



**City of Hermosa Beach,
California**

**Comprehensive
Annual
Financial
Report**

For the year ended June 30, 2014

City of Hermosa Beach

Hermosa Beach, California

Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2014

Prepared by the
Finance Department of Hermosa Beach

**City of Hermosa Beach
Comprehensive Annual Financial Report
For the year ended June 30, 2014**

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City of Hermosa Beach

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

December 19, 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, 2014. 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.

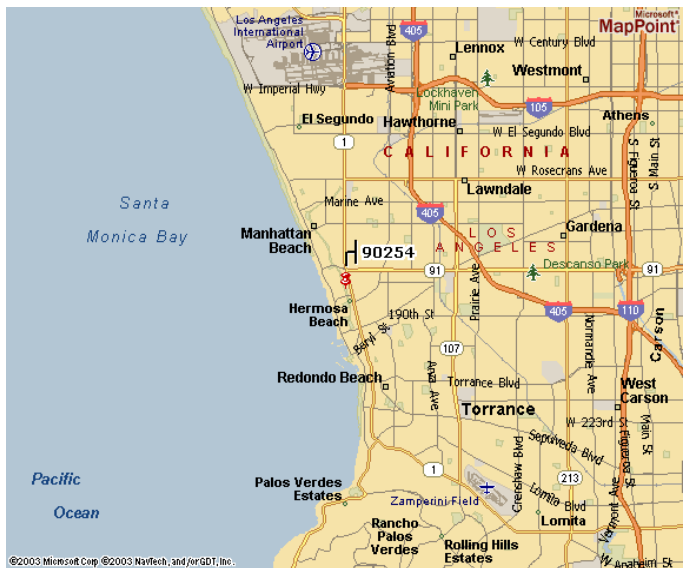
Management's representations concerning the finances of the City of Hermosa Beach are contained herein. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, 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, 2014, 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, 2014, 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 19,750, 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 2013-14 fiscal year, beach attendance ranged from a low of 90,000 in February 2014 to a high of 1,117,000 in July 2013, 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 U.S. Census. The SCAG report is produced every two years, with the next release in May 2015.

SCAG PROFILE OF THE CITY OF HERMOSA BEACH		
Category	2012 STATISTICAL SUMMARY Hermosa Beach	2010 STATISTICAL SUMMARY 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 Size	2	2
Median Household Income	\$93,017	\$111,230
Mean Travel Time to Work	32 minutes	36 minutes

U.S. CENSUS BUREAU QUICK FACTS					
Category	Hermosa Beach	California	Category	Hermosa Beach	California
Persons under 5 years, 2010	5.1%	6.8%	Per capita money income in the past 12 months (2011 dollars), 2008-2012	\$71,215	\$29,551
Persons under 18 years, 2010	15.9%	25.0%	Persons below poverty level, 2008-2012	3.5%	15.3%
Persons 65 years and over, 2010	9.0%	11.4%	Median value of owner-occupied housing units, 2008-2012	\$1,000,001	\$383,900
Female persons, 2010	47.3%	50.3%	Housing units in multi-unit structures, 2008-2012	47.0%	30.9%
Bachelor's Degree or higher, persons age 25+, 2008-2012	69.2%	30.5%	High School graduate or higher, persons age 25+, 2008-2012	98.5%	81.0%

The U.S. Census Bureau Quick Facts are as of July 2014. 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 pages 78-82. 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 5.6% in secured and unsecured assessed valuation, as compared to 4.6% for Los Angeles County. The 5.6% growth was the 17th highest of 88 cities in Los Angeles County. Median home prices in Hermosa Beach as of June 2014 were \$1,246,000, compared to \$450,250 for Los Angeles County. The Hermosa Beach median home price for June 2013 was \$1,160,000, compared to \$425,000 for Los Angeles County. The average median home price for Hermosa Beach for fiscal year 2013-14 was \$1,159,125 and \$988,625 for fiscal year 2012-13. Home values adjacent to the beach increased for the fourth year in a row after declining 2009-2011.

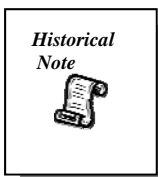
As a beach city, the three highest occupations are management, sales, and administrative support, however residents enjoy access to a much more diverse employment base with the close proximity of all of the other cities in Los Angeles County. The unemployment rate in Hermosa Beach is 3.6%, compared with 8.2% for Los Angeles County, and 7.3% for California as of June 2014.

General Fund Secured property taxes increased 6% in 2013-14, consistent with growth in assessed values. Property adjacent to the beach has held its value better and grown faster as compared to property in the inland areas.

Sales tax receipts for 2013-14 are up 2% and are consistent with the sales tax revenue level in 2007-08, prior to the recession.

Transient occupancy tax (the tax on hotel stays) grew 10% over 2013-14. Receipts of more than \$2.2 million are the highest level ever. Average occupancy for 2013-14 was 81.1% for Hermosa Beach compared to last year's rate of 78.1%. Hermosa Beach has eight hotels and one youth hostel, with rooms capacity ranging from 17 rooms to 106 rooms.

Utility user tax (UUT) revenue declined 2% from last year to \$2.4 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 as well as a 3% decline in electricity tax revenue. The utility user tax is the third highest tax 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 latest ULCA Forecast (September 2014) indicates a slower than anticipated housing recovery at the national level but still a rise each year through 2016. The California economy is in the sixth year of expansion yet the recovery is described as “plodding” due to slow progress. Job growth in California is expected to rise more quickly than at the national level.

The California Legislative Analyst’s Office notes that the U.S. economy as well as California’s appear to be on solid footing. The unemployment rate has fallen but long term unemployment remains elevated. The State could end 2015-16 with a \$4.2 billion total reserve which would mark significant progress for the state.

California Public Employees Retirement System (CalPERS). CalPERS investment return as of June 2014 was 18%, 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 assets for aberrations in claims reserves and catastrophic losses.

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

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

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

The City also has a financial policy of transferring funds unspent in the General Fund at year-end to the Insurance Fund, Equipment Replacement Fund, Capital Improvement Fund and to add to Contingency funds. The transfer for 2013-14 was \$2,499,592 to the Capital Improvement Fund. In 2012-13 the City Council set aside \$2.5 million of

unrestricted net position in the Insurance Internal Service Fund, in addition to \$ 3.5 million recorded as a liability, for the costs of the MacPherson Oil lawsuit settlement and proposed new oil project which are discussed in detail in the Notes to the Basic Financial Statements (Note 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. In May 2014, staff presented the Fiscal Health Model from the International City/County Management Association's (ICMA) Center for Performance Based Budgeting. The model is a tool that may be used to evaluate various scenarios to assist in gauging the fiscal health of the City. Since the City is built out, the Capital Improvement 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, South Park Playground improvements, municipal pier structural repairs, and citywide energy conservation upgrades.

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 34 months, with an average weighted yield on investments of .71%. 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 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, 2014, the City has fifteen (15) Tier 2 employees. With the State's pension reform implemented 1/1/13, the City now has three tiers. As of 6/30/14 there are twenty-three (23) employees in Tier 3. The City has paid employee contributions as a negotiated benefit for many years however in 2012-13 the City negotiated for employees to begin paying the entire share of the employee contribution over three years with an offsetting increase in salaries, which 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 2012-13 to 2013-14. 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 54 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 2013 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, 2013. This was the twenty-fourth 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,

A handwritten signature in black ink, appearing to read "Viki Copeland". The signature is written in a cursive, flowing style.

Viki Copeland
Finance Director



Government Finance Officers Association

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

Presented to

**City of Hermosa Beach
California**

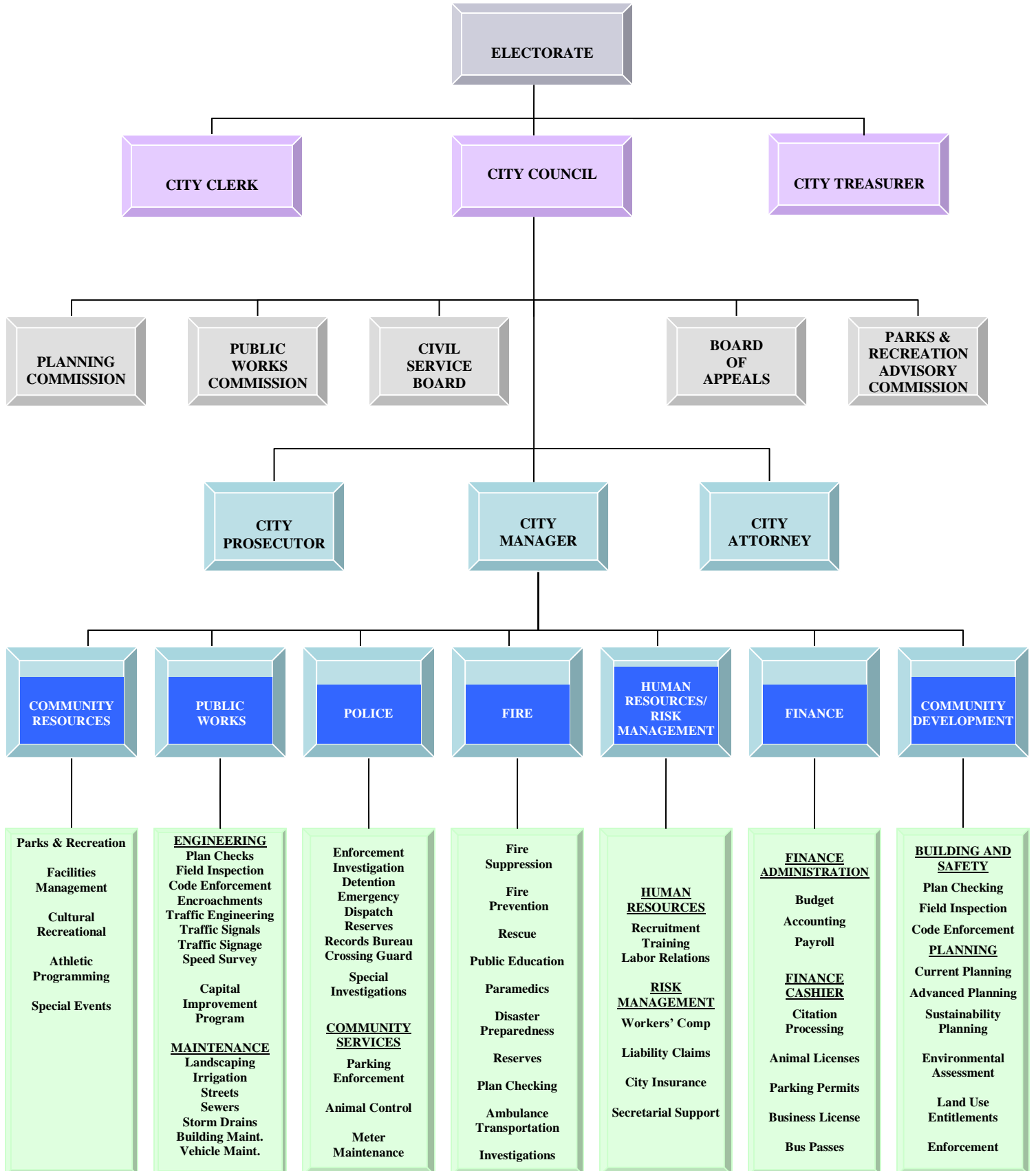
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO



CITY OF HERMOSA BEACH ORGANIZATIONAL CHART



PRINCIPAL OFFICIALS OF THE CITY OF HERMOSA BEACH, CALIFORNIA

June 30, 2014

Elected and Administrative Officials

City Council

Michael Di Virgilio
Peter Tucker
Nanette Barragan
Carolyn Petty
Hany Fangary

Mayor
Mayor Pro Tempore
Councilmember
Councilmember
Councilmember

Other Elected Officials

Karen Nowicki
Elaine Doerfling

City Treasurer
City Clerk

Administrative Officials

Tom Bakaly
Diane Strickfaden

Viki Copeland
Ken Robertson

Sharon Papa
Frank Senteno
David Lantzer

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

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INDEPENDENT AUDITORS' REPORT

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

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Implementation of GASB Statement No. 68

As discussed in Note 14 to the basic financial statements, GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pension Plans*. This statement requires state and local government agencies to display the actuarially determined Net Pension Liability in its financial statements effective with fiscal year 2014-2015. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 7–15 and 80–82 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 December 19, 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, slightly slanted style.

Irvine, California
December 19, 2014

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

Independent Auditors' Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Hermosa Beach, California (the "City"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 19, 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.

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*.

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Paul J. McGeady LLP". The signature is written in a cursive, slightly slanted style.

Irvine, California
December 19, 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, 2014. 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 \$92,292,790. Of this amount, \$22,988,231 are unrestricted net assets and may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$6,811,922.
- As of June 30, 2014, the City of Hermosa Beach's governmental funds reported combined ending fund balances of \$15,453,837, an increase of \$3,831,079 in comparison with the prior year. This increase is comprised of a 7.8% increase in revenue, a 9.6% increase in expenditures.
- At the end of the current fiscal year, the City of Hermosa Beach's governmental fund balances of \$15,453,837 are comprised of non-spendable funds; \$12,203, restricted; \$4,493,739, committed; \$461,506; or \$10,486,389 assigned; to indicate that funds are not available for new spending. Although funds are shown in the committed or assigned category, the City Council still does have discretion over the use of these funds and may change the committed or assigned use. Under that scenario, approximately 71%, or \$10,947,895 of the \$15,453,837 in funds could be redirected at the discretion of the City Council.
- In the General Fund, committed and assigned fund balance was \$7,684,110 or 27% 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 assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused, vacation leave).

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-four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the funds below, which are considered to be 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-three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in the Supplementary Information section in this report.

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

The basic governmental fund financial statements can be found on pages 29-33 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 basic proprietary fund financial statements can be found on pages 37-41 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 basic fiduciary fund financial statements can be found on pages 45-46 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 49-77 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 80 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 85-122 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, 2014, assets exceeded liabilities by \$92,292,790.

By far the largest portion of the City of Hermosa Beach's net position, \$64,828,005 (70%), 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, 2014		
(dollars in thousands)		
	<u>Governmental Activities</u>	
	2014	2013
Current and Other Assets	44,710	38,764
Noncurrent Assets	64,951	64,255
Total Assets	109,661	103,019
Current Liabilities	7,163	6,543
Long-term Liabilities	10,205	10,995
Total Liabilities	17,368	17,538
Net Position:	92,293	85,481
Invested in Capital Assets	64,828	64,136
Restricted	4,477	4,051
Unrestricted	22,988	17,294
Total Net Position	92,293	85,481

A portion of the City of Hermosa Beach's net position \$4,476,554 or (5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$22,988,231 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 \$6,811,922 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, 2013 and June 30, 2014.

