net Position of Governmental Activities \$ 85,480,868

City of Hermosa Beach
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2013

	<u>Major Funds</u>	Nonmajor Governmental	
	General	Funds	Total
REVENUES:			
Property taxes	\$ 12,151,229	\$ 467,350	\$ 12,618,579
Other taxes	9,226,890	849,701	10,076,591
Licenses and permits	783,121	-	783,121
Fines and forfeitures	2,369,887	46,144	2,416,031
Use of money and property	789,897	312,900	1,102,797
Intergovernmental	115,388	780,828	896,216
Charges for services	6,215,835	96,896	6,312,731
Miscellaneous	259,624	210,101	469,725
Interest earned on investments	80,583	51,166	131,749
Total revenues	<u>31,992,454</u>	<u>2,815,086</u>	<u>34,807,540</u>
EXPENDITURES:			
Current:			
Legislative and legal	893,460	-	893,460
General government	2,330,856	219,306	2,550,162
Public safety	16,809,078	116,936	16,926,014
Community development	1,265,160	14,839	1,279,999
Culture and recreation	1,080,685	29,771	1,110,456
Public works	3,738,890	1,207,533	4,946,423
Capital outlay	101,009	1,712,981	1,813,990
Total expenditures	<u>26,219,138</u>	<u>3,301,366</u>	<u>29,520,504</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>5,773,316</u>	<u>(486,280)</u>	<u>5,287,036</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	375,570	1,000,807	1,376,377
Transfers out	(5,231,806)	(550,570)	(5,782,376)
Total other financing sources (uses)	<u>(4,856,236)</u>	<u>450,237</u>	<u>(4,405,999)</u>
NET CHANGE IN FUND BALANCES	917,080	(36,043)	881,037
FUND BALANCES:			
Beginning of year	<u>6,056,563</u>	<u>4,685,158</u>	<u>10,741,721</u>
End of year	<u>\$ 6,973,643</u>	<u>\$ 4,649,115</u>	<u>\$ 11,622,758</u>

City of Hermosa Beach
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes
in Fund Balances to the Government-Wide Statement of Activities
For the year ended June 30, 2013

Net Change in Fund Balances - Total Governmental Funds \$ 881,037

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	1,813,990
Less: repair and maintenance expenditures	<u>(146,516)</u>
Total	<u>1,667,474</u>

The net effect of various miscellaneous adjustments involving capital assets.	<u>(150,957)</u>
---	------------------

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	(3,183,587)
Less: depreciation reported in Internal Service Funds	<u>374,847</u>
Total	<u>(2,808,740)</u>

Changes in net other postemployment benefit assets reported in the Statement of Activities do not use current financial resources and, therefore, are not reported as an expenditures in governmental funds.	<u>119,872</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.	<u>(27,240)</u>
--	-----------------

Internal Service Funds are used by management to charge the costs of certain activities, such as insurance and equipment replacement, to individual funds. The net revenue of the Internal Service Funds is reported in governmental activities.	<u>5,830,987</u>
--	------------------

Change in Net Position of Governmental Activities	<u><u>\$ 5,512,433</u></u>
--	----------------------------

This page intentionally left blank.

PROPRIETARY FUND FINANCIAL STATEMENTS

This page intentionally left blank.

PROPRIETARY FUND FINANCIAL STATEMENTS

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

City of Hermosa Beach
Statement of Net Position
Proprietary Funds
June 30, 2013

	Governmental Activities
	Internal Service Funds
ASSETS	
Current assets:	
Cash and investments	\$ 22,005,107
Deposits	165,000
Other assets	95,489
Total current assets	22,265,596
Noncurrent assets:	
Nondepreciable capital assets	163,841
Depreciable capital assets, net of accumulated depreciation	1,641,669
Total noncurrent assets	1,805,510
Total assets	24,071,106
LIABILITIES	
Current liabilities:	
Accounts payable	138,721
Accrued wages and benefits payable	31,744
Workers' compensation claims payable - due within one year	1,064,488
General liability claims payable - due within one year	432,907
Total current liabilities	1,667,860
Long-term liabilities:	
Workers' compensation claims payable - due in more than one year	5,870,758
General liability claims payable - due in more than one year	746,764
Settlement payable (Note 14)	3,500,000
Total long-term liabilities	10,117,522
Total liabilities	11,785,382
NET POSITION	
Net investment in capital assets	1,805,510
Unrestricted (Note 14)	10,480,214
Total net position	\$ 12,285,724

City of Hermosa Beach
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the year ended June 30, 2013

	Governmental Activities
	Internal Service Funds
OPERATING REVENUES:	
Charges for services	\$ 4,264,126
Miscellaneous revenue	351,454
Total operating revenues	4,615,580
OPERATING EXPENSES:	
Salaries and wages	209,005
Contractor services	1,122,564
Supplies	383,897
Claims expense	1,103,365
Depreciation	374,847
Total operating expenses	3,193,678
OPERATING INCOME	1,421,902
NONOPERATING REVENUES (EXPENSES):	
Gain on disposal of capital assets	86
Total nonoperating revenues (expenses)	86
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	1,421,988
CONTRIBUTIONS AND TRANSFERS:	
Contributions	3,000
Transfers in	4,405,999
Total contributions and transfers	4,408,999
Change in net position	5,830,987
NET POSITION:	
Beginning of the year	6,454,737
End of the year	\$ 12,285,724

City of Hermosa Beach
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2013

	Governmental Activities
	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received for services from other funds	\$ 4,264,126
Cash payments to suppliers for goods and services	(1,401,135)
Cash payments to employees for services	(200,050)
Insurance premiums and settlements	(652,057)
Net cash provided by (used in) operating activities	2,010,884
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Contributions	3,000
Transfers in	4,405,999
Net cash provided by (used in) noncapital financing activities	4,408,999
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of capital assets	(284,075)
Proceeds from sale of capital assets	86
Net cash provided by (used in) capital and related financing activities	(283,989)
Net increase (decrease) in cash and cash equivalents	6,135,894
CASH AND CASH EQUIVALENTS:	
Beginning of year	15,869,213
End of year	\$ 22,005,107

City of Hermosa Beach
Statement of Cash Flows (Continued)
Proprietary Funds
For the year ended June 30, 2013

	Governmental Activities
	Internal Service Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:	
Operating income	\$ 1,421,902
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation	374,847
Changes in operating assets and liabilities:	
Other assets	32,924
Accounts payable	72,402
Accrued wages and benefits payable	8,955
Workers' compensation claims payable	(21,304)
General liability claims payable	121,158
Total adjustments	588,982
Net cash provided by operating activities	\$ 2,010,884

This page intentionally left blank.

FIDUCIARY FUND FINANCIAL STATEMENTS

This page intentionally left blank.

FIDUCIARY FUND FINANCIAL STATEMENTS

Agency Funds are used to account for assets held by the City in the capacity of agent for individuals. Agency Fund spending is controlled primarily through legal agreements and applicable State and Federal laws.

City of Hermosa Beach
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2013

	<u>Agency Funds</u>
ASSETS	
Cash and investments	\$ 524,251
Interest receivable	893
Other accounts receivable	<u>8,647</u>
Total assets	<u>\$ 533,791</u>
LIABILITIES	
Assessment:	
Installment account	\$ 520,791
Reserve requirement	<u>13,000</u>
Total liabilities	<u>\$ 533,791</u>

City of Hermosa Beach
Index to Notes to Basic Financial Statements
For the year ended June 30, 2013

	<u>Page</u>
Note 1 – Summary of Significant Accounting Policies	49
A. Financial Reporting Entity.....	49
B. Basis of Accounting and Measurement Focus.....	49
C. Cash and Investments	52
D. Property Taxes Receivable	52
E. Interfund Transactions.....	52
F. Capital Assets	53
G. Claims Payable	53
H. Compensated Absences Payable	53
I. Unearned and Deferred Revenue.....	54
J. Net Position	54
K. Fund Balances	54
L. Spending Policy	55
M. Use of Estimates	55
N. Accounting Changes.....	56
Note 2 – Cash and Investments	56
Note 3 – Receivables	60
Note 4 – Lease Revenues	61
Note 5 – Interfund Transactions	62
Note 6 – Capital Assets.....	63
Note 7 – Compensated Absences	64
Note 8 – Risk Management.....	64
Note 9 – Retirement Plans	66
Note 10 – Classification of Fund Balances	71
Note 11 – Non-City Obligations	72
Note 12 – Commitments and Contingencies	74
Note 13 – Macpherson Oil Project Litigation	75

This page intentionally left blank.

City of Hermosa Beach
Notes to Basic Financial Statements
For the year ended June 30, 2013

Note 1 – Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

The basic financial statements present the City and its component units, entities for which the City is considered to be financially accountable. 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.

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.

City of Hermosa Beach
Notes to Basic Financial Statements (Continued)
For the year ended June 30, 2013

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

In 2013, the City implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement of net position reports separate sections for Deferred Outflows of Resources and Deferred Inflows of Resources, when applicable.

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

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

Government-Wide Financial Statements

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

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

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

Certain eliminations have been made in regards to interfund activities, payables and receivables. All internal balances in the statement of net pssets 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

Governmental Fund Financial Statements

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

City of Hermosa Beach
Notes to Basic Financial Statements (Continued)
For the year ended June 30, 2013

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

Governmental Fund Financial Statements (Continued)

Revenues are recorded when received in cash, except those revenues subject to accrual (generally 60 days after year-end) which are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property taxes, intergovernmental revenues and other taxes. 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.

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

The City reports the following major governmental fund:

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

Proprietary Fund Financial Statements

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

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.

City of Hermosa Beach
Notes to Basic Financial Statements (Continued)
For the year ended June 30, 2013

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

A separate column representing internal service funds is 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.

Fiduciary Fund Financial Statements

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

C. Cash and Investments

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

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".

City of Hermosa Beach
Notes to Basic Financial Statements (Continued)
For the year ended June 30, 2013

Note 1 – Summary of Significant Accounting Policies (Continued)

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 historical cost or estimated historical if purchased or constructed. 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.

Interest incurred 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” and depreciate over its estimated useful life.

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

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

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.

City of Hermosa Beach
Notes to Basic Financial Statements (Continued)
For the year ended June 30, 2013

Note 1 – Summary of Significant Accounting Policies (Continued)

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.

J. Net Position

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

Net Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of those assets.

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

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

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. Assignment of resources can be done by the highest level of decision making or by a committee or official designated for that purpose. The City Council has authorized the Finance Director for that purpose.

City of Hermosa Beach
Notes to Basic Financial Statements (Continued)
For the year ended June 30, 2013

Note 1 – Summary of Significant Accounting Policies (Continued)

K. Fund Balances (Continued)

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 Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

Long-term financial planning

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

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

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

Contingency - Goal equal to 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 2012-13, the City Council determined that all unspent funds in the General Fund (\$2,804,534) 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 14. 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, 2013

Note 1 – Summary of Significant Accounting Policies (Continued)

N. Accounting Changes

GASB has issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (“SCA”). The requirements of this statement improve financial reporting by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. This statement became effective for periods beginning after December 15, 2011 and did not have a significant impact on the City’s financial statements for the year ended June 30, 2013.

GASB has issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. The requirements of this statement result in financial reporting entity financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. This statement became effective for periods beginning after June 15, 2012 and did not have a significant impact on the City’s financial statements for year ended June 30, 2013.

GASB has issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement combines the authoritative accounting and financial reporting of the FASB and the American Institute of Certified Public Accountants (“AICPA”). The statement eliminates the need for financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments. This statement became effective for period beginning after December 15, 2011 and did not have a significant impact on the City’s financial statements for the year ended June 30, 2013.

GASB has issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The requirement of this statement standardizes the presentation of the deferred inflows and outflows of resources and their effects on a government’s net position. This statement became effective for periods beginning after December 15, 2011. The implementation of this statement to the City was limited to renaming of “Net Assets” to “Net Position”.

Note 2 – Cash and Investments

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

The City had the following cash and investments at June 30, 2013:

	Government-Wide Statement of Net Position	Statement of Fiduciary Net Position	Total
	Governmental Activities		
Cash and investments	\$ 36,299,433	\$ 524,251	\$ 36,823,684

City of Hermosa Beach
Notes to Basic Financial Statements (Continued)
For the year ended June 30, 2013

Note 2 – Cash and Investments (Continued)

The City’s cash and investments at June 30, 2013 in more detail:

Cash and cash equivalents:	
Demand deposits	\$ 4,237,636
Petty cash	1,900
Total cash and cash equivalents	4,239,536
Investments:	
Local Agency Investment Fund	17,590,928
Los Angeles County Pooled Investments Funds	10,015,392
Non-negotiable certificates of deposit	1,238,009
Negotiable certificates of deposit	2,994,900
Corporate medium-term notes	744,919
Total investments	32,584,148
Total cash and investments	\$ 36,823,684

A. Deposits

The carrying amounts of the City’s demand deposits were \$4,237,636 at June 30, 2013. Bank balances at that date were \$4,452,346, the total amount of which was collateralized or insured with accounts held by the pledging financial institutions in the City’s name as discussed below.

