



**City of Hermosa Beach,
California**

**Comprehensive
Annual
Financial
Report**

For the Year Ended June 30, 2016

City of Hermosa Beach

Hermosa Beach, California

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2016

Prepared by the
Finance Department of Hermosa Beach

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Comprehensive Annual Financial Report
For the Year Ended June 30, 2016**

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City of Hermosa Beach

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

January 31, 2017

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

Introduction

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the City of Hermosa Beach for the fiscal year ended June 30, 2016. The report is intended to update readers on the status of the City's financial position and results of operations for the past fiscal year.

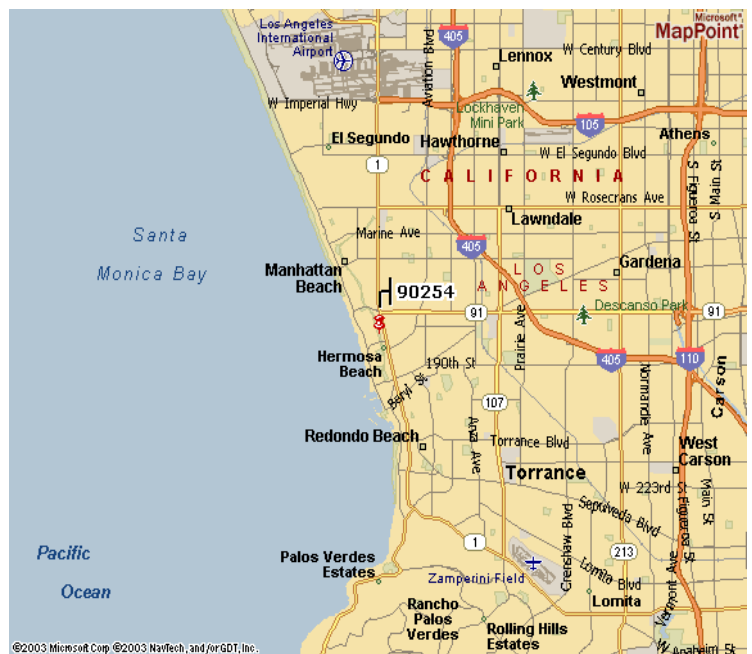
Management's representations concerning the finances of the City of Hermosa Beach are contained herein. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations,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

Audit

The City of Hermosa Beach's financial statements have been audited by The Pun Group, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Hermosa Beach for the fiscal year ended June 30, 2016, 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, 2016, 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 19,801, 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 2015-16 fiscal year, beach attendance ranged from a low of 125,600 in November 2015 to a high of 918,000 in August 2015, 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 2015 Profile of the City of Hermosa Beach*, produced in 2015 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 2017.

SCAG PROFILE OF THE CITY OF HERMOSA BEACH		
Category	2014 STATISTICAL SUMMARY	2012 STATISTICAL SUMMARY
	Hermosa Beach	Hermosa Beach
Median Age	38.6	38
Non-Hispanic White	79.5%	80.3%
Hispanic	8.8%	8.5%
Non-Hispanic Asian	6.0%	5.9%
Non-Hispanic Black	1.2%	1.2%
Non-Hispanic American Indian	0.2%	0.1%
Non-Hispanic All Other	4.3%	4.1%
Homeownership Rate	44.7%	44.7%
Average Household Size	2.1	2
Median Household Income	\$95,050	\$93,017
Mean Travel Time to Work	33.3 minutes	32 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), 2010-2014	\$74,730	\$29,906
Persons under 18 years, 2010	15.9%	25.0%	Persons below poverty level, 2010-2014	4.3%	15.3%
Persons 65 years and over, 2010	9.0%	11.4%	Median value of owner-occupied housing units, 2010-2014	\$1,000,001	\$371,400
Female persons, 2010	47.3%	50.3%	Housing units in multi-unit structures, 2009-2013	48.4%	31.0%
Bachelor's Degree or higher, persons age 25+, 2010-2014	71.1%	31.1%	High School graduate or higher, persons age 25+, 2010-2014	99.3%	81.5%

The U.S. Census Bureau Quick Facts are as of November 2016. Further data regarding the City may be found in the Statistical Section.

The annual budget serves as the foundation for the City of Hermosa Beach’s financial planning and control and is based on the Strategic Plan adopted by the City Council. All departments of the City of Hermosa Beach are required to submit requests for appropriation to the City Manager according to a budget calendar. The City Manager uses these requests as the starting point for developing a proposed budget, which is presented to the City Council for review by May 15. At least one public budget workshop is held prior to the required public hearing, with adoption required no later than June 30. If the City Council fails to adopt a budget by that date, the budget submitted by the City Manager, as amended by the City Council, if applicable, is the appropriated budget except for capital improvement outlays. The appropriated budget is prepared by fund and department (e.g., Police Department). The City Manager may make transfers of appropriations between departments within each fund; transfers of appropriations between funds, however, require the approval of the City Council. The City Council receives monthly revenue and expenditure reports during the year and a midyear budget review is conducted after the first six months of the fiscal year to ensure estimates are on target. Budget-to-actual comparisons are provided in this CAFR for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund and major governmental funds with appropriated annual budgets, this comparison is presented as Required Supplementary Information on pages 91-96. 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 6.6% in secured and unsecured assessed valuation, as compared to 5.5% for Los Angeles County. The 6.6% growth was the 14th highest of 88 cities in Los Angeles County. Median home prices in Hermosa Beach as of June 2016 were \$1,403,000, compared to \$561,000 for Los Angeles County. The Hermosa Beach median home price for June 2015 was \$1,361,000, compared to \$525,000 for Los Angeles County. The average median home price for Hermosa Beach for fiscal year 2015-16 was \$1,901,364 and \$1,455,550 for fiscal year 2014-15. Home values adjacent to the beach increased for the sixth 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

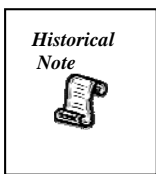
Angeles County. The unemployment rate in Hermosa Beach is 2.2%, compared with 5.2% for Los Angeles County, and 5.7% for California as of June 2016.

General Fund Secured property taxes increased 7% in 2015-16, 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 2015-16 are up 4.6%.

Transient occupancy tax (the tax on hotel stays) grew 17.6% over 2014-15. Receipts of more than \$2.7 million are the highest level ever. The TOT tax rate increased from 10% to 12% on January 1, 2016 as a result of an initiative place on the ballot by residents. Without the rate increase, revenue would be estimated to be 7.6% over prior year, but still at the highest level ever. Average occupancy for 2015-16 was 80% for Hermosa Beach compared to last year's rate of 81%. Hermosa Beach has eight hotels and one youth hostel, with rooms capacity ranging from 17 rooms to 96 rooms.

Utility user tax (UUT) revenue remained the same as last year at \$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.

Accounting Changes. In 2014-15 the City implemented Government Accounting Standards Board (GASB) Statement No 68, Accounting and Financial Reporting for Pensions and Statement No 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Net pension liabilities of \$37,833,015 were recorded in 2015-16 and the unrestricted net position was reduced accordingly. The change in accounting standards impacted the government-wide financial statement, notes, and required supplemental information only.

National/State Economy. The Legislative Analyst's Office points out that the State budget is subject to considerable uncertainty due to dependence on assumptions about the performance of the economy and the stock market. 70% of General Fund revenue is generated from personal income tax which depends on highly volatile estimates of capital gains. The near term budget projection for 2017-18 estimates an \$11.5 billion reserve which is consistent with the previous year.

Beacon Economics reports that the statewide economy is poised for continued growth over the next several quarters, outpacing other states in the nation. They indicated that the state outdistanced the nation in terms of economic growth and job creation and has an unemployment rate lower than a year ago.

Beacon has changed its U.S. outlook however from one of steady, if mediocre economic expansion to one with the very real possibility of a coming recession. These changes are based on the outcome of the presidential election and changes in Congress. They admit though, that specific outcomes are largely unknown.

California Public Employees Retirement System (CalPERS). The preliminary CalPERS investment return as of June 2016 was .61%, characterized by CalPERS to be a small but significant achievement in a year of extraordinarily turbulent and volatile global markets.

Last year, the CalPERS Board adopted a funding risk mitigation policy which was described in last year's CAFR. The policy will incrementally lower the discount rate (assumed rate of return) in years of good investment returns. This will be done gradually (by a minimum of .05 percentage points to a maximum of .25 percentage points when investment returns outperform the existing discount rate of 7.5% by at least four percentage points). This will work to offset increased employer contribution rates that would otherwise increase when the discount rate is lowered and help pay down CalPERS unfunded liability. This adjustment is in large part due to the aging workforce. A decade ago the ratio of active to retired workers was 2 to 1, it is now 1.6 to 1 and the trend downward will likely continue.

Another change has just taken place at the CalPERS Board meeting of December 20, 2016. It has been known that the CalPERS staff was encouraging the Board to consider options to further lower the discount rate. The Board approved a change from 7.5% to 7.375% for the 2016 valuation which sets rates for the 2018-19 fiscal year; to 7.25% for the 2017 valuation for 2019-20 rates and to 7% for the 2018 valuation for 2020-21 rates. This change is

good for the long term health of the retirement fund but does cause rate increases to cities in the near term. Our actuary indicates however, that the change for the first year will have minimal impact, which is good news.

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 2015-16 was \$1,457,687, per Council direction at Midyear Budget Review, to the Capital Improvement 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.

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

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

Since the Development of a long term financial plan that links infrastructure and facilities, and addresses debt policies was shown in the in 2015 Strategic Plan as a Top Priority, a draft financial plan was created with decision points and presented to the City Council with the 2016-17 Preliminary Budget and Five-Year Capital Improvement Program. The financial plan is intended to incorporate analysis, forecasting, strategies and policies into one document that provides guidelines and goals for the financial management of the city. It is anticipated that the plan will be adopted later in the year.

Primary capital projects coming up, (other than street and sewer improvements, which occur every year) are the Citywide Park Master Plan, Storm Drain Master Plan, ADA improvements, Municipal Pier Structural Repairs, Clark Field Restroom Improvements, and Community Center Solar Photovoltaic Installation.

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 57 months, with an average weighted yield on investments of 1.85%. Investment income includes changes in the fair value of investments. Changes in fair value during the current year, however, do not necessarily represent trends that will continue nor do such amounts necessarily become realized, since the City intends to hold the investments to maturity.

Risk management. The City is self-insured up to \$250,000 for liability claims. Excess coverage up to \$20 million is obtained through the Independent Cities Risk Management Authority (ICRMA), a joint powers authority

consisting of medium-sized California municipalities. The cost of the insurance depends on both the loss experience of member cities and the loss experience of the City.

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

Claims defense and settlement are coordinated by third party administrators for both liability and worker's compensation, with oversight by the 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, 2016, the City has twenty-one (21) active Tier 2 employees. With the State's pension reform implemented 1/1/13, the City now has three tiers. As of June 30, 2016 there are forty-seven (47) active employees in Tier 3. The City has paid employee contributions as a negotiated benefit for many years however in 2012-13 the City negotiated for employees to begin paying the entire share of the employee contribution over three years with an offsetting increase in salaries, which was achieved by 2014-15. All of these changes will reduce pension costs over time. City employer contributions are actuarially determined on an annual basis.

The City also provides post-employment health care benefits for certain retirees. As of the end of the current fiscal year, there were 55 retirees receiving these benefits.

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

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

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a 2015 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, 2015. This was the twenty-sixth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a report must be published that satisfies both GAAP and applicable legal requirements.

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

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

Respectfully submitted,



Viki Copeland
Finance Director



Government Finance Officers Association

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

Presented to

**City of Hermosa Beach
California**

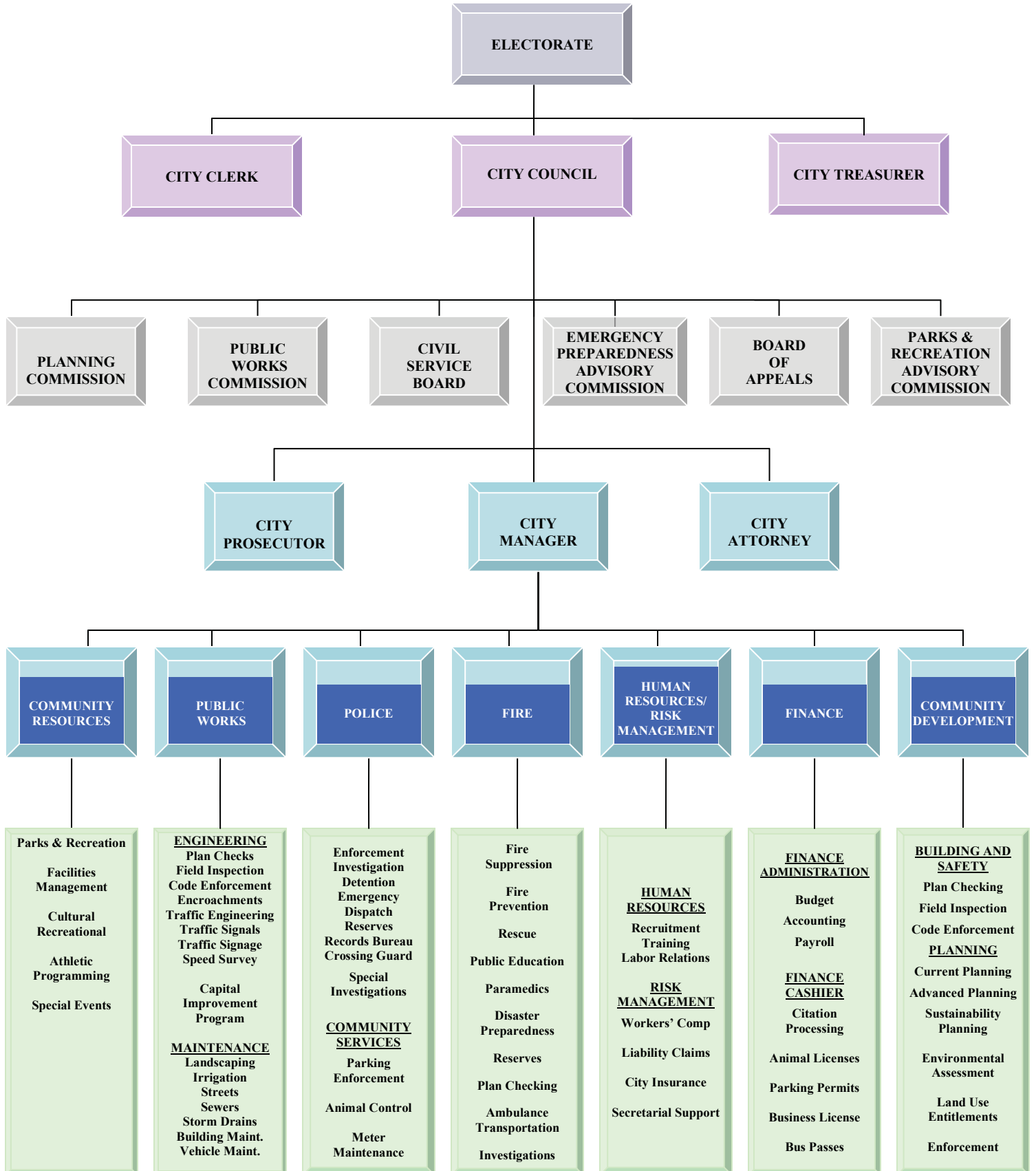
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO