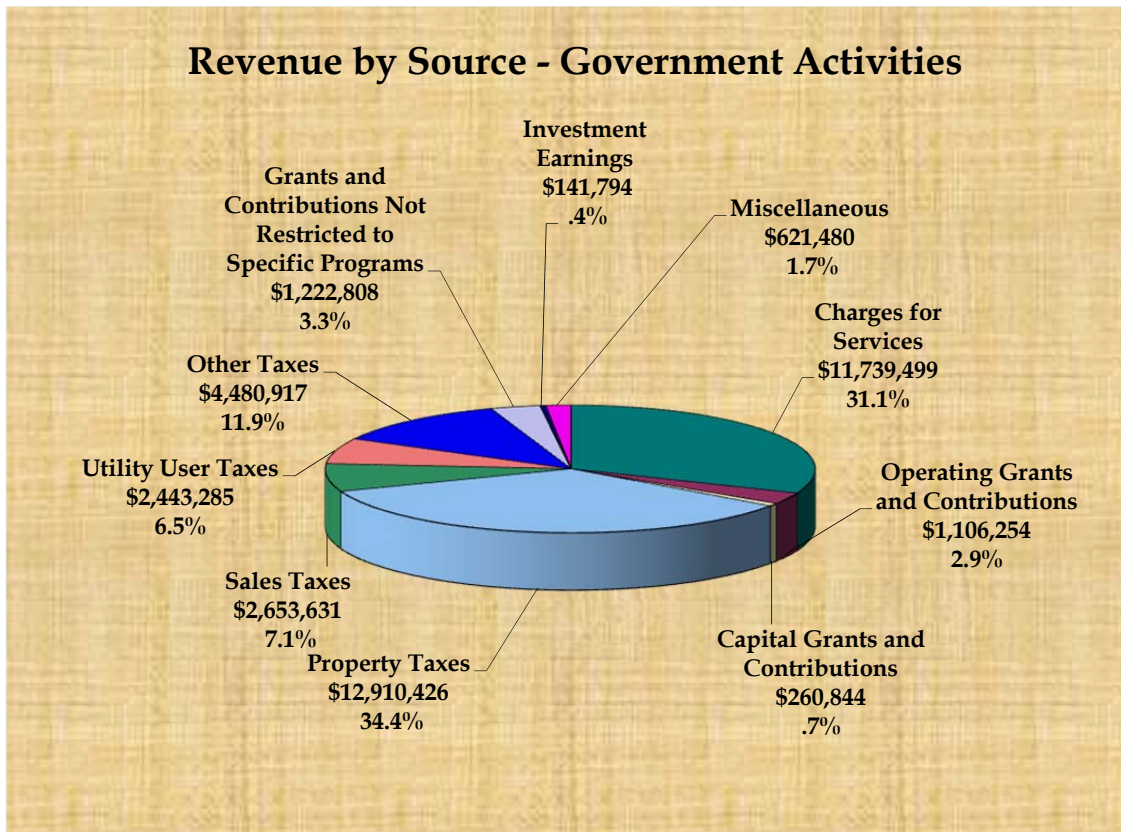
Governmental Activities. Governmental activities increased the City of Hermosa Beach’s net position by \$6,811,922. Significant elements of this increase are as follows:

Changes in Net Positions		
June 30, 2014		
(dollars in thousands)		
	<u>Governmental Activities</u>	
	2014	2013
Revenues:		
Program Revenues:		
Charges For Services	11,740	10,945
Operating Grants and Contributions	1,106	703
Capital Grants and Contributionsd	261	256
General Revenues:		
Property Taxes	12,910	12,151
Other Taxes	9,578	9,237
Grants and Contributions Not		
Restricted to Specific Programs	1,223	1,156
Other	763	714
Total Revenues	37,581	35,162
Expenses:		
Legislative and Legal	1,076	882
General Government	2,828	2,458
Public Safety	16,856	16,432
Community Development	1,520	1,261
Culture and Recreation	1,068	1,087
Public Works	7,421	7,529
Total Expenses	30,769	29,649
Increase (Decrease) in Net Positions	6,812	5,513
Net Positions - 7/1/13	85,481	79,968
Net Positions - 6/30/14	92,293	85,481

Revenue for Governmental Activities

- Charges for services increased \$794,841 or 7%. An increase in building activities generated more building permits and plan check fees. Additionally court fines/parking increased due to extending enforcement until 2 a.m.
- Operating grants and contributions increased \$403,381 or 57%, primarily due to the receipt of grant funding for updating the General Plan and Coastal Plan.
- Property taxes revenue increased \$759,197 or 6%. Property values at the beach are increasing at a faster pace than other areas.
- Sales Tax revenue increased \$54,879 or 2.1%
- Transient Occupancy Tax revenue increased \$208,246 or 10.4%. Occupancy rates for 2013-14 were 81.1% compared to 78.1% for 2012-13.
- Utility User Tax revenue decreased \$59,980 or 2.4%.

- Revenue from other taxes not listed above increased by \$137,747 or approximately 6.4%, primarily due to increases in real property transfer taxes and business licenses.



Expenses for Governmental Activities

Expenses for Governmental Activities increased by \$1,119,445.

Legislative and Legal expenses increased \$194,655 or 22.1%. The increase is primarily due to the cost of interim City Prosecutor services when the former City Prosecutor retired in November 2013.

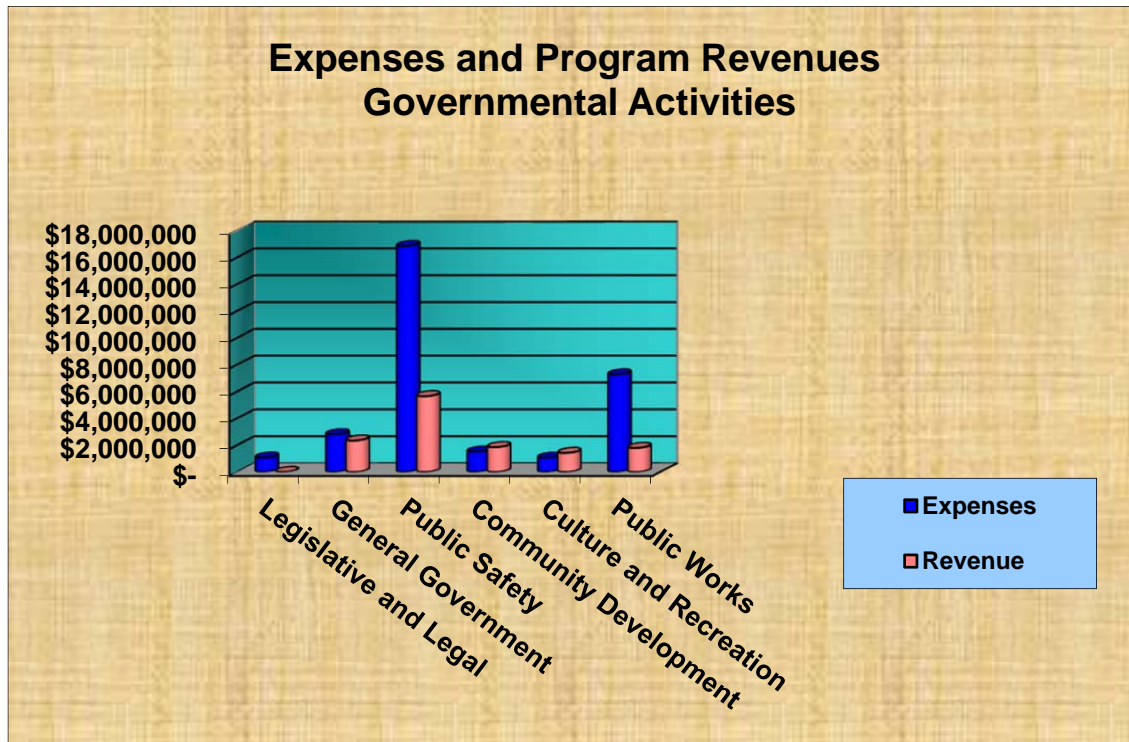
General Government expenses increased by \$369,347 or 15%. The increase is primarily due to the addition of two temporary analyst positions and the granting of the affordable housing funds to Marineland Community Association.

Public Safety expenses increased by \$424,204 or 2.6%

Community Development expenses increased by \$258,636 20.5%. The increase is primarily due to expenses related to the General and Coastal Plan update and part-time/temporary personnel costs.

Culture and Recreation expenses decreased by \$18,612 or 1.7%.

Public Works expenses decreased by \$108,775 or 1.4%.



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 \$15,453,837, an increase of \$3,831,079, in comparison with the prior fiscal year. See Note 10 for more information. The total fund balances of the governmental funds consist of the following:

- Non-spendable fund balance of \$12,203 represents prepaid items.
- Restricted fund balance of \$4,493,739, 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 \$ 461,506 which have reserves for capital outlay and future renovations.
- Assigned fund balance of \$10,486,389 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.

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

The General Fund balance increased in fiscal year 2013-14 by \$1,131,359. This increase is a result of the addition of funds to the Contingency balance to meet our goal of 16% of operating appropriations and due to funds set aside for capital improvement projects not completed in 13-14.

Overall revenue increased by 6.5%. The increase is a result of the following: additional property tax revenue of 6%; additional sales tax revenue of 2.1%; increased transient occupancy tax revenue of 10%; an increase in licenses and permits of 24% due to building related permit activity; service charge increases of 1.6%; fines and forfeitures increases of 16% due to additional enforcement until 2:00 a.m.

General Fund expenditures show an increase of 8%. \$2,499,592 was transferred at year end to the Capital Improvement Fund.

General Fund Budgetary Highlights

The final amended budget for revenue other than transfers is 4% more than the original budget. Actual revenue was higher than the final budget by \$708,368 or 2.1% for the following reasons:

- Tax revenue collections were 1.8% higher than budget primarily due to conservative estimates for property tax, transient occupancy tax, and sales tax.
- Licenses and Permits were 25.9% higher due to the unpredictability of estimates for building permits.

The final amended budget for appropriations other than Transfers Out is more than the original budget by 5%. The increase was primarily due to funds reappropriated from 12-13 for ongoing capital improvement projects.

Actual expenditures were less than the final appropriations by 10% due primarily due to salary and benefits savings from personnel vacancies and capital improvement projects not completed in 2013-14.

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, 2014, amounts to \$64,828,005 (net of accumulated depreciation). This investment in capital assets includes land, buildings and structures, improvements, machinery and equipment, park facilities, roads, highways, and monuments. The total increase in the City of Hermosa Beach's investment in capital assets for the 2013-14 fiscal year was approximately 1.1%.

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

Governmental Activities

- Completion Sewer Improvements, various locations, of \$587,516.
- Construction in progress on the Downtown Strategic Plan was \$156,217 at the end of the fiscal year.
- Completion of Citywide Street Improvements of \$1,180,708.
- Construction in progress for street and highway improvements was \$476,253 at the end of the fiscal year.
- Purchase of 13 vehicles including a Fire Engine.

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 2014-15 Budget adds close to \$100,000 to the Contingency in the General Fund, which is 16% of operating expenditures and in line with the Council goal for a “Financially Sound City Government”.
- \$1 million is committed in the General Fund as a contingency for potential debt service related to oil drilling issues. This is in addition to the \$2.5 million Contingency for Oil Settlement and the \$3.5 million which is recorded as a liability in the Insurance Fund in compliance with accounting requirements for potential liabilities.
- \$500,000 is committed in the General Fund for unspecified contingencies.
- 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, which was offset by salary increases, will be fully borne by the employee. The State also adopted pension reform, thereby creating a third tier for the city which was effective 1/1/13 that provides new reduced formula plans for all employees that are new members of the retirement system.
- Overall retirement costs increase 12% on average for the first three years of the 2015-20 Forecast due to change in actuarial assumptions and then decline by 5% in 2018-18 due to the Fire Side fund payoff and 22% in 2019-20 due to Police Side Fund payoff. The side funds were created by CalPERS for any unfunded liability that existed when the city was pooled with other cities in 2003.

Revenue Trends and Assumptions

The 2014-15 Budget demonstrates continuing improvement in the local economy and a balanced budget, with some added personnel, replacement of 13 vehicles, and additional funds for technological improvements and several on-time studies that will move the city forward toward the goals set forth in the strategic plan. Revenue growth of 1.3% is anticipated in the 2014-15 Budget. Property tax is estimated to increase by 5% while sales tax and utility user tax is estimated to remain flat. Fine and Forfeiture revenue will continue to increase as a result of enforcement until 2:00 a.m. implemented last year.

Hermosa Beach is seeing its ongoing revenues exceed its ongoing expenses. This is due in part to the improvement in the economy, but the primary reason is the significant expenditure reductions that were initiated by the City Council and Staff over the last several years. It is difficult to determine the service level impacts of those cuts and that is something that is being studied. The Fiscal Health diagnostic model presented at the budget workshop will assist in achieving long-term fiscal sustainability. The strategy adopted is one where the Council slowly adds services and expenditures that are consistent with their new goals. In some cases, City Council approved adding temporary personnel until we can determine that the financial picture will continue to improve and we can solidify service levels.

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

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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City of Hermosa Beach
Statement of Net Position
June 30, 2014

	Primary Governmental Activities
ASSETS	
Current assets:	
Cash and investments	\$ 41,729,224
Accounts receivable	1,772,660
Property taxes receivable, net	184,342
Reimbursable grants receivable	454,708
Interest receivable on investments	43,774
Other receivables	29,503
Deposits	165,000
Other assets	331,163
Total current assets	44,710,374
Noncurrent assets:	
Net other postemployment benefit assets	122,714
Capital assets:	
Nondepreciable	23,915,225
Depreciable, net	40,912,780
Total capital assets, net	64,828,005
Total noncurrent assets	64,950,719
Total assets	109,661,093
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	3,268,878
Accrued wages and benefits payable	889,229
Refundable deposits	263,725
Unearned revenue	223,253
Workers' compensation claims payable - due within one year	791,596
General liability claims payable - due within one year	518,155
Compensated absences - due within one year	1,208,213
Total current liabilities	7,163,049
Noncurrent liabilities:	
Workers' compensation claims payable - due in more than one year	4,774,316
General liability claims payable - due in more than one year	868,179
Compensated absences - due in more than one year	1,062,759
Settlement payable (Note 13)	3,500,000
Total noncurrent liabilities	10,205,254
Total liabilities	17,368,303
NET POSITION	
Investment in capital assets	64,828,005
Restricted for:	
Capital projects	528,382
Street and sewer purposes	1,114,066
Transportation purposes	1,611,520
Public works	14,026
Public safety	552,564
Culture and recreation	613,823
Undergrounding Districts	42,173
Total restricted	4,476,554
Unrestricted	22,988,231
Total net position	\$ 92,292,790

See accompanying Notes to the Basic Financial Statements.

City of Hermosa Beach
Statement of Activities
For the Year Ended June 30, 2014

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	\$ 1,076,211	\$ -	\$ -	\$ -	\$ -
General government	2,827,895	2,323,797	24,268	-	2,348,065
Public safety	16,856,166	5,455,694	196,221	-	5,651,915
Community development	1,519,632	1,641,773	213,832	-	1,855,605
Culture and recreation	1,068,388	1,425,451	-	-	1,425,451
Public works	7,420,724	892,784	671,933	260,844	1,825,561
Total governmental activities	<u>\$ 30,769,016</u>	<u>\$ 11,739,499</u>	<u>\$ 1,106,254</u>	<u>\$ 260,844</u>	<u>\$ 13,106,597</u>

City of Hermosa Beach
Statement of Activities (Continued)
For the Year Ended June 30, 2014

Functions/Programs	Net (Expense) Revenue and Changes in Net Position
Primary government:	
Governmental activities:	
Legislative and legal	\$ (1,076,211)
General government	(479,830)
Public safety	(11,204,251)
Community development	335,973
Culture and recreation	357,063
Public works	(5,595,163)
Total governmental activities	(17,662,419)
General Revenues:	
Taxes:	
Property taxes	12,910,426
Sales taxes	2,653,631
Real property transfer tax	290,379
Franchise fees	788,694
Transient occupancy tax	2,204,420
Business license	1,006,478
Utility users tax	2,443,285
½ cent sales tax for public safety	182,608
Motor vehicle in-lieu tax	8,338
Total taxes	22,488,259
Grants and contributions not restricted to specific programs	1,222,808
Investment earnings	141,794
Miscellaneous	621,480
Total general revenues	24,474,341
Change in net position	6,811,922
Net position - beginning of year	85,480,868
Net position - end of year	\$ 92,292,790

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FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements

Proprietary Fund Financial Statements

Fiduciary Fund Financial Statements

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

The Governmental Funds of the City are outlined below:

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

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, 2014

	<u>Major Fund</u>	Nonmajor	
	General	Governmental Funds	<u>Total</u>
ASSETS			
Cash and investments	\$ 10,763,789	\$ 7,549,846	\$ 18,313,635
Accounts receivable	1,607,327	146,383	1,753,710
Property taxes receivable, net	177,182	7,160	184,342
Reimbursable grants receivable	-	454,708	454,708
Interest receivable on investments	31,895	11,879	43,774
Other receivables	29,503	-	29,503
Other assets	250,563	1,600	252,163
Due from other funds	160,867	-	160,867
Total assets	<u><u>\$ 13,021,126</u></u>	<u><u>\$ 8,171,576</u></u>	<u><u>\$ 21,192,702</u></u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 2,419,009	\$ 612,713	\$ 3,031,722
Accrued wages and benefits payable	2,010,137	49,161	2,059,298
Refundable deposits	263,725	-	263,725
Unearned revenues	223,253	-	223,253
Due to other funds	-	160,867	160,867
Total liabilities	<u>4,916,124</u>	<u>822,741</u>	<u>5,738,865</u>
Fund Balances:			
Nonspendable	10,603	1,600	12,203
Restricted	410,289	4,083,450	4,493,739
Committed	28,900	432,606	461,506
Assigned	7,655,210	2,831,179	10,486,389
Unassigned	-	-	-
Total fund balances	<u>8,105,002</u>	<u>7,348,835</u>	<u>15,453,837</u>
Total liabilities and fund balances	<u><u>\$ 13,021,126</u></u>	<u><u>\$ 8,171,576</u></u>	<u><u>\$ 21,192,702</u></u>

City of Hermosa Beach
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2014

Total Fund Balances - Total Governmental Funds \$ 15,453,837

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	\$ 23,915,225	\$ (163,841)	23,751,384
Depreciable, net	40,912,780	(2,411,594)	38,501,186
Total capital assets	\$ 64,828,005	\$ (2,575,435)	62,252,570

Net other postemployment benefit assets are not available to pay for current period expenditures and therefore, are not reported in the governmental funds. 122,714

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	8,585,077
Equipment Replacement Fund	6,941,351
Total Internal Service Funds	15,526,428

Compensated absences were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet. (1,062,759)