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

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

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

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

City of Hermosa Beach
Notes to Basic Financial Statements (Continued)
For the year ended June 30, 2013

Note 2 – Cash and Investments (Continued)

B. Investments (Continued)

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, 2013 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, 2013, the City had \$17,590,928 invested in LAIF, which had invested 1.96% 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.

At June 30, 2013, the City had the following investment maturities:

Investment Type	Fair value	Investment Maturities (in Years)				
		Less than 1	1 to 2	2 to 3	3 to 4	4 to 5
Local Agency Investment Fund	\$ 17,590,928	\$ 17,590,928	\$ -	\$ -	\$ -	\$ -
Los Angeles County Pooled Investments Fund	10,015,392	10,015,392	-	-	-	-
Certificates of deposit	4,232,909	1,734,488	1,740,844	251,301	253,584	252,692
Corporate medium-term notes	744,919	744,919	-	-	-	-
Total	\$ 32,584,148	\$ 30,085,727	\$ 1,740,844	\$ 251,301	\$ 253,584	\$ 252,692

City of Hermosa Beach
Notes to Basic Financial Statements (Continued)
For the year ended June 30, 2013

Note 2 – Cash and Investments (Continued)

C. Risk Disclosures (Continued)

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, 2013, 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	53.99%
Los Angeles County Pooled Investments Fund	Not Rated	Not Rated	30.74%
Certificates of Deposits	Not Rated	Not Rated	12.99%
Corporate medium-term notes:			
General Electric Capital Corp.	A1	AA+	1.54%
Principal Life	Aa3	A+	0.75%
Total			100.00%

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, 2013, except for LAIF. The City is in the process to reduce the concentration to below 50%.

City of Hermosa Beach
Notes to Basic Financial Statements (Continued)
For the year ended June 30, 2013

Note 3 - Receivables

A. Government-Wide Financial Statements

At June 30, 2013, the government-wide financial statements show the following receivables, net of allowances for uncollectible amounts, if any:

	Government-Wide Statement of Net Position <u>Governmental Activities</u>	Statement of Fiduciary Net Position <u>Net Position</u>	<u>Total</u>
Accounts receivable	\$ 1,485,699	\$ -	\$ 1,485,699
Property taxes receivable, net	237,831	-	237,831
Reimbursable grants receivable	270,116	-	270,116
Interest receivable on investments	31,601	893	32,494
Other receivables	6,075	8,647	14,722
Total	<u>\$ 2,031,322</u>	<u>\$ 9,540</u>	<u>\$ 2,040,862</u>

B. Fund Financial Statements

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, 2013, were as follows:

Governmental funds:	
General Fund	\$ 1,417,522
Nonmajor Funds	<u>68,177</u>
Total governmental funds	<u>1,485,699</u>
Total accounts receivable	<u>\$ 1,485,699</u>

Taxes Receivable

At June 30, 2013, 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:

	<u>Property taxes</u>	<u>Allowance for delinquent tax receivables</u>	<u>Property taxes, net of allowance</u>
Governmental Funds:			
General Fund	\$ 1,149,918	\$ (920,986)	\$ 228,932
Nonmajor funds	<u>19,170</u>	<u>(10,271)</u>	<u>8,899</u>
Total	<u>\$ 1,169,088</u>	<u>\$ (931,257)</u>	<u>\$ 237,831</u>

City of Hermosa Beach
Notes to Basic Financial Statements (Continued)
For the year ended June 30, 2013

Note 3 – Receivables (Continued)

B. Fund Financial Statements (Continued)

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, 2013 was as follows:

Governmental Funds:	
Nonmajor funds	\$ 270,116
Total reimbursable grants receivable	\$ 270,116

Note 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 former Downtown Enhancement Enterprise Fund and Prop A Open Space funding contributed by the Los Angeles County Department of Beaches and Harbors (“County”). In consideration of the County contribution, 50% of the annual net income derived from the parking structure must be shared with the County each year by September 1. The payment made to the County for fiscal year 2012-2013 is \$367,462.

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 beginning February 1, 2009, and will end on January 31, 2015. The City receives a monthly lease payment in the amount of \$15,000.

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, 2013

Note 4 – Lease Revenues (Continued)

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

Year ending June 30,		
2014	\$	293,307
2015		169,706
2016		35,816
2017		35,816
2018		35,816
2019-2023		179,080
2024-2028		179,080
2029-2033		179,080
2034-2038		179,080
2039-2043		179,080
2044-2048		179,080
2049-2051		53,724
Total	\$	1,698,665

Lease revenue for the year ended June 30, 2013 was \$306,639.

Note 5 – Interfund Transactions

Due From/To Other Funds – At June 30, 2013, the City had the following due from/to other funds:

Due To Other Funds	Due From Other Funds	
	General Fund	
Nonmajor Governmental funds	\$	113,148
Total	\$	113,148

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

City of Hermosa Beach
Notes to Basic Financial Statements (Continued)
For the year ended June 30, 2013

Note 5 – Interfund Transactions (Continued)

Transfers

At June 30, 2013, the City had the following transfers:

Transfers out	Transfers in			Total
	General Fund	Nonmajor Governmental Funds	Internal Service Funds	
General Fund	\$ -	\$ 825,807	\$ 4,405,999	\$ 5,231,806
Nonmajor Governmental Funds	375,570	175,000	-	550,570
Total	<u>\$ 375,570</u>	<u>\$ 1,000,807</u>	<u>\$ 4,405,999</u>	<u>\$ 5,782,376</u>

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.

Note 6 – Capital Assets

The following is a summary of changes in capital assets for the governmental activities for the year ended June 30, 2013:

	Balance July 1, 2012	Additions	Deletions	Reclassifications	Balance June 30, 2013
<i>Capital assets not being depreciated:</i>					
Land	\$ 22,740,168	\$ -	\$ -	\$ -	\$ 22,740,168
Construction in progress	1,469,170	561,214	(88,797)	(1,378,373)	563,214
Total capital assets not being depreciated	<u>24,209,338</u>	<u>561,214</u>	<u>(88,797)</u>	<u>(1,378,373)</u>	<u>23,303,382</u>
<i>Capital assets being depreciated:</i>					
Buildings and structures	11,511,212	56,223	-	1,378,373	12,945,808
Improvements other than buildings	14,319,524	137,746	-	-	14,457,270
Machinery and equipment	3,839,661	263,780	(63,385)	-	4,040,056
Vehicles	3,224,617	191,180	(20,241)	-	3,395,556
Infrastructure	47,012,901	741,406	-	-	47,754,307
Total capital assets being depreciated	<u>79,907,915</u>	<u>1,390,335</u>	<u>(83,626)</u>	<u>1,378,373</u>	<u>82,592,997</u>
Less accumulated depreciation for:					
Buildings and structures	(3,679,199)	(239,584)	-	-	(3,918,783)
Improvements other than buildings	(9,473,187)	(1,003,851)	-	-	(10,477,038)
Machinery and equipment	(2,784,507)	(296,264)	1,225	-	(3,079,546)
Vehicles	(2,295,171)	(237,874)	20,241	-	(2,512,804)
Infrastructure	(20,366,453)	(1,406,014)	-	-	(21,772,467)
Total accumulated depreciation	<u>(38,598,517)</u>	<u>(3,183,587)</u>	<u>21,466</u>	<u>-</u>	<u>(41,760,638)</u>
Total capital assets being depreciated, net	<u>41,309,398</u>	<u>(1,793,252)</u>	<u>(62,160)</u>	<u>1,378,373</u>	<u>40,832,359</u>
Total governmental activities	<u>\$ 65,518,736</u>	<u>\$ (1,232,038)</u>	<u>\$ (150,957)</u>	<u>\$ -</u>	<u>\$ 64,135,741</u>

City of Hermosa Beach
Notes to Basic Financial Statements (Continued)
For the year ended June 30, 2013

Note 6 – Capital Assets (Continued)

Depreciation expense was charged to functions/programs of governmental activities for the year ended June 30, 2013 as follows:

General government	\$	60,809
Public safety		154,254
Community development		7,511
Culture and recreation		51,305
Public works		1,128,847
Infrastructure		1,406,014
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets		374,847
Total depreciation expense	\$	<u>3,183,587</u>

Note 7 – Compensated Absences

Summary of changes in compensated absences for governmental activities for the year ended June 30, 2013 is as follows:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013	Classification	
					Due within One Year	Due in more than One Year
Compensated absences	\$ 1,930,223	\$ 1,262,677	\$ (1,096,857)	\$ 2,096,043	\$ 1,218,326	\$ 877,717

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.

Note 8 – Risk Management

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

The City is self-insured for each general liability claim up to \$250,000. The City is insured above the self-insured retention for general liability insurance coverage, up to a maximum of \$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.

City of Hermosa Beach
Notes to Basic Financial Statements (Continued)
For the year ended June 30, 2013

Note 8 – Risk Management (Continued)

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 \$558,835 for the fiscal year 2012-2013 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 \$8,114,917 reported at June 30, 2013 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.

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><u>Workers' Compensation</u></i>						
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
2012-2013	6,956,550	821,226	(842,530)	6,935,246	1,064,488	5,870,758
<i><u>General Liability</u></i>						
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
2012-2013	1,058,513	381,993	(260,835)	1,179,671	432,907	746,764

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

City of Hermosa Beach
Notes to Basic Financial Statements (Continued)
For the year ended June 30, 2013

Note 9 – Retirement Plans

A. California 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 \$637,443 for the year ended June 30, 2013. 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: Safety employees and miscellaneous employees will be contributing 3% and 2.5%, respectively, effective January 1, 2013; 6.0% and 5.0%, respectively, effective July 1, 2013; and 9.0% and 7.0%, respectively, effective July 1, 2014. The City, as the employer, is required to contribute for fiscal year 2012-2013 at actuarially determined rates which are applied to annual covered payroll. The 2012-2013 rate is 16.893% for first tier miscellaneous employees, 8.311% for second tier miscellaneous employees, 58.144% for first tier police employees, 21.440% for second tier police and fire employees and 39.612% for first tier fire employees. The contribution requirements of City employees and the City employer are established and may be amended by CalPERS.

Annual Pension Cost

For fiscal year 2012-2013, the City’s annual pension cost of \$3,165,436 for CalPERS was equal to the City’s required and actual contributions, of which \$743,336 is for the miscellaneous plan, \$1,723,071 for the police plan and \$699,029 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
6/30/2011	\$ 757,889	100%	\$ -
6/30/2012	774,370	100%	-
6/30/2013	743,336	100%	-

City of Hermosa Beach
Notes to Basic Financial Statements (Continued)
For the year ended June 30, 2013

Note 9 – Retirement Plans (Continued)

A. California Public Employees Retirement System (Continued)

Annual Pension Cost (Continued)

Police Plan

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2011	\$ 1,587,832	100%	\$ -
6/30/2012	1,801,487	100%	-
6/30/2013	1,723,071	100%	-

Fire Plan

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2011	\$ 741,469	100%	\$ -
6/30/2012	737,078	100%	-
6/30/2013	699,029	100%	-

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, 2010
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) 3.55% to 14.45% depending on Age, Service, and type of employment
Inflation:	3.00%
Payroll Growth:	3.25%
	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.

City of Hermosa Beach
Notes to Basic Financial Statements (Continued)
For the year ended June 30, 2013

Note 9 – Retirement Plans (Continued)

B. Other Postemployment Benefits (Continued)

Plan Description

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

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

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

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

Eligibility

All of the Plan’s employees became participants in accordance with negotiated Memorandum of Understanding (“MOU”) as negotiated by each group or bargaining unit. In order to receive benefits, eligible employees must meet the minimum requirements defined in their MOU. Participants of the Plan as of June 30, 2013 were as follows:

Participants	Total
Active employees	116
Retirees	49
Total	165

Funding Policy

The contribution requirements for Plan members and the City are established by a MOU as negotiated by each group or bargaining unit. The City is funding 100% of the annual required contribution as calculated based on the actuarial valuation. For the year ended June 30, 2013, the City contributed \$916,704. Plan members receiving benefits contributed \$243,195 of the total premiums, as their required contributions.