CITY OF HERMOSA BEACH ORGANIZATIONAL CHART



PRINCIPAL OFFICIALS OF THE CITY OF HERMOSA BEACH, CALIFORNIA

June 30, 2016

Elected and Administrative Officials

City Council

Hany Fangary
Justin Massey
Stacey Armato
Jeff Duclos
Carolyn Petty

Mayor
Mayor Pro Tempore
Councilmember
Councilmember
Councilmember

Other Elected Officials

Karen Nowicki
Elaine Doerfling

City Treasurer
City Clerk

Administrative Officials

Tom Bakaly
Ken Robertson

Kelly Orta

Viki Copeland
Pete Bonano
Vanessa Godinez

Sharon Papa
Andrew Brozyna

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

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INDEPENDENT AUDITORS' REPORT

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

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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Schedule-General Fund, Budgetary Comparison Schedule-Sewer Special Revenue Fund, Schedule of Proportionate Share of the Net Pension Liability and Related Ratios, Schedule of Contributions, and the Schedules of Funding Progress-Other Postemployment Benefits on pages 7 to 16 and 91 to 96, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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Santa Ana, California
January 31, 2017

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

Independent Auditors' Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Hermosa Beach, California (the "City"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon January 31, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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 "The PwC Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California
January 31, 2017

Management's Discussion and Analysis

As management of the City of Hermosa Beach, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Hermosa Beach for the fiscal year ended June 30, 2016. 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

- Beginning with the fiscal year ended June 30, 2015, the City implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions which requires the City to include its net pension liability in the government-wide financial statements. Similar to the City's long-term debt, the net pension liability is payable over an extended time horizon and does not represent a claim on current financial resources. For more information on the implementation of GASB 68, please refer to Note 9 in the Notes to the Basic Financial Statements.
- The assets and deferred outflows of resources of the City of Hermosa Beach exceeded its liabilities and deferred inflows of resources at the close of the last fiscal year by \$51,932,818 (net position). Excluding the \$37,833,015 net pension liability, \$19,063,485 represents unrestricted net position and may be used to meet the government's ongoing obligations.
- The City's net position increased by \$5,880,150.
- As of June 30, 2016, the City of Hermosa Beach's governmental funds reported combined ending fund balances of \$24,975,456, an increase of \$2,655,004 in comparison with the prior year. This increase is primarily due to a 4.4% increase in revenue.
- At the end of the current fiscal year, the City of Hermosa Beach's governmental fund balances of \$24,975,456 are comprised of \$27,096, non-spendable; \$3,760,507, restricted; \$1,334,176, committed; and \$19,853,677 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 85%, or \$21,187,853 of the \$24,975,456 in funds could be redirected at the discretion of the City Council. See Note 11 on page 82.
- After the council approved a transfer of \$1,457,687 from the General Fund into the Capital Improvement Fund, the committed and assigned fund balance in the General Fund was \$8,426,891 or 25% of total General Fund expenditures.
- The City of Hermosa Beach issued lease revenue bonds of \$11.6 million in order to fund the balance of the oil settlement agreement with E&B Natural Resources. See Note 14 on pages 86-87.

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

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

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

The Government-Wide Financial Statements can be found on pages 20-23 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-six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the funds below, which are considered to be a major fund:

General Fund
Sewer Special Revenue Fund
Capital Improvement Capital Projects Fund

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

The governmental fund financial statements can be found on pages 29-32 of this report.

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

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

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

The proprietary fund financial statements can be found on pages 35-37 of this report.

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

The fiduciary fund financial statements can be found on page 41 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 47-87 of this report.

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

Other supplementary information. The combining statements referred to earlier in connection with non-major governmental funds, internal service funds, and fiduciary funds are presented immediately following the required supplementary information. Other supplementary information can be found on pages 102-146 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As of June 30, 2016, total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$51,932,818. Without the net pension liability, the net position would be \$89,765,833.

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

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

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

- Deferred Outflows of Resources- Represents the deferred pension contribution, which is equal to the total amount of the 2015-16 contributions. The contributions are deferred to 2016-17 because the net pension liability balance is one year in arrears.
- Net Pension Liabilities (recorded in Long-Term Liabilities)- Represents the actuarially valued liabilities for the Police, Fire, and Miscellaneous Plans as of June 30, 2015.
- Deferred Inflows of Resources- Represents the difference between the expected and actual earnings on investments. The new accounting standard requires that differences between projected and actual investment returns be amortized on a straight-line basis over five years.

Net Position		
June 30, 2016		
(dollars in thousands)		
	Governmental Activities	
	2016	2015
Current and Other Assets	\$ 44,663	\$ 43,165
Capital Assets	66,934	66,733
Total Assets	111,597	109,898
Deferred Outflows of Resources	5,142	4,480
Current Liabilities	6,089	18,084
Noncurrent Liabilities:		
Net Pension Liability	37,833	36,303
Long-term Liabilities- Other	17,167	5,916
Total Liabilities	61,089	60,303
Deferred Inflows of Resources	3,717	8,022
Net Position:	51,933	46,053
Invested in Capital Assets	66,934	66,733
Restricted	3,769	4,188
Unrestricted	(18,770)	(24,868)
Total Net Position	\$ 51,933	\$ 46,053

The largest portion of the City of Hermosa Beach's net position, \$66,933,796, reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment). The City of Hermosa Beach uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

A portion of the City of Hermosa Beach's net position \$3,768,552 represents resources that are subject to external restrictions on how they may be used.

Compliance with GASB 68 and 71 requires that the City's net pension liability be recorded on the Statement of Net Position, which reduces unrestricted net position and created a negative unrestricted net position or deficit of (\$18,769,530). Excluding the \$37,833,015 net pension liability, \$19,063,485 is available to meet the City's ongoing obligations to residents.

At June 30, 2016, the City is able to report positive balances in all categories of net position for the government as a whole except for unrestricted due to the implementation of GASB 68 and the inclusion of the net pension liability, which will likely remain a long-term liability for several decades. The following is the condensed Statement of Activities and Changes in Net Position for the fiscal years ending June 30, 2016 and June 30, 2015.

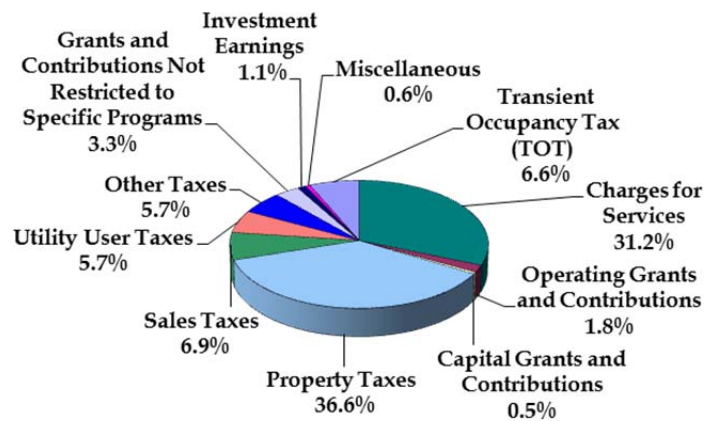
Governmental Activities. Governmental activities increased the City of Hermosa Beach's net position by \$5,880,150. Significant elements of this change are as follows:

Changes in Net Positions		
June 30, 2016		
(dollars in thousands)		
	Governmental Activities	
	2016	2015
Revenues:		
Program Revenues:		
Charges For Services	\$ 13,062	\$ 12,268
Operating Grants and Contributions	756	984
Capital Grants and Contributions	203	329
General Revenues:		
Property Taxes	15,317	13,740
Other Taxes	10,423	9,948
Grants and Contributions Not		
Restricted to Specific Programs	1,369	1,246
Other	723	1,000
Total Revenues	41,853	39,515
Expenses:		
Legislative and Legal	2,083	15,293
General Government	2,411	3,078
Public Safety	19,937	16,737
Community Development	1,316	1,711
Culture and Recreation	1,098	1,257
Public Works	9,128	6,986
Total Expenses	35,973	45,062
Increase (Decrease) in Net Position	5,880	(5,547)
Net Position - Beginning	\$ 46,053	\$ 51,600
Net Position - Ending	\$ 51,933	\$ 46,053

Revenue for Governmental Activities

- Charges for services increased \$794,117 or 6.5% due to the addition of a sewer service charge.
- Property taxes revenue increased \$1,577,810 or 11.5%. Property values at the beach continue to increase at a faster pace than other areas.
- Sales Tax revenue increased \$127,569 or 4.6%.
- Transient Occupancy Tax (TOT) revenue increased \$412,694 or 17.6%. The TOT tax rate increased from 10% to 12% on January 1, 2016 as a result of an initiative placed on the ballot by residents. Without the rate increase, revenue would be estimated to be 7.6% over prior year. Since reported occupancy rates for 2015-16 were 80% compared to 81% for 2014-15, the continued increase in TOT revenue is most likely due to increased room rates, which are not reported to the City.
- Utility User Tax and revenue from other taxes not listed were flat, but consistent.

Revenue by Source - Government Activities



Revenues:	2016	2015
Property Taxes	\$ 15,317,458	\$ 13,739,648
Charges for Services	13,062,285	12,268,168
Sales Taxes	2,895,794	2,768,225
Transient Occupancy Tax (TOT)	2,762,444	2,349,750
Utility Users Taxes	2,388,824	2,442,575
Other Taxes	2,376,199	2,387,620
Grants & Contributions not Restricted to Specific Programs	1,369,042	1,246,419
Operating Grants & Contributions	755,650	983,628
Investment Earnings	455,234	510,668
Miscellaneous	267,849	489,740
Capital Grants & Contributions	203,033	328,649
Total Revenues	\$ 41,853,812	\$ 39,515,090

Expenses for Governmental Activities

Expenses for Governmental Activities increased by 15.8%

The Legislative and Legal expenses decreased due to the one-time oil settlement expenses with E&B Natural Resources in 2014-15. Without the settlement, expenses increased in 2015-16 by \$790,047 or 61.1% due to interest paid on the oil settlement, the increased need for legal opinions by the City Attorney, and the special election.

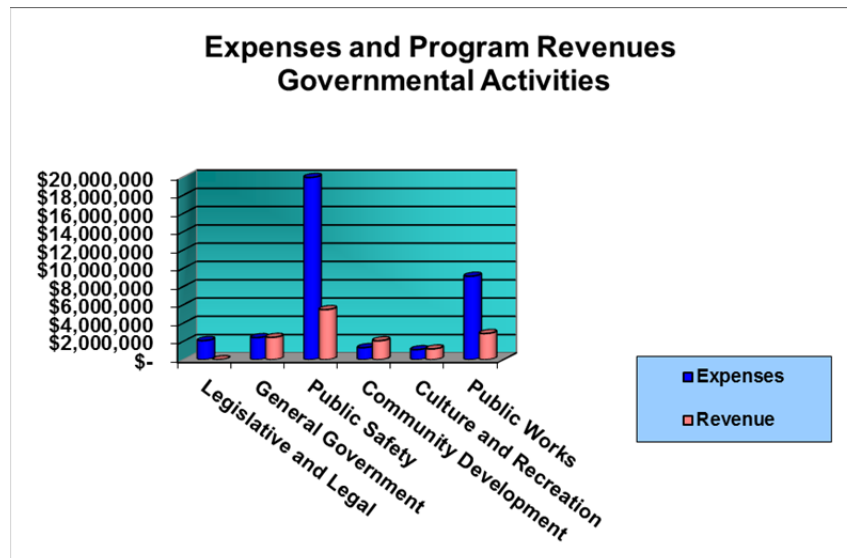
General Government expenses decreased by \$666,884 or -21.7%. The decrease is due to the GASB 68 recording of the department's share of the pension obligation adjustment for the difference between the City actual contributed and what CalPERS calculated to be the City's proportionate share of contributions (due to participating in a cost-sharing multiple-employer plan). See Note 9 for further information. Without this adjustment, the general government expenses would have been \$333,781 higher than prior year, primarily due to the Environmental Analyst being hired as full-time permanent and increased contract services costs due to grant writing services, user fee study, downtown impact/benefit analysis, and the purchase of the priority based budgeting online tool.

Public Safety expenses increased by \$3,199,929 or 19.1%. The primary Police Department increases were due to salary and retirement expenses. In 2014-15, the Police Department was under budget on salaries by 11% due to vacancies. Positions were filled in 2015-16 and the remaining increase to salaries is attributable to the 5% salary increase approved in 2015-16. Retirement costs increased due to positions being filled, the 5% salary increase noted above, and the CalPERS contribution rate increasing from 67.705% for Tier 1 to 83.821%. The Fire Department costs increased primarily due to overtime and accrual cash in (sick, vacation and compensatory leave time) from staffing shortages/injuries. Retirement costs also increased due to the CalPERS contribution rate increasing from 47.002% to 56.866% for Tier 1.

Community Development costs decreased by \$394,198 or 23.0%. The decrease is primarily due to the GASB 68 recording of the department's share of the pension obligation adjustment noted above under general government. See Note 9 for further information. Without this adjustment, Community Development costs would have been up \$73,816 due to increased expenditures related to updating the General Plan.