Net Position of Governmental Activities \$ 92,292,790

City of Hermosa Beach
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2014

	<u>Major Funds</u>	Nonmajor Governmental	
	<u>General</u>	<u>Funds</u>	<u>Total</u>
REVENUES:			
Property taxes	\$ 12,910,425	\$ 458,190	\$ 13,368,615
Other taxes	9,569,495	923,411	10,492,906
Licenses and permits	971,336	-	971,336
Fines and forfeitures	2,750,068	31,172	2,781,240
Use of money and property	758,309	318,845	1,077,154
Intergovernmental	104,166	1,246,508	1,350,674
Charges for services	6,315,441	407,332	6,722,773
Miscellaneous	591,146	39,125	630,271
Interest earned on investments	95,085	42,824	137,909
Total revenues	<u>34,065,471</u>	<u>3,467,407</u>	<u>37,532,878</u>
EXPENDITURES:			
Current:			
Legislative and legal	1,093,518	-	1,093,518
General government	2,658,188	147,988	2,806,176
Public safety	17,568,838	199,882	17,768,720
Community development	1,313,263	234,922	1,548,185
Culture and recreation	1,109,298	23,551	1,132,849
Public works	4,053,999	1,162,431	5,216,430
Capital outlay	538,908	2,235,108	2,774,016
Total expenditures	<u>28,336,012</u>	<u>4,003,882</u>	<u>32,339,894</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>5,729,459</u>	<u>(536,475)</u>	<u>5,192,984</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	\$ 334,577	3,570,772	3,905,349
Transfers out	(4,932,677)	(334,577)	(5,267,254)
Total other financing sources (uses)	<u>(4,598,100)</u>	<u>3,236,195</u>	<u>(1,361,905)</u>
NET CHANGES IN FUND BALANCES	1,131,359	2,699,720	3,831,079
FUND BALANCES:			
Beginning of year	<u>6,973,643</u>	<u>4,649,115</u>	<u>11,622,758</u>
End of year	<u>\$ 8,105,002</u>	<u>\$ 7,348,835</u>	<u>\$ 15,453,837</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, 2014

Net Change in Fund Balances - Total Governmental Funds \$ 3,831,079

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

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

Total capital outlay expenditures reported in governmental funds	2,774,016
Less: repair and maintenance expenditures	<u>(47,745)</u>
Total capital outlay (net of \$1,162,471 reported in internal service fund)	<u>2,726,271</u>

The net effect of disposal of involving capital assets.	<u>(18,995)</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	(3,167,439)
Less: depreciation reported in Internal Service Funds	<u>382,502</u>
Total	<u>(2,784,937)</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>2,842</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>(185,042)</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>3,240,704</u>
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Change in Net Position of Governmental Activities \$ 6,811,922

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PROPRIETARY FUND FINANCIAL STATEMENTS

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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, 2014

	Governmental Activities
	Internal Service Funds
ASSETS	
Current assets:	
Cash and investments	\$ 23,415,589
Accounts receivable	18,950
Deposits	165,000
Other assets	79,000
Total current assets	23,678,539
Noncurrent assets:	
Nondepreciable capital assets	163,841
Depreciable capital assets, net of accumulated depreciation	2,411,594
Total noncurrent assets	2,575,435
Total assets	26,253,974
LIABILITIES	
Current liabilities:	
Accounts payable	237,156
Accrued wages and benefits payable	11,804
Workers' compensation claims payable - due within one year	791,596
General liability claims payable - due within one year	518,155
Compensated absences due within one year	14,014
Total current liabilities	1,572,725
Long-term liabilities:	
Workers' compensation claims payable - due in more than one year	4,774,316
General liability claims payable - due in more than one year	868,179
Settlement payable (Note 13)	3,500,000
Compensated absences due in more than one year	12,326
Total long-term liabilities	9,154,821
Total liabilities	10,727,546
NET POSITION	
Investment in capital assets	2,575,435
Unrestricted	12,950,993
Total net position	\$ 15,526,428

City of Hermosa Beach
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2014

	Governmental Activities
	Internal Service Funds
OPERATING REVENUES:	
Charges for services	\$ 4,415,585
Miscellaneous revenue	41,838
Total operating revenues	4,457,423
OPERATING EXPENSES:	
Salaries and wages	277,231
Contractor services	1,505,182
Supplies	245,249
Claims expense	193,677
Depreciation	382,502
Total operating expenses	2,603,841
OPERATING INCOME	1,853,582
NONOPERATING REVENUES (EXPENSES):	
Operating grant	3,000
Gain on disposal of capital assets	22,217
Total nonoperating revenues (expenses)	25,217
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	1,878,799
CONTRIBUTIONS AND TRANSFERS:	
Transfers in	1,361,905
Total contributions and transfers	1,361,905
Change in net position	3,240,704
NET POSITION:	
Beginning of the year	12,285,724
End of the year	\$ 15,526,428

City of Hermosa Beach
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2014

	Governmental Activities
	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received for services from other funds	\$ 4,396,635
Cash received from insurance recovery	41,838
Cash payments to suppliers for goods and services	(1,635,507)
Cash payments to employees for services	(270,831)
Cash payment for insurance premiums and settlements	(1,356,348)
Net cash provided by operating activities	1,175,787
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Contributions	3,000
Transfers in	1,361,905
Net cash provided by noncapital financing activities	1,364,905
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of capital assets	(1,162,471)
Proceeds from sale of capital assets	32,261
Net cash (used in) capital and related financing activities	(1,130,210)
Net increase in cash and cash equivalents	1,410,482
CASH AND CASH EQUIVALENTS:	
Beginning of year	22,005,107
End of year	\$ 23,415,589

City of Hermosa Beach
Statement of Cash Flows (Continued)
Proprietary Funds
For the year ended June 30, 2014

	Governmental Activities
	Internal Service Funds
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 1,853,582
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation	382,502
(Increase) Decrease in:	
Accounts payable	(18,950)
Other assets	16,489
Increase (Decrease) in:	
Accounts payable	98,435
Accrued wages and benefits payable	3,898
Workers' compensation claims payable	(1,369,334)
General liability claims payable	206,663
Compensated absences	2,502
Total adjustments	(677,795)
Net cash provided by operating activities	\$ 1,175,787

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FIDUCIARY FUND FINANCIAL STATEMENTS

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FIDUCIARY FUND FINANCIAL STATEMENTS

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

City of Hermosa Beach
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

	<u>Agency Funds</u>
ASSETS	
Cash and investments	\$ 536,782
Interest receivable	1,282
Other accounts receivable	<u>10,531</u>
Total assets	<u><u>\$ 548,595</u></u>
LIABILITIES	
Assessment:	
Installment account	\$ 535,595
Reserve requirement	<u>13,000</u>
Total liabilities	<u><u>\$ 548,595</u></u>

City of Hermosa Beach
Index to Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

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City of Hermosa Beach
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

Note 1 – Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

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

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

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

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

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

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

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

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

The above component units do not issue separate financial statements.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus

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

In accordance with 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 position have been eliminated. In the statement of activities, internal service fund transactions have been included in the governmental activities. The following interfund activities have been eliminated:

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

Governmental Fund Financial Statements

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

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

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.

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 the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

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

Fiduciary Fund Financial Statements

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

C. Cash and Investments

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

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).

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

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 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 the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

I. Unearned and Unavailable 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, unearned revenue is recorded when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. The City records unearned revenue for transactions for which revenues have not been earned, or for which funds are not available to meet current financial obligations in accordance with GASB Statement No. 65. 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:

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

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

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

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

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

K. Fund Balances (Continued)

committee or official designated for that purpose. The City Council has authorized the Finance Director for that purpose.

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

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 position for claims reserves and catastrophic losses.

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

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

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

The City also has a financial policy of transferring funds unspent in the General Fund at year-end to the Insurance Fund, Equipment Replacement Fund, and Capital Improvement Capital Projects Fund and to add to Contingency funds. For 2013-14, the City Council determined that all unspent funds in the General Fund (\$2,499,592) would be transferred to the Capital Improvement Capital Projects Fund. The City Council makes changes as necessary to the year end transfer, depending on the equity in the funds or based on other needs.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

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.

N. Accounting Changes

GASB has issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The requirements of this statement improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement became effective for periods beginning after December 15, 2012.

GASB has issued Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. The requirements of this statement resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. This statement became effective for periods beginning after December 15, 2012 and did not have a significant impact on the City’s financial statements for year ended June 30, 2014.

GASB has issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The requirements of this statement enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. This statement also enhances the information disclosed about a government’s obligations and risk exposure from extending nonexchange financial guarantees. This statement also augments the ability of financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about obligations that are issued with this type of financial guarantee. This statement became effective for period beginning after June 15, 2013 and did not have a significant impact on the City’s financial statements for the year ended June 30, 2014.

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, 2014:

	Government-Wide Statement of Net Position Governmental Activities	Statement of Fiduciary Net Position	Total
Cash and investments	\$ 41,729,224	\$ 536,782	\$ 42,266,006

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

Note 2 – Cash and Investments (Continued)

The City’s cash and investments at June 30, 2014 in more detail:

Cash and cash equivalents:	
Demand deposits	\$ 5,381,116
Petty cash	1,900
Total cash and cash equivalents	5,383,016
Investments:	
Local Agency Investment Fund	7,222,072
Los Angeles County Pooled Investments Funds	21,924,073
Non-negotiable certificates of deposit	496,000
Negotiable certificates of deposit	3,432,531
Corporate medium-term notes	3,808,314
Total investments	36,882,990
Total cash and investments	\$ 42,266,006

A. Deposits

The carrying amounts of the City’s demand deposits were \$5,381,116 at June 30, 2014. Bank balances at that date were \$5,389,501, 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:

- There is no maximum amount or maximum maturity period of the City’s idle funds that may be invested with the Local Agency Investment Fund (“LAIF”) or the Los Angeles County Pooled Investment Fund (“LACPIF”)

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

Note 2 – Cash and Investments (Continued)

B. Investments (Continued)

- Medium-term corporate notes shall have a Moody or Standard & Poor’s rating of at least AA and mature in 5 years or less

The City is a participant in LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City’s investments with LAIF at June 30, 2014 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, 2014, the City had \$7,222,072 invested in LAIF, which had invested 1.86% of the pool investment funds in Structured Notes and Asset-Backed Securities.

Investment in Los Angeles County Investment Pool

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

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, 2014, 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	\$ 7,222,072	\$ 7,222,072	\$ -	\$ -	\$ -	\$ -
Los Angeles County Pooled						
Investments Fund	21,924,073	21,924,073	-	-	-	-
Certificates of deposit	3,928,531	1,986,034	944,124	998,373	-	-
Corporate medium-term notes	3,808,314	-	503,585	801,505	755,294	1,747,930
Total	\$ 36,882,990	\$ 31,132,179	\$ 1,447,709	\$ 1,799,878	\$ 755,294	\$ 1,747,930

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

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, 2014, 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	19.58%
Los Angeles County Pooled Investments Fund	Not Rated	Not Rated	59.44%
Certificates of Deposits	Not Rated	Not Rated	10.65%
Corporate medium-term notes:			
General Electric Capital Corp.	A1	AA+	1.37%
Federal Home Loan Bank	Aaa	AA+	8.96%
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 and LACIPIF, where there is no limit . The City is in compliance with the investment policy related to the concentration of credit risk for the year ended June 30, 2014.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

Note 3 - Receivables

A. Government-Wide Financial Statements

At June 30, 2014, the government-wide financial statements show the following receivables, net of allowances for uncollectible amounts, if any:

	Government-Wide Statement of Net Position Governmental Activities	Statement of Fiduciary Net Position	Total
Accounts receivable	\$ 1,772,660	\$ -	\$ 1,772,660
Property taxes receivable, net	184,342	-	184,342
Reimbursable grants receivable	454,708	-	454,708
Interest receivable on investments	43,774	1,282	45,056
Other receivables	29,503	10,531	40,034
Total	\$ 2,484,987	\$ 11,813	\$ 2,496,800

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, 2014, were as follows:

Governmental funds:	
General Fund	\$ 1,607,327
Nonmajor Funds	<u>146,383</u>
Total governmental funds	<u>1,753,710</u>
Total accounts receivable	<u><u>\$ 1,753,710</u></u>

Taxes Receivable

At June 30, 2014, the City had property taxes receivable, net of allowance for delinquent property taxes receivables, in the following major fund and nonmajor funds in the aggregate:

	Property taxes	Allowance for delinquent tax receivables	Property taxes, net of allowance
Governmental Funds:			
General Fund	\$ 740,277	\$ (563,095)	\$ 177,182
Nonmajor funds	<u>16,665</u>	<u>(9,505)</u>	<u>7,160</u>
Total	<u><u>\$ 756,942</u></u>	<u><u>\$ (572,600)</u></u>	<u><u>\$ 184,342</u></u>

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

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, 2014 was as follows:

Governmental Funds:	
Coastal Permit Authority	\$ 213,832
Homeland Security Grant	74,903
Safe Route to School Grant	134,578
Recycling Grant	5,455
Other	25,940
Total reimbursable grants receivable	\$ 454,708

Note 4 – Lease Revenues

In February 2001, a 50 year lease for the retail space located in front of the North Pier Parking Structure was initiated. The City receives a monthly lease payment in the amount of \$2,985. The lease includes a negotiated increase to the monthly lease payment to be calculated every 60 months based on the consumer price index. 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, 2015. The City receives a monthly lease payment in the amount of \$2,813.

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.

In February 2014, the City entered into a 5 year lease agreement with Verizon wireless, a cellular telephone company, for the placement of 12 panel antennas and 6 remote radio units at the Municipal Parking Facility. The City receives a monthly lease payment of \$2,400.

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 the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

Note 4 – Lease Revenues (Continued)

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

Year ending June 30,		
2015	\$	199,633
2016		64,616
2017		64,616
2018		64,616
2019		55,016
2020-2024		179,080
2025-2029		179,080
2030-2034		179,080
2035-2039		179,080
2040-2044		179,080
2045-2049		179,080
2050-2051		53,724
Total	\$	1,576,701

Lease revenue for the year ended June 30, 2014 was \$303,874.

Note 5 – Interfund Transactions

Due From/To Other Funds – At June 30, 2014, the City had the following due from/to other funds:

Due To Other Funds	Due From Other Funds
	General Fund
Nonmajor Governmental funds	\$ 160,867
Total	\$ 160,867

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 the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

Note 5 – Interfund Transactions (Continued)

Transfers

At June 30, 2014, the City had the following transfers:

	Transfers in			Total
	General Fund	Nonmajor Governmental Funds	Internal Service Funds	
Transfers out				
General Fund	\$ -	\$ 3,570,772	\$ 1,361,905	\$ 4,932,677
Nonmajor Governmental Funds	334,577	-	-	334,577
Total	\$ 334,577	\$ 3,570,772	\$ 1,361,905	\$ 5,267,254

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, 2014:

	Balance July 1, 2013	Additions	Deletions	Reclassifications	Balance June 30, 2014
<i>Capital assets not being depreciated:</i>					
Land	\$ 22,740,168	\$ -	\$ -	\$ -	\$ 22,740,168
Construction in progress	563,214	611,843	-	-	1,175,057
Total capital assets not being depreciated	23,303,382	611,843	-	-	23,915,225
<i>Capital assets being depreciated:</i>					
Buildings and structures	12,945,808	-	-	-	12,945,808
Improvements other than buildings	14,457,270	2,418	-	-	14,459,688
Machinery and equipment	4,040,056	473,555	(379,829)	-	4,133,782
Vehicles	3,395,556	1,032,703	(320,562)	-	4,107,697
Infrastructure	47,754,307	1,768,224	-	-	49,522,531
Total capital assets being depreciated	82,592,997	3,276,900	(700,391)	-	85,169,506
Less accumulated depreciation for:					
Buildings and structures	(3,918,783)	(234,146)	-	-	(4,152,929)
Improvements other than buildings	(10,477,038)	(1,003,847)	-	-	(11,480,885)
Machinery and equipment	(3,079,546)	(289,010)	378,797	-	(2,989,759)
Vehicles	(2,512,804)	(248,611)	292,554	-	(2,468,861)
Infrastructure	(21,772,467)	(1,391,825)	-	-	(23,164,292)
Total accumulated depreciation	(41,760,638)	(3,167,439)	671,351	-	(44,256,726)
Total capital assets being depreciated, net	40,832,359	109,461	(29,040)	-	40,912,780
Total governmental activities	\$ 64,135,741	\$ 721,304	\$ (29,040)	\$ -	\$ 64,828,005

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

Note 6 – Capital Assets (Continued)

Depreciation expense was charged to functions/programs of governmental activities for the year ended June 30, 2014 as follows:

General government	\$	55,590
Public safety		154,151
Community development		7,511
Culture and recreation		50,994
Public works		1,124,870
Infrastructure		1,391,821
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets		382,502
Total depreciation expense		<u><u>\$ 3,167,439</u></u>

Note 7 – Compensated Absences

Summary of changes in compensated absences for governmental activities for the year ended June 30, 2014 is as follows:

				Classification		
	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Due within One Year	Due in more than One Year
Compensated absences	\$ 2,096,043	\$ 1,226,721	\$ (1,051,792)	\$ 2,270,972	\$ 1,208,213	\$ 1,062,759

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 the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

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 \$680,302 for the fiscal year 2013-2014 are in accordance with formulas established by ICRMA. The City is liable for possible additional assessments and withdrawal costs under terms of the membership agreement; however, there has never been an additional assessment since the pool was formed.