City of Hermosa Beach
Notes to Basic Financial Statements (Continued)
For the year ended June 30, 2013

Note 9 – Retirement Plans (Continued)

B. Other Postemployment Benefits (Continued)

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 (asset) to the Plan:

	Total
Annual required contribution	\$ 888,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	888,000
Contributions made	(916,704)
Adjustment to contributions	91,168
Increase in net OPEB asset	119,872
Net OPEB asset - beginning of year	-
Net OPEB asset - end of year	\$ 119,872

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, 2013 and the preceding two years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions	% of Annual OPEB Cost Contributed	Net OPEB Asset
6/30/2011	\$ 539,468	\$ 539,468	100.00%	\$ -
6/30/2012	540,218	540,218	100.00%	-
6/30/2013	888,000	1,007,872	113.50%	119,872

City of Hermosa Beach
Notes to Basic Financial Statements (Continued)
For the year ended June 30, 2013

Note 9 – Retirement Plans (Continued)

B. Other Postemployment Benefits (Continued)

Funded Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the plan was 34.2% funded. 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 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, 2013

Note 10 – Classification of Fund Balances

At June 30, 2013, fund balances are classified in the governmental funds as follows:

	General Fund	Nonmajor Governmental Funds	Total
Nonspendable			
Prepaid items	\$ 21,589	\$ -	\$ 21,589
Total nonspendable	<u>21,589</u>	<u>-</u>	<u>21,589</u>
Restricted			
Affordable Housing	41,831	-	41,831
General Plan Maintenance	129,101	-	129,101
Broadcasting Grant	56,833	-	56,833
Civic Theatre Donation	45,000	-	45,000
CDBG Fund Exchange	118,739	-	118,739
Lighting District	-	86,174	86,174
Gas Tax	-	514,212	514,212
Source Reduction/Recycling	-	20,456	20,456
Parks Projects	-	216,739	216,739
Undergrounding Districts	-	42,448	42,448
Transit	-	1,274,461	1,274,461
Clean Air Projects	-	109,394	109,394
SLESF Law Enforcement	-	170,032	170,032
Sewers and Storm Drains	-	854,095	854,095
Asset Forfeiture - drug enforcement and education	-	313,931	313,931
Fire Protection	-	28,355	28,355
Grants	-	18,696	18,696
Capital Improvements	-	10,225	10,225
Total restricted	<u>391,504</u>	<u>3,659,218</u>	<u>4,050,722</u>
Committed			
Capital Outlay - Parking Facilities	9,592	-	9,592
Clark Building	1,000	-	1,000
Artesia Boulevard relinquishment	-	5,465	5,465
Tyco	-	137,166	137,166
Total committed	<u>10,592</u>	<u>142,631</u>	<u>153,223</u>
Assigned			
Sales Tax In-lieu	131,258	-	131,258
General government consulting services and software modifications	37,890	-	37,890
Public safety equipment, consulting services and studies	99,394	-	99,394
Public works capital improvement projects	980,351	-	980,351
Contingencies	3,967,338	-	3,967,338
Retirement rate stabilization	1,000,000	-	1,000,000
Compensated absences	297,262	-	297,262
Community events	36,465	-	36,465
Capital projects	-	847,266	847,266
Total assigned	<u>6,549,958</u>	<u>847,266</u>	<u>7,397,224</u>
Total fund balances	<u>\$ 6,973,643</u>	<u>\$ 4,649,115</u>	<u>\$ 11,622,758</u>

City of Hermosa Beach
Notes to Basic Financial Statements (Continued)
For the year ended June 30, 2013

Note 11 – Non-City Obligations

At June 30, 2013, 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
2014	\$ 25,000	\$ 9,263	\$ 34,263
2015	30,000	7,475	37,475
2016	30,000	5,525	35,525
2017	35,000	3,413	38,413
2018	35,000	1,137	36,137
Total	\$ 155,000	\$ 26,813	\$ 181,813

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
2014	\$ 65,000	\$ 26,351	\$ 91,351
2015	70,000	22,737	92,737
2016	75,000	18,923	93,923
2017	80,000	14,933	94,933
2018	80,000	10,925	90,925
2019-2020	175,000	9,056	184,056
Total	\$ 545,000	\$ 102,925	\$ 647,925

City of Hermosa Beach
Notes to Basic Financial Statements (Continued)
For the year ended June 30, 2013

Note 11 – Non-City Obligations (Continued)

1999 Loma Utility Underground District Special Assessment Bonds

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

The annual debt service requirements by year are as follows:

Year ending June 30,	Principal	Interest	Total
2014	\$ 75,000	\$ 29,065	\$ 104,065
2015	80,000	25,171	105,171
2016	85,000	21,074	106,074
2017	90,000	16,800	106,800
2018	90,000	12,362	102,362
2019-2020	205,000	10,206	215,206
Total	\$ 625,000	\$ 114,678	\$ 739,678

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
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	21,977	9,474	31,451
2019-2023	126,758	30,092	156,850
2024-2025	59,630	2,873	62,503
	\$ 286,658	\$ 90,204	\$ 376,862

City of Hermosa Beach
Notes to Basic Financial Statements (Continued)
For the year ended June 30, 2013

Note 11 – Non-City Obligations (Continued)

2005 Bayview Drive Utility Underground Assessment District Improvement Bonds

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

The annual debt service requirements by year are as follows:

Year ending June 30,	Principal	Interest	Total
2014	\$ 41,671	\$ 24,034	\$ 65,705
2015	43,441	22,438	65,879
2016	45,288	20,872	66,160
2017	47,212	19,331	66,543
2018	49,219	17,707	66,926
2019-2023	279,308	60,991	340,299
2024-2026	197,714	10,924	208,638
Total	\$ 703,853	\$ 176,297	\$ 880,150

Note 12 – Commitments and Contingencies

A. Commitments

The City had several outstanding or planned construction projects as of June 30, 2013. These projects are evidenced by contractual commitments with contractors and include:

Project	Spent to Date	Commitment Remaining
Strategic Plan- Economic Development Civic Center	\$ 60,000	\$ 150,000
General Plan & Coastal Plan Update	-	843,053
City-wide street improvements/ various locations	315,075	146,959
Telephone Update Project	8,127	93,868
Total	\$ 383,202	\$ 1,233,880

The Economic Development Civic Center project is funded by the General Fund and Insurance Internal Service Fund. The general plan and coastal plan update project is funded by the General Fund and a grant from the California Department of Conservation. The City-wide street improvements at various locations are funded by the General Fund, State Gas Tax Fund, Measure “R” Fund, and Capital Improvement Fund. The telephone update project is funded by the Equipment Replacement Internal Service 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.

City of Hermosa Beach
Notes to Basic Financial Statements (Continued)
For the year ended June 30, 2013

Note 12 – Commitments and Contingencies (Continued)

C. Grants

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

Note 13 – MacPherson Oil Project Litigation

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

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.

City of Hermosa Beach
Notes to Basic Financial Statements (Continued)
For the year ended June 30, 2013

Note 13 – MacPherson Oil Project Litigation (Continued)

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

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

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

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 balance in the Insurance Internal Service Fund as of June 30, 2013 was \$3.5 million. In addition, the City set aside \$2.5 million of unrestricted net position in the Insurance Internal Service Fund.

**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

City of Hermosa Beach
Required Supplementary Information (Unaudited)
For the year ended June 30, 2013

Note 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.

The following is the budgetary comparison schedule for the General Fund, for which an annual operating budget was adopted.

City of Hermosa Beach
Required Supplementary Information (Unaudited) (Continued)
For the year ended June 30, 2013

Note 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, 2012	\$ 397,100	\$ 6,056,563	\$ 6,056,563	\$ -
Resources (inflows):				
Property taxes	11,775,557	11,974,775	12,151,229	176,454
Other taxes	8,765,537	9,074,715	9,226,890	152,175
Licenses and permits	713,062	751,555	783,121	31,566
Fines and forfeitures	2,447,632	2,319,445	2,369,887	50,442
Use of money and property	618,133	762,772	789,897	27,125
Intergovernmental	121,257	124,100	115,388	(8,712)
Charges for services	5,619,630	5,881,716	6,215,835	334,119
Miscellaneous	66,132	107,512	259,624	152,112
Interest earned on investments	63,926	95,558	80,583	(14,975)
Transfers in	369,870	369,870	375,570	5,700
Amount available for appropriation	30,957,836	37,518,581	38,424,587	906,006
Charges to appropriations (outflows):				
Legislative and legal	1,073,443	1,097,612	893,460	204,152
General government	2,334,266	2,465,832	2,330,856	134,976
Public safety	17,921,586	18,160,349	16,809,078	1,351,271
Community development	1,246,365	1,276,539	1,265,160	11,379
Culture and recreation	1,096,670	1,099,260	1,080,685	18,575
Public works	3,634,212	3,768,051	3,738,890	29,161
Capital outlay	655,370	943,597	101,009	842,588
Transfers out	830,432	2,817,865	5,231,806	(2,413,941)
Total charges to appropriations	28,792,344	31,629,105	31,450,944	178,161
Fund Balance, June 30, 2013	\$ 2,165,492	\$ 5,889,476	\$ 6,973,643	\$ 1,084,167

City of Hermosa Beach
Required Supplementary Information (Unaudited) (Continued)
For the year ended June 30, 2013

Note 2 – California 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.

Note 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%

SUPPLEMENTARY INFORMATION

This page intentionally left blank.

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.

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

Capital Projects Fund:

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

Beach Drive Improvement Fund - Funds set aside for utility reimbursements.

This page intentionally left blank.

City of Hermosa Beach
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2013

	Special Revenue Funds			
	Lighting and Landscaping District	State Gas Tax	AB 939	Prop A Open Space
ASSETS				
Cash and investments	\$ 130,500	\$ 659,356	\$ 29,635	\$ 17,810
Accounts receivable	-	40,275	3,447	-
Property taxes receivable, net	8,899	-	-	-
Reimbursable grants receivable	-	-	-	-
Interest receivable	221	1,140	48	-
Other receivable	-	-	-	-
Other assets	-	-	-	-
Total assets	\$ 139,620	\$ 700,771	\$ 33,130	\$ 17,810
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 35,188	\$ 186,559	\$ 4,958	\$ 14,406
Accrued wages and benefits payable	18,258	-	7,716	-
Deferred revenue	-	-	-	-
Due to other funds	-	-	-	-
Total liabilities	53,446	186,559	12,674	14,406
Fund Balances:				
Nonspendable	-	-	-	-
Restricted	86,174	514,212	20,456	3,404
Committed	-	-	-	-
Assigned	-	-	-	-
Total fund balances	86,174	514,212	20,456	3,404
Total liabilities and fund balances	\$ 139,620	\$ 700,771	\$ 33,130	\$ 17,810

(Continued)

City of Hermosa Beach
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2013

	Special Revenue Funds			
	Tyco	Tyco Tidelands	Parks/ Recreation Facilities Tax	Bayview Drive Administrative Expense
	Tyco	Tidelands	Facilities Tax	Expense
ASSETS				
Cash and investments	\$ 284,187	\$ 6,820	\$ 244,350	\$ 1,997
Accounts receivable	-	-	1,450	-
Property taxes receivable, net	-	-	-	-
Reimbursable grants receivable	-	-	-	-
Interest receivable	532	1	408	3
Other receivable	-	-	-	-
Other assets	-	-	-	-
Total assets	\$ 284,719	\$ 6,821	\$ 246,208	\$ 2,000
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 67,842	\$ -	\$ 29,469	\$ 10
Accrued wages and benefits payable	-	-	-	-
Deferred revenue	79,711	-	-	-
Due to other funds	-	-	-	-
Total liabilities	147,553	-	29,469	10
Fund Balances:				
Nonspendable	-	-	-	-
Restricted	-	6,821	216,739	1,990
Committed	137,166	-	-	-
Assigned	-	-	-	-
Total fund balances	137,166	6,821	216,739	1,990
Total liabilities and fund balances	\$ 284,719	\$ 6,821	\$ 246,208	\$ 2,000

(Continued)

City of Hermosa Beach
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2013

	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	\$ 5,010	\$ 14,041	\$ 19,106	\$ 2,461
Accounts receivable	-	-	-	-
Property taxes receivable, net	-	-	-	-
Reimbursable grants receivable	-	-	-	-
Interest receivable	-	24	33	4
Other receivable	-	-	-	-
Other assets	-	-	-	-
Total assets	\$ 5,010	\$ 14,065	\$ 19,139	\$ 2,465
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 56	\$ 77	\$ 88	\$ -
Accrued wages and benefits payable	-	-	-	-
Deferred revenue	-	-	-	-
Due to other funds	-	-	-	-
Total liabilities	56	77	88	-
Fund Balances:				
Nonspendable	-	-	-	-
Restricted	4,954	13,988	19,051	2,465
Committed	-	-	-	-
Assigned	-	-	-	-
Total fund balances	4,954	13,988	19,051	2,465
Total liabilities and fund balances	\$ 5,010	\$ 14,065	\$ 19,139	\$ 2,465

(Continued)

City of Hermosa Beach
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2013

	Special Revenue Funds			
	Proposition "A"	Proposition "C"	Measure "R"	Air Quality
	Transit			Management
				District
ASSETS				
Cash and investments	\$ 355,661	\$ 617,532	\$ 502,708	\$ 102,996
Accounts receivable	-	-	-	6,183
Property taxes receivable, net	-	-	-	-
Reimbursable grants receivable	-	-	-	-
Interest receivable	601	1,005	884	215
Other receivable	-	-	-	-
Other assets	-	-	-	-
Total assets	\$ 356,262	\$ 618,537	\$ 503,592	\$ 109,394
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 32,126	\$ 65,000	\$ 106,468	\$ -
Accrued wages and benefits payable	335	1	-	-
Deferred revenue	-	-	-	-
Due to other funds	-	-	-	-
Total liabilities	32,461	65,001	106,468	-
Fund Balances:				
Nonspendable	-	-	-	-
Restricted	323,801	553,536	397,124	109,394
Committed	-	-	-	-
Assigned	-	-	-	-
Total fund balances	323,801	553,536	397,124	109,394
Total liabilities and fund balances	\$ 356,262	\$ 618,537	\$ 503,592	\$ 109,394

(Continued)