Culture and Recreation expenses decreased by \$159,809 or 12.7%. The decrease is due to the GASB 68 recording of the department's share of the pension obligation adjustment noted above under general government. See Note 9 for further information. Without this adjustment, the culture and recreation expenses would have been \$42,191 higher than prior year.

Public Works expenses increased by \$2,142,639 or 30.7%. The increase is primarily due to adjustments to capital assets and the recording of depreciation. Salaries also increased due to vacancies being filled, including the Assistant and Associate Engineer positions, the Public Works Director position being filled the entire year (started January 2015), and the 5% salary increase. Additionally, there were increased contract services costs for traffic engineering services and the parking structure counting system.



Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City of Hermosa Beach's governmental funds reported combined ending fund balances of \$24,975,456, an increase of \$2,655,004, in comparison with the prior fiscal year. See Note 11 for more information. The total fund balances of the governmental funds consist of the following:

- Non-spendable fund balance of \$27,096 represents prepaid items.
- Restricted fund balance of \$3,760,507 which have restrictions imposed by external parties or enabling legislation. Funds in this category include Lighting District Funds, Proposition A and C Transportation Funds, Asset Forfeiture Funds, Supplemental Law Enforcement Funds (COPS), and Storm Drain Funds.
- Committed fund balance of \$ 1,334,176 which have reserves for capital outlay and future renovations.
- Assigned fund balance of \$19,853,677 which includes the amounts to be used for specific purposes of the City, but do not meet the criteria to be classified as restricted or committed. Funds in this category include contingency funds ("rainy day" funds), retirement stabilization funds, compensated absences funds, capital projects, capital improvements, and sewer funds.

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

The General Fund balance decreased in 2015-16 by \$1,735,646. This decrease is due to funds previously set aside for oil debt service payments being transferred at midyear to the capital projects fund.

Overall General Fund revenue increased by 3.1%. The increase is a result of the following: additional property tax revenue of 6.7%; additional other tax revenue of 3.4%, an increase in licenses and permits of 21.3%; an increase in miscellaneous revenue of 79.5%; a decrease in intergovernmental revenues of -45.6%; a decrease in use of money and property of -15.9%; an increase in interest earned on investments of 57.2%; and fines and forfeitures decrease of -13.7%.

General Fund expenditures show an increase of 13.6%. The increase is primarily due to Public Safety, Legal and Legislative, and General Government for the aforementioned reasons.

General Fund Budgetary Highlights

The final amended budget for revenue other than transfers is 3% more than the original budget. Actual revenue was higher than the final budget by \$87,050 or .6% for the following reasons:

- Tax revenue collections were .6% higher than budget primarily due to conservative estimates for property tax, transient occupancy tax, and sales tax.
- Licenses and Permits were 12.9% higher due to the unexpected unpredictability of estimates for building permits.
- Fines and Forfeitures were down 13.6% due to staffing changes and shortages.
- Current Service Charges were up 1.4% primarily due to increased enrollment for recreation classes and programs, General Plan maintenance fees, and increased meter revenue.

The final amended budget for appropriations other than Transfers Out is more than the original budget by 6%. The increase was primarily due to funds carried forward/reappropriated from 14-15 for ongoing capital improvement projects.

Actual expenditures other than Transfers Out were less than the final appropriations by 8% largely due to salary and benefits savings from personnel vacancies and a decrease in health insurance premiums and capital improvement projects not completed in 2015-16.

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, 2016, amounts to \$66,933,796 (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 2015-16 fiscal year was less than 1%.

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

Governmental Activities

- Completion of the Surf Memorial Statue of \$502,007.
- Completion of Citywide Street Improvements of \$688,175.
- Citywide Energy Conservation upgrades of \$446,953.
- Purchase of 12 vehicles including an Ambulance.
- Purchase of a Force Options Simulator/Fire Range for the Police Department.

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

Insurance Fund

As previously stated, the City had a \$17.5 million oil settlement agreement with E& B Natural Resources, of which \$6 million was paid in from previously set aside funds. This resulted in the need to record a liability of \$11.5 million in the Insurance Fund at the end of 2014-15, creating a temporary deficit balance of \$6.9 million. The City issued Lease Revenue Bonds on July 23, 2015, which resolved the deficit fund balance. See Notes 7 for more information on the bond issuance and Note 14 for more information on the oil litigation. E&B contends that interest of the \$17.5 million commenced to run in March 2012, when the settlement agreement was executed. The City disagrees and the parties have been negotiating over that dispute.

Economic Factors and Next Year's Budgets and Rates

- The 2016-17 Budget includes \$5,448,594 for Contingency in the General Fund, which is 16% of operating expenditures and in line with our financial policy and the Council goal for a “Financially Sound City Government”.
- \$710,337 is transferred from the General Fund for the 2015 Lease Revenue Bonds debt service.
- \$957,645 is committed in the General Fund for unspecified contingencies.
- \$9.5 million of Capital Improvement Projects are funded, which includes \$5.8 in new funding.
- The City’s 5-Year Forecast for 2017-2022 projects retirement costs to increase 9% on average for the first year of due to change in actuarial assumptions and then stays flat in 2018-19 due to the Fire Side fund payoff. Years 3 and 4 show declines of 16% and 4% due to Police Side and Miscellaneous Group Side Fund payoffs. The final year of the forecast indicates a 9% increase in retirement costs. The side funds were created by CalPERS for any unfunded liability that existed when the city was pooled with other cities in 2003.
- Healthcare benefits are assumed to increase 7% for health, 5% for dental, and 2% for vision.
- In December 2016 CalPERS board approved a change to lower the discount rate from 7.5% to 7% over three years, which will cause rate increases to cities in the near term.
- The City is currently evaluating the option to outsource its fire services to Los Angeles County.

Revenue Trends and Assumptions

The 2016-17 Budget demonstrates continuing improvement in the local economy and a balanced budget, with some added personnel, replacement of 9 vehicles, deposits for 2 Tesla Model 3’s for the Police Department, a City-wide document imaging project, start-up costs for Community Choice Aggregation, and funding for \$9.5 million in capital improvement projects, which includes funding for Sewer, Storm Drain and Parks Master Plans. Added personnel include one Deputy City Engineer, one Environmental Analyst, and one Code Enforcement Officer/Fire Inspector. One (1) full time temporary position, Emergency Services Coordinator, was converted to a full time, permanent position. Two positions were reclassified, from Management Analyst to Assistant to the City Manager and Secretary to the City Manager to Executive Assistant to the City Manager.

Hermosa Beach continues to have ongoing revenues exceed ongoing expenses. Revenue growth of 2.8% is anticipated in the 2016-17 Budget. Property tax is estimated to increase by 6.7%, sales tax is estimated to increase by 2%, and utility user tax was adjusted down by 3% based on receipts through January 2016. With a focus on long-term fiscal sustainability, the Council continues to strategically add new services and expenditures that are consistent with their established goals and priorities.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

City of Hermosa Beach
Statement of Net Position
June 30, 2016

	Primary Government Governmental Activities
ASSETS	
Current assets:	
Cash and investments	\$ 40,416,049
Accounts receivable	2,711,540
Property taxes receivable, net	662,063
Reimbursable grants receivable	165,797
Interest receivable on investments	54,411
Other receivables	4,143
Other assets	377,941
Total current assets	44,391,944
Noncurrent assets:	
Net other postemployment benefit assets	270,821
Capital assets:	
Nondepreciable	24,174,480
Depreciable, net	42,759,316
Total capital assets, net	66,933,796
Total noncurrent assets	67,204,617
Total assets	111,596,561
DEFERRED OUTFLOWS OF RESOURCES	
Pension related deferred outflows of resources	5,142,189

City of Hermosa Beach
Statement of Net Position (Continued)
June 30, 2016

	Primary Government Governmental Activities
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	2,048,743
Accrued wages and benefits payable	961,592
Refundable deposits	409,647
Unearned revenue	48,884
Workers' compensation claims payable - due within one year	719,617
General liability claims payable - due within one year	316,291
Compensated absences - due within one year	1,249,753
Long-term debt - due within one year	335,000
Total current liabilities	6,089,527
Noncurrent liabilities:	
Workers' compensation claims payable - due in more than one year	3,957,033
General liability claims payable - due in more than one year	384,279
Compensated absences - due in more than one year	1,361,484
Long-term debt	11,464,040
Aggregate net pension liability	37,833,015
Total noncurrent liabilities	54,999,851
Total liabilities	61,089,378
DEFERRED INFLOWS OF RESOURCES	
Pension related deferred inflows of resources	3,716,554
Total deferred inflows of resources	3,716,554
NET POSITION	
Investment in capital assets	66,933,796
Restricted for:	
Capital projects	446,805
Street and sewer purposes	84,552
Transportation purposes	2,542,535
Public works	81,815
Public safety	333,688
Culture and recreation	61,491
Undergrounding districts	217,666
Total restricted	3,768,552
Unrestricted (Deficit)	(18,769,530)
Total net position	\$ 51,932,818

City of Hermosa Beach
Statement of Activities
For the Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Program Revenues
Primary government:					
Governmental activities:					
Legislative and legal	\$ 2,083,261	\$ -	\$ -	\$ -	\$ -
General government	2,411,160	2,414,955	25,056	-	2,440,011
Public safety	19,936,973	5,254,859	221,911	-	5,476,770
Community development	1,316,365	1,996,538	66,579	-	2,063,117
Culture and recreation	1,097,502	1,178,323	-	-	1,178,323
Public works	9,128,401	2,217,610	442,104	203,033	2,862,747
Total governmental activities	<u>\$ 35,973,662</u>	<u>\$ 13,062,285</u>	<u>\$ 755,650</u>	<u>\$ 203,033</u>	<u>\$ 14,020,968</u>

City of Hermosa Beach
Statement of Activities (Continued)
For the Year Ended June 30, 2016

Functions/Programs	Net (Expense) Revenue and Changes in Net Position
Primary government:	
Governmental activities:	
Legislative and legal	\$ (2,083,261)
General government	28,851
Public safety	(14,460,203)
Community development	746,752
Culture and recreation	80,821
Public works	(6,265,654)
Total governmental activities	(21,952,694)
 General Revenues:	
Taxes:	
Property taxes	15,317,458
Sales taxes	2,895,794
Real property transfer tax	320,731
Franchise fees	776,316
Transient occupancy tax	2,762,444
Business license	1,058,663
Utility users tax	2,388,824
½ cent sales tax for public safety	212,511
Motor vehicle in-lieu tax	7,978
Total taxes	25,740,719
Grants and contributions not restricted to specific programs	1,369,042
Investment earnings	455,234
Miscellaneous	267,849
Total general revenues	27,832,844
Change in net position	5,880,150
Net position - beginning of year	46,052,668
Net position - end of year	\$ 51,932,818

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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

The Governmental Funds of the City are outlined below:

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

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

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

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

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City of Hermosa Beach
Balance Sheet
Governmental Funds
June 30, 2016

	Major Funds				Total
	General	Sewer Special Revenue Fund	Capital Improvements Capital Projects Fund	Nonmajor Governmental Funds	
ASSETS					
Cash and investments	\$ 10,197,111	\$ 4,590,670	\$ 7,753,541	\$ 3,845,702	\$ 26,387,024
Accounts receivable	2,260,919	201,908	-	248,713	2,711,540
Property taxes receivable, net	647,216	6,802	-	8,045	662,063
Reimbursable grants receivable	-	-	-	165,797	165,797
Interest receivable on investments	23,836	8,416	12,884	9,275	54,411
Other receivables	4,143	-	-	-	4,143
Other assets	205,790	-	-	5,835	211,625
Due from other funds	170,068	-	-	-	170,068
Total assets	\$ 13,509,083	\$ 4,807,796	\$ 7,766,425	\$ 4,283,367	\$ 30,366,671
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ 1,488,567	\$ 73,625	\$ 37,190	\$ 319,690	\$ 1,919,072
Accrued wages and benefits payable	935,229	3,245	-	12,229	950,703
Refundable deposits	409,647	-	-	-	409,647
Unearned revenues	48,884	-	-	-	48,884
Due to other funds	-	-	-	170,068	170,068
Compensated absences, due within one year	1,201,498	11,984	-	17,296	1,230,778
Total liabilities	4,083,825	88,854	37,190	519,283	4,729,152
Deferred Inflows of Resources:					
Unavailable Revenues	647,216	6,802	-	8,045	662,063
Total deferred inflows of resources	647,216	6,802	-	8,045	662,063
Fund Balances:					
Nonspendable	21,261	-	-	5,835	27,096
Restricted	329,890	-	-	3,430,617	3,760,507
Committed	28,900	989,386	-	315,890	1,334,176
Assigned	8,397,991	3,722,754	7,729,235	3,697	19,853,677
Total fund balances	8,778,042	4,712,140	7,729,235	3,756,039	24,975,456
Total liabilities, deferred inflows of resources, and fund balances	\$ 13,509,083	\$ 4,807,796	\$ 7,766,425	\$ 4,283,367	\$ 30,366,671

City of Hermosa Beach
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2016

Total Fund Balances - Total Governmental Funds \$ 24,975,456

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

Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet.

	Government- Wide Statement of Net Position	Internal Service Funds	
Nondepreciable	\$ 24,174,480	\$ (163,841)	24,010,639
Depreciable, net	42,759,316	(3,411,056)	39,348,260
Total capital assets	\$ 66,933,796	\$ (3,574,897)	63,358,899

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

270,821

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	3,652,986
Equipment Replacement Fund	8,580,497
Total Internal Service Funds	12,233,483

Revenues in the Government-wide Statement of Activities that do not provide current financial resources and are not reported as revenue in the governmental funds.

662,063

Long-term liabilities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the Statement of Net Position:

Lease revenue bonds and premium	(11,799,040)
Compensated absences, net of \$18,975 reported in Internal Service fund and \$1,230,778 reported in accrued payroll	(1,361,484)
	(13,160,524)

Deferred amounts relates to pension not available for current expenditures and are not reported in the governmental fund financial statements:

Pension related deferred outflows of resources	5,142,189
Pension related deferred outflows of resources	(3,716,554)

Net pension liability is not due and payable in the current period and therefore is not reported in the governmental funds.