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

The workers' compensation and general liability claims payable of \$6,952,246 reported at June 30, 2014 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>						
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
2013-2014	6,935,246	(452,257)	(917,077)	5,565,912	791,596	4,774,316
<i><u>General Liability</u></i>						
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	417,109	762,562
2013-2014	1,179,671	827,029	(620,366)	1,386,334	518,155	868,179

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 the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

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 \$230,809 for the year ended June 30, 2014. 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 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 2013-2014 at actuarially determined rates which are applied to annual covered payroll. The 2013-2014 rate is 18.203% for first tier miscellaneous employees, 8.486% for second tier miscellaneous employees, 61.738% for first tier police employees, 22.145% for second tier police and fire employees and 44.047% 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 2013-2014, the City’s annual pension cost of \$3,337,349 for CalPERS was equal to the City’s required and actual contributions, of which \$791,975 is for the miscellaneous plan, \$1,810,274 for the police plan and \$735,100 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
6/30/2012	774,370	100%	\$ -
6/30/2013	743,336	100%	-
6/30/2014	791,975	100%	-

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

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
6/30/2012	1,801,487	100%	\$ -
6/30/2013	1,723,071	100%	-
6/30/2014	1,810,274	100%	-

Fire Plan

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2012	737,078	100%	\$ -
6/30/2013	699,029	100%	-
6/30/2014	735,100	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, 2011
Actuarial Cost Method:	Entry Age Normal Cost Method
Amortization Method:	Level Percent of Projected Payroll
Average Remaining Period:	21 Years for Police, 20 Years for Miscellaneous and Fire
Asset Valuation Method:	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return:	7.50% (net of administrative expenses) 3.30% to 14.20% depending on Age, Service, and type of employment
Inflation:	2.75%
Payroll Growth:	3.20%
	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% 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 the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

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, 2014 were as follows:

Participants	Total
Active employees	121
Retirees	54
Total	175

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, 2014, the City contributed \$938,352. Plan members receiving benefits contributed \$244,225 of the total premiums, as their required contributions.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

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	\$ 917,000
Interest on net OPEB obligation	(6,728)
Adjustment to annual required contribution	13,017
Annual OPEB cost (expense)	923,289
Contributions made	(926,131)
Adjustment to contributions	-
Increase in net OPEB asset	(2,842)
Net OPEB asset - beginning of year	(119,872)
Net OPEB asset - end of year	\$ (122,714)

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, 2014 and the preceding two years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions	% of Annual OPEB Cost Contributed	Net OPEB Asset
6/30/2012	\$ 540,218	\$ 540,218	100.00%	\$ -
6/30/2013	888,000	1,007,872	102.33%	119,872
6/30/2014	923,289	926,131	100.31%	122,714

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

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%.

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% 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% initially reduced by decrements to an ultimate rate of 5% thereafter. The actuarial assumption for inflation was 3%, and the aggregate payroll increases was 3.25% used in the actuarial valuation. The City's Plan does not provide postretirement benefit increases. The UAAL is amortized as a level percentage of future payroll on a 20-year closed amortization period. The remaining amortization period at June 30, 2011 was 15 years.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

Note 10 – Classification of Fund Balances

At June 30, 2014, fund balances are classified in the governmental funds as follows:

	General Fund	Nonmajor Governmental Funds	Total
Nonspendable			
Prepaid items	\$ 10,603	\$ 1,600	\$ 12,203
Total nonspendable	<u>10,603</u>	<u>1,600</u>	<u>12,203</u>
Restricted			
General Plan Maintenance Fees	189,717	-	189,717
Verizon PEG Grant	56,833	-	56,833
Greenwald Theatre Donation	45,000	-	45,000
CDBG Fund Exchange	118,739	-	118,739
Lighting District	-	59,987	59,987
Gas Tax	-	360,934	360,934
Parks Projects	-	495,084	495,084
Undergrounding Districts	-	42,173	42,173
Transit	-	1,611,520	1,611,520
Air Quality Improvement Projects	-	14,026	14,026
SLESF Enforcement	-	196,021	196,021
Sewers and Storm Drains	-	693,145	693,145
Asset Forfeiture- Drug Enforcement and Education	-	322,413	322,413
Fire Protection	-	32,530	32,530
Grants	-	252,000	252,000
Tyco Tidelands- Capital Improvements	-	3,617	3,617
Total restricted	<u>410,289</u>	<u>4,083,450</u>	<u>4,493,739</u>
Committed			
In Lieu Fee- Parking Facilities	28,900	-	28,900
Artesia Boulevard relinquishment	-	5,463	5,463
Tyco	-	427,143	427,143
Total committed	<u>28,900</u>	<u>432,606</u>	<u>461,506</u>
Assigned			
Sales Tax In-lieu	131,259	-	131,259
General government consulting services and software modifications	94,339	-	94,339
Public safety equipment, consulting services and studies	189,304	-	189,304
Community development consulting services	164,503	-	164,503
Public works capital improvement projects	990,914	-	990,914
Contingencies	4,751,163	-	4,751,163
Retirement rate stabilization	1,000,000	-	1,000,000
Compensated absences	297,262	-	297,262
Community events	36,466	-	36,466
Capital projects	-	2,831,179	2,831,179
Total assigned	<u>7,655,210</u>	<u>2,831,179</u>	<u>10,486,389</u>
Total fund balances	<u>\$ 8,105,002</u>	<u>\$ 7,348,835</u>	<u>\$ 15,453,837</u>

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

Note 11 – Non-City Obligations

At June 30, 2014, 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
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	\$ 130,000	\$ 17,550	\$ 147,550

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
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	85,000	6,756	91,756
2020	90,000	2,300	92,300
Total	\$ 480,000	\$ 76,574	\$ 556,574

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

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
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	100,000	7,619	107,619
2020	105,000	2,587	107,587
Total	\$ 550,000	\$ 85,613	\$ 635,613

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
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	23,032	8,394	31,426
2020-2024	132,842	23,861	156,703
2025	30,514	732	31,246
	\$ 268,439	\$ 76,904	\$ 345,343

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

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
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	51,311	15,996	67,307
2020-2024	291,179	50,993	342,172
2025-2026	134,533	4,928	139,461
Total	\$ 662,183	\$ 152,265	\$ 814,448

Note 12 – Commitments and Contingencies

A. Commitments

The City had several outstanding or planned construction and other projects as of June 30, 2014. These projects are evidenced by contractual commitments with contractors and include:

Project	Spent to Date	Commitment Remaining
Strategic Plan- Economic Development Civic Center	\$ 141,217	\$ 8,783
General Plan & Coastal Plan Update	255,662	248,206
Telephone Update Project	-	93,868
Permitting Software Upgrade and Integration Project	-	350,000
PCH/Aviation Beautification	76,464	23,982
PCH Traffic Improvements	29,429	58,399
Sewer Improvements Various Locations	199,025	117,025
South Park Playground Improvements	20,043	45,487
Surfing Memorial Statue	-	50,000
Total	\$ 721,840	\$ 995,750

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 telephone update project is funded by the Equipment Replacement Internal Service Fund. The Permitting Software Upgrade and Integration project is funded by the Equipment Replacement Fund. The PCH/Aviation Beautification project is funded by the General Fund, State Gas Tax Fund, and the Measure R Fund. The PCH Traffic Improvements project is funded by the Measure R Fund. The Sewer Improvements project is funded by the Measure R Fund. The South Park Playground Improvements project is funded by the General Fund and the Proposition A Open Space Fund. The Surfing Memorial Statue project is funded by the General Fund and an outside trust.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

Note 12 – Commitments and Contingencies (Continued)

A. Commitments (Continued)

In January 2000, the North Pier Parking Structure was completed. The parking structure contains 400 parking spaces and was funded in part by a downtown developer in exchange for the use of 100 spaces in the structure. The remainder of the funding was provided by the City's former Downtown Enhancement Enterprise Fund and Prop A Open Space funding contributed by the Los Angeles County Department of Beaches and Harbors ("County"). In consideration of the County contribution, 50% of the annual net income derived from the parking structure must be shared with the County each year by September 1. The payment made to the County for fiscal year 2013-2014 is \$369,578.

B. Contingencies

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

C. Grants

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

Note 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.

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

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

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

Note 13 – MacPherson Oil Project Litigation (Continued)

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

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

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

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

Under the settlement, the residents of Hermosa Beach will be asked by way of a ballot measure, at a March 3, 2015 special election whether the City-wide ban on oil drilling should be modified to allow a new oil and natural gas production project proposed by E&B within the City limits. An environmental impact report has been prepared and certified 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 have no further financial obligation to E&B.

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 payable in the event that the ballot measure passes but a drill permit is never issued. E&B has paid a substantial portion of the City's consultant and staff costs incurred processing its application. 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.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

Note 14 – Subsequent Events

A. *Implementation of GASB No. 68*

In June 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27). This Statement establishes standards for measuring and recognizing liabilities, deferred outflow of resources, deferred inflows of resources, and expense/expenditures for pension plans. This Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Management is evaluating the impact of the adoption of this Standard on the financial statements. GASB Statement No. 68 will be implemented effective with the fiscal year 2014-2015 financial statements.

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**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

City of Hermosa Beach
Required Supplementary Information (Unaudited)
For the Year Ended June 30, 2014

Note 1 – Budgetary Control and Accounting Policy

Budgetary Comparison Schedule - General Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Fund Balance, July 1, 2013	\$ 6,973,643	\$ 6,973,643	\$ 6,973,643	\$ -
Resources (inflows):				
Property taxes	12,239,969	12,802,008	12,910,425	108,417
Other taxes	9,209,726	9,280,816	9,569,495	288,679
Licenses and permits	771,176	771,736	971,336	199,600
Fines and forfeitures	2,509,805	2,601,616	2,750,068	148,452
Use of money and property	726,626	729,995	758,309	28,314
Intergovernmental	119,797	215,118	104,166	(110,952)
Charges for services	6,017,034	6,195,293	6,315,441	120,148
Miscellaneous	413,610	662,567	591,146	(71,421)
Interest earned on investments	80,554	97,954	95,085	(2,869)
Transfers in	334,577	334,577	334,577	-
Amount available for appropriation	<u>39,396,517</u>	<u>40,665,323</u>	<u>41,373,691</u>	<u>708,368</u>
Charges to appropriations (outflows):				
Legislative and legal	1,106,901	1,124,565	1,093,518	31,047
General government	2,840,318	3,019,838	2,658,188	361,650
Public safety	19,076,391	19,256,440	17,568,838	1,687,602
Community development	1,330,589	1,407,312	1,313,263	94,049
Culture and recreation	1,180,594	1,201,992	1,109,298	92,694
Public works	3,947,103	4,267,160	4,053,999	213,161
Capital outlay	552,592	1,250,033	538,908	711,125
Transfers out	1,974,348	4,932,677	4,932,677	-
Total charges to appropriations	<u>32,008,836</u>	<u>36,460,017</u>	<u>33,268,689</u>	<u>3,191,328</u>
Fund Balance, June 30, 2014	<u>\$ 7,387,681</u>	<u>\$ 4,205,306</u>	<u>\$ 8,105,002</u>	<u>\$ 3,899,696</u>

City of Hermosa Beach
Required Supplementary Information (Unaudited) (Continued)
For the Year Ended June 30, 2014

Note 1 – Budgetary Control and Accounting Policy (Continued)

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, 2014

Schedule of Funding Progress - California Public Employees' Retirement System - *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.

Schedule of Funding Progress - Other Postemployment Benefits

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

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NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds:

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

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

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

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

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

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

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

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

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

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

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

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

NONMAJOR GOVERNMENTAL FUNDS (Continued)

Special Revenue Funds (Continued):

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

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

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

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

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

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

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

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

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

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.

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City of Hermosa Beach
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2014

	Special Revenue Funds			
	Lighting and Landscaping District	State Gas Tax	AB 939	Prop A Open Space
ASSETS				
Cash and investments	\$ 120,956	\$ 313,515	\$ 29,269	\$ -
Accounts receivable	-	60,251	-	46,223
Property taxes receivable, net	7,160	-	-	-
Reimbursable grants receivable	-	-	-	-
Interest receivable	287	752	5	-
Other assets	-	-	-	-
Total assets	\$ 128,403	\$ 374,518	\$ 29,274	\$ 46,223
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 52,156	\$ 10,057	\$ 16,629	\$ -
Accrued wages and benefits payable	16,260	3,527	7,745	-
Due to other funds	-	-	4,900	42,819
Total liabilities	68,416	13,584	29,274	42,819
Fund Balances:				
Nonspendable	-	-	-	-
Restricted	59,987	360,934	-	3,404
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total fund balances	59,987	360,934	-	3,404
Total liabilities and fund balances	\$ 128,403	\$ 374,518	\$ 29,274	\$ 46,223

(Continued)

City of Hermosa Beach
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2014

	Special Revenue Funds			
		Tyco	Parks/ Recreation	Bayview Drive
		Tyco	Facilities Tax	Administrative Expense
	Tyco	Tidelands		
ASSETS				
Cash and investments	\$ 484,381	\$ 3,610	\$ 492,901	\$ 2,178
Accounts receivable	-	-	1,450	-
Property taxes receivable, net	-	-	-	-
Reimbursable grants receivable	-	-	-	-
Interest receivable	1,184	7	1,160	5
Other assets	-	-	-	-
Total assets	\$ 485,565	\$ 3,617	\$ 495,511	\$ 2,183
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 58,422	\$ -	\$ 2,950	\$ 374
Accrued wages and benefits payable	-	-	881	-
Due to other funds	-	-	-	-
Total liabilities	58,422	-	3,831	374
Fund Balances:				
Nonspendable	-	-	-	-
Restricted	-	3,617	491,680	1,809
Committed	427,143	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total fund balances	427,143	3,617	491,680	1,809
Total liabilities and fund balances	\$ 485,565	\$ 3,617	\$ 495,511	\$ 2,183

(Continued)

City of Hermosa Beach
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2014

	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	\$ 5,139	\$ 14,396	\$ 19,744	\$ 2,823
Accounts receivable	-	-	-	-
Property taxes receivable, net	-	-	-	-
Reimbursable grants receivable	-	-	-	-
Interest receivable	-	34	47	7
Other assets	-	-	-	-
Total assets	\$ 5,139	\$ 14,430	\$ 19,791	\$ 2,830
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 336	\$ 569	\$ 582	\$ 339
Accrued wages and benefits payable	-	-	-	-
Due to other funds	-	-	-	-
Total liabilities	336	569	582	339
Fund Balances:				
Nonspendable	-	-	-	-
Restricted	4,803	13,861	19,209	2,491
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total fund balances	4,803	13,861	19,209	2,491
Total liabilities and fund balances	\$ 5,139	\$ 14,430	\$ 19,791	\$ 2,830

(Continued)

City of Hermosa Beach
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2014

	Special Revenue Funds			
	Proposition "A"	Proposition "C"	Measure "R"	Air Quality
	Transit			Management
ASSETS				
Cash and investments	\$ 539,838	\$ 760,548	\$ 350,558	\$ 10,042
Accounts receivable	-	-	-	6,331
Property taxes receivable, net	-	-	-	-
Reimbursable grants receivable	-	-	-	-
Interest receivable	1,273	1,790	839	25
Other assets	-	-	-	-
Total assets	\$ 541,111	\$ 762,338	\$ 351,397	\$ 16,398
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 29,540	\$ 3,386	\$ 8,896	\$ 2,289
Accrued wages and benefits payable	327	1	1,176	83
Due to other funds	-	-	-	-
Total liabilities	29,867	3,387	10,072	2,372
Fund Balances:				
Nonspendable	-	-	-	-
Restricted	511,244	758,951	341,325	14,026
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total fund balances	511,244	758,951	341,325	14,026
Total liabilities and fund balances	\$ 541,111	\$ 762,338	\$ 351,397	\$ 16,398

(Continued)

City of Hermosa Beach
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2014

	Special Revenue Funds			
	Supplemental Law Enforcement Services	Sewer	Asset Seizure and Forfeiture	Fire Protection
ASSETS				
Cash and investments	\$ 197,184	\$ 975,434	\$ 296,320	\$ 32,453
Accounts receivable	-	6,465	25,663	-
Property taxes receivable, net	-	-	-	-
Reimbursable grants receivable	-	-	-	-
Interest receivable	468	2,306	718	77
Other assets	1,600	-	-	-
Total assets	\$ 199,252	\$ 984,205	\$ 322,701	\$ 32,530
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 1,631	\$ 272,190	\$ 288	\$ -
Accrued wages and benefits payable	-	18,870	-	-
Due to other funds	-	-	-	-
Total liabilities	1,631	291,060	288	-
Fund Balances:				
Nonspendable	1,600	-	-	-
Restricted	196,021	693,145	322,413	32,530
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total fund balances	197,621	693,145	322,413	32,530
Total liabilities and fund balances	\$ 199,252	\$ 984,205	\$ 322,701	\$ 32,530