City of Hermosa Beach
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2013

	Special Revenue Funds			
	Supplemental Law Enforcement Services	Sewer	Asset Seizure and Forfeiture	Fire Protection
ASSETS				
Cash and investments	\$ 170,269	\$ 943,599	\$ 303,055	\$ 28,307
Accounts receivable	-	6,465	10,357	-
Property taxes receivable, net	-	-	-	-
Reimbursable grants receivable	-	-	-	-
Interest receivable	289	1,594	519	48
Other receivable	-	-	-	-
Other assets	-	-	-	-
Total assets	\$ 170,558	\$ 951,658	\$ 313,931	\$ 28,355
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 526	\$ 80,827	\$ -	\$ -
Accrued wages and benefits payable	-	16,736	-	-
Deferred revenue	-	-	-	-
Due to other funds	-	-	-	-
Total liabilities	526	97,563	-	-
Fund Balances:				
Nonspendable	-	-	-	-
Restricted	170,032	854,095	313,931	28,355
Committed	-	-	-	-
Assigned	-	-	-	-
Total fund balances	170,032	854,095	313,931	28,355
Total liabilities and fund balances	\$ 170,558	\$ 951,658	\$ 313,931	\$ 28,355

(Continued)

City of Hermosa Beach
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2013

	Special Revenue Funds		Capital Projects Funds		Total Nonmajor Governmental Funds
	Artesia Boulevard Relinquishment	Grants	Capital Improvement	Beach Drive Improvement	
ASSETS					
Cash and investments	\$ 5,682	\$ -	\$ 912,106	\$ 2,296	\$ 5,359,484
Accounts receivable	-	-	-	-	68,177
Property taxes receivable, net	-	-	-	-	8,899
Reimbursable grants receivable	-	270,116	-	-	270,116
Interest receivable	-	-	1,548	-	9,117
Other receivable	-	-	-	-	-
Other assets	-	-	-	-	-
Total assets	\$ 5,682	\$ 270,116	\$ 913,654	\$ 2,296	\$ 5,715,793
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 217	\$ 138,272	\$ 64,987	\$ 2,296	\$ 829,372
Accrued wages and benefits payable	-	-	1,401	-	44,447
Deferred revenue	-	-	-	-	79,711
Due to other funds	-	113,148	-	-	113,148
Total liabilities	217	251,420	66,388	2,296	1,066,678
Fund Balances:					
Nonspendable	-	-	-	-	-
Restricted	-	18,696	-	-	3,659,218
Committed	5,465	-	-	-	142,631
Assigned	-	-	847,266	-	847,266
Total fund balances	5,465	18,696	847,266	-	4,649,115
Total liabilities and fund balances	\$ 5,682	\$ 270,116	\$ 913,654	\$ 2,296	\$ 5,715,793

(Concluded)

City of Hermosa Beach
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the year ended June 30, 2013

	Special Revenue Funds			
	Lighting and Landscaping District	State Gas Tax	AB 939	Prop A Open Space
REVENUES:				
Property taxes	\$ 467,350	\$ -	\$ -	\$ -
Other taxes	-	-	-	-
Fines and forfeitures	-	-	-	-
Use of money and property	-	-	-	-
Intergovernmental	-	445,612	-	20,557
Charges for services	-	-	41,944	-
Miscellaneous	-	-	-	-
Interest earned on investments	604	5,391	519	-
Total revenues	467,954	451,003	42,463	20,557
EXPENDITURES:				
Current:				
General government	-	-	145,086	-
Public safety	-	-	-	-
Community development	-	-	-	-
Culture and recreation	-	-	-	-
Public works	544,185	-	-	-
Capital outlay	-	213,352	-	115,816
Total expenditures	544,185	213,352	145,086	115,816
REVENUES OVER (UNDER) EXPENDITURES	(76,231)	237,651	(102,623)	(95,259)
OTHER FINANCING SOURCES (USES):				
Transfers in	111,160	-	-	-
Transfers out	(10,937)	(298,977)	-	(20,557)
Total other financing sources (uses)	100,223	(298,977)	-	(20,557)
CHANGE IN FUND BALANCES	23,992	(61,326)	(102,623)	(115,816)
FUND BALANCES:				
Beginning of year	62,182	575,538	123,079	119,220
End of year	<u>\$ 86,174</u>	<u>\$ 514,212</u>	<u>\$ 20,456</u>	<u>\$ 3,404</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, 2013

	Special Revenue Funds			
		Tyco	Parks/ Recreation	Bayview Drive Administrative
	Tyco	Tidelands	Facility Tax	Expense
REVENUES:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	6,817	-
Fines and forfeitures	-	-	-	-
Use of money and property	312,900	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Miscellaneous	-	-	165,481	4,350
Interest earned on investments	2,595	(18)	1,916	22
Total revenues	315,495	(18)	174,214	4,372
EXPENDITURES:				
Current:				
General government	-	-	-	1,208
Public safety	-	-	-	-
Community development	-	-	-	-
Culture and recreation	-	-	-	-
Public works	-	-	-	-
Capital outlay	90,958	19,663	106,694	-
Total expenditures	90,958	19,663	106,694	1,208
REVENUES OVER (UNDER) EXPENDITURES	224,537	(19,681)	67,520	3,164
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	(196,960)	-	(5,331)	(2,718)
Total other financing sources (uses)	(196,960)	-	(5,331)	(2,718)
CHANGE IN FUND BALANCES	27,577	(19,681)	62,189	446
FUND BALANCES:				
Beginning of year	109,589	26,502	154,550	1,544
End of year	\$ 137,166	\$ 6,821	\$ 216,739	\$ 1,990

(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, 2013

	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	-	144	192	26
Total revenues	<u>2,600</u>	<u>9,144</u>	<u>10,192</u>	<u>3,026</u>
EXPENDITURES:				
Current:				
General government	1,090	5,080	5,203	1,150
Public safety	-	-	-	-
Community development	-	-	-	-
Culture and recreation	-	-	-	-
Public works	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	<u>1,090</u>	<u>5,080</u>	<u>5,203</u>	<u>1,150</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>1,510</u>	<u>4,064</u>	<u>4,989</u>	<u>1,876</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	(1,142)	(3,310)	(3,783)	(1,155)
Total other financing sources (uses)	<u>(1,142)</u>	<u>(3,310)</u>	<u>(3,783)</u>	<u>(1,155)</u>
CHANGE IN FUND BALANCES	368	754	1,206	721
FUND BALANCES:				
Beginning of year	4,586	13,234	17,845	1,744
End of year	<u>\$ 4,954</u>	<u>\$ 13,988</u>	<u>\$ 19,051</u>	<u>\$ 2,465</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, 2013

	Special Revenue Funds			
	Proposition "A"	Proposition "C"	Measure "R"	Air Quality
	Transit			Management
REVENUES:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other taxes	302,853	251,851	188,180	-
Fines and forfeitures	-	-	-	-
Use of money and property	-	-	-	-
Intergovernmental	-	-	-	23,613
Charges for services	5,878	-	-	-
Miscellaneous	-	-	-	-
Interest earned on investments	2,563	4,713	4,029	1,056
Total revenues	311,294	256,564	192,209	24,669
EXPENDITURES:				
Current:				
General government	60,244	-	-	245
Public safety	59,819	-	-	-
Community development	14,839	-	-	-
Culture and recreation	29,771	-	-	-
Public works	-	1,430	-	-
Capital outlay	-	103,180	123,940	23,677
Total expenditures	164,673	104,610	123,940	23,922
REVENUES OVER (UNDER) EXPENDITURES	146,621	151,954	68,269	747
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	(5,700)	-	-	-
Total other financing sources (uses)	(5,700)	-	-	-
CHANGE IN FUND BALANCES	140,921	151,954	68,269	747
FUND BALANCES:				
Beginning of year	182,880	401,582	328,855	108,647
End of year	<u>\$ 323,801</u>	<u>\$ 553,536</u>	<u>\$ 397,124</u>	<u>\$ 109,394</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, 2013

	Special Revenue Funds			
	Supplemental Law Enforcement Services	Sewer	Asset Seizure and Forfeiture	Fire Protection
REVENUES:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other taxes	100,000	-	-	-
Fines and forfeitures	-	-	46,144	-
Use of money and property	-	-	-	-
Intergovernmental	-	18,485	-	-
Charges for services	-	37,290	-	11,784
Miscellaneous	-	-	1,000	-
Interest earned on investments	1,467	9,406	2,600	376
Total revenues	101,467	65,181	49,744	12,160
EXPENDITURES:				
Current:				
General government	-	-	-	-
Public safety	40,144	-	3,160	-
Community development	-	-	-	-
Culture and recreation	-	-	-	-
Public works	-	470,827	-	-
Capital outlay	89,984	421,392	-	28,938
Total expenditures	130,128	892,219	3,160	28,938
REVENUES OVER (UNDER) EXPENDITURES	(28,661)	(827,038)	46,584	(16,778)
OTHER FINANCING SOURCES (USES):				
Transfers in	-	714,647	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	714,647	-	-
CHANGE IN FUND BALANCES	(28,661)	(112,391)	46,584	(16,778)
FUND BALANCES:				
Beginning of year	198,693	966,486	267,347	45,133
End of year	<u>\$ 170,032</u>	<u>\$ 854,095</u>	<u>\$ 313,931</u>	<u>\$ 28,355</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, 2013

	Special Revenue Funds		Capital Projects Funds		Total Nonmajor Governmental Funds
	Artesia Boulevard Relinquishment	Grants	Capital Improvement	Beach Drive Improvement	
REVENUES:					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 467,350
Other taxes	-	-	-	-	849,701
Fines and forfeitures	-	-	-	-	46,144
Use of money and property	-	-	-	-	312,900
Intergovernmental	-	272,561	-	-	780,828
Charges for services	-	-	-	-	96,896
Miscellaneous	-	-	14,670	-	210,101
Interest earned on investments	4,849	-	8,716	-	51,166
Total revenues	4,849	272,561	23,386	-	2,815,086
EXPENDITURES:					
Current:		-			
General government	-	-	-	-	219,306
Public safety	-	13,813	-	-	116,936
Community development	-	-	-	-	14,839
Culture and recreation	-	-	-	-	29,771
Public works	7,210	2,961	180,920	-	1,207,533
Capital outlay	-	243,936	131,451	-	1,712,981
Total expenditures	7,210	260,710	312,371	-	3,301,366
REVENUES OVER (UNDER) EXPENDITURES	(2,361)	11,851	(288,985)	-	(486,280)
OTHER FINANCING SOURCES (USES):					
Transfers in	-	-	175,000	-	1,000,807
Transfers out	-	-	-	-	(550,570)
Total other financing sources (uses)	-	-	175,000	-	450,237
CHANGE IN FUND BALANCES	(2,361)	11,851	(113,985)	-	(36,043)
FUND BALANCES:					
Beginning of year	7,826	6,845	961,251	-	4,685,158
End of year	\$ 5,465	\$ 18,696	\$ 847,266	\$ -	\$ 4,649,115

(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, 2013

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2012	\$ 62,182	\$ 62,182	\$ -
Resources (inflows):			
Property taxes	478,000	467,350	(10,650)
Miscellaneous	-	-	-
Interest earned on investments	556	604	48
Transfers in	89,270	111,160	21,890
Amount available for appropriation	<u>630,008</u>	<u>641,296</u>	<u>11,288</u>
Charges to appropriations (outflows):			
Public works	544,187	544,185	2
Transfers out	10,937	10,937	-
Total charges to appropriations	<u>555,124</u>	<u>555,122</u>	<u>2</u>
Fund balance, June 30, 2013	<u>\$ 74,884</u>	<u>\$ 86,174</u>	<u>\$ 11,290</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, 2013

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2012	\$ 575,538	\$ 575,538	\$ -
Resources (inflows):			
Intergovernmental	498,443	445,612	(52,831)
Interest earned on investments	<u>6,770</u>	<u>5,391</u>	<u>(1,379)</u>
Amount available for appropriation	<u>1,080,751</u>	<u>1,026,541</u>	<u>(54,210)</u>
Charges to appropriations (outflows):			
Capital outlay	213,352	213,352	-
Transfers out	<u>298,977</u>	<u>298,977</u>	<u>-</u>
Total charges to appropriations	<u>512,329</u>	<u>512,329</u>	<u>-</u>
Fund balance, June 30, 2013	<u>\$ 568,422</u>	<u>\$ 514,212</u>	<u>\$ (54,210)</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, 2013

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
Fund balance, July 1, 2012	\$ 123,079	\$ 123,079	\$ -
Resources (inflows):			
Charges for services	51,183	41,944	(9,239)
Miscellaneous	-	-	-
Interest earned on investments	1,524	519	(1,005)
Amount available for appropriation	175,786	165,542	(10,244)
Charges to appropriations (outflows):			
General government	164,012	145,086	18,926
Total charges to appropriations	164,012	145,086	18,926
Fund balance, June 30, 2013	\$ 11,774	\$ 20,456	\$ 8,682

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, 2013

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
Fund balance, July 1, 2012	\$ 119,220	\$ 119,220	\$ -
Resources (inflows):			
Intergovernmental	170,557	20,557	(150,000)
Amount available for appropriation	289,777	139,777	(150,000)
Charges to appropriations (outflows):			
Capital outlay	115,816	115,816	-
Transfers out	20,557	20,557	-
Total charges to appropriations	136,373	136,373	-
Fund balance, June 30, 2013	\$ 153,404	\$ 3,404	\$ (150,000)