(37,833,015)

Net Position of Governmental Activities \$ 51,932,818

City of Hermosa Beach
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2016

	Major Funds				Total
	General	Sewer Special Revenue Fund	Capital Improvements Capital Projects Fund	Nonmajor Governmental Funds	
REVENUES:					
Property taxes	\$14,655,395	\$ -	\$ -	\$ 458,084	\$ 15,113,479
Other taxes	10,284,023	-	-	1,018,887	11,302,910
Licenses and permits	1,111,366	-	-	-	1,111,366
Fines and forfeitures	2,244,697	-	-	167,857	2,412,554
Use of money and property	646,893	-	-	318,845	965,738
Intergovernmental	162,104	171,526	-	615,625	949,255
Charges for services	6,915,663	988,286	-	226,732	8,130,681
Miscellaneous	453,917	40,000	-	186,020	679,937
Interest earned on investments	239,793	52,851	65,529	87,087	445,260
Total revenues	<u>36,713,851</u>	<u>1,252,663</u>	<u>65,529</u>	<u>3,079,137</u>	<u>41,111,180</u>
EXPENDITURES:					
Current:					
Legislative and legal	1,621,138	-	-	337,802	1,958,940
General government	3,336,439	-	-	121,752	3,458,191
Public safety	20,950,756	-	198,242	123,476	21,272,474
Community development	1,662,880	3,708	-	139,542	1,806,130
Culture and recreation	1,261,563	-	-	30,245	1,291,808
Public works	5,199,400	535,760	-	887,538	6,622,698
Capital outlay	119,130	-	518,206	2,315,787	2,953,123
Debt service:					
Interest and fiscal charges	-	-	-	233,425	233,425
Total expenditures	<u>34,151,306</u>	<u>539,468</u>	<u>716,448</u>	<u>4,189,567</u>	<u>39,596,789</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>2,562,545</u>	<u>713,195</u>	<u>(650,919)</u>	<u>(1,110,430)</u>	<u>1,514,391</u>
OTHER FINANCING SOURCES (USES):					
Proceeds from lease revenue bond	-	-	-	11,799,905	11,799,905
Transfers in	362,884	276,191	4,455,960	769,632	5,864,667
Transfers out	(4,661,075)	-	-	(11,862,884)	(16,523,959)
Total other financing sources (uses)	<u>(4,298,191)</u>	<u>276,191</u>	<u>4,455,960</u>	<u>706,653</u>	<u>1,140,613</u>
NET CHANGES IN FUND BALANCES	<u>(1,735,646)</u>	<u>989,386</u>	<u>3,805,041</u>	<u>(403,777)</u>	<u>2,655,004</u>
FUND BALANCES:					
Beginning of year	10,513,688	3,722,754	3,924,194	4,159,816	22,320,452
End of year	<u>\$ 8,778,042</u>	<u>\$ 4,712,140</u>	<u>\$ 7,729,235</u>	<u>\$ 3,756,039</u>	<u>\$ 24,975,456</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, 2016

Net Change in Fund Balances - Total Governmental Funds \$ 2,655,004

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	2,953,123
Less: repair and maintenance expenditures	(1,037,149)
Add: transfer of infrastructures from Internal Service Fund	<u>376,455</u>
Total capital outlay (net of \$909,144 reported in internal service fund)	<u>2,292,429</u>

The net effect on disposal of capital assets. (580,911)

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

Total depreciation reported in Government-Wide Statement of Activities	(2,420,167)
Less: depreciation reported in Internal Service Funds	<u>380,243</u>
Total	<u>(2,039,924)</u>

Earned but unavailable revenues reported in the governmental funds balance sheet as deferred inflows of resources should be recognized in the government-wide statement of activities as revenue regardless of availability. 662,063

Certain pension expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 3,438,229

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. 179,695

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. (144,945)

The issuance of long-term debt provides current financial resources to governmental funds. However, the repayment reduces long-term liabilities in the governmental activities statement of net position. (11,799,905)

Amortization of premium does not use current financial resources and therefore not reported as expenditure in the governmental funds. 865

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. 11,217,550

Change in Net Position of Governmental Activities \$ 5,880,150

PROPRIETARY FUND FINANCIAL STATEMENTS

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

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City of Hermosa Beach
Statement of Net Position
Proprietary Funds
June 30, 2016

	Governmental Activities
	Internal Service Funds
ASSETS	
Current assets:	
Cash and investments	\$ 14,029,025
Other assets	166,316
Total current assets	14,195,341
Noncurrent assets:	
Nondepreciable capital assets	163,841
Depreciable capital assets, net of accumulated depreciation	3,411,056
Total noncurrent assets	3,574,897
Total assets	17,770,238
LIABILITIES	
Current liabilities:	
Accounts payable	129,671
Accrued wages and benefits payable	10,889
Workers' compensation claims payable - due within one year	719,617
General liability claims payable - due within one year	316,291
Compensated absences due within one year	18,975
Total current liabilities	1,195,443
Long-term liabilities:	
Workers' compensation claims payable - due in more than one year	3,957,033
General liability claims payable - due in more than one year	384,279
Total long-term liabilities	4,341,312
Total liabilities	5,536,755
NET POSITION	
Investment in capital assets	3,574,897
Unrestricted	8,658,586
Total net position	\$ 12,233,483

City of Hermosa Beach
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2016

	Governmental Activities
	Internal Service Funds
OPERATING REVENUES:	
Charges for services	\$ 4,499,640
Miscellaneous revenue	80,069
Total operating revenues	4,579,709
OPERATING EXPENSES:	
Salaries and wages	280,714
Contractor services	1,510,609
Supplies	355,522
Claims expense	1,130,624
Depreciation	380,243
Total operating expenses	3,657,712
OPERATING INCOME	921,997
NONOPERATING REVENUES (EXPENSES):	
Operating grant	500
Gain on disposal of capital assets	12,216
Total nonoperating revenues (expenses)	12,716
INCOME BEFORE TRANSFERS	934,713
TRANSFERS:	
Transfers in	12,344,421
Transfers out	(2,061,584)
Total transfers	10,282,837
Change in net position	11,217,550
NET POSITION:	
Beginning of the year	1,015,933
End of the year	\$ 12,233,483

City of Hermosa Beach
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2016

	Governmental Activities
	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received for services from other funds	\$ 4,499,640
Cash received from insurance recovery	75,933
Cash payments to suppliers for goods and services	(13,915,169)
Cash payments to employees for services	(279,659)
Cash payment for insurance premiums	(1,458,913)
Net cash provided by (used in) operating activities	(11,078,168)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Contributions	500
Interest paid	(133,867)
Transfers in	12,344,421
Transfers out	(1,685,129)
Net cash provided by (used in) noncapital financing activities	10,525,925
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of capital assets	(1,285,599)
Proceeds from sale of capital assets	39,937
Net cash provided by (used in) capital and related financing activities	(1,245,662)
Net (decrease) in cash and cash equivalents	(1,797,905)
CASH AND CASH EQUIVALENTS:	
Beginning of year	15,826,930
End of year	\$ 14,029,025
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 921,997
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:	
Depreciation	380,243
(Increase) decrease in:	
Other assets	(87,316)
Increase (decrease) in:	
Accounts payable	(461,722)
Accrued wages and benefits payable	(1,045)
Settlements payable	(11,500,000)
Workers' compensation claims payable	(144,695)
General liability claims payable	(187,730)
Compensated absences	2,100
Total adjustments	(12,000,165)
Net cash provided by (used in) operating activities	\$ (11,078,168)
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES	
Transfer of infrastructure	\$ (376,455)

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

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City of Hermosa Beach
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016

	Agency Funds
ASSETS	
Cash and investments	\$ 585,960
Interest receivable	1,098
Other receivable	7,621
Other assets	90
Total assets	\$ 594,769
LIABILITIES	
Assessment:	
Installment account	\$ 581,769
Reserve requirement	13,000
Total liabilities	\$ 594,769

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NOTES TO THE BASIC FINANCIAL STATEMENTS

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City of Hermosa Beach
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For the Year Ended June 30, 2016

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City of Hermosa Beach
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For the Year Ended June 30, 2016

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City of Hermosa Beach
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

Note 1 – Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

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

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

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

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

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

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

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

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

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

The above component units do not issue separate financial statements.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

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, 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

Governmental Fund Financial Statements (Continued)

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

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

The City reports the following major governmental fund:

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

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

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

Proprietary Fund Financial Statements

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

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

Proprietary Fund Financial Statements (Continued)

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

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

Fiduciary Fund Financial Statements

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

C. Cash and Investments

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

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

D. Fair Value Measurement

In accordance with GASB Statement No. 72, *Fair Value Measurement and Applications*, this statement defines fair value, establishes a framework for measuring fair value and establishes disclosures about fair value measurement. Investments, unless otherwise specified, recorded at fair value in the financial statements, are categorized based upon the level of judgment associated with the inputs used to measure their fair value.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

D. Fair Value Measurement (Continued)

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

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

E. Property Taxes Receivable

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

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

F. Interfund Transactions

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

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

G. Capital Assets

In the government-wide financial statements, capital assets, which include land, buildings, improvements, equipment, furniture, and infrastructure assets (e.g., roads, sidewalks, and similar items), are recorded at historical cost or estimated historical if purchased or constructed. Donated capital assets 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

H. 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 unearned revenue is recorded are lease payments, quarterly encroachment fees and advance registration for recreation classes which were not yet earned.

I. Claims Payable

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

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

J. *Compensated Absences Payable*

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

K. *Pensions*

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

The following timeframes are used for pension reporting:

<u>CalPERS</u>	
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Measurement Period	July 1, 2014 to June 30, 2015

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

L. *Net Position*

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

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

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

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

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

M. Fund Balances

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

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

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

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

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

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

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

N. Spending Policy

Government – Wide Financial Statements and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

Long-term financial planning

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

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

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

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

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

The City also has a financial policy of transferring funds unspent in the General Fund at year-end to the Insurance Fund, Equipment Replacement Fund, and Capital Improvement Capital Projects Fund and to add to Contingency funds. For 2015-16, the City Council determined that all unspent funds in the General Fund \$1,457,687 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.

O. Use of Estimates

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

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

P. Accounting Changes

GASB has issued Statement No. 72, Fair Value Measurement and Application. This Statement addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes and also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement became effective for periods beginning after June 15, 2015 and did not have any measurement impact on the City's investment portfolio, except for the additional disclosure regarding to measurement input as discussed in Note 2C of the City's financial statements for the year ended June 30, 2016.

GASB has issued Statement No. 73, Accounting and Financial reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement 68 for pension plans and pensions that are within their respective scopes. This statement became effective for periods beginning after June 15, 2015 and did not have a significant impact on the City's financial statements for the year ended June 30, 2016.

GASB has issued Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. This statement establishes standards relating to the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement became effective for periods beginning after June 15, 2015, and should be applied retroactively. This statement did not have a significant impact on the City's financial statements for the year ended June 30, 2016.

GASB has issued Statement No. 79, Certain External Investment Pools and Pool Participants. This statement establishes standards relating accounting and financial reporting for certain external investment pools and pool participants. This statement became effective for periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015 and did not have a significant impact on the City's financial statements for the year ended June 30, 2016.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

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, 2016:

	Government-Wide Statement of Net Position Governmental Activities	Statement of Fiduciary Net Position	Total
Cash and investments	\$ 40,416,049	\$ 585,960	\$ 41,002,009

The City’s cash and investments at June 30, 2016 in more detail:

Cash and cash equivalents:	
Demand deposits	\$ 3,982,062
Petty cash	2,000
Total cash and cash equivalents	3,984,062
Investments:	
Local Agency Investment Fund	988,086
Los Angeles County Pooled Investments Funds	30,958,104
Negotiable Certificates of deposit	4,565,622
U.S. Government Sponsored Enterprise Securities	506,135
Total investments	37,017,947
Total cash and investments	\$ 41,002,009

A. Deposits

The carrying amounts of the City’s demand deposits were \$3,982,062 at June 30, 2016. Bank balances at that date were \$4,613,550, the total amount of which was collateralized or insured with accounts held by the pledging financial institutions in the City’s name as discussed below.

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

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

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

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 2 – Cash and Investments (Continued)

B. Investments

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

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

The City is a participant in LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City’s investments with LAIF at June 30, 2016 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, 2016, the City had \$988,086 invested in LAIF, which had invested 2.81% of the pool investment funds in Structured Notes and Asset-Backed Securities.

C. Investment in Los Angeles County Investment Pool

The City is a voluntary participant in the Los Angeles County Investment Pool pursuant to Government Code Section 53684. The cash flow needs of participants are monitored daily to ensure that sufficient liquidity is maintained to meet the needs of those participants. At the time deposits are made, the Los Angeles County Investment Pool’s Treasurer may require the depositing entity to provide annual cash flow projections or an anticipated withdrawal schedule for deposits in excess of \$1 million. Projections are to be performed no less than semi-annually. In accordance with Government Code Section 27136, all requests for withdrawal of funds for the purpose of investing or depositing the funds elsewhere shall be evaluated to ensure the proposed withdrawal will not adversely affect the principal deposits of the other participants. As of June 30, 2016, the City had \$30,958,104 invested in the Los Angeles County Investment Pool.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 2 – Cash and Investments (Continued)

D. Fair Value Measurement

At June 30, 2016, investments are reported at fair value. The following table presents the fair value measurement of investments on a recurring basis and the levels within GASB 72 fair value hierarchy in which the fair value measurements fall at June 30, 2016:

Investment Type	Level 1	Level 2	Level 3
Local Agency Investment Fund	\$ -	\$ 988,086	\$ -
Los Angeles County Pooled Investments Fund	-	30,958,104	-
Negotiable Certificates of deposit	-	4,565,622	-
U.S. Government Sponsored Enterprise Securities	-	506,135	-
Total	\$ -	\$ 37,017,947	\$ -

E. Risk Disclosures

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

At June 30, 2016, the City had the following investment maturities:

Investment Type	Fair value	Investment Maturities (in Years)			
		Less than 1	1 to 2	2 to 3	4 to 5
Local Agency Investment Fund	\$ 988,086	\$ 988,086	\$ -	\$ -	\$ -
Los Angeles County Pooled Investments Fund	30,958,104	30,958,104	-	-	-
Negotiable Certificates of deposit	4,565,622	744,881	247,606	1,550,090	2,023,045
U.S. Government Sponsored Enterprise Securities	506,135	-	-	506,135	-
Total	\$ 37,017,947	\$ 32,691,071	\$ 247,606	\$ 2,056,225	\$ 2,023,045

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, 2016, 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	2.67%
Los Angeles County Pooled Investments Fund	Not Rated	Not Rated	83.63%
Negotiable Certificates of Deposits	Not Rated	Not Rated	12.33%
U.S. Government Sponsored Enterprise Securities: Federal Home Loan Mortgage Corporation	Aaa	AA+	1.37%
Total			100.00%

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 2 – Cash and Investments (Continued)

E. Risk Disclosures (Continued)

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

Concentration of credit risk – The City’s investment policy does not allow for investments in any one institution that is in excess of 5% of the City’s total portfolio, except for LAIF and LACIPIF, where there is no limit. The City is in compliance with the investment policy related to the concentration of credit risk for the year ended June 30, 2016.