(Continued)

City of Hermosa Beach
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2014

	Special Revenue Funds		Capital Projects Fund	Total Nonmajor Governmental Funds
	Artesia Boulevard Relinquishment	Grants	Capital Improvement	
ASSETS				
Cash and investments	\$ 5,463	\$ 21,566	\$ 2,871,528	\$ 7,549,846
Accounts receivable	-	-	-	146,383
Property taxes receivable, net	-	-	-	7,160
Reimbursable grants receivable	-	454,708	-	454,708
Interest receivable	-	-	895	11,879
Other assets	-	-	-	1,600
Total assets	\$ 5,463	\$ 476,274	\$ 2,872,423	\$ 8,171,576
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ 110,835	\$ 41,244	\$ 612,713
Accrued wages and benefits payable	-	291	-	49,161
Due to other funds	-	113,148	-	160,867
Total liabilities	-	224,274	41,244	822,741
Fund Balances:				
Nonspendable	-	-	-	1,600
Restricted	-	252,000	-	4,083,450
Committed	5,463	-	-	432,606
Assigned	-	-	2,831,179	2,831,179
Unassigned	-	-	-	-
Total fund balances	5,463	252,000	2,831,179	7,348,835
Total liabilities and fund balances	\$ 5,463	\$ 476,274	\$ 2,872,423	\$ 8,171,576

(Concluded)

City of Hermosa Beach
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2014

	Special Revenue Funds			
	Lighting and Landscaping District	State Gas Tax	AB 939	Prop A Open Space
REVENUES:				
Property taxes	\$ 458,190	\$ -	\$ -	\$ -
Other taxes	-	-	-	-
Fines and forfeitures	-	-	-	-
Use of money and property	-	-	-	-
Intergovernmental	-	615,090	-	46,223
Charges for services	-	-	54,822	-
Miscellaneous	-	-	-	-
Interest earned on investments	659	2,406	7	-
Total revenues	458,849	617,496	54,829	46,223
EXPENDITURES:				
Current:				
General government	\$ -	\$ -	\$ 75,285	\$ -
Public safety	-	-	-	-
Community development	-	-	-	-
Culture and recreation	-	-	-	-
Public works	528,653	33,069	-	-
Capital outlay	-	444,207	-	25,666
Total expenditures	528,653	477,276	75,285	25,666
REVENUES OVER (UNDER) EXPENDITURES	(69,804)	140,220	(20,456)	20,557
OTHER FINANCING SOURCES (USES):				
Transfers in	52,031	-	-	-
Transfers out	(8,414)	(293,498)	-	(20,557)
Total other financing sources (uses)	43,617	(293,498)	-	(20,557)
CHANGES IN FUND BALANCES	(26,187)	(153,278)	(20,456)	-
FUND BALANCES:				
Beginning of year	86,174	514,212	20,456	3,404
End of year	<u>\$ 59,987</u>	<u>\$ 360,934</u>	<u>\$ -</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, 2014

	Special Revenue Funds			
		Tyco	Parks/ Recreation	Bayview Drive
	Tyco	Tidelands	Facility Tax	Administrative Expense
REVENUES:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	7,019	-
Fines and forfeitures	-	-	-	-
Use of money and property	318,845	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	276,005	-
Miscellaneous	-	-	-	4,350
Interest earned on investments	3,803	25	3,133	24
Total revenues	322,648	25	286,157	4,374
EXPENDITURES:				
Current:				
General government	\$ -	\$ -	\$ -	\$ 1,837
Public safety	-	-	-	-
Community development	-	-	-	-
Culture and recreation	-	-	-	-
Public works	-	-	-	-
Capital outlay	32,671	3,229	11,216	-
Total expenditures	32,671	3,229	11,216	1,837
REVENUES OVER (UNDER) EXPENDITURES	289,977	(3,204)	274,941	2,537
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	-	-	-	(2,718)
Total other financing sources (uses)	-	-	-	(2,718)
CHANGES IN FUND BALANCES	289,977	(3,204)	274,941	(181)
FUND BALANCES:				
Beginning of year	137,166	6,821	216,739	1,990
End of year	\$ 427,143	\$ 3,617	\$ 491,680	\$ 1,809

(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, 2014

	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	-	140	192	29
Total revenues	2,600	9,140	10,192	3,029
EXPENDITURES:				
Current:				
General government	\$ 1,609	\$ 5,957	\$ 6,251	\$ 1,848
Public safety	-	-	-	-
Community development	-	-	-	-
Culture and recreation	-	-	-	-
Public works	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	1,609	5,957	6,251	1,848
REVENUES OVER (UNDER) EXPENDITURES	991	3,183	3,941	1,181
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	(1,142)	(3,310)	(3,783)	(1,155)
Total other financing sources (uses)	(1,142)	(3,310)	(3,783)	(1,155)
CHANGES IN FUND BALANCES	(151)	(127)	158	26
FUND BALANCES:				
Beginning of year	4,954	13,988	19,051	2,465
End of year	<u>\$ 4,803</u>	<u>\$ 13,861</u>	<u>\$ 19,209</u>	<u>\$ 2,491</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, 2014

	Special Revenue Funds			
	Proposition "A"	Proposition "C"	Measure "R"	Air Quality
	Transit			Management
				District
REVENUES:				
Property taxes	-	-	-	-
Other taxes	333,547	276,370	206,475	-
Fines and forfeitures	-	-	-	-
Use of money and property	-	-	-	-
Intergovernmental	-	-	-	24,268
Charges for services	6,798	-	-	-
Miscellaneous	-	-	-	-
Interest earned on investments	4,217	6,445	3,145	278
Total revenues	344,562	282,815	209,620	24,546
EXPENDITURES:				
Current:				
General government	53,464	-	-	1,735
Public safety	63,681	-	-	-
Community development	16,415	-	-	-
Culture and recreation	23,551	-	-	-
Public works	8	14,143	11,023	-
Capital outlay	-	63,257	254,396	118,179
Total expenditures	157,119	77,400	265,419	119,914
REVENUES OVER (UNDER) EXPENDITURES	187,443	205,415	(55,799)	(95,368)
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
CHANGES IN FUND BALANCES	187,443	205,415	(55,799)	(95,368)
FUND BALANCES:				
Beginning of year	323,801	553,536	397,124	109,394
End of year	<u>\$ 511,244</u>	<u>\$ 758,951</u>	<u>\$ 341,325</u>	<u>\$ 14,026</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, 2014

	Special Revenue Funds			
	Supplemental Law Enforcement Services	Sewer	Asset Seizure and Forfeiture	Fire Protection
REVENUES:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other taxes	100,000	-	-	-
Fines and forfeitures	-	-	31,172	-
Use of money and property	-	-	-	-
Intergovernmental	-	6,425	-	-
Charges for services	-	52,383	-	17,324
Miscellaneous	-	-	-	-
Interest earned on investments	1,667	9,396	2,760	211
Total revenues	101,667	68,204	33,932	17,535
EXPENDITURES:				
Current:				
General government	\$ -	\$ -	\$ -	\$ -
Public safety	57,391	-	4,194	-
Community development	-	-	-	-
Culture and recreation	-	-	-	-
Public works	-	536,201	-	-
Capital outlay	16,687	712,102	21,256	13,360
Total expenditures	74,078	1,248,303	25,450	13,360
REVENUES OVER (UNDER) EXPENDITURES	27,589	(1,180,099)	8,482	4,175
OTHER FINANCING SOURCES (USES):				
Transfers in	-	1,019,149	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	1,019,149	-	-
CHANGES IN FUND BALANCES	27,589	(160,950)	8,482	4,175
FUND BALANCES:				
Beginning of year	170,032	854,095	313,931	28,355
End of year	<u>\$ 197,621</u>	<u>\$ 693,145</u>	<u>\$ 322,413</u>	<u>\$ 32,530</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, 2014

	Special Revenue Funds		Capital Projects Fund	Total Nonmajor Governmental Funds
	Artesia Boulevard Relinquishment	Grants	Capital Improvement	
REVENUES:				
Property taxes	\$ -	\$ -	\$ -	\$ 458,190
Other taxes	-	-	-	923,411
Fines and forfeitures	-	-	-	31,172
Use of money and property	-	-	-	318,845
Intergovernmental	-	554,502	-	1,246,508
Charges for services	-	-	-	407,332
Miscellaneous	-	-	10,175	39,125
Interest earned on investments	-	-	4,287	42,824
Total revenues	-	554,502	14,462	3,467,407
EXPENDITURES:				
Current:		-		
General government	\$ 2	\$ -	\$ -	\$ 147,988
Public safety	-	74,616	-	199,882
Community development	-	218,507	-	234,922
Culture and recreation	-	-	-	23,551
Public works	-	5,362	33,972	1,162,431
Capital outlay	-	22,713	496,169	2,235,108
Total expenditures	2	321,198	530,141	4,003,882
REVENUES OVER (UNDER) EXPENDITURES	(2)	233,304	(515,679)	(536,475)
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	2,499,592	3,570,772
Transfers out	-	-	-	(334,577)
Total other financing sources (uses)	-	-	2,499,592	3,236,195
CHANGES IN FUND BALANCES	(2)	233,304	1,983,913	2,699,720
FUND BALANCES:				
Beginning of year	5,465	18,696	847,266	4,649,115
End of year	\$ 5,463	\$ 252,000	\$ 2,831,179	\$ 7,348,835

(Concluded)

City of Hermosa Beach
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
Lighting and Landscaping District
For the Year Ended June 30, 2014

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2013	\$ 86,174	\$ 86,174	\$ -
Resources (inflows):			
Property taxes	468,150	458,190	(9,960)
Interest earned on investments	508	659	151
Miscellaneous	-	-	-
Transfers in	52,031	52,031	-
Amount available for appropriation	<u>606,863</u>	<u>597,054</u>	<u>(9,809)</u>
Charges to appropriations (outflows):			
Public works	555,886	528,653	27,233
Transfers out	8,414	8,414	-
Total charges to appropriations	<u>564,300</u>	<u>537,067</u>	<u>27,233</u>
Fund balance, June 30, 2014	<u>\$ 42,563</u>	<u>\$ 59,987</u>	<u>\$ 17,424</u>

City of Hermosa Beach
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
State Gas Tax
For the Year Ended June 30, 2014

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
Fund balance, July 1, 2013	\$ 514,212	\$ 514,212	\$ -
Resources (inflows):			
Intergovernmental	575,031	615,090	40,059
Interest earned on investments	4,188	2,406	(1,782)
Amount available for appropriation	1,093,431	1,131,708	38,277
Charges to appropriations (outflows):			
Public Works	33,360	33,069	291
Capital outlay	763,069	444,207	318,862
Transfers out	293,498	293,498	-
Total charges to appropriations	1,089,927	770,774	319,153
Fund balance, June 30, 2014	\$ 3,504	\$ 360,934	\$ 357,430

City of Hermosa Beach
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
AB 939
For the Year Ended June 30, 2014

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
Fund balance, July 1, 2013	\$ 20,456	\$ 20,456	\$ -
Resources (inflows):			
Charges for services	55,525	54,822	(703)
Interest earned on investments	206	7	(199)
Amount available for appropriation	76,187	75,285	(902)
Charges to appropriations (outflows):			
General government	75,235	75,285	(50)
Total charges to appropriations	75,235	75,285	(50)
Fund balance, June 30, 2014	\$ 952	\$ -	\$ (952)

City of Hermosa Beach
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
Prop A Open Space
For the Year Ended June 30, 2014

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2013	\$ 3,404	\$ 3,404	\$ -
Resources (inflows):			
Intergovernmental	168,557	46,223	(122,334)
Amount available for appropriation	<u>171,961</u>	<u>49,627</u>	<u>(122,334)</u>
Charges to appropriations (outflows):			
Capital outlay	151,354	25,666	125,688
Transfers out	<u>20,557</u>	<u>20,557</u>	<u>-</u>
Total charges to appropriations	<u>171,911</u>	<u>46,223</u>	<u>125,688</u>
Fund balance, June 30, 2014	<u>\$ 50</u>	<u>\$ 3,404</u>	<u>\$ 3,354</u>

City of Hermosa Beach
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
Tyco
For the Year Ended June 30, 2014

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2013	\$ 137,166	\$ 137,166	\$ -
Resources (inflows):			
Use of money and property	312,900	318,845	5,945
Interest earned on investments	<u>2,949</u>	<u>3,803</u>	<u>854</u>
Amount available for appropriation	<u>453,015</u>	<u>459,814</u>	<u>6,799</u>
Charges to appropriations (outflows):			
Capital outlay	<u>251,856</u>	<u>32,671</u>	<u>219,185</u>
Total charges to appropriations	<u>251,856</u>	<u>32,671</u>	<u>219,185</u>
Fund balance, June 30, 2014	<u>\$ 201,159</u>	<u>\$ 427,143</u>	<u>\$ 225,984</u>

City of Hermosa Beach
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
Tyco Tidelands
For the Year Ended June 30, 2014

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
Fund balance, July 1, 2013	\$ 6,821	\$ 6,821	\$ -
Resources (inflows):			
Interest earned on investments	72	25	(47)
Amount available for appropriation	6,893	6,846	(47)
Charges to appropriations (outflows):			
Capital outlay	3,545	3,229	316
Total charges to appropriations	3,545	3,229	316
Fund balance, June 30, 2014	\$ 3,348	\$ 3,617	\$ 269

City of Hermosa Beach
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
Parks/Recreation Facilities Tax
For the Year Ended June 30, 2014

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2013	\$ 216,739	\$ 216,739	\$ -
Resources (inflows):			
Other taxes	7,019	7,019	-
Charge for services	297,294	276,005	(21,289)
Interest earned on investments	2,326	3,133	807
Amount available for appropriation	<u>523,378</u>	<u>502,896</u>	<u>(20,482)</u>
Charges to appropriations (outflows):			
Capital outlay	<u>289,179</u>	<u>11,216</u>	<u>277,963</u>
Total charges to appropriations	<u>289,179</u>	<u>11,216</u>	<u>277,963</u>
Fund balance, June 30, 2014	<u><u>\$ 234,199</u></u>	<u><u>\$ 491,680</u></u>	<u><u>\$ 257,481</u></u>

City of Hermosa Beach
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
Bayview Drive Administrative Expense
For the Year Ended June 30, 2014

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
Fund balance, July 1, 2013	\$ 1,990	\$ 1,990	\$ -
Resources (inflows):			
Miscellaneous	4,350	4,350	-
Interest earned on investments	19	24	5
Amount available for appropriation	<u>6,359</u>	<u>6,364</u>	<u>5</u>
Charges to appropriations (outflows):			
General government	1,890	1,837	53
Transfers out	2,718	2,718	-
Total charges to appropriations	<u>4,608</u>	<u>4,555</u>	<u>53</u>
Fund balance, June 30, 2014	<u>\$ 1,751</u>	<u>\$ 1,809</u>	<u>\$ 58</u>

City of Hermosa Beach
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
Lower Pier Administrative Expense
For the Year Ended June 30, 2014

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2013	\$ 4,954	\$ 4,954	\$ -
Resources (inflows):			
Miscellaneous	2,600	2,600	-
Amount available for appropriation	<u>7,554</u>	<u>7,554</u>	<u>-</u>
Charges to appropriations (outflows):			
General government	1,725	1,609	116
Transfers out	<u>1,142</u>	<u>1,142</u>	<u>-</u>
Total charges to appropriations	<u>2,867</u>	<u>2,751</u>	<u>116</u>
Fund balance, June 30, 2014	<u>\$ 4,687</u>	<u>\$ 4,803</u>	<u>\$ 116</u>

City of Hermosa Beach
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
Myrtle District Administrative Expense
For the Year Ended June 30, 2014

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2013	\$ 13,988	\$ 13,988	\$ -
Resources (inflows):			
Miscellaneous	9,000	9,000	-
Interest earned on investments	<u>140</u>	<u>140</u>	<u>-</u>
Amount available for appropriation	<u>23,128</u>	<u>23,128</u>	<u>-</u>
Charges to appropriations (outflows):			
General government	8,625	5,957	2,668
Transfers out	<u>3,310</u>	<u>3,310</u>	<u>-</u>
Total charges to appropriations	<u>11,935</u>	<u>9,267</u>	<u>2,668</u>
Fund balance, June 30, 2014	<u>\$ 11,193</u>	<u>\$ 13,861</u>	<u>\$ 2,668</u>

City of Hermosa Beach
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
Loma District Administrative Expense
For the Year Ended June 30, 2014

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2013	\$ 19,051	\$ 19,051	\$ -
Resources (inflows):			
Miscellaneous	10,000	10,000	-
Interest earned on investments	190	192	2
Amount available for appropriation	<u>29,051</u>	<u>29,051</u>	<u>-</u>
Charges to appropriations (outflows):			
General government	7,750	6,251	1,499
Transfers out	<u>3,783</u>	<u>3,783</u>	<u>-</u>
Total charges to appropriations	<u>11,533</u>	<u>10,034</u>	<u>1,499</u>
Fund balance, June 30, 2014	<u>\$ 17,518</u>	<u>\$ 19,017</u>	<u>\$ 1,499</u>