City of Hermosa Beach
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Tyco
For the year ended June 30, 2013

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
Fund balance, July 1, 2012	\$ 109,589	\$ 109,589	\$ -
Resources (inflows):			
Use of money and property	312,900	312,900	-
Interest earned on investments	3,123	2,595	(528)
Amount available for appropriation	425,612	425,084	(528)
Charges to appropriations (outflows):			
Capital outlay	90,958	90,958	-
Transfers out	196,960	196,960	-
Total charges to appropriations	287,918	287,918	-
Fund balance, June 30, 2013	\$ 137,694	\$ 137,166	\$ (528)

City of Hermosa Beach
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Tyco Tidelands
For the year ended June 30, 2013

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2012	\$ 26,502	\$ 26,502	\$ -
Resources (inflows):			
Interest earned on investment	-	(18)	(18)
Amount available for appropriation	26,502	26,484	(18)
Charges to appropriations (outflows):			
Capital outlay	19,663	19,663	-
Total charges to appropriations	19,663	19,663	-
Fund balance, June 30, 2013	<u>\$ 6,839</u>	<u>\$ 6,821</u>	<u>\$ (18)</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, 2013

	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Fund balance, July 1, 2012	\$ 154,550	\$ 154,550	\$ -
Resources (inflows):			
Other taxes	6,922	6,817	(105)
Miscellaneous	93,269	165,481	72,212
Interest earned on investments	2,357	1,916	(441)
Amount available for appropriation	257,098	328,764	71,666
Charges to appropriations (outflows):			
Capital outlay	106,694	106,694	-
Transfers out	5,331	5,331	-
Total charges to appropriations	112,025	112,025	-
Fund balance, June 30, 2013	\$ 145,073	\$ 216,739	\$ 71,666

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, 2013

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2012	\$ 1,544	\$ 1,544	\$ -
Resources (inflows):			
Miscellaneous	4,350	4,350	-
Interest earned on investments	<u>25</u>	<u>22</u>	<u>(3)</u>
Amount available for appropriation	<u>5,919</u>	<u>5,916</u>	<u>(3)</u>
Charges to appropriations (outflows):			
General government	1,701	1,208	493
Transfers out	<u>2,718</u>	<u>2,718</u>	<u>-</u>
Total charges to appropriations	<u>4,419</u>	<u>3,926</u>	<u>493</u>
Fund balance, June 30, 2013	<u>\$ 1,500</u>	<u>\$ 1,990</u>	<u>\$ 490</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, 2013

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2012	\$ 4,586	\$ 4,586	\$ -
Resources (inflows):			
Miscellaneous	2,600	2,600	-
Amount available for appropriation	<u>7,186</u>	<u>7,186</u>	<u>-</u>
Charges to appropriations (outflows):			
General government	1,500	1,090	410
Transfers out	<u>1,142</u>	<u>1,142</u>	<u>-</u>
Total charges to appropriations	<u>2,642</u>	<u>2,232</u>	<u>410</u>
Fund balance, June 30, 2013	<u>\$ 4,544</u>	<u>\$ 4,954</u>	<u>\$ 410</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, 2013

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2012	\$ 13,234	\$ 13,234	\$ -
Resources (inflows):			
Miscellaneous	9,000	9,000	-
Interest earned on investments	<u>186</u>	<u>144</u>	<u>(42)</u>
Amount available for appropriation	<u>22,420</u>	<u>22,378</u>	<u>(42)</u>
Charges to appropriations (outflows):			
General government	6,000	5,080	920
Transfers out	<u>3,310</u>	<u>3,310</u>	<u>-</u>
Total charges to appropriations	<u>9,310</u>	<u>8,390</u>	<u>920</u>
Fund balance, June 30, 2013	<u>\$ 13,110</u>	<u>\$ 13,988</u>	<u>\$ 878</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, 2013

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2012	\$ 17,845	\$ 17,845	\$ -
Resources (inflows):			
Miscellaneous	10,000	10,000	-
Interest earned on investments	<u>250</u>	<u>192</u>	<u>(58)</u>
Amount available for appropriation	<u>28,095</u>	<u>28,037</u>	<u>(58)</u>
Charges to appropriations (outflows):			
General government	6,200	5,203	997
Transfers out	<u>3,783</u>	<u>3,783</u>	<u>-</u>
Total charges to appropriations	<u>9,983</u>	<u>8,986</u>	<u>997</u>
Fund balance, June 30, 2013	<u>\$ 18,112</u>	<u>\$ 19,051</u>	<u>\$ 939</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, 2013

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2012	\$ 1,744	\$ 1,744	\$ -
Resources (inflows):			
Miscellaneous	3,000	3,000	-
Interest earned on investments	<u>28</u>	<u>26</u>	<u>(2)</u>
Amount available for appropriation	<u>4,772</u>	<u>4,770</u>	<u>(2)</u>
Charges to appropriations (outflows):			
General government	1,700	1,150	550
Transfers out	<u>1,155</u>	<u>1,155</u>	<u>-</u>
Total charges to appropriations	<u>2,855</u>	<u>2,305</u>	<u>550</u>
Fund balance, June 30, 2013	<u>\$ 1,917</u>	<u>\$ 2,465</u>	<u>\$ 548</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, 2013

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2012	\$ 182,880	\$ 182,880	\$ -
Resources (inflows):			
Other taxes	296,479	302,853	6,374
Charges for services	7,000	5,878	(1,122)
Interest earned on investments	2,711	2,563	(148)
Amount available for appropriation	<u>489,070</u>	<u>494,174</u>	<u>5,104</u>
Charges to appropriations (outflows):			
General government	64,240	60,244	3,996
Public safety	69,000	59,819	9,181
Community development	19,319	14,839	4,480
Culture and recreation	40,000	29,771	10,229
Capital outlay	2,650	-	2,650
Transfers out	-	5,700	(5,700)
Total charges to appropriations	<u>195,209</u>	<u>170,373</u>	<u>24,836</u>
Fund balance, June 30, 2013	<u>\$ 293,861</u>	<u>\$ 323,801</u>	<u>\$ 29,940</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, 2013

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
Fund balance, July 1, 2012	\$ 401,582	\$ 401,582	\$ -
Resources (inflows):			
Other taxes	245,922	251,851	5,929
Interest earned on investments	5,616	4,713	(903)
Amount available for appropriation	653,120	658,146	5,026
Charges to appropriations (outflows):			
Public works	17,701	1,430	16,271
Capital outlay	246,960	103,180	143,780
Total charges to appropriations	264,661	104,610	160,051
Fund balance, June 30, 2013	\$ 388,459	\$ 553,536	\$ 165,077

City of Hermosa Beach
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Measure R
For the year ended June 30, 2013

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2012	\$ 328,855	\$ 328,855	\$ -
Resources (inflows):			
Other taxes	174,537	188,180	13,643
Interest earned on investments	<u>4,498</u>	<u>4,029</u>	<u>(469)</u>
Amount available for appropriation	<u>507,890</u>	<u>521,064</u>	<u>13,174</u>
Charges to appropriations (outflows):			
Capital outlay	<u>386,477</u>	<u>123,940</u>	<u>262,537</u>
Total charges to appropriations	<u>386,477</u>	<u>123,940</u>	<u>262,537</u>
Fund balance, June 30, 2013	<u>\$ 121,413</u>	<u>\$ 397,124</u>	<u>\$ 275,711</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, 2013

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2012	\$ 108,647	\$ 108,647	\$ -
Resources (inflows):			
Intergovernmental	24,000	23,613	(387)
Interest earned on investments	<u>1,359</u>	<u>1,056</u>	<u>(303)</u>
Amount available for appropriation	<u>134,006</u>	<u>133,316</u>	<u>(690)</u>
Charges to appropriations (outflows):			
General government	3,600	245	3,355
Capital outlay	<u>104,039</u>	<u>23,677</u>	<u>80,362</u>
Total charges to appropriations	<u>107,639</u>	<u>23,922</u>	<u>83,717</u>
Fund balance, June 30, 2013	<u><u>\$ 26,367</u></u>	<u><u>\$ 109,394</u></u>	<u><u>\$ 83,027</u></u>

City of Hermosa Beach
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Supplemental Law Enforcement Services
For the year ended June 30, 2013

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2012	\$ 198,693	\$ 198,693	\$ -
Resources (inflows):			
Other taxes	100,000	100,000	-
Interest earned on investments	<u>2,482</u>	<u>1,467</u>	<u>(1,015)</u>
Amount available for appropriation	<u>301,175</u>	<u>300,160</u>	<u>(1,015)</u>
Charges to appropriations (outflows):			
Public safety	36,954	40,144	(3,190)
Capital outlay	<u>240,727</u>	<u>89,984</u>	<u>150,743</u>
Total charges to appropriations	<u>277,681</u>	<u>130,128</u>	<u>147,553</u>
Fund balance, June 30, 2013	<u>\$ 23,494</u>	<u>\$ 170,032</u>	<u>\$ 146,538</u>

City of Hermosa Beach
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Sewer
For the year ended June 30, 2013

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2012	\$ 966,486	\$ 966,486	\$ -
Resources (inflows):			
Intergovernmental	13,570	18,485	4,915
Charges for services	31,500	37,290	5,790
Miscellaneous	-	-	-
Interest earned on investments	13,392	9,406	(3,986)
Transfers in	<u>714,647</u>	<u>714,647</u>	<u>-</u>
Amount available for appropriation	<u>1,739,595</u>	<u>1,746,314</u>	<u>6,719</u>
Charges to appropriations (outflows):			
Public works	470,950	470,827	123
Capital outlay	<u>1,153,563</u>	<u>421,392</u>	<u>732,171</u>
Total charges to appropriations	<u>1,624,513</u>	<u>892,219</u>	<u>732,294</u>
Fund balance, June 30, 2013	<u>\$ 115,082</u>	<u>\$ 854,095</u>	<u>\$ 739,013</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, 2013

	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Fund balance, July 1, 2012	\$ 267,347	\$ 267,347	\$ -
Resources (inflows):			
Fines and forfeitures	38,000	46,144	8,144
Miscellaneous	2,000	1,000	(1,000)
Interest earned on investments	3,433	2,600	(833)
Amount available for appropriation	310,780	317,091	6,311
Charges to appropriations (outflows):			
Public safety	78,100	3,160	74,940
Total charges to appropriations	78,100	3,160	74,940
Fund balance, June 30, 2013	\$ 232,680	\$ 313,931	\$ 81,251

City of Hermosa Beach
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Fire Protection
For the year ended June 30, 2013

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2012	\$ 45,133	\$ 45,133	\$ -
Resources (inflows):			
Charges for services	10,000	11,784	1,784
Interest earned on investments	<u>612</u>	<u>376</u>	<u>(236)</u>
Amount available for appropriation	<u>55,745</u>	<u>57,293</u>	<u>1,548</u>
Charges to appropriations (outflows):			
Capital outlay	<u>43,530</u>	<u>28,938</u>	<u>14,592</u>
Total charges to appropriations	<u>43,530</u>	<u>28,938</u>	<u>14,592</u>
Fund balance, June 30, 2013	<u>\$ 12,215</u>	<u>\$ 28,355</u>	<u>\$ 16,140</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, 2013

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
Fund balance, July 1, 2012	\$ 7,826	\$ 7,826	\$ -
Resources (inflows):			
Interest earned on investments	163	4,849	4,686
Amount available for appropriation	7,989	12,675	4,686
Charges to appropriations (outflows):			
Public works	7,989	7,210	779
Total charges to appropriations	7,989	7,210	779
Fund balance, June 30, 2013	\$ -	\$ 5,465	\$ 5,465

City of Hermosa Beach
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Grants
For the year ended June 30, 2013

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
Fund balance, July 1, 2012	\$ 6,845	\$ 6,845	\$ -
Resources (inflows):			
Intergovernmental	1,237,777	272,561	(965,216)
Amount available for appropriation	1,244,622	279,406	(965,216)
Charges to appropriations (outflows):			
Public safety	145,004	13,813	131,191
Public works	8,378	2,961	5,417
Capital outlay	959,731	243,936	715,795
Total charges to appropriations	1,113,113	260,710	852,403
Fund balance, June 30, 2013	<u>\$ 131,509</u>	<u>\$ 18,696</u>	<u>\$ (112,813)</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, 2013

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
Fund balance, July 1, 2012	\$ 961,251	\$ 961,251	\$ -
Resources (inflows):			
Miscellaneous	-	14,670	14,670
Interest earned on investments	12,637	8,716	(3,921)
Transfers in	175,000	175,000	-
Amount available for appropriation	1,148,888	1,159,637	10,749
Charges to appropriations (outflows):			
Public works	196,308	180,920	15,388
Capital outlay	883,572	131,451	752,121
Total charges to appropriations	1,079,880	312,371	767,509
Fund balance, June 30, 2013	\$ 69,008	\$ 847,266	\$ 778,258

This page intentionally left blank.