Note 3 - Receivables

A. Government-Wide Financial Statements

At June 30, 2016, 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	\$ 2,711,540	\$ -	\$ 2,711,540
Property taxes receivable, net	662,063	-	662,063
Reimbursable grants receivable	165,797	-	165,797
Interest receivable on investments	54,411	1,098	55,509
Other receivables	4,143	7,621	11,764
Total	\$ 3,597,954	\$ 8,719	\$ 3,606,673

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 3 – Receivables (Continued)

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, 2016, were as follows:

Governmental funds:	
General Fund	2,936,114
Sewer Special Revenue Fund	217,126
Capital Improvements Capital Projects Fund	12,884
Nonmajor Funds	<u>431,830</u>
Total governmental funds	<u>3,597,954</u>
Total accounts receivable	<u><u>\$ 3,597,954</u></u>

Taxes Receivable

At June 30, 2016, 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	\$ 891,088	\$ (243,872)	\$ 647,216
Sewer Special Revenue Fund	26,052	(19,250)	6,802
Nonmajor funds	<u>16,773</u>	<u>(8,728)</u>	<u>8,045</u>
Total	<u><u>\$ 933,913</u></u>	<u><u>\$ (271,850)</u></u>	<u><u>\$ 662,063</u></u>

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, 2016 was as follows:

Governmental Funds:	
Safe Route to School Grant	\$ 114,991
Safe Drinking Water Grant	19,587
Other	<u>31,219</u>
Total reimbursable grants receivable	<u><u>\$ 165,797</u></u>

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 4 – Lease Revenues

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

In February 2004, the City entered into a 5 year lease agreement with Sprint, a cellular telephone company, for placement of an antenna on the North Pier Parking Structure. The lease includes a provision for 5 lease extensions with a 5 year term for each. In February 2009, the lease was extended through January 31, 2015. The City received a monthly lease payment in the amount of \$2,813 to January 2016. In February 2016, the lease was extended through January 31, 2020. The City received a monthly lease payment in the amount of \$2,984 from February 2016.

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

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

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

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

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

Year ending June 30,	Amounts
2017	\$ 309,484
2018	282,483
2019	272,298
2020	222,522
2021	57,600
2022-2026	186,590
2027-2031	186,590
2032-2036	186,590
2037-2041	186,590
2042-2046	186,590
2047-2051	170,415
Total	\$ 2,247,752

Lease revenue for the year ended June 30, 2016 was \$315,834.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 5 – Interfund Transactions

Due From/To Other Funds – At June 30, 2016, the City had the following due from/to other funds:

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

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

Transfers

During the year ended June 30, 2016, the City had the following transfers:

	Transfers in						
	General Fund	Sewer Special Revenue Fund	Capital Improvements Projects Fund	Nonmajor Governmental Funds	Internal Service Funds	Governmental Activities	Total
Transfers out							
General Fund	\$ -	\$ 276,191	\$ 3,615,252	\$ 769,632	\$ -	\$ -	\$ 4,661,075
Nonmajor Governmental Funds	362,884	-	-	-	11,500,000	-	11,862,884
Internal Service funds	-	-	840,708	-	844,421	376,455	2,061,584
Total	\$ 362,884	\$ 276,191	\$ 4,455,960	\$ 769,632	\$ 12,344,421	\$ 376,455	\$ 18,585,543

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

General Fund transferred \$276,191 from Utility Users Tax revenue to the Sewer Fund for operating costs, \$3,615,252 to Capital Improvements Capital Projects fund to fund capital projects, and \$769,632 to Non-major Governmental Funds for Lighting/Landscaping Fund and Storm Drain Fund operating costs and for the 2015 Lease Revenue Bond Fund debt service payment.

Equipment Replacement Internal Service Fund transferred \$840,708 to Capital Improvements Capital Projects Fund to meet equipment funding goals.

Insurance Internal Service Fund transferred \$844,421 to Equipment Replacement Internal Service Fund to bring balance to the goal amount based on replacement cost and useful life.

Non-major Governmental Funds transferred \$362,884 for Lighting/Landscaping administration, agency administration, and traffic safety operations.

Nonmajor governmental fund (2015 Lease Revenue Bond Debt Service Fund) transferred \$11,500,000 to Internal Service Fund (Insurance Fund) to pay for settlement payment (Note 14) in accordance to the bond indenture.

Internal Service Fund (Equipment Replacement Fund) transferred \$376,455 of infrastructure related to the city-wide light fixtures to the governmental activities during the year ended June 30, 2016.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 6 – Capital Assets

The following is a summary of changes in capital assets for the governmental activities for the year ended June 30, 2016:

	Balance July 1, 2015	Additions	Deletions	Reclassifications	Balance June 30, 2016
<i>Capital assets not being depreciated:</i>					
Land	\$ 22,740,168	\$ -	\$ -	\$ -	\$ 22,740,168
Construction in progress	2,551,463	482,455	(580,911)	(1,018,695)	1,434,312
Total capital assets not being depreciated	25,291,631	482,455	(580,911)	(1,018,695)	24,174,480
<i>Capital assets being depreciated:</i>					
Buildings and structures	12,945,808	103,569	-	-	13,049,377
Improvements other than buildings	14,459,688	265,000	-	193,688	14,918,376
Machinery and equipment	5,229,935	470,537	-	-	5,700,472
Vehicles	4,162,808	744,884	(109,660)	-	4,798,032
Infrastructure	50,993,252	1,135,128	-	825,007	52,953,387
Total capital assets being depreciated	87,791,491	2,719,118	(109,660)	1,018,695	91,419,644
Less accumulated depreciation for:					
Buildings and structures	(4,255,564)	(97,197)	-	-	(4,352,761)
Improvements other than buildings	(11,745,992)	(264,993)	-	-	(12,010,985)
Machinery and equipment	(3,197,290)	(387,377)	-	-	(3,584,667)
Vehicles	(2,572,272)	(212,583)	109,660	-	(2,675,195)
Infrastructure	(24,578,703)	(1,458,017)	-	-	(26,036,720)
Total accumulated depreciation	(46,349,821)	(2,420,167)	109,660	-	(48,660,328)
Total capital assets being depreciated, net	41,441,670	298,951	-	1,018,695	42,759,316
Total governmental activities	\$ 66,733,301	\$ 781,406	\$ (580,911)	\$ -	\$ 66,933,796

Depreciation expense was charged to functions/programs of governmental activities for the year ended June 30, 2016 as follows:

General government	\$ 52,729
Public safety	192,363
Community development	18,916
Culture and recreation	48,444
Public works	269,455
Infrastructure	1,458,017
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	380,243
Total depreciation expense	\$ 2,420,167

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 7 – Long-Term Liabilities

Summary of changes in long-term liabilities for governmental activities for the year ended June 30, 2016 is as follows:

	Balance			Classification		
	July 1, 2015	Additions	Deletions	June 30, 2016	Due within One Year	Due in more than One Year
2015 Lease revenue bond	\$ -	\$ 11,600,000	\$ -	\$ 11,600,000	\$ 335,000	\$ 11,265,000
Bonds Premium	-	199,905	(865)	199,040	-	199,040
Workers' compensation claims payable	4,821,345	(1,037,603)	892,908	4,676,650	719,617	3,957,033
General liability claims payable	888,300	362,802	(550,532)	700,570	316,291	384,279
Compensated absences	2,300,181	1,581,064	(1,270,008)	2,611,237	1,249,753	1,361,484
Aggregate net pension liability (Note 9)	36,303,639	18,412,651	(16,883,275)	37,833,015	-	37,833,015
	<u>\$ 44,313,465</u>	<u>\$ 31,118,819</u>	<u>\$ (17,811,772)</u>	<u>\$ 57,620,512</u>	<u>\$ 2,620,661</u>	<u>\$ 54,999,851</u>

2015 Lease Revenue Bonds

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

The annual debt service requirements by year are as follows:

Year ending	Principal	Interest	Total
June 30,			
2017	\$ 335,000	\$ 416,906	\$ 751,906
2018	435,000	356,088	791,088
2019	460,000	333,713	793,713
2020	480,000	310,212	790,212
2021	500,000	285,713	785,713
2022-2026	2,670,000	1,232,641	3,902,641
2027-2031	3,075,000	857,031	3,932,031
2032-2036	3,645,000	323,059	3,968,059
	<u>\$ 11,600,000</u>	<u>\$ 4,115,363</u>	<u>\$ 15,715,363</u>

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 8 – Risk Management

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

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

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

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

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

The City's premiums to ICRMA in the amount of \$800,556 for the fiscal year 2015-2016 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 \$5,377,220 reported at June 30, 2016 includes the liability for claims in which it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 8 – Risk Management (Continued)

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

	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Year Liability	Amounts Due within One Year	Amounts Due in more than One Year
<i>Workers' Compensation</i>						
2013-2014	\$ 6,935,246	\$ (452,257)	\$ (917,077)	\$ 5,565,912	\$ 791,596	\$ 4,774,316
2014-2015	5,565,912	(1,168,562)	423,995	4,821,345	686,562	4,134,783
2015-2016	4,821,345	748,213	(892,908)	4,676,650	719,617	3,957,033
<i>General Liability</i>						
2013-2014	\$ 1,179,671	\$ 827,029	\$ (620,366)	\$ 1,386,334	\$ 518,155	\$ 868,179
2014-2015	1,386,334	(325,127)	(172,907)	888,300	323,644	564,656
2015-2016	888,300	362,802	(550,532)	700,570	316,291	384,279

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

Note 9 – Defined Benefit Pension Plans

The following is a summary of net pension liabilities and related deferred outflows and inflows of resources as of June 30, 2016 and pension expenses for the year then ended June 30, 2016:

	Miscellaneous	Safety		Total Safety	Total
		Police	Fire		
Deferred outflows of resources:					
Pension contribution made after measurement date:	\$ 1,245,120	\$ 2,648,015	\$ 1,050,100	\$ 3,698,115	\$ 4,943,235
Adjustment due to differences in proportions	(733,651)	1,263,873	(450,769)	813,104	79,453
Difference between City's contributions and proportionated share of contributions	(377,440)	542,518	(45,577)	496,941	119,501
Total deferred outflows of resources	\$ 134,029	\$ 4,454,406	\$ 553,754	\$ 5,008,160	\$ 5,142,189
Aggregate Net pension liabilities:					
Aggregate Net pension liabilities	\$ 10,364,015	\$ 19,861,991	\$ 7,607,009	\$ 27,469,000	\$ 37,833,015
Total net pension liabilities	\$ 10,364,015	\$ 19,861,991	\$ 7,607,009	\$ 27,469,000	\$ 37,833,015
Deferred inflows of Resources:					
Changes of assumptions	\$ 534,629	\$ 1,256,600	\$ 466,155	\$ 1,722,755	\$ 2,257,384
Difference between Expected and Actual Experience	(56,509)	273,211	101,352	374,563	318,054
Difference in projected and actual earnings on pension investments:	268,015	636,850	236,251	873,101	1,141,116
Total deferred inflows of Resources	\$ 746,135	\$ 2,166,661	\$ 803,758	\$ 2,970,419	\$ 3,716,554
Pension expenses:	\$ 392,808	\$ 823,241	\$ 288,961	\$ 1,112,202	\$ 1,505,010

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 9 – Defined Benefit Pension Plans (Continued)

General Information about the Pension Plan

Plan Description

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

Employees Covered by Benefit Terms

At June 30, 2014, the following employees were covered by the benefit terms:

	Plans					
	Fire Tier 1	Fire Tier 2	Fire PEPRAs	Police Tier 1	Police Tier 2	Police PEPRAs
Active employees	14	-	2	28	2	3
Transferred and terminated employees	7	-	-	10	1	-
Separated	5	1	-	4	3	2
Retired Employees and Beneficiaries	51	-	-	89	-	-
Total	77	1	2	131	6	5

	Plans		
	Misc. Tier 1	Misc. Tier 2	Misc. PEPRAs
Active employees	61	14	18
Transferred and terminated employees	61	3	1
Separated	52	3	4
Retired Employees and Beneficiaries	119	-	-
Total	293	20	23

Benefit Provided

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

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 9 – Defined Benefit Pension Plans (Continued)

General Information about the Pension Plan (Continued)

Benefit Provided (Continued)

Following are the benefit provisions for each plan:

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

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

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

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

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

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 9 – Defined Benefit Pension Plans (Continued)

General Information about the Pension Plan (Continued)

Contributions

Section 20814(c) of the California Public Employees’ Retirement Law (“PERL”) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS’ annual actuarial valuation process. The Public agency cost-sharing plans covered by either the Safety risk pools, the Plan’s actuarially determined rate is based on the estimated amount necessary to pay the Plan’s allocated share of the risk pool’s costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2015 (the measurement date), the average contribution rate were as follows:

<u>Plans</u>	<u>Active Employee Contribution Rate</u>	<u>Employer Contribution Rate</u>
Fire Tier 1	9.000%	47.002%
Fire Tier 2	9.000%	22.302%
Fire PEPRA	12.250%	12.250%
Police Tier 1	9.000%	67.705%
Police Tier 2	9.000%	22.302%
Police PEPRA	12.250%	12.250%
Misc. Tier 1	7.000%	20.882%
Misc. Tier 2	7.000%	8.435%
Misc. PEPRA	6.250%	6.250%

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

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The June 30, 2014 valuation was rolled forward to determine June 30, 2015 total pension liability based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirement of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment rate of return	7.65% net of pension plan investment expenses, includes inflation
Mortality Rate Table	Derived using CalPERS’ Membership Data for all Funds.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 9 – Defined Benefit Pension Plans (Continued)

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

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

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Change of Assumption

In accordance with GASB 68, the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.5 % (net of administrative expense in 2014) to 7.65% as of the June, 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

Discount Rate

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

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

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

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 9 – Defined Benefit Pension Plan (Continued)

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

Discount Rate (Continued)

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2014.