City of Hermosa Beach
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
Beach Drive Assessment District Administrative Expense
For the Year Ended June 30, 2014

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2013	\$ 2,465	\$ 2,465	\$ -
Resources (inflows):			
Miscellaneous	3,000	3,000	-
Interest earned on investments	<u>24</u>	<u>29</u>	<u>5</u>
Amount available for appropriation	<u>5,489</u>	<u>5,494</u>	<u>5</u>
Charges to appropriations (outflows):			
General government	1,955	1,848	107
Transfers out	<u>1,155</u>	<u>1,155</u>	<u>-</u>
Total charges to appropriations	<u>3,110</u>	<u>3,003</u>	<u>107</u>
Fund balance, June 30, 2014	<u>\$ 2,379</u>	<u>\$ 2,491</u>	<u>\$ 112</u>

City of Hermosa Beach
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
Proposition "A" Transit
For the Year Ended June 30, 2014

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
Fund balance, July 1, 2013	\$ 323,801	\$ 323,801	\$ -
Resources (inflows):			
Other taxes	333,166	333,547	381
Charges for services	6,300	6,798	498
Interest earned on investments	3,283	4,217	934
Amount available for appropriation	666,550	668,363	1,813
Charges to appropriations (outflows):			
General government	69,640	53,464	16,176
Public safety	69,000	63,681	5,319
Community development	12,642	16,415	(3,773)
Culture and recreation	40,000	23,551	16,449
Public works	275,000	8	274,992
Total charges to appropriations	466,282	157,119	309,163
Fund balance, June 30, 2014	\$ 200,268	\$ 511,244	\$ 310,976

City of Hermosa Beach
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
Proposition "C"
For the Year Ended June 30, 2014

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2013	\$ 553,536	\$ 553,536	\$ -
Resources (inflows):			
Other taxes	276,353	276,370	17
Interest earned on investments	<u>5,633</u>	<u>6,445</u>	<u>812</u>
Amount available for appropriation	<u>835,522</u>	<u>836,351</u>	<u>829</u>
Charges to appropriations (outflows):			
Public works	47,547	14,143	33,404
Capital outlay	<u>596,070</u>	<u>63,257</u>	<u>532,813</u>
Total charges to appropriations	<u>643,617</u>	<u>77,400</u>	<u>566,217</u>
Fund balance, June 30, 2014	<u><u>\$ 191,905</u></u>	<u><u>\$ 758,951</u></u>	<u><u>\$ 567,046</u></u>

City of Hermosa Beach
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
Measure R
For the Year Ended June 30, 2014

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
Fund balance, July 1, 2013	\$ 397,124	\$ 397,124	\$ -
Resources (inflows):			
Other taxes	207,264	206,475	(789)
Interest earned on investments	3,949	3,145	(804)
Amount available for appropriation	608,337	606,744	(1,593)
Charges to appropriations (outflows):			
Public works	18,955	11,023	7,932
Capital outlay	510,544	254,396	256,148
Total charges to appropriations	529,499	265,419	264,080
Fund balance, June 30, 2014	\$ 78,838	\$ 341,325	\$ 262,487

City of Hermosa Beach
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
Air Quality Management District
For the Year Ended June 30, 2014

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
Fund balance, July 1, 2013	\$ 109,394	\$ 109,394	\$ -
Resources (inflows):			
Intergovernmental	22,500	24,268	1,768
Interest earned on investments	945	278	(667)
Amount available for appropriation	132,839	133,940	1,101
Charges to appropriations (outflows):			
General government	3,600	1,735	1,865
Capital outlay	76,670	118,179	(41,509)
Total charges to appropriations	80,270	119,914	(39,644)
Fund balance, June 30, 2014	\$ 52,569	\$ 14,026	\$ (38,543)

City of Hermosa Beach
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
Supplemental Law Enforcement Services
For the Year Ended June 30, 2014

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2013	\$ 170,032	\$ 170,032	\$ -
Resources (inflows):			
Other taxes	100,000	100,000	-
Interest earned on investments	<u>1,368</u>	<u>1,667</u>	<u>299</u>
Amount available for appropriation	<u>271,400</u>	<u>271,699</u>	<u>299</u>
Charges to appropriations (outflows):			
Public safety	98,029	57,391	40,638
Capital outlay	<u>172,431</u>	<u>16,687</u>	<u>155,744</u>
Total charges to appropriations	<u>270,460</u>	<u>74,078</u>	<u>196,382</u>
Fund balance, June 30, 2014	<u><u>\$ 940</u></u>	<u><u>\$ 197,621</u></u>	<u><u>\$ 196,681</u></u>

City of Hermosa Beach
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
Sewer
For the Year Ended June 30, 2014

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2013	\$ 854,095	\$ 854,095	\$ -
Resources (inflows):			
Intergovernmental	19,259	6,425	(12,834)
Charges for services	36,000	52,383	16,383
Interest earned on investments	10,169	9,396	(773)
Transfers in	1,019,149	1,019,149	-
Amount available for appropriation	<u>1,938,672</u>	<u>1,941,448</u>	<u>2,776</u>
Charges to appropriations (outflows):			
Public works	868,813	536,201	332,612
Capital outlay	986,878	712,102	274,776
Total charges to appropriations	<u>1,855,691</u>	<u>1,248,303</u>	<u>607,388</u>
Fund balance, June 30, 2014	<u>\$ 82,981</u>	<u>\$ 693,145</u>	<u>\$ 610,164</u>

City of Hermosa Beach
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
Asset Seizure and Forfeiture
For the Year Ended June 30, 2014

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2013	\$ 313,931	\$ 313,931	\$ -
Resources (inflows):			
Fines and forfeitures	37,000	31,172	(5,828)
Interest earned on investments	<u>2,912</u>	<u>2,760</u>	<u>(152)</u>
Amount available for appropriation	<u>353,843</u>	<u>347,863</u>	<u>(5,980)</u>
Charges to appropriations (outflows):			
Public safety	7,300	4,194	3,106
Capital outlay	<u>31,000</u>	<u>21,256</u>	<u>9,744</u>
Total charges to appropriations	<u>38,300</u>	<u>25,450</u>	<u>12,850</u>
Fund balance, June 30, 2014	<u><u>\$ 315,543</u></u>	<u><u>\$ 322,413</u></u>	<u><u>\$ 6,870</u></u>

City of Hermosa Beach
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
Fire Protection
For the Year Ended June 30, 2014

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
Fund balance, July 1, 2013	\$ 28,355	\$ 28,355	\$ -
Resources (inflows):			
Charges for services	10,500	17,324	6,824
Interest earned on investments	272	211	(61)
Amount available for appropriation	39,127	45,890	6,763
Charges to appropriations (outflows):			
Capital outlay	13,361	13,360	1
Total charges to appropriations	13,361	13,360	1
Fund balance, June 30, 2014	\$ 25,766	\$ 32,530	\$ 6,764

City of Hermosa Beach
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
Artesia Boulevard Relinquishment
For the Year Ended June 30, 2014

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2013	\$ 5,465	\$ 5,465	\$ -
Resources (inflows):			
Interest earned on investments	131	-	(131)
Amount available for appropriation	5,596	5,465	(131)
Charges to appropriations (outflows):			
General government	4,000	2	3,998
Total charges to appropriations	4,000	2	3,998
Fund balance, June 30, 2014	<u>\$ 1,596</u>	<u>\$ 5,463</u>	<u>\$ 3,867</u>

City of Hermosa Beach
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
Grants
For the Year Ended June 30, 2014

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2013	\$ 18,696	\$ 18,696	\$ -
Resources (inflows):			
Intergovernmental	930,887	554,502	(376,385)
Amount available for appropriation	<u>949,583</u>	<u>573,198</u>	<u>(376,385)</u>
Charges to appropriations (outflows):			
Public safety	75,000	74,616	384
Community development	410,000	218,507	191,493
Public works	10,817	5,362	5,455
Capital outlay	299,890	22,713	277,177
Total charges to appropriations	<u>795,707</u>	<u>321,198</u>	<u>474,509</u>
Fund balance, June 30, 2014	<u>\$ 153,876</u>	<u>\$ 252,000</u>	<u>\$ 98,124</u>

City of Hermosa Beach
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
Capital Improvement Fund
For the Year Ended June 30, 2014

	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Fund balance, July 1, 2013	\$ 847,266	\$ 847,266	\$ -
Resources (inflows):			
Miscellaneous	10,150	10,175	25
Interest earned on investments	7,705	4,287	(3,418)
Transfers in	-	2,499,592	2,499,592
Amount available for appropriation	865,121	3,361,320	2,496,199
Charges to appropriations (outflows):			
Public works	40,490	33,972	6,518
Capital outlay	754,891	496,169	258,722
Total charges to appropriations	795,381	530,141	265,240
Fund balance, June 30, 2014	\$ 69,740	\$ 2,831,179	\$ 2,761,439

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INTERNAL SERVICE FUNDS

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

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

City of Hermosa Beach
Combining Statement of Net Position
All Internal Service Funds
June 30, 2014

	Insurance Fund	Equipment Replacement Fund	Total
ASSETS			
Current assets:			
Cash and investments	\$ 18,912,206	\$ 4,503,383	\$ 23,415,589
Accounts receivable	-	18,950	18,950
Deposits	165,000	-	165,000
Other assets	79,000	-	79,000
Total current assets	19,156,206	4,522,333	23,678,539
Capital assets:			
Nondepreciable	-	163,841	163,841
Depreciable, net	-	2,411,594	2,411,594
Total capital assets	-	2,575,435	2,575,435
Total assets	19,156,206	7,097,768	26,253,974
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 103,847	\$ 133,309	\$ 237,156
Accrued wages and benefits payable	3,481	8,323	11,804
Workers' compensation claims payable, due within one year	791,596	-	791,596
General liability claims payable, due within one year	518,155	-	518,155
Compensated absences due within one year	6,148	7,866	14,014
Total current liabilities	1,423,227	149,498	1,572,725
Long-term liabilities:			
Workers' compensation claims payable, due in more than one year	4,774,316	-	4,774,316
General liability claims payable, due in more than one year	868,179	-	868,179
Settlement payable	3,500,000	-	3,500,000
Compensated absences due in more than one year	5,407	6,919	12,326
Total long-term liabilities	9,147,902	6,919	9,154,821
Total liabilities	10,571,129	156,417	10,727,546
NET POSITION			
Investment in capital assets	-	2,575,435	2,575,435
Unrestricted	8,585,077	4,365,916	12,950,993
Total net position	\$ 8,585,077	\$ 6,941,351	\$ 15,526,428

City of Hermosa Beach
Combining Statement of Revenues, Expenses, and Changes in Net Position
All Internal Service Funds
For the Year Ended June 30, 2014

	Insurance Fund	Equipment Replacement Fund	Total
OPERATING REVENUES:			
Charges for services	\$ 2,700,092	\$ 1,715,493	\$ 4,415,585
Miscellaneous	41,838	-	41,838
Total operating revenues	2,741,930	1,715,493	4,457,423
OPERATING EXPENSES:			
Salaries and wages	95,179	182,052	277,231
Contractor services	1,076,770	428,412	1,505,182
Supplies	48	245,201	245,249
Claims expense	193,677	-	193,677
Depreciation	-	382,502	382,502
Total operating expenses	1,365,674	1,238,167	2,603,841
OPERATING INCOME	1,376,256	477,326	1,853,582
NONOPERATING REVENUES (EXPENSES):			
Operating grant	-	3,000	3,000
Gain on disposal of capital assets	-	22,217	22,217
Total nonoperating revenues (expenses)	-	25,217	25,217
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	1,376,256	502,543	1,878,799
Transfers in	1,361,905	-	1,361,905
Total contributions and transfers	1,361,905	-	1,361,905
Changes in net position	2,738,161	502,543	3,240,704
NET POSITION			
Beginning of the year	\$ 5,846,916	\$ 6,438,808	12,285,724
End of the year	\$ 8,585,077	\$ 6,941,351	\$ 15,526,428

City of Hermosa Beach
Combining Statement of Cash Flows
All Internal Service Funds
For the Year Ended June 30, 2014

	Insurance Fund	Equipment Replacement Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received for services from other funds	\$ 2,700,092	\$ 1,696,543	\$ 4,396,635
Cash received for insurance recovery	41,838	-	41,838
Cash payments to suppliers of goods and services	(1,060,993)	(574,514)	(1,635,507)
Cash payments to employees for services	(92,617)	(178,214)	(270,831)
Cash payment for insurance premiums and settlements	(1,356,348)	-	(1,356,348)
Net cash provided by operating activities	231,972	943,815	1,175,787
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Contributions	-	3,000	3,000
Transfers in	1,361,905	-	1,361,905
Net cash provided by noncapital financing activities	1,361,905	3,000	1,364,905
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	-	(1,162,471)	(1,162,471)
Proceeds from sale of capital assets	-	32,261	32,261
Net cash (used in) capital and related financing activities	-	(1,130,210)	(1,130,210)
Net increase (decrease) in cash and cash equivalents	1,593,877	(183,395)	1,410,482
CASH AND CASH EQUIVALENTS:			
Beginning of year	17,318,329	4,686,778	22,005,107
End of year	<u>\$ 18,912,206</u>	<u>\$ 4,503,383</u>	<u>\$ 23,415,589</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income	\$ 1,376,256	\$ 477,326	\$ 1,853,582
Adjustments to reconcile net operating income to net cash provided by (used in) operating activities:			
Depreciation	-	382,502	382,502
(Increase) Decrease in:			
Accounts receivable	-	(18,950)	(18,950)
Other assets	319	16,170	16,489
Increase (Decrease) in:			
Accounts payable	15,506	82,929	98,435
Accrued wages and benefits payable	170	3,728	3,898
Workers' compensation claims payable	(1,369,334)	-	(1,369,334)
General liability claims payable	206,663	-	206,663
Compensated absences	2,392	110	2,502
Total adjustments	(1,144,284)	466,489	(677,795)
Net cash provided by operating activities	\$ 231,972	\$ 943,815	\$ 1,175,787

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, 2014

	Bayview Drive Redemption	Bayview Drive Reserve	Lower Pier Avenue Assessment District Redemption	Beach Drive Assessment District Redemption
ASSETS				
Cash and investments	\$ 137,272	\$ 13,432	\$ 46,486	\$ 71,049
Interest receivable	328	32	111	170
Other accounts receivable	2,148	-	1,508	144
Total assets	\$ 139,748	\$ 13,464	\$ 48,105	\$ 71,363
LIABILITIES				
Assessment:				
Installment account	\$ 139,748	\$ 3,464	\$ 48,105	\$ 71,363
Reserve requirement	-	10,000	-	-
Total liabilities	\$ 139,748	\$ 13,464	\$ 48,105	\$ 71,363

City of Hermosa Beach
Combining Statement of Fiduciary Net Position (Continued)
All Agency Funds
June 30, 2014

	<u>Beach Drive Assessment District Reserve</u>	<u>Myrtle Avenue Utility Undergrounding Assessment District</u>	<u>Loma Drive Utility Undergrounding Assessment District</u>	<u>Total</u>
ASSETS				
Cash and investments	\$ 4,089	\$ 121,429	143,025	\$ 536,782
Interest receivable	10	290	341	1,282
Other accounts receivable	-	4,254	2,477	10,531
Total assets	<u>\$ 4,099</u>	<u>\$ 125,973</u>	<u>\$ 145,843</u>	<u>\$ 548,595</u>
LIABILITIES				
Assessment:				
Installment account	\$ 1,099	\$ 125,973	\$ 145,843	\$ 535,595
Reserve requirement	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>13,000</u>
Total liabilities	<u>\$ 4,099</u>	<u>\$ 125,973</u>	<u>\$ 145,843</u>	<u>\$ 548,595</u>

City of Hermosa Beach
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
For the Year Ended June 30, 2014