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 Position
All Internal Service Funds
June 30, 2013

	Insurance Fund	Equipment Replacement Fund	Total
ASSETS			
Current assets:			
Cash and investments	\$ 17,318,329	\$ 4,686,778	\$ 22,005,107
Deposits	165,000	-	165,000
Other assets	79,319	16,170	95,489
Total current assets	17,562,648	4,702,948	22,265,596
Capital assets:			
Nondepreciable	-	163,841	163,841
Depreciable, net	-	1,641,669	1,641,669
Total capital assets	-	1,805,510	1,805,510
Total assets	17,562,648	6,508,458	24,071,106
LIABILITIES			
Current liabilities:			
Accounts payable	88,341	50,380	138,721
Accrued wages and benefits payable	12,474	19,270	31,744
Workers' compensation claims payable, due in one year	1,064,488	-	1,064,488
General liability claims payable, due in one year	432,907	-	432,907
Total current liabilities	1,598,210	69,650	1,667,860
Long-term liabilities:			
Workers' compensation claims payable, due in more than one year	5,870,758	-	5,870,758
General liability claims payable, due in more than one year	746,764	-	746,764
Settlement payable	3,500,000	-	3,500,000
Total long-term liabilities	10,117,522	-	10,117,522
Total liabilities	11,715,732	69,650	11,785,382
NET POSITION			
Net investment in capital assets	-	1,805,510	1,805,510
Unrestricted	5,846,916	4,633,298	10,480,214
Total net position	\$ 5,846,916	\$ 6,438,808	\$ 12,285,724

City of Hermosa Beach
Combining Statement of Revenues, Expenses, and Changes in Net Position
All Internal Service Funds
For the year ended June 30, 2013

	Insurance Fund	Equipment Replacement Fund	Total
OPERATING REVENUES:			
Charges for services	\$ 2,623,031	\$ 1,641,095	\$ 4,264,126
Miscellaneous	351,454	-	351,454
Total operating revenues	2,974,485	1,641,095	4,615,580
OPERATING EXPENSES:			
Salaries and wages	81,099	127,906	209,005
Contractor services	728,370	394,194	1,122,564
Supplies	82	383,815	383,897
Claims expense	1,103,365	-	1,103,365
Depreciation	-	374,847	374,847
Total operating expenses	1,912,916	1,280,762	3,193,678
OPERATING INCOME	1,061,569	360,333	1,421,902
NONOPERATING REVENUES (EXPENSES):			
Gain / (Loss) on disposal of capital assets	-	86	86
Total nonoperating revenues (expenses)	-	86	86
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	1,061,569	360,419	1,421,988
Contributions	-	3,000	3,000
Transfers in	4,401,374	4,625	4,405,999
Total contributions and transfers	4,401,374	7,625	4,408,999
Change in net position	5,462,943	368,044	5,830,987
NET POSITION			
Beginning of the year	383,973	6,070,764	6,454,737
End of the year	<u>\$ 5,846,916</u>	<u>\$ 6,438,808</u>	<u>\$ 12,285,724</u>

City of Hermosa Beach
Combining Statement of Cash Flows
All Internal Service Funds
For the year ended June 30, 2013

	Insurance Fund	Equipment Replacement Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received for services from other funds	\$ 2,623,031	\$ 1,641,095	\$ 4,264,126
Cash payments to suppliers of goods and services	(663,905)	(737,230)	(1,401,135)
Cash payments to employees for services	(75,391)	(124,659)	(200,050)
Insurance premiums, settlements and recovery	(652,057)	-	(652,057)
Net cash provided by (used in) operating activities	1,231,678	779,206	2,010,884
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Contributions	-	3,000	3,000
Transfers in	4,401,374	4,625	4,405,999
Net cash provided by noncapital financing activities	4,401,374	7,625	4,408,999
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	-	(284,075)	(284,075)
Proceeds from sale of capital assets	-	86	86
Net cash provided by (used in) capital and related financing activities	-	(283,989)	(283,989)
Net increase (decrease) in cash and cash equivalents	5,633,052	502,842	6,135,894
CASH AND CASH EQUIVALENTS:			
Beginning of year	11,685,277	4,183,936	15,869,213
End of year	\$ 17,318,329	\$ 4,686,778	\$ 22,005,107
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Operating income	\$ 1,061,569	\$ 360,333	\$ 1,421,902
Adjustments to reconcile net operating income to net cash provided by (used in) operating activities:			
Depreciation	-	374,847	374,847
Changes in current assets and liabilities:			
Other assets	1,771	31,153	32,924
Accounts payable	62,776	9,626	72,402
Accrued wages and benefits payable	5,708	3,247	8,955
Workers' compensation claims payable	(21,304)	-	(21,304)
General liability claims payable	121,158	-	121,158
Total adjustments	170,109	418,873	588,982
Net cash provided by (used in) operating activities	\$ 1,231,678	\$ 779,206	\$ 2,010,884

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 Position
All Agency Funds
June 30, 2013

	Bayview Drive Redemption	Bayview Drive Reserve	Lower Pier Avenue Assessment District Redemption	Beach Drive Assessment District Redemption
ASSETS				
Cash and investments	\$ 139,008	\$ 13,314	\$ 42,313	\$ 69,361
Interest receivable	237	23	72	118
Other accounts receivable	295	-	2,745	378
Total assets	\$ 139,540	\$ 13,337	\$ 45,130	\$ 69,857
LIABILITIES				
Assessment:				
Installment account	\$ 139,540	\$ 3,337	\$ 45,130	\$ 69,857
Reserve requirement	-	10,000	-	-
Total liabilities	\$ 139,540	\$ 13,337	\$ 45,130	\$ 69,857

City of Hermosa Beach
Combining Statement of Fiduciary Net Position (Continued)
All Agency Funds
June 30, 2013

	Beach Drive Assessment District Reserve	Myrtle Avenue Utility Undergrounding Assessment District	Loma Drive Utility Undergrounding Assessment District	Total
ASSETS				
Cash and investments	\$ 4,052	\$ 119,343	\$ 136,860	\$ 524,251
Interest receivable	7	203	233	893
Other accounts receivable	-	2,052	3,177	8,647
Total assets	\$ 4,059	\$ 121,598	\$ 140,270	\$ 533,791
LIABILITIES				
Assessment:				
Installment account	\$ 1,059	\$ 121,598	\$ 140,270	\$ 520,791
Reserve requirement	3,000	-	-	13,000
Total liabilities	\$ 4,059	\$ 121,598	\$ 140,270	\$ 533,791

City of Hermosa Beach
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
For the year ended June 30, 2013

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
ASSETS				
Bayview Drive Redemption Fund:				
Cash and investments	\$ 136,239	\$ 64,179	\$ (61,410)	\$ 139,008
Interest receivable	262	428	(453)	237
Other accounts receivable	2,424	295	(2,424)	295
Bayview Drive Reserve Fund:				
Cash and investments	13,191	179	(56)	13,314
Interest receivable	25	41	(43)	23
Lower Pier District Redemption Fund:				
Cash and investments	38,703	42,417	(38,807)	42,313
Interest receivable	74	126	(128)	72
Other accounts receivable	7,089	2,745	(7,089)	2,745
Beach Drive Assessment District Redemption Fund:				
Cash and investments	66,512	34,121	(31,272)	69,361
Interest receivable	128	212	(222)	118
Other accounts receivable	1,743	378	(1,743)	378
Beach Drive Assessment District Reserve Fund:				
Cash and investments	4,015	54	(17)	4,052
Interest receivable	7	13	(13)	7
Myrtle Avenue Assessment Fund:				
Cash and investments	103,717	123,230	(107,604)	119,343
Interest receivable	199	349	(345)	203
Other accounts receivable	9,613	2,052	(9,613)	2,052
Loma Drive Assessment Fund:				
Cash and investments	128,635	120,328	(112,103)	136,860
Interest receivable	247	414	(428)	233
Other accounts receivable	4,353	3,177	(4,353)	3,177
Total assets	\$ 517,176	\$ 394,738	\$ (378,123)	\$ 533,791
LIABILITIES				
Bayview Drive Redemption Fund:				
Assessment installment account	\$ 138,925	\$ 61,269	\$ (60,654)	\$ 139,540
Bayview Drive Reserve Fund:				
Assessment installment account	3,216	152	(31)	3,337
Assessment reserve requirement	10,000	-	-	10,000
Lower Pier District Redemption Fund:				
Assessment installment account	45,866	35,189	(35,925)	45,130
Beach Drive Assessment District Redemption Fund:				
Assessment installment account	68,383	32,140	(30,666)	69,857
Beach Drive Assessment District Reserve Fund:				
Assessment installment account	1,023	46	(9)	1,060
Assessment reserve requirement	2,999	-	-	2,999
Myrtle Avenue Assessment Fund:				
Assessment installment account	113,529	99,171	(91,102)	121,598
Loma Drive Assessment Fund:				
Assessment installment account	133,235	100,019	(92,984)	140,270
Total liabilities	\$ 517,176	\$ 327,986	\$ (311,371)	\$ 533,791

This page intentionally left blank.

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	132
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	144
These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.	
Debt Capacity	150
These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future. ¹	
Demographic and Economic Information	154
These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.	
Operating Information	158
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 Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year				
	2004	2005	2006	2007	2008
Governmental activities:					
Net investment in capital assets	54,115,206	57,049,484	56,667,910	58,249,212	57,117,532
Restricted	2,217,823	3,305,478	3,590,623	3,813,004	5,171,642
Unrestricted	15,218,039	14,932,486	15,221,233	12,424,195	10,619,806
Total governmental activities net position	<u>71,551,068</u>	<u>75,287,448</u>	<u>75,479,766</u>	<u>74,486,411</u>	<u>72,908,980</u>
Business-type activities:					
Net investment in capital assets	6,880,925	8,081,080	8,297,790	10,311,365	10,187,758
Restricted	-	-	-	-	-
Unrestricted	827,781	502,758	237,824	(1,604,154)	(1,443,914)
Total business-type activities net position	<u>7,708,706</u>	<u>8,583,838</u>	<u>8,535,614</u>	<u>8,707,211</u>	<u>8,743,844</u>
Primary government:					
Net investment in capital assets	60,996,131	65,130,564	64,965,700	68,560,577	67,305,110
Restricted	2,217,823	3,305,478	3,590,623	3,813,004	5,171,642
Unrestricted	16,045,820	15,435,244	15,459,057	10,820,041	9,175,892
Total primary government net position	<u>79,259,774</u>	<u>83,871,286</u>	<u>84,015,380</u>	<u>83,193,622</u>	<u>81,652,644</u>

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

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

	Fiscal Year				
	2009	2010	2011	2012	2013
Governmental activities:					
Net investment in capital assets	56,419,592	56,599,591	56,693,499	65,518,736	64,135,741
Restricted	5,403,000	4,518,727	1,968,275	3,860,192	4,050,722
Unrestricted	10,348,315	10,768,025	14,122,551	10,589,507	17,294,405
Total governmental activities net position	<u>72,170,907</u>	<u>71,886,343</u>	<u>72,784,325</u>	<u>79,968,435</u>	<u>85,480,868</u>
Business-type activities:					
Net investment in capital assets	10,057,219	9,926,861	9,998,669	-	-
Restricted	-	-	-	-	-
Unrestricted	(1,236,859)	(1,074,651)	(838,749)	-	-
Total business-type activities net position	<u>8,820,360</u>	<u>8,852,210</u>	<u>9,159,920</u>	<u>-</u>	<u>-</u>
Primary government:					
Net investment in capital assets	66,476,811	66,526,450	66,692,168	65,518,736	64,135,741
Restricted	5,403,000	4,518,727	1,968,275	3,860,192	4,050,722
Unrestricted	9,111,456	9,693,374	13,283,802	10,589,507	17,294,405
Total primary government net position	<u>80,991,267</u>	<u>80,738,551</u>	<u>81,944,245</u>	<u>79,968,435</u>	<u>85,480,868</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 Position
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year				
	2004	2005	2006	2007	2008
Expenses:					
Governmental activities:					
Legislative and legal	755,591	737,903	962,682	867,481	990,342
General government	1,816,801	1,727,484	1,999,234	2,523,060	2,544,004
Public safety	11,219,997	12,855,036	15,167,715	17,237,156	19,569,031
Community development	1,115,600	1,355,888	1,349,891	1,424,766	1,358,051
Culture and recreation	965,440	996,021	1,149,070	1,253,882	1,343,223
Public works	4,592,460	6,687,811	7,980,811	7,106,083	6,942,529
Total governmental activities expenses	<u>20,465,889</u>	<u>24,360,143</u>	<u>28,609,403</u>	<u>30,412,428</u>	<u>32,747,180</u>
Business-type activities:					
Downtown Enhancement	939,576	166,732	1,130,499	1,096,039	1,133,746
Parking	1,632,093	1,701,775	-	-	- ²
Proposition "A" Transit	310,113	-	-	-	- ¹
Proposition "C" Transit	48,119	-	-	-	- ¹
Total business-type activities expenses	<u>2,929,901</u>	<u>1,868,507</u>	<u>1,130,499</u>	<u>1,096,039</u>	<u>1,133,746</u>
Total primary government expenses	<u>23,395,790</u>	<u>26,228,650</u>	<u>29,739,902</u>	<u>31,508,467</u>	<u>33,880,926</u>
Program revenues:					
Governmental activities:					
Charges for services:					
General government	84,745	88,375	458,900	497,423	563,583
Public safety	914,655	1,063,594	3,891,881	4,078,709	4,423,335
Community development	929,695	1,245,622	1,393,212	1,179,786	1,262,109
Culture and recreation	793,748	874,111	986,137	944,229	1,092,512
Public works	689,457	2,368,076	808,091	835,845	877,367
Operating grants and contributions	674,451	721,198	725,136	755,716	731,097
Capital grants and contributions	665,806	2,465,698	1,042,854	286,930	68,862
Total governmental activities program revenues:	<u>4,752,557</u>	<u>8,826,674</u>	<u>9,306,211</u>	<u>8,578,638</u>	<u>9,018,865</u>
Business-type activities:					
Charges for services:					
Downtown Enhancement	879,495	906,857	1,187,249	1,144,666	1,088,298
Parking	2,895,143	3,247,478	-	-	- ²
Proposition A Transit	14,384	-	-	-	- ¹
Proposition C Transit	-	-	-	-	- ¹
Operating grants and contributions	-	-	-	-	-
Capital grants and contributions	-	-	-	-	-
Total business-type activities program revenues:	<u>3,789,022</u>	<u>4,154,335</u>	<u>1,187,249</u>	<u>1,144,666</u>	<u>1,088,298</u>
Total primary government program revenues:	<u>8,541,579</u>	<u>12,981,009</u>	<u>10,493,460</u>	<u>9,723,304</u>	<u>10,107,163</u>