Asset Class	New Strategic Allocation-%	Real Return Years 1-10 ¹ -%	Real Return Years 11+ ² -%
Global Equity	51.00	5.25	5.71
Global Fixed Income	19.00	0.99	2.43
Inflation Sensitive	6.00	0.45	3.36
Private Equity	10.00	6.83	6.95
Real Estate	10.00	4.50	5.13
Infrastructure and Forestland	2.00	4.50	5.09
Liquidity	2.00	-0.55	-1.05

¹An expected inflation of 2.5% used for this period

²An expected inflation of 3.0% used for this period.

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

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

	Plan's Net Pension Liability/(Asset)		
	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Miscellaneous	\$ 16,779,698	\$ 10,364,015	\$ 5,067,123
Police	\$ 31,845,592	\$ 19,861,991	\$ 10,035,658
Fire	\$ 12,196,648	\$ 7,607,009	\$ 3,843,590
Total	\$ 60,821,938	\$ 37,833,015	\$ 18,946,370

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 9 – Defined Benefit Pension Plan (Continued)

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

Pension Plan Fiduciary Net Position

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

Proportionate Share of Net Pension Liability and Pension Expense

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

	Increase (Decrease)		
	Plan Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Miscellaneous			
Balance at: 6/30/14 (Valuation date)	\$ 46,904,165	\$ 36,742,497	\$ 10,161,668
Balance at: 6/30/15 (Measurement date)	\$ 47,109,480	\$ 36,745,465	\$ 10,364,015
Net Changes during 2014-2015	\$ 205,315	\$ 2,968	\$ 202,347
Police			
Balance at: 6/30/14 (Valuation date)	\$ 68,957,752	\$ 50,576,779	\$ 18,380,972
Balance at: 6/30/15 (Measurement date)	\$ 66,931,592	\$ 47,069,601	\$ 19,861,991
Net Changes during 2014-2015	\$ 2,026,160	\$ 3,507,178	\$ 1,481,019
Fire			
Balance at: 6/30/14 (Valuation date)	\$ 32,529,201	\$ 24,768,202	\$ 7,760,998
Balance at: 6/30/15 (Measurement date)	\$ 32,580,696	\$ 24,973,687	\$ 7,607,009
Net Changes during 2014-2015	\$ (51,495)	\$ (205,485)	\$ (153,989)

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 9 – Defined Benefit Pension Plan (Continued)

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

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

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

- (1) In determining a cost-sharing plan’s proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2014). The risk pool’s fiduciary net position (“FNP”) subtracted from its total pension liability (“TPL”) determines the net pension liability (“NPL”) at the valuation date.
- (2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2015). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool’s FNP at the measurement date denotes the aggregate risk pool’s FNP at June 30, 2015 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2014-15).
- (3) The individual plan’s TPL, FNP and NPL are also calculated at the valuation date. TPL is allocated based on the rate plan’s share of the actuarial accrued liability. FNP is allocated based on the rate plan’s share of the market value assets.
- (4) Two ratios are created by dividing the plan’s individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool’s total TPL and FNP, respectively.
- (5) The plan’s TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan’s FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.
- (6) The plan’s NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5).

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

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

	<u>Miscellaenous</u>	<u>Safety</u>		<u>Safety Total</u>
		<u>Police</u>	<u>Fire</u>	
June 30, 2014	0.16331%	0.29540%	0.12473%	0.42012%
June 30, 2015	0.15099%	0.28937%	0.11083%	0.40019%
Change - Increase (Decrease)	<u>-0.01231%</u>	<u>-0.00603%</u>	<u>-0.01390%</u>	<u>-0.01993%</u>

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 9 – Defined Benefit Pension Plan (Continued)

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

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

For the year ended June 30, 2016, the City recognized pension expense as follows:

Miscellaneous	\$	392,808
Police		823,241
Safety		288,961
	\$	<u>1,505,010</u>

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

The expected average remaining service lifetime (“EARSL”) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired) in the risk pool. The EARSL for risk pool for the 2014-15 measurement period is 3.8 years, which was obtained by dividing the total service years of 467,023 (the sum of remaining service lifetimes of the active employees) by 122,410 (the total number of participants: active, inactive, and retired).

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 9 – Defined Benefit Pension Plan (Continued)

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

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

At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Miscellaneous	
	Deferred outflows of Resources	Deferred inflows of Resources
Pension contribution after measurement date	\$ 1,245,120	\$ -
Difference between expected and actual experience	-	56,509
Changes of assumptions	-	(534,629)
Difference between projected and actual earning on pension plan investments	-	(268,015)
Adjustment due to differences in proportions	(733,651)	-
Difference between City contributions and proportionate share of contributions	(377,440)	-
	-	-
Total	<u>\$ 134,029</u>	<u>\$ (746,135)</u>

	Police	
	Deferred outflows of Resources	Deferred inflows of Resources
Pension contribution after measurement date	\$ 2,648,015	\$ -
Adjustment due to differences in proportions	1,263,873	-
Difference between City contributions and proportionate share of contributions	542,518	-
Changes of assumptions	-	(1,256,600)
Difference between expected and actual experience	-	(273,211)
Difference between projected and actual earning on pension plan investments	-	(636,850)
	-	-
Total	<u>\$ 4,454,406</u>	<u>\$ (2,166,661)</u>

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 9 – Defined Benefit Pension Plan (Continued)

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

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

At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (Continued):

	Fire	
	Deferred outflows of Resources	Deferred inflows of Resources
Pension contribution after measurement date	\$ 1,050,100	\$ -
Adjustment due to differences in proportions	(450,769)	-
Difference between City contributions and proportionate share of contributions	(45,577)	-
Changes of assumptions	-	(466,155)
Difference between expected and actual experience	-	(101,352)
Difference between projected and actual earning on pension plan investments	-	(236,251)
	\$ 553,754	\$ (803,758)
Total	\$ 553,754	\$ (803,758)

	Safety Total	
	Deferred outflows of Resources	Deferred inflows of Resources
Pension contribution after measurement date	\$ 3,698,115	\$ -
Difference between expected and actual experience	-	(374,563)
Changes of assumptions	-	(1,722,755)
Difference between projected and actual earning on pension plan investments	-	(873,101)
Adjustment due to differences in proportions	813,104	-
Difference between City contributions and proportionate share of contributions	496,941	-
	\$ 5,008,160	\$ (2,970,419)
Total	\$ 5,008,160	\$ (2,970,419)

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 9 – Defined Benefit Pension Plan (Continued)

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

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

At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (Continued):

Deferred outflows of resources related to pensions resulting from the City’s contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Period Ended June 30,	Deferred Outflows/ (Inflows) of Resources			
	Miscellaneous	Safety		Safety Total
		Police	Fire	
2016	\$ (774,488)	\$ (323,648)	\$ (545,335)	\$ (868,983)
2017	(772,596)	(351,900)	(550,955)	(902,854)
2018	(652,733)	(466,500)	(493,829)	(960,328)
2019	342,591	781,776	290,015	1,071,791
2020	-	-	-	-
Thereafter	-	-	-	-
	<u>\$ (1,857,226)</u>	<u>\$ (360,272)</u>	<u>\$ (1,300,104)</u>	<u>\$ (1,660,374)</u>

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 10 – Other Postemployment Benefit Plan

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

Plan Description

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

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

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

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

Eligibility

All of the Plan’s employees became participants in accordance with negotiated Memorandum of Understanding (“MOU”) as negotiated by each group or bargaining unit. In order to receive benefits, eligible employees must meet the minimum requirements defined in their MOU. Participants of the Plan as of June 30, 2016 were as follows:

Participants	Total
Active employees	141
Retirees	55
Total	196

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, 2016, the City contributed \$813,444. Plan members receiving benefits contributed \$184,415 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, 2016

Note 10 – Other Postemployment Benefit Plan (Continued)

Annual OPEB Cost and Net OPEB Asset

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

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

	Total
Annual required contribution	\$ 767,000
Interest on net OPEB obligation	(5,695)
Adjustment to annual required contribution	10,444
Annual OPEB cost (expense)	771,749
Implied subsidy	(138,000)
Contributions made to the trust	(813,444)
(Increase) in net OPEB asset	(179,695)
Net OPEB asset - beginning of year	(91,126)
Net OPEB asset - end of year	\$ (270,821)

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, 2016 and the preceding two years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Contributions Made	% of Annual OPEB Cost Contributed	Net OPEB Asset
6/30/2014	\$ 923,289	\$ 926,131	100.31%	\$ 122,714
6/30/2015	951,532	919,944	96.68%	91,126
6/30/2016	771,749	951,444	123.28%	270,821

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 10 – Other Postemployment Benefit Plan (Continued)

Funded Status and Funding Progress

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

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

Actuarial Methods and Assumptions

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

In the June 30, 2014 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions include a 6.25% investment rate of return (net of administrative expenses), which is based on the expected return on funds invested, and an annual healthcare cost trend rate of 8% or 8.3% (Non Medicare or Medicare) initially reduced by decrements to an ultimate rate of 5% thereafter. The actuarial assumption for inflation was 3%, and the aggregate payroll increases was 3.25% used in the actuarial valuation. The City's Plan does not provide postretirement benefit increases. The UAAL is amortized as a level percentage of future payroll on a 30-year closed amortization period. The remaining average amortization period at June 30, 2016 was 11 years.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 11 – Classification of Fund Balances

At June 30, 2016, fund balances are classified in the governmental funds as follows:

	General Fund	Sewer Special Revenue Fund	Capital Improvements Capital Projects Fund	Nonmajor Governmental Funds	Total
Nonspendable					
Prepaid items	\$ 21,261	\$ -	\$ -	\$ 5,835	\$ 27,096
Total nonspendable	<u>21,261</u>	<u>-</u>	<u>-</u>	<u>5,835</u>	<u>27,096</u>
Restricted					
General Plan Maintenance Fees	23,665	-	-	-	23,665
Verizon PEG Grant	92,486	-	-	-	92,486
Greenwald Theatre Donation	45,000	-	-	-	45,000
Chamber Sign Donation	50,000	-	-	-	50,000
CDBG Fund Exchange	118,739	-	-	-	118,739
Lighting District	-	-	-	-	-
Gas Tax	-	-	-	76,507	76,507
Source Reduction/Recycling	-	-	-	21,852	21,852
Prop A Open Space	-	-	-	-	-
Tyco Tidelands	-	-	-	3,714	3,714
Parks/Rec Facility Projects	-	-	-	61,491	61,491
Undergrounding Districts	-	-	-	33,056	33,056
Prop A, C and Measure R					
Transit Projects	-	-	-	2,542,535	2,542,535
Air Quality Improvement Projects	-	-	-	59,963	59,963
Supplemental Law Enforcement					
Services Funds	-	-	-	57,966	57,966
Asset Forfeiture - Drug Enforcement an	-	-	-	201,085	201,085
Fire Protection	-	-	-	74,637	74,637
CDBG	-	-	-	1,743	1,743
Grants	-	-	-	111,458	111,458
Storm Drain	-	-	-	184,610	184,610
Total restricted	<u>329,890</u>	<u>-</u>	<u>-</u>	<u>3,430,617</u>	<u>3,760,507</u>
Committed					
Capital Projects	-	989,386	-	-	989,386
In Lieu Fee- Parking Facilities	28,900	-	-	-	28,900
Tyco	-	-	-	315,890	315,890
Total committed	<u>28,900</u>	<u>989,386</u>	<u>-</u>	<u>315,890</u>	<u>1,334,176</u>
Assigned					
Reappropriations- Non-CIP	266,685	-	-	-	266,685
Public Works Capital					
Improvement Projects	1,270,434	-	-	-	1,270,434
Sewers and Storm Drains	-	3,722,754	-	-	3,722,754
Contingencies	5,484,035	-	-	-	5,484,035
Retirement Rate Stabilization	1,000,000	-	-	-	1,000,000
Compensated Absences	340,371	-	-	-	340,371
Community Events	36,466	-	-	-	36,466
Public Financing Authority	-	-	-	3,697	3,697
Capital Projects	-	-	7,729,235	-	7,729,235
Total assigned	<u>8,397,991</u>	<u>3,722,754</u>	<u>7,729,235</u>	<u>3,697</u>	<u>19,853,677</u>
Total fund balances	<u><u>\$ 8,778,042</u></u>	<u><u>\$ 4,712,140</u></u>	<u><u>\$ 7,729,235</u></u>	<u><u>\$ 3,756,039</u></u>	<u><u>\$ 24,975,456</u></u>

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 12 – Non-City Obligations

At June 30, 2016, 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
2017	\$ 35,000	\$ 3,413	\$ 38,413
2018	35,000	1,137	36,137
Total	\$ 70,000	\$ 4,550	\$ 74,550

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
2017	\$ 70,000	\$ 14,933	\$ 84,933
2018	70,000	10,925	80,925
2019	75,000	6,756	81,756
2020	80,000	2,300	82,300
Total	\$ 295,000	\$ 34,914	\$ 329,914

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 12 – Non-City Obligations (Continued)

1999 Loma Utility Underground District Special Assessment Bonds

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

The annual debt service requirements by year are as follows:

Year ending June 30,	Principal	Interest	Total
2017	\$ 75,000	\$ 16,800	\$ 91,800
2018	80,000	12,362	92,362
2019	85,000	7,619	92,619
2020	90,000	2,587	92,587
Total	\$ 330,000	\$ 39,368	\$ 369,368

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
2017	\$ 20,970	\$ 10,528	\$ 31,498
2018	21,977	9,474	31,451
2019	23,032	8,394	31,426
2020	24,137	7,262	31,399
2021	25,296	6,075	31,371
2022-2025	113,923	11,256	125,179
	\$ 229,335	\$ 52,989	\$ 282,324

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 12 – Non-City Obligations (Continued)

2005 Bayview Drive Utility Underground Assessment District Improvement Bonds

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

The annual debt service requirements by year are as follows:

Year ending June 30,	Principal	Interest	Total
2017	\$ 37,213	\$ 19,431	\$ 56,644
2018	39,219	17,707	56,926
2019	41,311	15,996	57,307
2020	43,492	14,194	57,686
2021	45,765	12,297	58,062
2022-2026	266,455	29,430	295,885
Total	\$ 473,455	\$ 109,055	\$ 582,510

Note 13 – Commitments and Contingencies

A. Commitments

The City had several outstanding or planned construction and other projects as of June 30, 2016. These projects are evidenced by contractual commitments with contractors and include:

Project	Spent to Date	Commitment Remaining
Permit Software Upgrade and Integration Project	\$ 185,581	\$ 354,419
General Plan & Coastal Plan Update	880,522	137,131
Citywide Conservation Upgrades	357,949	281,506
Total	\$ 1,424,052	\$ 773,056

Of the commitments listed above, \$137,131 represents commitments in the General Fund and \$635,925 represents commitments in internal service funds.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 13 – Commitments and Contingencies (Continued)

A. Commitments (Continued)

In January 2000, the North Pier Parking Structure was completed. The parking structure contains 400 parking spaces and was funded in part by a downtown developer in exchange for the use of 100 spaces in the structure. The remainder of the funding was provided by the City's former Downtown Enhancement Enterprise Fund and Prop A Open Space funding contributed by the Los Angeles County Department of Beaches and Harbors ("County"). In consideration of the County contribution, 50% of the annual net income derived from the parking structure must be shared with the County each year by September 1. The payment made to the County for fiscal year 2015-2016 is \$322,477.