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
ASSETS				
Bayview Drive Redemption Fund:				
Cash and investments	\$ 139,008	\$ 61,971	\$ (63,707)	\$ 137,272
Interest receivable	237	323	(232)	328
Other accounts receivable	295	1,919	(66)	2,148
Bayview Drive Reserve Fund:				
Cash and investments	13,314	230	(112)	13,432
Interest receivable	23	31	(22)	32
Lower Pier District Redemption Fund:				
Cash and investments	42,313	41,629	(37,456)	46,486
Interest receivable	72	109	(70)	111
Other accounts receivable	2,745	1,508	(2,745)	1,508
Beach Drive Assessment District Redemption Fund:				
Cash and investments	69,361	32,972	(31,284)	71,049
Interest receivable	118	167	(115)	170
Other accounts receivable	378	144	(378)	144
Beach Drive Assessment District Reserve Fund:				
Cash and investments	4,052	69	(32)	4,089
Interest receivable	7	10	(7)	10
Myrtle Avenue Assessment Fund:				
Cash and investments	119,343	94,803	(92,717)	121,429
Interest receivable	203	286	(199)	290
Other accounts receivable	2,052	4,254	(2,052)	4,254
Loma Drive Assessment Fund:				
Cash and investments	136,860	107,856	(101,691)	143,025
Interest receivable	233	337	(229)	341
Other accounts receivable	3,177	4,072	(4,772)	2,477
Total assets	<u>\$ 533,791</u>	<u>\$ 352,690</u>	<u>\$ (337,886)</u>	<u>\$ 548,595</u>
LIABILITIES				
Bayview Drive Redemption Fund:				
Assessment installment account	\$ 139,540	\$ 64,213	\$ (64,005)	\$ 139,748
Bayview Drive Reserve Fund:				
Assessment installment account	3,337	261	(134)	3,464
Assessment reserve requirement	10,000	-	-	10,000
Lower Pier District Redemption Fund:				
Assessment installment account	45,130	43,246	(40,271)	48,105
Beach Drive Assessment District Redemption Fund:				
Assessment installment account	69,857	33,283	(31,777)	71,363
Beach Drive Assessment District Reserve Fund:				
Assessment installment account	1,059	79	(39)	1,099
Assessment reserve requirement	3,000	-	-	3,000
Myrtle Avenue Assessment Fund:				
Assessment installment account	121,598	99,343	(94,968)	125,973
Loma Drive Assessment Fund:				
Assessment installment account	140,270	112,265	(106,692)	145,843
Total liabilities	<u>\$ 533,791</u>	<u>\$ 352,690</u>	<u>\$ (337,886)</u>	<u>\$ 548,595</u>

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STATISTICAL SECTION

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

Contents	Page
Financial Trends	132-137
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	138-149
These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.	
Debt Capacity	150-152
These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future. ¹	
Demographic and Economic Information	153-155
These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.	
Operating Information	156-157
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				
	2005	2006	2007	2008	2009
Governmental activities:					
Net investment in capital assets	\$ 57,049,484	\$ 56,667,910	\$ 58,249,212	\$ 57,117,532	\$ 56,419,592
Restricted	3,305,478	3,590,623	3,813,004	5,171,642	5,403,000
Unrestricted	14,932,486	15,221,233	12,424,195	10,619,806	10,348,315
Total governmental activities net position	\$ 75,287,448	\$ 75,479,766	\$ 74,486,411	\$ 72,908,980	\$ 72,170,907
Business-type activities:					
Net investment in capital assets	\$ 8,081,080	\$ 8,297,790	\$ 10,311,365	\$ 10,187,758	\$ 10,057,219
Restricted	-	-	-	-	-
Unrestricted	502,758	237,824	(1,604,154)	(1,443,914)	(1,236,859)
Total business-type activities net position	\$ 8,583,838	\$ 8,535,614	\$ 8,707,211	\$ 8,743,844	\$ 8,820,360
Primary government:					
Net investment in capital assets	\$ 65,130,564	\$ 64,965,700	\$ 68,560,577	\$ 67,305,110	\$ 66,476,811
Restricted	3,305,478	3,590,623	3,813,004	5,171,642	5,403,000
Unrestricted	15,435,244	15,459,057	10,820,041	9,175,892	9,111,456
Total primary government net position	\$ 83,871,286	\$ 84,015,380	\$ 83,193,622	\$ 81,652,644	\$ 80,991,267

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

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

	Fiscal Year				
	2010	2011	2012	2013	2014
Governmental activities:					
net of related debt	\$ 56,599,591	\$ 56,693,499	\$ 65,518,736	\$ 64,135,741	\$ 64,828,005
Restricted	4,518,727	1,968,275	3,860,192	4,050,722	4,476,554
Unrestricted	10,768,025	14,122,551	10,589,507	17,294,405	22,988,231
Total governmental activities net position	<u>\$ 71,886,343</u>	<u>\$ 72,784,325</u>	<u>\$ 79,968,435</u>	<u>\$ 85,480,868</u>	<u>\$ 92,292,790</u>
Business-type activities:					
Net investment in capital assets	\$ 9,926,861	\$ 9,998,669	\$ -	\$ -	\$ -
Restricted	-	-	-	-	-
Unrestricted	(1,074,651)	(838,749)	-	-	-
Total business-type activities net position	<u>\$ 8,852,210</u>	<u>\$ 9,159,920</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Primary government:					
Net investment in capital assets	\$ 66,526,450	\$ 66,692,168	\$ 65,518,736	\$ 64,135,741	\$ 64,828,005
Restricted	4,518,727	1,968,275	3,860,192	4,050,722	4,476,554
Unrestricted	9,693,374	13,283,802	10,589,507	17,294,405	22,988,231
Total primary government net position	<u>\$ 80,738,551</u>	<u>\$ 81,944,245</u>	<u>\$ 79,968,435</u>	<u>\$ 85,480,868</u>	<u>\$ 92,292,790</u>

¹The 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				
	2005	2006	2007	2008	2009
Expenses:					
Governmental activities:					
Legislative and legal	\$ 737,903	\$ 962,682	\$ 867,481	\$ 990,342	\$ 1,059,528
General government	1,727,484	1,999,234	2,523,060	2,544,004	3,579,453
Public safety	12,855,036	15,167,715	17,237,156	19,569,031	17,471,578
Community development	1,355,888	1,349,891	1,424,766	1,358,051	1,416,714
Culture and recreation	996,021	1,149,070	1,253,882	1,343,223	1,420,956
Public works	6,687,811	7,980,811	7,106,083	6,942,529	6,860,854
Total governmental activities expenses	<u>24,360,143</u>	<u>28,609,403</u>	<u>30,412,428</u>	<u>32,747,180</u>	<u>31,809,083</u>
Business-type activities:					
Downtown Enhancement	166,732	1,130,499	1,096,039	1,133,746	963,304
Parking	1,701,775	-	-	-	-
Proposition "A" Transit	-	-	-	-	
Proposition "C" Transit	-	-	-	-	
Total business-type activities expenses	<u>1,868,507</u>	<u>1,130,499</u>	<u>1,096,039</u>	<u>1,133,746</u>	<u>963,304</u>
Total primary government expenses	<u>26,228,650</u>	<u>29,739,902</u>	<u>31,508,467</u>	<u>33,880,926</u>	<u>32,772,387</u>
Program revenues:					
Governmental activities:					
Charges for services:					
General government	88,375	458,900	497,423	563,583	569,772
Public safety	1,063,594	3,891,881	4,078,709	4,423,335	4,633,478
Community development	1,245,622	1,393,212	1,179,786	1,262,109	782,904
Culture and recreation	874,111	986,137	944,229	1,092,512	949,439
Public works	2,368,076	808,091	835,845	877,367	907,579
Operating grants and contributions	721,198	725,136	755,716	731,097	539,518
Capital grants and contributions	2,465,698	1,042,854	286,930	68,862	850,357
Total governmental activities program revenues:	<u>8,826,674</u>	<u>9,306,211</u>	<u>8,578,638</u>	<u>9,018,865</u>	<u>9,233,047</u>
Business-type activities:					
Charges for services:					
Downtown Enhancement	906,857	1,187,249	1,144,666	1,088,298	1,021,114
Parking	3,247,478	-	-	-	-
Proposition A Transit	-	-	-	-	
Proposition C Transit	-	-	-	-	
Operating grants and contributions	-	-	-	-	-
Capital grants and contributions	-	-	-	-	-
Total business-type activities program revenues:	<u>4,154,335</u>	<u>1,187,249</u>	<u>1,144,666</u>	<u>1,088,298</u>	<u>1,021,114</u>
Total primary government program revenues:	<u>12,981,009</u>	<u>10,493,460</u>	<u>9,723,304</u>	<u>10,107,163</u>	<u>10,254,161</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
Last Ten Fiscal Years
(accrual basis of accounting) (Continued)

	Fiscal Year				
	2005	2006	2007	2008	2009
Net revenues (expenses):					
Governmental activities	(15,533,469)	(19,303,192)	(21,833,790)	(23,728,315)	(22,576,036)
Business-type activities	2,285,828	56,750	48,627	(45,448)	57,810
Total net revenues (expenses)	<u>(13,247,641)</u>	<u>(19,246,442)</u>	<u>(21,785,163)</u>	<u>(23,773,763)</u>	<u>(22,518,226)</u>
General revenues and other changes in net position:					
Governmental activities:					
Taxes:					
Property taxes	6,221,535	8,361,888	9,383,544	10,458,034	11,188,377
Sales tax	2,584,015	2,511,004	2,395,390	2,500,659	2,390,658
Other taxes	5,897,908	6,186,641	6,414,534	6,456,786	6,069,339
Grants and contributions not restricted to specific programs	2,318,501	1,537,667	1,273,625	1,472,191	1,454,006
Investment income	467,923	753,746	1,097,128	850,176	429,087
Other general revenues	272,664	113	170,325	503,414	303,035
Transfers	1,507,304	144,451	11,255	4,259	3,461
Total governmental activities	<u>19,269,850</u>	<u>19,495,510</u>	<u>20,745,801</u>	<u>22,245,519</u>	<u>21,837,963</u>
Business-type activities:					
Investment income	96,365	33,154	48,113	28,320	17,749
Other general revenues	-	# -	-	-	-
Miscellaneous	243	6,323	86,112	57,840	4,597
Transfers	(1,507,304)	(144,451)	(11,255)	(4,259)	(3,461)
Total business-type activities	<u>(1,410,696)</u>	<u>(104,974)</u>	<u>122,970</u>	<u>81,901</u>	<u>18,885</u>
Total primary government	<u>17,859,154</u>	<u>19,390,536</u>	<u>20,868,771</u>	<u>22,327,420</u>	<u>21,856,848</u>
Changes in net assets					
Governmental activities:	3,736,381	192,318	(1,087,989)	(1,482,796)	(738,073)
Business-type activities:	875,132	(48,224)	171,597	36,453	76,695
Total primary government	<u>\$ 4,611,513</u>	<u>\$ 144,094</u>	<u>\$ (916,392)</u>	<u>\$ (1,446,343)</u>	<u>\$ (661,378)</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
Last Ten Fiscal Years
(accrual basis of accounting) (Continued)

	Fiscal Year				
	2010	2011	2012	2013	2014
Expenses:					
Governmental activities:					
Legislative and legal	\$ 980,157	\$ 972,979	\$ 4,677,233	\$ 881,556	\$ 1,076,211
General government	2,409,611	3,102,761	2,376,929	2,458,548	2,827,895
Public safety	17,841,984	17,698,263	18,179,929	16,431,962	16,856,166
Community development	1,243,490	1,223,581	1,235,058	1,260,996	1,519,632
Culture and recreation	1,252,037	1,133,467	1,037,790	1,087,000	1,068,388
Public works	7,823,275	6,725,147	7,239,076	7,529,499	7,420,724
Total governmental activities expenses	<u>31,550,554</u>	<u>30,856,198</u>	<u>34,746,015</u>	<u>29,649,561</u>	<u>30,769,016</u>
Business-type activities:					
Downtown Enhancement	997,138	878,021	906,244	-	-
Parking	-	-			
Proposition "A" Transit	-	-			
Proposition "C" Transit	-	-			
Total business-type activities expenses	<u>997,138</u>	<u>878,021</u>	<u>906,244</u>	<u>-</u>	<u>-</u>
Total primary government expenses	<u>32,547,692</u>	<u>31,734,219</u>	<u>35,652,259</u>	<u>29,649,561</u>	<u>30,769,016</u>
Program revenues:					
Governmental activities:					
Charges for services:					
General government	543,259	546,793	555,607	2,275,297	2,323,797
Public safety	4,674,410	4,646,663	5,112,011	5,282,223	5,455,694
Community development	650,962	797,248	860,158	1,125,637	1,641,773
Culture and recreation	856,135	975,469	957,989	1,271,845	1,425,451
Public works	840,740	1,025,008	938,822	989,656	892,784
Operating grants and contributions	543,531	700,691	828,722	702,873	1,106,254
Capital grants and contributions	1,817,638	902,506	759,889	255,996	260,844
Total governmental activities program revenues:	<u>9,926,675</u>	<u>9,594,378</u>	<u>10,013,198</u>	<u>11,903,527</u>	<u>13,106,597</u>
Business-type activities:					
Charges for services:					
Downtown Enhancement	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>1,026,185</u>	<u>1,409,952</u>	<u>1,649,197</u>	<u>-</u>	<u>-</u>
Total primary government program revenues:	<u>10,952,860</u>	<u>11,004,330</u>	<u>11,662,395</u>	<u>11,903,527</u>	<u>13,106,597</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
Last Ten Fiscal Years
(accrual basis of accounting) (Continued)

	Fiscal Year				
	2010	2011	2012	2013	2014
Net revenues (expenses):					
Governmental activities	(21,623,879)	(21,261,820)	(24,732,817)	(17,746,034)	(17,662,419)
Business-type activities	29,047	531,931	742,953	-	-
Total net revenues (expenses)	<u>(21,594,832)</u>	<u>(20,729,889)</u>	<u>(23,989,864)</u>	<u>(17,746,034)</u>	<u>(17,662,419)</u>
General revenues and other changes in net assets:					
Governmental activities:					
Taxes:					
Property taxes	11,407,964	11,518,645	11,598,615	12,151,229	12,910,426
Sales tax	2,112,971	2,209,559	2,474,651	2,598,752	2,653,631
Other taxes	5,962,978	6,060,992	6,461,065	6,638,189	6,924,202
Grants and contributions not restricted to specific programs	1,242,064	1,666,460	1,121,380	1,156,589	1,222,808
Investment income	135,423	91,910	109,571	130,709	141,794
Other general revenues	473,559	352,723	237,670	582,999	621,480
Transfers	4,356	259,513	9,913,975	-	-
Total governmental activities	<u>21,339,315</u>	<u>22,159,802</u>	<u>31,916,927</u>	<u>23,258,467</u>	<u>24,474,341</u>
Business-type activities:					
Investment income	5,609	4,679	6,418	-	-
Other general revenues	-	-	-	-	-
Miscellaneous	1,550	30,613	4,684	-	-
Transfers	(4,356)	(259,513)	(9,913,975)	-	-
Total business-type activities	<u>2,803</u>	<u>(224,221)</u>	<u>(9,902,873)</u>	<u>-</u>	<u>-</u>
Total primary government	<u>21,342,118</u>	<u>21,935,581</u>	<u>22,014,054</u>	<u>23,258,467</u>	<u>24,474,341</u>
Changes in net assets					
Governmental activities:	(284,564)	897,982	7,184,110	5,512,433	6,811,922
Business-type activities:	31,850	307,710	(9,159,920)	-	-
Total primary government	<u>\$ (252,714)</u>	<u>\$ 1,205,692</u>	<u>\$ (1,975,810)</u>	<u>\$ 5,512,433</u>	<u>\$ 6,811,922</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
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
2014	12,910,426	2,653,631	290,379	788,694	182,608	1,994,206	2,443,285	1,006,478	22,269,707

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

	Fiscal Year				
	2005	2006	2007	2008	2009
General Fund:					
Reserved	\$ 103,014	\$ 158,854	\$ 142,604	\$ 241,142	\$ 312,880
Unreserved	373,817	211,191	168,089	257,599	348,373
Non-spendable					
Restricted					
Committed					
Assigned					
Unassigned					
Total general fund	<u>\$ 476,831</u>	<u>\$ 370,045</u>	<u>\$ 310,693</u>	<u>\$ 498,741</u>	<u>\$ 661,253</u>
All other governmental funds:					
Reserved	\$ 4,107,762	\$ 3,845,091	\$ 3,875,682	\$ 1,734,658	\$ 1,273,762
Unreserved, reported in:					
Special revenue funds	10,516,612	10,900,400	8,864,333	11,135,309	9,764,500
Non-spendable					
Restricted					
Committed					
Assigned					
Unassigned					
Total all other governmental funds	<u>\$ 14,624,374</u>	<u>\$ 14,745,491</u>	<u>\$ 12,740,015</u>	<u>\$ 12,869,967</u>	<u>\$ 11,038,262</u>
Total governmental funds	<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>	<u><u>\$ 11,699,515</u></u>

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

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

	Fiscal Year				
	2010	2011	2012	2013	2014
General Fund:					
Reserved	\$ 447,426				
Unreserved	253,005				
Non-spendable		\$ 35,613	\$ 14,271	\$ 21,589	\$ 10,603
Restricted		172,021	255,200	391,504	410,289
Committed		10,592	10,592	10,592	28,900
Assigned		5,635,231	5,776,500	6,555,423	7,655,210
Unassigned		-	-	-	-
Total general fund	<u>\$ 700,431</u>	<u>\$ 5,853,457</u>	<u>\$ 6,056,563</u>	<u>\$ 6,979,108</u>	<u>\$ 8,105,002</u>
All other governmental funds:					
Reserved	\$ 3,060,042				
Unreserved, reported in:					
Special revenue funds	6,965,596				
Non-spendable			\$ 1,500		\$ 1,600
Restricted			3,604,992	\$ 3,659,218	4,083,450
Committed			117,415	137,166	432,606
Assigned		\$ 4,216,497	961,251	847,266	2,831,179
Unassigned					
Total all other governmental funds	<u>\$ 10,025,638</u>	<u>\$ 4,216,497</u>	<u>\$ 4,685,158</u>	<u>\$ 4,643,650</u>	<u>\$ 7,348,835</u>
Total governmental funds	<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>	<u><u>\$ 15,453,837</u></u>