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

	Fiscal Year				
	2004	2005	2006	2007	2008
Net revenues (expenses):					
Governmental activities	(15,713,332)	(15,533,469)	(19,303,192)	(21,833,790)	(23,728,315)
Business-type activities	859,121	2,285,828	56,750	48,627	(45,448)
Total net revenues (expenses)	<u>(14,854,211)</u>	<u>(13,247,641)</u>	<u>(19,246,442)</u>	<u>(21,785,163)</u>	<u>(23,773,763)</u>
General revenues and other changes in net position:					
Governmental activities:					
Taxes:					
Property taxes	5,885,480	6,221,535	8,361,888	9,383,544	10,458,034
Sales tax	2,596,135	2,584,015	2,511,004	2,395,390	2,500,659
Other taxes	5,559,070	5,897,908	6,186,641	6,414,534	6,456,786
Grants and contributions not restricted to specific programs	1,229,911	2,318,501	1,537,667	1,273,625	1,472,191
Investment income	177,757	467,923	753,746	1,097,128	850,176
Other general revenues	615,309	272,664	113	170,325	503,414
Transfers	2,356,585	1,507,304	144,451	11,255	4,259
Total governmental activities	<u>18,420,247</u>	<u>19,269,850</u>	<u>19,495,510</u>	<u>20,745,801</u>	<u>22,245,519</u>
Business-type activities:					
Investment income	73,519	96,365	33,154	48,113	28,320
Other general revenues	530,773	-	-	-	-
Miscellaneous	12,966	243	6,323	86,112	57,840
Transfers	(2,356,585)	(1,507,304)	(144,451)	(11,255)	(4,259)
Total business-type activities	<u>(1,739,327)</u>	<u>(1,410,696)</u>	<u>(104,974)</u>	<u>122,970</u>	<u>81,901</u>
Total primary government	<u>16,680,920</u>	<u>17,859,154</u>	<u>19,390,536</u>	<u>20,868,771</u>	<u>22,327,420</u>
Changes in net position					
Governmental activities:	2,706,915	3,736,381	192,318	(1,087,989)	(1,482,796)
Business-type activities:	(880,206)	875,132	(48,224)	171,597	36,453
Total primary government	<u>1,826,709</u>	<u>4,611,513</u>	<u>144,094</u>	<u>(916,392)</u>	<u>(1,446,343)</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 Position (Continued)
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year				
	2009	2010	2011	2012	2013
Expenses:					
Governmental activities:					
Legislative and legal	1,059,528	980,157	972,979	4,677,233	881,556
General government	3,579,453	2,409,611	3,102,761	2,376,929	2,458,548
Public safety	17,471,578	17,841,984	17,698,263	18,179,929	16,431,962
Community development	1,416,714	1,243,490	1,223,581	1,235,058	1,260,996
Culture and recreation	1,420,956	1,252,037	1,133,467	1,037,790	1,087,000
Public works	6,860,854	7,823,275	6,725,147	7,239,076	7,529,499
Total governmental activities expenses	<u>31,809,083</u>	<u>31,550,554</u>	<u>30,856,198</u>	<u>34,746,015</u>	<u>29,649,561</u>
Business-type activities:					
Downtown Enhancement	963,304	997,138	878,021	906,244	-
Parking	-	-	-	-	-
Proposition "A" Transit	-	-	-	-	-
Proposition "C" Transit	-	-	-	-	-
Total business-type activities expenses	<u>963,304</u>	<u>997,138</u>	<u>878,021</u>	<u>906,244</u>	<u>-</u>
Total primary government expenses	<u>32,772,387</u>	<u>32,547,692</u>	<u>31,734,219</u>	<u>35,652,259</u>	<u>29,649,561</u>
Program revenues:					
Governmental activities:					
Charges for services:					
General government	569,772	543,259	546,793	555,607	2,275,297
Public safety	4,633,478	4,674,410	4,646,663	5,112,011	5,282,223
Community development	782,904	650,962	797,248	860,158	1,125,637
Culture and recreation	949,439	856,135	975,469	957,989	1,271,845
Public works	907,579	840,740	1,025,008	938,822	989,656
Operating grants and contributions	539,518	543,531	700,691	828,722	702,873
Capital grants and contributions	850,357	1,817,638	902,506	759,889	255,996
Total governmental activities program revenues:	<u>9,233,047</u>	<u>9,926,675</u>	<u>9,594,378</u>	<u>10,013,198</u>	<u>11,903,527</u>
Business-type activities:					
Charges for services:					
Downtown Enhancement	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>1,021,114</u>	<u>1,026,185</u>	<u>1,409,952</u>	<u>1,649,197</u>	<u>-</u>
Total primary government program revenues:	<u>10,254,161</u>	<u>10,952,860</u>	<u>11,004,330</u>	<u>11,662,395</u>	<u>11,903,527</u>

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

	Fiscal Year				
	2009	2010	2011	2012	2013
Net revenues (expenses):					
Governmental activities	(22,576,036)	(21,623,879)	(21,261,820)	(24,732,817)	(17,746,034)
Business-type activities	57,810	29,047	531,931	742,953	-
Total net revenues (expenses)	<u>(22,518,226)</u>	<u>(21,594,832)</u>	<u>(20,729,889)</u>	<u>(23,989,864)</u>	<u>(17,746,034)</u>
General revenues and other changes in net position:					
Governmental activities:					
Taxes:					
Property taxes	11,188,377	11,407,964	11,518,645	11,598,615	12,151,229
Sales taxes	2,390,658	2,112,971	2,209,559	2,474,651	2,598,752
Other taxes	6,069,339	5,962,978	6,060,992	6,461,065	6,638,189
Grants and contributions not restricted to specific programs	1,454,006	1,242,064	1,666,460	1,121,380	1,156,589
Investment earnings	429,087	135,423	91,910	109,571	130,709
Miscellaneous	303,035	473,559	352,723	237,670	582,999
Transfers	3,461	4,356	259,513	9,913,975	-
Total governmental activities	<u>21,837,963</u>	<u>21,339,315</u>	<u>22,159,802</u>	<u>31,916,927</u>	<u>23,258,467</u>
Business-type activities:					
Investment income	17,749	5,609	4,679	6,418	-
Other general revenues	-	-	-	-	-
Miscellaneous	4,597	1,550	30,613	4,684	-
Transfers	(3,461)	(4,356)	(259,513)	(9,913,975)	-
Total business-type activities	<u>18,885</u>	<u>2,803</u>	<u>(224,221)</u>	<u>(9,902,873)</u>	<u>-</u>
Total primary government	<u>21,856,848</u>	<u>21,342,118</u>	<u>21,935,581</u>	<u>22,014,054</u>	<u>23,258,467</u>
Changes in net position					
Governmental activities:	(738,073)	(284,564)	897,982	7,184,110	5,512,433
Business-type activities:	76,695	31,850	307,710	(9,159,920)	-
Total primary government	<u>(661,378)</u>	<u>(252,714)</u>	<u>1,205,692</u>	<u>(1,975,810)</u>	<u>5,512,433</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
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	2,474,650	177,555	730,953	180,493	1,884,020	2,495,895	950,803	20,534,329
2013	12,151,229	2,598,752	233,412	752,586	192,175	1,996,174	2,503,265	950,526	21,378,119

This page intentionally left blank.

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

	Fiscal Year				
	2004	2005	2006	2007	2008
General Fund:					
Reserved	\$ 230,527	\$ 103,014	\$ 158,854	\$ 142,604	\$ 241,142
Unreserved	403,455	373,817	211,191	168,089	257,599
Non-spendable					
Restricted					
Committed					
Assigned					
Unassigned					
Total general fund	<u>\$ 633,982</u>	<u>\$ 476,831</u>	<u>\$ 370,045</u>	<u>\$ 310,693</u>	<u>\$ 498,741</u>
All other governmental funds:					
Reserved	\$ 1,459,679	\$ 4,107,762	\$ 3,845,091	\$ 3,875,682	\$ 1,734,658
Unreserved, reported in:					
Special revenue funds	12,038,695	10,516,612	10,900,400	8,864,333	11,135,309
Nonspendable					
Restricted					
Committed					
Assigned					
Total all other governmental funds	<u>\$ 13,498,374</u>	<u>\$ 14,624,374</u>	<u>\$ 14,745,491</u>	<u>\$ 12,740,015</u>	<u>\$ 12,869,967</u>
Total governmental funds	<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>	<u><u>\$ 13,368,708</u></u>

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

	Fiscal Year				
	2009	2010	2011	2012	2013
General Fund:					
Reserved	\$ 312,880	\$ 447,426			
Unreserved	348,373	253,005			
Non-spendable			\$ 35,613	\$ 14,271	\$ 21,589
Restricted			172,021	255,200	391,504
Committed			10,592	10,592	10,592
Assigned			5,635,231	5,776,500	6,549,958
Unassigned			-	-	-
Total general fund	<u>\$ 661,253</u>	<u>\$ 700,431</u>	<u>\$ 5,853,457</u>	<u>\$ 6,056,563</u>	<u>\$ 6,973,643</u>
All other governmental funds:					
Reserved	\$ 1,273,762	\$ 3,060,042			
Unreserved, reported in:					
Special revenue funds	9,764,500	6,965,596			
Nonspendable				1,500	-
Restricted				3,604,992	3,659,218
Committed				117,415	142,631
Assigned			\$ 4,216,497	\$ 961,251	\$ 847,266
Total all other governmental funds	<u>\$ 11,038,262</u>	<u>\$ 10,025,638</u>	<u>\$ 4,216,497</u>	<u>\$ 4,685,158</u>	<u>\$ 4,649,115</u>
 Total governmental funds	 <u><u>\$ 11,699,515</u></u>	 <u><u>\$ 10,726,069</u></u>	 <u><u>\$ 10,069,954</u></u>	 <u><u>\$ 10,741,721</u></u>	 <u><u>\$ 11,622,758</u></u>