B. Contingencies

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

C. Grants

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

Note 14 – MacPherson Oil Project Litigation

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

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

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

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – MacPherson Oil Project Litigation (Continued)

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

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

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

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

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

E&B contends that interest on the \$17.5 million commenced to run in March 2012, when the settlement agreement was executed; the City disagrees. The parties have been negotiating over that dispute and as of this writing it remains unresolved. The dispute may proceed to litigation if it is not resolved through negotiation.

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**REQUIRED SUPPLEMENTARY
INFORMATION (UNAUDITED)**

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City of Hermosa Beach
Required Supplementary Information (Unaudited)
Budgetary Comparison Schedule – General Fund
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Fund balance, July 1, 2015	\$ 10,513,688	\$ 10,513,688	\$ 10,513,688	\$ -
Resources (inflows):				
Property taxes	14,244,604	14,441,722	14,655,395	213,673
Other taxes	9,893,711	10,356,900	10,284,023	(72,877)
Licenses and permits	795,045	984,075	1,111,366	127,291
Fines and forfeitures	2,777,196	2,598,546	2,244,697	(353,849)
Use of money and property	902,349	905,049	886,686	(18,363)
Intergovernmental	143,281	156,924	162,104	5,180
Charges for services	6,523,944	6,823,343	6,915,663	92,320
Miscellaneous	246,035	360,242	453,917	93,675
Transfers in	362,884	362,884	362,884	-
Amount available for appropriation	<u>35,889,049</u>	<u>47,503,373</u>	<u>47,590,423</u>	<u>87,050</u>
Charges to appropriations (outflows):				
Legislative and legal	1,187,618	1,321,491	1,621,138	(299,647)
General government	3,478,035	4,076,414	3,336,439	739,975
Public safety	20,509,969	21,136,306	20,950,756	185,550
Community development	1,654,832	1,706,442	1,662,880	43,562
Culture and recreation	1,198,469	1,224,528	1,261,563	(37,035)
Public works	4,562,068	4,924,340	5,199,400	(275,060)
Capital outlay	2,392,248	2,703,263	119,130	2,584,133
Transfers out	726,950	4,661,075	4,661,075	-
Total charges to appropriations	<u>35,710,189</u>	<u>41,753,859</u>	<u>38,812,381</u>	<u>2,941,478</u>
Fund balance, June 30, 2016	<u>\$ 178,860</u>	<u>\$ 5,749,514</u>	<u>\$ 8,778,042</u>	<u>\$ 3,028,528</u>

City of Hermosa Beach
Required Supplementary Information (Unaudited) (Continued)
Budgetary Comparison Schedule – Sewer Special Revenue Fund
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Fund balance, July 1, 2015	\$ 3,722,754	\$ 3,722,754	\$ 3,722,754	\$ -
Resources (inflows):				
Use of money and property	14,570	14,540	52,851	38,311
Intergovernmental	15,422	25,800	171,526	145,726
Charges for services	30,000	994,717	988,286	(6,431)
Miscellaneous	-	-	40,000	40,000
Transfers in	850,353	276,191	276,191	-
Amount available for appropriation	<u>4,633,099</u>	<u>5,034,002</u>	<u>5,251,608</u>	<u>217,606</u>
Charges to appropriations (outflows):				
Community development	-	-	3,708	(3,708)
Public works	826,245	646,115	535,760	110,355
Capital outlay	-	5,548,674	-	5,548,674
Total charges to appropriations	<u>826,245</u>	<u>6,194,789</u>	<u>539,468</u>	<u>5,655,321</u>
Fund balance, June 30, 2016	<u>\$ 3,806,854</u>	<u>\$ (1,160,787)</u>	<u>\$ 4,712,140</u>	<u>\$ 5,872,927</u>

City of Hermosa Beach
Required Supplementary Information (Unaudited) (Continued)
Notes to the Budgetary Comparison Schedule
For the Year Ended June 30, 2016

Budgetary Control and Accounting Policy

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

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

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

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

City of Hermosa Beach
Required Supplementary Information (Unaudited) (Continued)
Schedule of Funding Progress – Other Postemployment Benefits
For the Year Ended June 30, 2016

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

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

City of Hermosa Beach
Required Supplementary Information (Unaudited) (Continued)
Schedule of the City's Proportionate Share of the Net Pension Liability and Related Ratios
For the Year Ended June 30, 2016

Last Ten Fiscal Years

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

	June 30, 2015 ¹	June 30, 2014 ¹
City's Proportion of the Net Pension Liability/(Asset)	0.15099%	0.16331%
City's Proportionate Share of the Net Pension Liability/(Asset)	\$ 10,364,015	\$ 10,161,668
City's Covered-Employee Payroll	\$ 5,254,276	\$ 5,176,588
City's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of Its Covered-Employee Payroll	197.25%	196.30%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total Pension Liability	78.00%	78.34%

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

	June 30, 2015 ¹	June 30, 2014 ¹
City's Proportion of the Net Pension Liability/(Asset)	0.40019%	0.42012%
City's Proportionate Share of the net Pension Liability/(Asset)	\$ 27,469,000	\$ 26,141,972
City's Covered-Employee Payroll	\$ 5,018,662	\$ 4,985,270
City's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of Its Covered-Employee Payroll	547.34%	524.38%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total Pension Liability	72.40%	74.24%

¹ Historical information is required only for measurement periods for which GASB 68 is applicable. The measurement date 2014 was the first year of implementation, therefore only two year is shown.

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

Last Ten Fiscal Years

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

	2015-16	2014-15	2013-14 ¹
Actuarially Determined Contribution	\$ 1,245,120	\$ 883,493	\$ 799,637
Contribution in Relation to the Actuarially Determined Contribution	(1,245,120)	(883,493)	(799,637)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
Covered-Employee Payroll ²	\$ 6,148,061	\$ 5,254,276	\$ 5,176,588
Contributions as a Percentage of Covered-Employee Payroll	20.25%	16.81%	40.74%

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

	2015-16	2014-15	2013-14 ¹
Actuarially Determined Contribution	\$ 3,698,115	\$ 2,842,420	\$ 1,923,392
Contribution in Relation to the Actuarially Determined Contribution	(3,698,115)	(2,842,420)	(1,923,392)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
Covered-Employee Payroll ²	\$ 4,319,411	\$ 5,018,662	\$ 4,985,270
Contributions as a Percentage of Covered-Employee Payroll	85.62%	56.64%	1.34%

¹ Historical information is required only for measurement periods for which GASB 68 is applicable. The fiscal year 2014 was the first year of implementation, therefore only three years are shown.

² Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer.

Notes to Schedule

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a Golden Handshakes).

Changes of Assumptions: The discount rate was changed from 7.5% to 7.65% from June 30, 2014 to June 30, 2015 (measurement date).

SUPPLEMENTARY INFORMATION

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NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds:

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

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

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

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

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

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

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

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

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

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

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

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

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NON-MAJOR

GOVERNMENTAL FUNDS (Continued)

Special Revenue Funds (Continued):

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

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

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

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

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

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

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

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

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

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

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

City of Hermosa Beach
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2016

Special Revenue Funds

	Lighting and Landscaping District	State Gas Tax	AB 939	Prop A Open Space
ASSETS				
Cash and investments	\$ 30,507	\$ 31,443	\$ 25,238	\$ -
Accounts receivable	11,217	53,507	3	176,697
Property taxes receivable, net	8,045	-	-	-
Reimbursable grants receivable	-	-	-	-
Interest receivable	107	768	27	-
Other assets	-	-	-	-
Total assets	\$ 49,876	\$ 85,718	\$ 25,268	\$ 176,697
LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 25,740	\$ 9,211	\$ -	\$ 6,629
Accrued wages and benefits payable	6,228	-	1,395	-
Due to other funds	-	-	-	170,068
Compensated absences, due within one year	9,863	-	2,021	-
Total liabilities	41,831	9,211	3,416	176,697
Deferred inflows of resources:				
Unavailable Revenues	8,045	-	-	-
Total deferred inflows of resources	8,045	-	-	-
Fund Balances:				
Nonspendable	-	-	-	-
Restricted	-	76,507	21,852	-
Committed	-	-	-	-
Assigned	-	-	-	-
Total fund balances	-	76,507	21,852	-
Total liabilities, deferred outflows of resources and fund balances	\$ 49,876	\$ 85,718	\$ 25,268	\$ 176,697

(Continued)

City of Hermosa Beach
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2016

	Special Revenue Funds			
		Tyco	Parks/ Recreation	Bayview Drive Administrative
	Tyco	Tidelands	Facilities Tax	Expense
ASSETS				
Cash and investments	\$ 383,258	\$ 3,707	\$ 102,378	\$ 935
Accounts receivable	-	-	1,450	-
Property taxes receivable, net	-	-	-	-
Reimbursable grants receivable	-	-	-	-
Interest receivable	1,620	7	629	6
Other assets	-	-	-	-
Total assets	\$ 384,878	\$ 3,714	\$ 104,457	\$ 941
LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 68,988	\$ -	\$ 42,966	\$ 381
Accrued wages and benefits payable	-	-	-	-
Due to other funds	-	-	-	-
Compensated absences, due within one year	-	-	-	-
Total liabilities	68,988	-	42,966	381
Deferred inflows of resources:				
Unavailable Revenues	-	-	-	-
Total deferred inflows of resources	-	-	-	-
Fund Balances:				
Nonspendable	-	-	-	-
Restricted	-	3,714	61,491	560
Committed	315,890	-	-	-
Assigned	-	-	-	-
Total fund balances	315,890	3,714	61,491	560
Total liabilities, deferred outflows of resources and fund balances	\$ 384,878	\$ 3,714	\$ 104,457	\$ 941

(Continued)

City of Hermosa Beach
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2016

	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	\$ 3,284	\$ 10,947	\$ 17,688	\$ 2,250
Accounts receivable	-	-	-	-
Property taxes receivable, net	-	-	-	-
Reimbursable grants receivable	-	-	-	-
Interest receivable	-	36	52	8
Other assets	-	-	-	-
Total assets	\$ 3,284	\$ 10,983	\$ 17,740	\$ 2,258
LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 302	\$ 531	\$ 592	\$ 344
Accrued wages and benefits payable	-	-	-	-
Due to other funds	-	-	-	-
Compensated absences, due within one year	-	-	-	-
Total liabilities	302	531	592	344
Deferred inflows of resources:				
Unavailable Revenues	-	-	-	-
Total deferred inflows of resources	-	-	-	-
Fund Balances:				
Nonspendable	-	-	-	-
Restricted	2,982	10,452	17,148	1,914
Committed	-	-	-	-
Assigned	-	-	-	-
Total fund balances	2,982	10,452	17,148	1,914
Total liabilities, deferred outflows of resources and fund balances	\$ 3,284	\$ 10,983	\$ 17,740	\$ 2,258

(Continued)

City of Hermosa Beach
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2016

	Special Revenue Funds			
	Proposition "A"	Proposition "C"	Measure "R"	Air Quality
	Transit			Management
ASSETS				
Cash and investments	\$ 1,000,699	\$ 1,050,980	\$ 561,000	\$ 53,200
Accounts receivable	(3,000)	-	-	6,765
Property taxes receivable, net	-	-	-	-
Reimbursable grants receivable	-	-	-	-
Interest receivable	1,936	2,108	1,317	84
Other assets	-	-	-	-
Total assets	\$ 999,635	\$ 1,053,088	\$ 562,317	\$ 60,049
LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 51,721	\$ 7,720	\$ 12,543	\$ -
Accrued wages and benefits payable	333	-	188	86
Due to other funds	-	-	-	-
Compensated absences, due within one year	-	-	-	-
Total liabilities	52,054	7,720	12,731	86
Deferred inflows of resources:				
Unavailable Revenues	-	-	-	-
Total deferred inflows of resources	-	-	-	-
Fund Balances:				
Nonspendable	-	-	-	-
Restricted	947,581	1,045,368	549,586	59,963
Committed	-	-	-	-
Assigned	-	-	-	-
Total fund balances	947,581	1,045,368	549,586	59,963
Total liabilities, deferred outflows of resources and fund balances	\$ 999,635	\$ 1,053,088	\$ 562,317	\$ 60,049

(Continued)

City of Hermosa Beach
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2016

	Special Revenue Funds			
	Supplemental Law Enforcement Services	Asset Seizure and Forfeiture	Fire Protection	CDBG
ASSETS				
Cash and investments	\$ 65,374	\$ 199,523	\$ 74,507	\$ 1,743
Accounts receivable	-	2,074	-	-
Property taxes receivable, net	-	-	-	-
Reimbursable grants receivable	-	-	-	-
Interest receivable	191	249	130	-
Other assets	5,835	-	-	-
Total assets	\$ 71,400	\$ 201,846	\$ 74,637	\$ 1,743
LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 7,599	\$ 761	\$ -	\$ -
Accrued wages and benefits payable	-	-	-	-
Due to other funds	-	-	-	-
Compensated absences, due within one year	-	-	-	-
Total liabilities	7,599	761	-	-
Deferred inflows of resources:				
Unavailable Revenues	-	-	-	-
Total deferred inflows of resources	-	-	-	-
Fund Balances:				
Nonspendable	5,835	-	-	-
Restricted	57,966	201,085	74,637	1,743
Committed	-	-	-	-
Assigned	-	-	-	-
Total fund balances	63,801	201,085	74,637	1,743
Total liabilities, deferred outflows of resources and fund balances	\$ 71,400	\$ 201,846	\$ 74,637	\$ 1,743