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

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

	Fiscal Year				
	2005	2006	2007	2008	2009
Revenues:					
Property taxes	\$ 6,668,515.0	\$ 8,818,051.0	\$ 9,834,400.0	\$ 10,907,119.0	\$ 11,639,348.0
Other taxes	9,085,304	9,404,925	9,488,447	9,630,365	9,079,246
Licenses and permits	701,468	868,085	772,832	877,775	678,477
Fines and forfeitures	459,106	1,627,274	1,615,777	1,994,522	2,111,467
Use of money and property	871,782	612,248	656,966	679,528	716,215
Intergovernmental	4,333,949	2,278,769	1,299,426	1,277,080	1,788,584
Charges for services	1,852,726	3,905,640	4,125,954	4,171,165	4,102,959
Miscellaneous	2,053,250	388,532	349,856	737,112	436,138
Interest earned on investments	467,925	753,746	1,097,128	850,176	429,092
Total revenues	<u>26,494,025</u>	<u>28,657,270</u>	<u>29,240,786</u>	<u>31,124,842</u>	<u>30,981,526</u>
Expenditures					
Current:					
Legislative and legal	727,026	963,031	858,017	967,423	1,057,092
General government	1,340,435	2,220,062	2,426,179	2,433,226	2,513,647
Public safety	12,139,133	14,444,334	16,236,080	17,374,613	16,974,820
Community development	1,325,219	1,346,996	1,417,596	1,283,317	1,400,933
Culture and recreation	940,158	1,124,347	1,205,653	1,249,251	1,372,611
Public works	3,374,363	3,785,554	3,895,291	3,993,055	4,288,179
Capital outlay	6,425,895	3,406,570	4,722,412	1,672,441	3,294,817
Debt service:	n/a	n/a	n/a	n/a	n/a
Total expenditures	<u>26,272,229</u>	<u>27,290,894</u>	<u>30,761,228</u>	<u>28,973,326</u>	<u>30,902,099</u>
Excess (deficiency) of revenues over (under) expenditures	<u>221,796</u>	<u>1,366,376</u>	<u>(1,520,442)</u>	<u>2,151,516</u>	<u>79,427</u>
Other financing sources (uses)					
Proceeds from sale of assets					
Transfers in	7,368,202	4,273,743	2,550,370	1,755,358	1,919,303
Transfers out	(6,621,149)	(5,625,788)	(3,094,756)	(3,588,874)	(3,667,923)
Total other financing sources (uses)	<u>747,053</u>	<u>(1,352,045)</u>	<u>(544,386)</u>	<u>(1,833,516)</u>	<u>(1,748,620)</u>
Net change in fund balances	<u>\$ 968,849</u>	<u>\$ 14,331</u>	<u>\$ (2,064,828)</u>	<u>\$ 318,000</u>	<u>\$ (1,669,193)</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
Last Ten Fiscal Years
(modified accrual basis of accounting) (Continued)

	Fiscal Year				
	2010	2011	2012	2013	2014
Revenues:					
Property taxes	\$ 11,863,846	\$ 11,978,616	\$ 12,056,548	\$ 12,618,579	\$ 13,368,615
Other taxes	8,760,988	9,023,359	9,722,036	10,076,591	10,492,906
Licenses and permits	556,737	627,056	668,405	783,121	971,336
Fines and forfeitures	2,075,759	2,219,052	2,475,311	2,416,031	2,781,240
Use of money and property	622,847	653,752	815,367	1,102,797	1,077,154
Intergovernmental	2,578,807	1,678,980	1,555,097	896,216	1,350,674
Charges for services	4,080,450	4,005,420	4,301,971	6,312,731	6,722,773
Miscellaneous	301,179	538,098	198,858	469,725	630,271
Interest earned on investments	135,423	91,913	109,186	131,749	137,909
Total revenues	<u>30,976,036</u>	<u>30,816,246</u>	<u>31,902,779</u>	<u>34,807,540</u>	<u>37,532,878</u>
Expenditures					
Current:					
Legislative and legal	976,862	960,365	1,170,820	893,460	1,093,518
General government	2,350,692	3,001,906	2,293,402	2,550,162	2,806,176
Public safety	17,251,686	16,516,892	16,604,695	16,926,014	17,768,720
Community development	1,229,909	1,189,993	1,177,696	1,279,999	1,548,185
Culture and recreation	1,201,057	1,044,131	989,265	1,110,456	1,132,849
Public works	4,158,945	3,907,921	3,852,318	4,946,423	5,216,430
Capital outlay	4,176,566	3,044,697	2,414,507	1,813,990	2,774,016
Debt service:	n/a	n/a	n/a	n/a	n/a
Total expenditures	<u>31,345,717</u>	<u>29,665,905</u>	<u>28,502,703</u>	<u>29,520,504</u>	<u>32,339,894</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(369,681)</u>	<u>1,150,341</u>	<u>3,400,076</u>	<u>5,287,036</u>	<u>5,192,984</u>
Other financing sources (uses)					
Proceeds from sale of assets			2,360	-	-
Transfers in	2,316,998	2,239,196	1,911,100	1,381,842	3,905,349
Transfers out	(2,993,912)	(4,045,652)	(4,641,769)	(5,787,841)	(5,267,254)
Total other financing sources (uses)	<u>(676,914)</u>	<u>(1,806,456)</u>	<u>(2,728,309)</u>	<u>(4,405,999)</u>	<u>(1,361,905)</u>
Net change in fund balances	<u>\$ (1,046,595)</u>	<u>\$ (656,115)</u>	<u>\$ 671,767</u>	<u>\$ 881,037</u>	<u>\$ 3,831,079</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
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
2014	\$ 13,368,615	\$ 2,653,631	\$ 290,379	\$ 788,694	\$ 2,204,420	\$ 2,443,285	\$ 2,112,497	\$ 23,861,521

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
2005	2,834,252	201,708	7,276	98,635	(31,158)	3,110,712	1.00	3,141,870	19.78%
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%
2014	4,883,870	437,214	10,379	95,294	(47,030)	5,379,750	1.00	5,332,719	5.63%

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.

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	
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
2014	1.000000	0.017970	0.017498	-	-	0.003500	1.038968

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

- 0.2774 - Los Angeles County
- 0.2030 - Tax District # 1
- 0.1602 - Educational Augmentation Fund Impound
- 0.0849 - Educational Revenue Augmentation Fund
- 0.0541 - Hermosa Beach City School District
- 0.0526 - Redondo Beach Unified School District
- 0.0281 - Development Center Handicapped Minor - Redondo Beach
- 0.0275 - El Camino Community College District
- 0.0264 - Manhattan Beach Unified School District
- 0.0210 - Los Angeles County Library
- 0.01410 - Development Center Handicapped Minor - Manhattan Beach,
- 0.01203 - South Bay Cities Sanitation District Operating
- 0.00861 - Los Angeles County Flood Control Maintenance
- 0.00859 - County School Service Fund - Hermosa Beach
- 0.00827 - Beach Cities Hospital District
- 0.00637 - Los Angeles County FFW
- 0.00258 - Childrens Instil. Tuition Fund
- 0.00152 - Los Angeles Flood Drain Improvement District Maintenance
- 0.00130 - County School Services
- 0.00094 - Development Center Handicapped Minor - Hermosa Beach
- 0.00019 - Los Angeles County West Vector Control District
- 0.00016 - Water Replenishment District of Southern California
- 0.00010 - Los Angeles County Accumulated Capital Outlay
- 1.0000000

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

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

Taxpayer	2014		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)	76,273,666.00	1.42%		
EQR Gallery Apartments Limited Partnership (1)	68,213,267.00	1.27%		
Strand and Pier Holding Company LLC (4)	25,706,607.00	0.48%		
1601 PCH, LLP (1)	23,929,200.00	0.44%		
Hermosa Hotel Investments (1)	16,984,959.00	0.31%		
International Church of the Foursquare (7)	-	-	16,071,142	0.52%
William Stirton Trust (4)	15,707,449.00	0.29%		
Sepulveda Blvd Properties, LLC (6)	15,429,247.00	0.29%		
Reg8 Plaza Hermosa LLC (7)/Regency Centers LP (7)	14,958,847.00	0.28%	12,956,008	0.42%
Playa Pacifica (2)	-	-	12,022,424	0.39%
Boris LLC (1)	13,109,040.00	0.24%		
Beta Group (2)	12,915,692.00	0.24%	11,189,565	0.36%
Robert J. & Ranae R. Desantis Trust (1)	-	-	10,810,206	0.35%
Barbara K. Robinson (1)	-	-	8,100,000	0.26%
Cheng Yi and Ying Yin Chang (1)	-	-	7,496,291	0.24%
Formosa Hotel Inc (1)	-	-	7,406,972	0.24%
SII Trust (1)	-	-	6,222,014	0.20%
Robert Lovelace and Alicia Minana (2)	-	-	6,028,799	0.19%
	-	-		
	<u>\$ 283,227,974</u>	<u>5.26%</u>	<u>98,303,421</u>	<u>3.17%</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
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%
2014	11,124,112	10,798,615	97.07%		10,798,615	97.07%

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	
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
2014	468	36,787,127	69	3,946,450	5,379,750,286

**City of Hermosa Beach
Direct and Overlapping Debt
June 30, 2014**

City assessed valuation		\$ 5,379,750,286	
Redevelopment agency incremental valuation		-	
Total assessed valuation		<u>\$ 5,379,750,286</u>	
	<u>Percentage applicable</u>	<u>Outstanding debt 6/30/14</u>	<u>Estimated share of overlapping debt</u>
Overlapping debt repaid with property taxes:			
West Basin Water District debt service	0.582%	76,696,126	374,245
El Camino Community College District 2005 refunding	6.285%	1,790,000	1,704,178
El Camino Community College District 2002 series 2006B	6.285%	69,346,609	5,319,628
El Camino Community College District 2002 series 2012C	6.285%	88,880,000	11,364,769
El Camino Community College District 2012 refunding	6.285%	<u>180,812,882</u>	<u>2,607,802</u>
Total overlapping debt repaid with property taxes		<u>\$ 417,525,617</u>	<u>21,370,622</u>
City direct debt			
Hermosa Beach City School District debt service 2002	100.000%		199,401
Hermosa Beach School District debt service 2002 series 2005 B	100.000%		3,994,298
Hermosa Beach School District debt service 2005 refunding	100.000%		<u>4,395,074</u>
Total city direct debt			<u>8,588,773</u>
Total direct and overlapping debt			<u>\$ 29,959,395</u>
Direct Debt	0.180%		
Overlapping Debt	0.430%		
Total Debt	0.610%		

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

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

	Fiscal Year				
	2005	2006	2007	2008	2009
Assessed valuation	\$ 3,141,870,060	\$ 3,497,977,443	\$ 3,930,224,784	\$ 4,382,493,918	\$ 4,705,847,448
Conversion percentage	25%	25%	25%	25%	25%
Adjusted assessed valuation	\$ 785,467,515	\$ 874,494,361	\$ 982,556,196	\$ 1,095,623,480	\$ 1,176,461,862
Debt limit percentage	15%	15%	15%	15%	15%
Debt limit	\$ 117,820,127	\$ 131,174,154	\$ 147,383,429	\$ 164,343,522	\$ 176,469,279
Total net debt applicable to limit	\$ -	\$ -	\$ -	\$ -	\$ -
Legal debt margin	\$ 117,820,127	\$ 131,174,154	\$ 147,383,429	\$ 164,343,522	\$ 176,469,279
Total debt applicable to the limit as a percentage of debt limit	0%	0%	0%	0%	0%

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

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

	Fiscal Year				
	2010	2011	2012	2013	2014
Assessed valuation	\$ 4,823,727,991	\$ 4,862,223,524	\$ 4,944,940,538	\$ 5,093,189,582	\$ 5,379,750,286
Conversion percentage	25%	25%	25%	25%	25%
Adjusted assessed valuation	\$ 1,205,931,998	\$ 1,215,555,881	\$ 1,236,235,135	\$ 1,273,297,396	\$ 1,344,937,572
Debt limit percentage	15%	15%	15%	15%	15%
Debt limit	\$ 180,889,800	\$ 182,333,382	\$ 185,435,270	\$ 190,994,609	\$ 201,740,636
Total net debt applicable to limit	\$ -	\$ -	\$ -	\$ -	\$ -
Legal debt margin	\$ 180,889,800	\$ 182,333,382	\$ 185,435,270	\$ 190,994,609	\$ 201,740,636
Total debt applicable to the limit as a percentage of debt limit	0%	0%	0%	0%	0%

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

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)
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
2014	19,750	466,098,988	46,530	-	3.6%	1,764

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 2014.
- (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	2014		2005	
	Number of employees	Percent of total employment	Number of employees	Percent of total employment
24 Hour Fitness	211	6.45%		
City of Hermosa Beach	116	3.55%	132	3.45%
Hermosa Beach School District	90	2.75%	73	3.45%
Hennesey's Tavern	85	2.60%		
First Steps for Kids, Inc.	69	2.11%		
HYFN - Harris & Forstot, Inc.	48	1.47%		
Hot's Kitchen	41	1.25%		
Mediterraneo	37	1.13%		
Virtual Piggy	34	1.04%		
Round Table Pizza	30	0.92%		
Spyder II	30	0.92%		
Von's Companies			104	2.84%
Hennesey's Tavern			60	2.79%
Union Cattle/ Abigaile & Ocean Bar			59	2.60%
Comedy & Magic Club			55	2.46%
Patrick Molloy's			52	1.66%
Aloha Sharkeez			35	0.85%
Holiday Inn Express Hotel & Suites			18	0.80%
Edgerton & Weaver			17	0.80%
Ocean Diner			17	0.00%

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

<u>Function</u>	Full-time employees as of June 30									
	<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>	<u>2014</u>
General government	19	18	19	23	19	16	16	13	17	18
Public safety	98	89	90	87	92	95	72	74	74	75
Community development	8	8	9	6	8	8	9	8	8	8
Culture and recreation	5	5	4	4	4	2	3	3	2	2
Public works	23	20	20	24	20	20	16	17	15	20
Total	<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>123</u>

<u>Function</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>	<u>2014</u>
General government	-	-	-	-	-	-	-	-	-	3
Public safety	17	23	13	9	14	13	26	12	24	13
Community development	3	3	1	2	2	-	1	1	1	2
Culture and recreation	32	35	32	29	24	22	20	19	26	21
Public works	-	2	1	-	-	-	-	1	2	-
Total	<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>	<u>39</u>

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

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Public safety										
Police:										
Physical arrests	1,064	887	896	933	648	665	795	781	857	945
Traffic citations issued	2,101	1,518	1,681	2,490	2,503	2,798		2,290	1,819	3,421
Parking citations issued	54,010	47,770	48,329	59,656	52,080	47,620	63,010	68,193	70,678	74,228
						1,593				
Fire:										
Number of emergency calls	2,023	2,136	2,255	2,088	2,273	2,162	2,149	2,487	2,488	2,386
Inspections	182	467	751	312	965	908	436	559	495	657
Community development:										
Building permits issued	696	762	597	637	511	441	567	492	462	537
Culture and recreation:										
Number of recreation classes	159	165	186	171	138	165	172	169	129	134
Total enrollment	5,969	5,228	5,128	4,272	3,744	3,776	3,798	4,327	4,982	5,464
Public works:										
Graffiti removal (hours)	217	414	474	461	341	540	468	383	408	212
Permits issued	706	875	821	1,071	643	611	564	718	736	819

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									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Public safety										
Police:										
Police stations	1	1	1	1	1	1	1	1	1	1
Parking meters ¹	1,666	1,666	1,666	1,666	1,666	1,663	1,663	1,663	1,663	1,565
Fire:										
Fire stations	1	1	1	1	1	1	1	1	1	1
Culture and recreation										
Community centers	1	1	1	1	1	1	1	1	1	1
Community theatres	1	1	1	1	1	1	1	1	1	1
Public works:										
Beach (acres)	36.5	36.5	36.5	36.5	36.5	36.5	36.5	36.5	36.5	36.5
Greenbelt (acres)	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5
Parks	20	20	20	20	20	20	20	20	20	20
Parks (acres)	21.7	21.7	21.7	21.7	21.7	21.7	21.7	21.7	21.7	21.7
Sanitary sewers (miles)	34	34	34	34	34	34	34	34	34	40
Streets (miles)	40	40	40	40	40	40	40	40	40	40
Streetlights	399	392	392	392	392	392	392	392	392	400
Storm drains (miles)	1	1	1	1	1	1	1	1	1	2
Traffic Signals	17	17	17	18	18	18	18	19	19	19
Infiltration (miles) ³							0.6	0.6	0.6	0.6