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

	Fiscal Year				
	2004	2005	2006	2007	2008
Revenues:					
Property taxes	6,339,123	6,668,515	8,818,051	9,834,400	10,907,119
Other taxes	8,262,205	9,085,304	9,404,925	9,488,447	9,630,365
Licenses and permits	664,169	701,468	868,085	772,832	877,775
Fines and forfeitures	371,802	459,106	1,627,274	1,615,777	1,994,522
Use of money and property	590,605	871,782	612,248	656,966	679,528
Intergovernmental	2,168,077	4,333,949	2,278,769	1,299,426	1,277,080
Charges for services	1,414,665	1,852,726	3,905,640	4,125,954	4,171,165
Miscellaneous	793,633	2,053,250	388,532	349,856	737,112
Interest earned on investments	177,757	467,925	753,746	1,097,128	850,176
Total revenues	<u>20,782,036</u>	<u>26,494,025</u>	<u>28,657,270</u>	<u>29,240,786</u>	<u>31,124,842</u>
Expenditures					
Current:					
Legislative and legal	752,541	727,026	963,031	858,017	967,423
General government	1,259,275	1,340,435	2,220,062	2,426,179	2,433,226
Public safety	10,555,169	12,139,133	14,444,334	16,236,080	17,374,613
Community development	1,089,056	1,325,219	1,346,996	1,417,596	1,283,317
Culture and recreation	932,447	940,158	1,124,347	1,205,653	1,249,251
Public works	3,189,361	3,374,363	3,785,554	3,895,291	3,993,055
Capital outlay	3,119,265	6,425,895	3,406,570	4,722,412	1,672,441
Debt service:	n/a	n/a	n/a	n/a	n/a
Total expenditures	<u>20,897,114</u>	<u>26,272,229</u>	<u>27,290,894</u>	<u>30,761,228</u>	<u>28,973,326</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(115,078)</u>	<u>221,796</u>	<u>1,366,376</u>	<u>(1,520,442)</u>	<u>2,151,516</u>
Other financing sources (uses)					
Proceeds from sale of assets					
Transfers in	6,962,841	7,368,202	4,273,743	2,550,370	1,755,358
Transfers out	<u>(5,371,555)</u>	<u>(6,621,149)</u>	<u>(5,625,788)</u>	<u>(3,094,756)</u>	<u>(3,588,874)</u>
Total other financing sources (uses)	<u>1,591,286</u>	<u>747,053</u>	<u>(1,352,045)</u>	<u>(544,386)</u>	<u>(1,833,516)</u>
Net change in fund balances	<u><u>1,476,208</u></u>	<u><u>968,849</u></u>	<u><u>14,331</u></u>	<u><u>(2,064,828)</u></u>	<u><u>318,000</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
Changes in Fund Balances of Governmental Funds (Continued)
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year				
	2009	2010	2011	2012	2013
Revenues:					
Property taxes	11,639,348	11,863,846	11,978,616	12,056,548	12,618,579
Other taxes	9,079,246	8,760,988	9,023,359	9,722,036	10,076,591
Licenses and permits	678,477	556,737	627,056	668,405	783,121
Fines and forfeitures	2,111,467	2,075,759	2,219,052	2,475,311	2,416,031
Use of money and property	716,215	622,847	653,752	815,367	1,102,797
Intergovernmental	1,788,584	2,578,807	1,678,980	1,555,097	896,216
Charges for services	4,102,959	4,080,450	4,005,420	4,301,971	6,312,731
Miscellaneous	436,138	301,179	538,098	198,858	469,725
Interest earned on investments	429,092	135,423	91,913	109,186	131,749
Total revenues	<u>30,981,526</u>	<u>30,976,036</u>	<u>30,816,246</u>	<u>31,902,779</u>	<u>34,807,540</u>
Expenditures					
Current:					
Legislative and legal	1,057,092	976,862	960,365	1,170,820	893,460
General government	2,513,647	2,350,692	3,001,906	2,293,402	2,550,162
Public safety	16,974,820	17,251,686	16,516,892	16,604,695	16,926,014
Community development	1,400,933	1,229,909	1,189,993	1,177,696	1,279,999
Culture and recreation	1,372,611	1,201,057	1,044,131	989,265	1,110,456
Public works	4,288,179	4,158,945	3,907,921	3,852,318	4,946,423
Capital outlay	3,294,817	4,176,566	3,044,697	2,414,507	1,813,990
Debt service:	n/a	n/a	n/a	n/a	
Total expenditures	<u>30,902,099</u>	<u>31,345,717</u>	<u>29,665,905</u>	<u>28,502,703</u>	<u>29,520,504</u>
Excess (deficiency) of revenues over (under) expenditures	<u>79,427</u>	<u>(369,681)</u>	<u>1,150,341</u>	<u>3,400,076</u>	<u>5,287,036</u>
Other financing sources (uses)					
Proceeds from sale of assets				2,360	-
Transfers in	1,919,303	2,316,998	2,239,196	1,911,100	1,376,377
Transfers out	<u>(3,667,923)</u>	<u>(2,993,912)</u>	<u>(4,045,652)</u>	<u>(4,641,769)</u>	<u>(5,782,376)</u>
Total other financing sources (uses)	<u>(1,748,620)</u>	<u>(676,914)</u>	<u>(1,806,456)</u>	<u>(2,728,309)</u>	<u>(4,405,999)</u>
Net change in fund balances	<u>(1,669,193)</u>	<u>(1,046,595)</u>	<u>(656,115)</u>	<u>671,767</u>	<u>881,037</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
2013	12,618,579	2,598,752	233,412	752,586	1,996,174	2,503,265	1,992,402	22,695,170

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
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%
2013	4,608,192	422,855	11,853	96,628	(46,338)	5,093,190	1.00	5,139,528	3.00%

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	
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
2013	1.000000	0.018550	0.018490	-	-	0.003500	1.040540

Source: Los Angeles County Auditor-Controller

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

Taxpayer	2013		2004	
	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)	74,783,109.00	1.47%		
EQR Gallery Apartments Limited Partnership (1)	58,110,024.00	1.14%		
Strand and Pier Holding Company LLC (4)	25,202,561.00	0.49%		
1601 PCH, LLP (1)	23,460,000.00	0.46%		
William Stirton Trust (5)	17,717,057.00	0.35%		
Hermosa Hotel Investments (1)	16,734,946.00	0.33%		
International Church of the Foursquare (7)	-	-	13,979,851	0.49%
Reg8 Plaza Hermosa LLC (7)/Regency Centers LP (7)	14,665,544.00	0.29%	12,718,559	0.45%
Playa Pacifica	-	-	11,803,796	0.41%
Sepulveda Blvd Properties, LLC (5)	14,482,904.00	0.28%		
Boris LLC (1)	12,852,000.00	0.25%		
Beta Group (2)	12,662,911.00	0.25%	10,984,923	0.39%
Robert J. & Ranae R. Desantis Trust (1)	-	-	10,612,080	0.37%
Cheng Yi and Ying Yin Chang (1)	-	-	7,358,901	0.26%
Barbara K. Robinson (1)	-	-	6,222,180	0.22%
SII Trust (1)	-	-	6,107,979	0.21%
Roger E. Bacon (5)	-	-	5,821,132	0.20%
E. Vic and Jan C. Overman	-	-	5,812,130	0.20%
	<u>\$ 270,671,056</u>	<u>5.31%</u>	<u>91,421,531</u>	<u>3.20%</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%
2013	10,761,548	10,422,088	96.85%		10,422,088	96.85%

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	
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
2013	462	24,241,397	56	2,710,750	5,093,189,582

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

City of Hermosa Beach
Direct and Overlapping Debt
June 30, 2013

	Percentage applicable	Outstanding debt 6/30/13	Estimated share of overlapping debt
City assessed valuation		\$ 5,093,189,582	
Redevelopment agency incremental valuation		-	
Total assessed valuation		<u>\$ 5,093,189,582</u>	
Overlapping debt repaid with property taxes:			
West Basin Water District debt service	0.577%	76,696,126	459,862
El Camino Community College District 2002 series 2003A	6.222%	1,790,000	111,371
El Camino Community College District 2005 refunding	6.222%	69,346,609	4,314,645
El Camino Community College District 2002 series 2006B	6.222%	88,880,000	5,529,984
El Camino Community College District 2002 series 2012C	6.222%	<u>180,812,882</u>	<u>11,249,914</u>
Total overlapping debt repaid with property taxes		<u>\$ 417,525,617</u>	<u>21,665,776</u>
Overlapping debt			
Hermosa Beach City School District debt service 2002	100.000%		4,558,698
Hermosa Beach School District debt service 2005 refunding	100.000%		<u>4,825,074</u>
Total overlapping debt			<u>9,383,772</u>
Total overlapping debt			<u>\$ 31,049,548</u>
Direct Debt	0.000%		
Overlapping Debt	0.610%		
Total Debt	0.610%		

Note: The City does not have any direct debt.

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.

This page intentionally left blank.

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

	Fiscal Year				
	2004	2005	2006	2007	2008
Assessed valuation	\$ 2,874,383,847	\$ 3,141,870,060	\$ 3,497,977,443	\$ 3,930,224,784	\$ 4,382,493,918
Conversion percentage	25%	25%	25%	25%	25%
Adjusted assessed valuation	\$ 718,595,962	\$ 785,467,515	\$ 874,494,361	\$ 982,556,196	\$ 1,095,623,480
Debt limit percentage	15%	15%	15%	15%	15%
Debt limit	\$ 107,789,394	\$ 117,820,127	\$ 131,174,154	\$ 147,383,429	\$ 164,343,522
Total net debt applicable to limit	\$ -	\$ -	\$ -	\$ -	\$ -
Legal debt margin	<u>\$ 107,789,394</u>	<u>\$ 117,820,127</u>	<u>\$ 131,174,154</u>	<u>\$ 147,383,429</u>	<u>\$ 164,343,522</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 1 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				
	2009	2010	2011	2012	2013
Assessed valuation	\$ 4,705,847,448	\$ 4,823,727,991	\$ 4,862,223,524	\$ 4,944,940,538	\$ 5,093,189,582
Conversion percentage	25%	25%	25%	25%	25%
Adjusted assessed valuation	\$ 1,176,461,862	\$ 1,205,931,998	\$ 1,215,555,881	\$ 1,236,235,135	\$ 1,273,297,396
Debt limit percentage	15%	15%	15%	15%	15%
Debt limit	\$ 176,469,279	\$ 180,889,800	\$ 182,333,382	\$ 185,435,270	\$ 190,994,609
Total net debt applicable to limit	\$ -	\$ -	\$ -	\$ -	\$ -
Legal debt margin	<u>\$ 176,469,279</u>	<u>\$ 180,889,800</u>	<u>\$ 182,333,382</u>	<u>\$ 185,435,270</u>	<u>\$ 190,994,609</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 1 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)
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	420,913,463	42,564	-	4.9%	1,608
2013	19,653	420,913,463	42,564	-	4.5%	1,710

Source:

- (1) State of California Department of Finance.
- (2) U.S. Department of Commerce, Bureau of Economic Analysis (data shown is for Los Angeles County), which was last updated in 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	2013		2004	
	Number of employees	Percent of total employment	Number of employees	Percent of total employment
24 Hour Fitness	188	3.78%		
Von's Companies	117	2.35%		
City of Hermosa Beach	114	2.29%	136	9.32%
Sangria Dba American Junkie	101	2.03%		
Shorewood Realtors, Incorporated	100	2.01%		
First Steps for Kids, Inc.	83	1.67%		
Hennesey's Tavern	78	1.57%		
Ralph's Grocery	67	1.35%		
Hermosa Beach School District	78	1.57%		
Abigaile & Ocean Bar	76	1.53%		
Patrick Molloy's	55	1.11%		
Von's Companies			124	8.49%
Shorewood Realtors, Incorporated			117	8.01%
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>	<u>Fiscal Year</u>									
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
General government	20	19	18	19	23	19	16	16	13	17
Public safety	89	98	89	90	87	92	95	72	74	74
Community development	9	8	8	9	6	8	8	9	8	8
Culture and recreation	5	5	5	4	4	4	2	3	3	2
Public works	20	23	20	20	24	20	20	16	17	15
Total	<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>116</u>

<u>Function</u>	<u>Fiscal Year</u>									
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
General government	-	-	-	-	-	-	-	-	-	-
Public safety	17	17	23	13	9	14	13	26	12	24
Community development	2	3	3	1	2	2	-	1	1	1
Culture and recreation	27	32	35	32	29	24	22	20	19	26
Public works	1	-	2	1	-	-	-	-	1	2
Total	<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>	<u>53</u>

Source: City of Hermosa Beach Finance Department

This page intentionally left blank.

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

	Fiscal Year				
	2004	2005	2006	2007	2008
Public safety					
Police:					
Physical arrests	1,413	1,064	887	896	933
Traffic citations issued	3,372	2,101	1,518	1,681	2,490
Parking citations issued	49,379	54,010	47,770	48,329	59,656
Fire:					
Number of emergency calls	1,923	2,023	2,136	2,255	2,088
Inspections	28	182	467	751	312
Community development:					
Building permits issued	676	696	762	597	637
Culture and recreation:					
Number of recreation classes	135	159	165	186	171
Total enrollment	4,616	5,969	5,228	5,128	4,272
Public works:					
Graffiti removal (hours)	456	217	414	474	461
Permits issued	529	706	875	821	1,071

Source: Various city departments.

Note:

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

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

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

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

	Fiscal Year				
	2009	2010	2011	2012	2013
Public safety					
Police:					
Physical arrests	648	665	795	781	857
Traffic citations issued	2,503	2,798	1,593	2,290	1,819
Parking citations issued	52,080	47,620	63,010	68,193	70,678
Fire:					
Number of emergency calls	2,273	2,162	2,149	2,487	2,488
Inspections	965	908	436	559	495
Community development:					
Building permits issued	511	441	567	492	462
Culture and recreation:					
Number of recreation classes	138	165	172	169	129
Total enrollment	3,744	3,776	3,798	4,327	4,982
Public works:					
Graffiti removal (hours)	341	540	468	383	408
Permits issued	643	611	564	718	736

Source: Various city departments.

Note:

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

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

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

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

	Fiscal Year				
	2004	2005	2006	2007	2008
Public safety					
Police:					
Police stations	1	1	1	1	1
Parking meters ¹	1,666	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)	34	34	34	34	34
Streets (miles)	40	40	40	40	40
Streetlights	399	399	392	392	392
Storm drains (miles)	1	1	1	1	1
Traffic Signals	17	17	17	17	18
Infiltration (miles) ³					

Source: City of Hermosa Beach Finance Department

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

	Fiscal Year				
	2009	2010	2011	2012	2013
Public safety					
Police:					
Police stations	1	1	1	1	1
Parking meters ¹	1,666	1,663	1,663	1,663	1,663
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	19	19
Infiltration (miles) ³			0.6	0.6	0.6

Source: City of Hermosa Beach Finance Department