(Continued)

City of Hermosa Beach
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2016

	Special Revenue Funds		Debt Service Fund	Total Nonmajor Governmental Funds
	Grants	Storm Drain	2015 Lease Revenue Bond	
ASSETS				
Cash and investments	\$ 17,722	\$ 205,622	\$ 3,697	\$ 3,845,702
Accounts receivable	-	-	-	248,713
Property taxes receivable, net	-	-	-	8,045
Reimbursable grants receivable	165,797	-	-	165,797
Interest receivable	-	-	-	9,275
Other assets	-	-	-	5,835
Total assets	\$ 183,519	\$ 205,622	\$ 3,697	\$ 4,283,367
LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 72,016	\$ 11,646	\$ -	\$ 319,690
Accrued wages and benefits payable	3	3,996	-	12,229
Due to other funds	-	-	-	170,068
Compensated absences, due within one year	42	5,370	-	17,296
Total liabilities	72,061	21,012	-	519,283
Deferred inflows of resources:				
Unavailable Revenues	-	-	-	8,045
Total deferred inflows of resources	-	-	-	8,045
Fund Balances:				
Nonspendable	-	-	-	5,835
Restricted	111,458	184,610	-	3,430,617
Committed	-	-	-	315,890
Assigned	-	-	3,697	3,697
Total fund balances	111,458	184,610	3,697	3,756,039
Total liabilities, deferred outflows of resources and fund balances	\$ 183,519	\$ 205,622	\$ 3,697	\$ 4,283,367

(Concluded)

City of Hermosa Beach
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2016

	Special Revenue Funds			
	Lighting and Landscaping District	State Gas Tax	AB 939	Prop A Open Space
REVENUES:				
Property taxes	\$ 458,084	\$ -	\$ -	\$ -
Other taxes	-	-	-	-
Fines and forfeitures	-	-	-	-
Use of money and property	-	-	-	-
Intergovernmental	-	472,546	-	-
Charges for services	-	-	58,705	-
Miscellaneous	-	-	-	-
Investment earned on investments	823	4,556	196	-
Total revenues	458,907	477,102	58,901	-
EXPENDITURES:				
Current:				
Legislative and legal	-	-	-	-
General government	-	-	50,578	-
Public safety	-	-	-	-
Community development	-	-	-	-
Culture and recreation	-	-	-	-
Public works	531,517	-	-	-
Capital outlay	-	409,238	-	6,985
Debt service:				
Interest and fiscal charges	-	-	-	-
Total expenditures	531,517	409,238	50,578	6,985
REVENUES OVER (UNDER) EXPENDITURES	(72,610)	67,864	8,323	(6,985)
OTHER FINANCING SOURCES (USES):				
Transfers in	46,691	-	-	24,138
Transfers out	(8,345)	(316,000)	-	(20,557)
Total other financing sources (uses)	38,346	(316,000)	-	3,581
CHANGES IN FUND BALANCES	(34,264)	(248,136)	8,323	(3,404)
FUND BALANCES:				
Beginning of year	34,264	324,643	13,529	3,404
End of year	\$ -	\$ 76,507	\$ 21,852	\$ -

(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, 2016

	Special Revenue Funds			
	Tyco	Tyco Tidelands	Parks/ Recreation Facility Tax	Bayview Drive Administrative Expense
REVENUES:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	21,492	-
Fines and forfeitures	-	-	-	-
Use of money and property	318,845	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	138,918	-
Miscellaneous	-	-	-	4,352
Investment earned on investments	12,340	61	7,715	48
Total revenues	331,185	61	168,125	4,400
EXPENDITURES:				
Current:				
Legislative and legal	-	-	-	-
General government	-	-	-	1,560
Public safety	-	-	-	-
Community development	-	-	-	-
Culture and recreation	-	-	-	-
Public works	-	-	21,906	-
Capital outlay	447,011	-	547,466	-
Debt service:				
Interest and fiscal charges	-	-	-	-
Total expenditures	447,011	-	569,372	1,560
REVENUES OVER (UNDER) EXPENDITURES	(115,826)	61	(401,247)	2,840
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	-	-	-	(2,868)
Total other financing sources (uses)	-	-	-	(2,868)
CHANGES IN FUND BALANCES	(115,826)	61	(401,247)	(28)
FUND BALANCES:				
Beginning of year	431,716	3,653	462,738	588
End of year	\$ 315,890	\$ 3,714	\$ 61,491	\$ 560

(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, 2016

	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
Investment earned on investments	22	323	465	68
Total revenues	<u>2,622</u>	<u>9,323</u>	<u>10,465</u>	<u>3,068</u>
EXPENDITURES:				
Current:				
Legislative and legal	-	-	-	-
General government	1,275	5,608	5,906	1,449
Public safety	-	-	-	-
Community development	-	-	-	-
Culture and recreation	-	-	-	-
Public works	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>1,275</u>	<u>5,608</u>	<u>5,906</u>	<u>1,449</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>1,347</u>	<u>3,715</u>	<u>4,559</u>	<u>1,619</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	(2,249)	(5,264)	(5,710)	(1,891)
Total other financing sources (uses)	<u>(2,249)</u>	<u>(5,264)</u>	<u>(5,710)</u>	<u>(1,891)</u>
CHANGES IN FUND BALANCES	(902)	(1,549)	(1,151)	(272)
FUND BALANCES:				
Beginning of year	3,884	12,001	18,299	2,186
End of year	<u>\$ 2,982</u>	<u>\$ 10,452</u>	<u>\$ 17,148</u>	<u>\$ 1,914</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, 2016

	Special Revenue Funds			
	Proposition "A" Transit	Proposition "C"	Measure "R"	Air Quality Management District
REVENUES:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other taxes	356,492	295,316	230,969	-
Fines and forfeitures	-	-	-	-
Use of money and property	-	-	-	-
Intergovernmental	-	-	-	25,056
Charges for services	7,080	-	-	-
Miscellaneous	-	-	-	-
Investment earned on investments	16,610	20,742	10,499	618
Total revenues	380,182	316,058	241,468	25,674
EXPENDITURES:				
Current:				
Legislative and legal	-	-	-	-
General government	53,245	-	-	2,131
Public safety	73,890	-	-	-
Community development	19,149	-	-	-
Culture and recreation	30,245	-	-	-
Public works	-	19,358	-	-
Capital outlay	-	15,860	453,661	-
Debt service:				
Interest and fiscal charges	-	-	-	-
Total expenditures	176,529	35,218	453,661	2,131
REVENUES OVER (UNDER) EXPENDITURES	203,653	280,840	(212,193)	23,543
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
CHANGES IN FUND BALANCES	203,653	280,840	(212,193)	23,543
FUND BALANCES:				
Beginning of year	743,928	764,528	761,779	36,420
End of year	\$ 947,581	\$ 1,045,368	\$ 549,586	\$ 59,963

(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, 2016

	Special Revenue Funds			
	Supplemental Law Enforcement Services	Asset Seizure and Forfeiture	Fire Protection	CDBG
REVENUES:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other taxes	114,618	-	-	-
Fines and forfeitures	-	167,857	-	-
Use of money and property	-	-	-	-
Intergovernmental	-	-	-	33,122
Charges for services	-	-	22,029	-
Miscellaneous	-	-	-	3,486
Investment earned on investments	3,362	6,157	1,075	-
Total revenues	117,980	174,014	23,104	36,608
EXPENDITURES:				
Current:				
Legislative and legal	-	-	-	-
General government	-	-	-	-
Public safety	40,274	9,312	-	-
Community development	-	-	-	34,865
Culture and recreation	-	-	-	-
Public works	-	-	-	-
Capital outlay	33,867	170,823	-	-
Debt service:				
Interest and fiscal charges	-	-	-	-
Total expenditures	74,141	180,135	-	34,865
REVENUES OVER (UNDER) EXPENDITURES	43,839	(6,121)	23,104	1,743
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
CHANGES IN FUND BALANCES	43,839	(6,121)	23,104	1,743
FUND BALANCES:				
Beginning of year	19,962	207,206	51,533	-
End of year	\$ 63,801	\$ 201,085	\$ 74,637	\$ 1,743

(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, 2016

	Special Revenue Fund		Debt Service Fund	Total Nonmajor Governmental Funds
	Grants	Storm Drain	2015 Lease Revenue Bond	
REVENUES:				
Property taxes	\$ -	\$ -	\$ -	\$ 458,084
Other taxes	-	-	-	1,018,887
Fines and forfeitures	-	-	-	167,857
Use of money and property	-	-	-	318,845
Intergovernmental	84,901	-	-	615,625
Charges for services	-	-	-	226,732
Miscellaneous	153,582	-	-	186,020
Investment earned on investments	-	1,382	25	87,087
Total revenues	238,483	1,382	25	3,079,137
EXPENDITURES:				
Current:				
Legislative and legal	-	-	301,206	301,206
General government	-	-	-	121,752
Public safety	-	-	-	123,476
Community development	85,528	-	-	139,542
Culture and recreation	-	-	-	30,245
Public works	74,176	240,581	-	887,538
Capital outlay	230,876	-	-	2,315,787
Debt service:				
Interest and fiscal charges	-	-	270,021	270,021
Total expenditures	390,580	240,581	571,227	4,189,567
REVENUES OVER (UNDER) EXPENDITURES	(152,097)	(239,199)	(571,202)	(1,110,430)
OTHER FINANCING SOURCES (USES):				
Proceeds from lease revenue bond	-	-	11,799,905	11,799,905
Transfers in	-	423,809	274,994	769,632
Transfers out	-	-	(11,500,000)	(11,862,884)
Total other financing sources (uses)	-	423,809	574,899	706,653
CHANGES IN FUND BALANCES	(152,097)	184,610	3,697	(403,777)
FUND BALANCES:				
Beginning of year	263,555	-	-	4,159,816
End of year	\$ 111,458	\$ 184,610	\$ 3,697	\$ 3,756,039

(Concluded)

City of Hermosa Beach
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
Capital Improvements Capital Projects Fund
For the Year Ended June 30, 2016

	<u>Budgeted</u> <u>Amounts</u>	<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Final</u>		
Fund balance, July 1, 2015	<u>\$ 3,924,194</u>	<u>3,924,194</u>	<u>\$ -</u>
Resources (inflows):			
Use of money and property	11,108	65,529	54,421
Transfers in	<u>2,998,273</u>	<u>4,455,960</u>	<u>1,457,687</u>
Amount available for appropriation	<u>6,933,575</u>	<u>8,445,683</u>	<u>1,512,108</u>
Charges to appropriations (outflows):			
Capital outlay	<u>3,436,812</u>	<u>716,448</u>	<u>-</u>
Total charges to appropriations	<u>3,436,812</u>	<u>716,448</u>	<u>2,720,364</u>
Fund balance, June 30, 2016	<u><u>\$ 3,496,763</u></u>	<u><u>\$ 7,729,235</u></u>	<u><u>\$ 4,232,472</u></u>

City of Hermosa Beach
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
Lighting and Landscaping District Special Revenue Fund
For the Year Ended June 30, 2016

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2015	\$ 34,264	\$ 34,264	\$ -
Resources (inflows):			
Property taxes	459,000	458,084	(916)
Use of money and property	648	823	175
Transfers in	<u>26,950</u>	<u>46,691</u>	<u>19,741</u>
Amount available for appropriation	<u>520,862</u>	<u>539,862</u>	<u>19,000</u>
Charges to appropriations (outflows):			
Public works	512,421	531,517	(19,096)
Transfers out	<u>8,345</u>	<u>8,345</u>	<u>-</u>
Total charges to appropriations	<u>520,766</u>	<u>539,862</u>	<u>(19,096)</u>
Fund balance, June 30, 2016	<u>\$ 96</u>	<u>\$ -</u>	<u>\$ (96)</u>

City of Hermosa Beach
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
State Gas Tax Special Revenue Fund
For the Year Ended June 30, 2016

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2015	\$ 324,643	\$ 324,643	\$ -
Resources (inflows):			
Use of money and property	3,772	4,556	784
Intergovernmental	<u>432,836</u>	<u>472,546</u>	<u>39,710</u>
Amount available for appropriation	<u>761,251</u>	<u>801,745</u>	<u>40,494</u>
Charges to appropriations (outflows):			
Capital outlay	443,817	409,238	34,579
Transfers out	<u>316,000</u>	<u>316,000</u>	<u>-</u>
Total charges to appropriations	<u>759,817</u>	<u>725,238</u>	<u>34,579</u>
Fund balance, June 30, 2016	<u>\$ 1,434</u>	<u>\$ 76,507</u>	<u>\$ 75,073</u>

City of Hermosa Beach
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
AB 939 Special Revenue Fund
For the Year Ended June 30, 2016

	Budgeted Amounts <u>Final</u>	Actual Amounts <u>Final</u>	Variance with Final Budget <u>Final</u>
Fund balance, July 1, 2015	\$ 13,529	\$ 13,529	\$ -
Resources (inflows):			
Use of money and property	2	196	194
Charges for services	<u>57,193</u>	<u>58,705</u>	<u>1,512</u>
Amount available for appropriation	<u>70,724</u>	<u>72,430</u>	<u>1,706</u>
Charges to appropriations (outflows):			
General government	<u>57,751</u>	<u>50,578</u>	<u>7,173</u>
Total charges to appropriations	<u>57,751</u>	<u>50,578</u>	<u>7,173</u>
Fund balance, June 30, 2016	<u>\$ 12,973</u>	<u>\$ 21,852</u>	<u>\$ 8,879</u>

City of Hermosa Beach
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
Prop A Open Space Special Revenue Fund
For the Year Ended June 30, 2016

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
Fund balance, July 1, 2015	\$ 3,404	\$ 3,404	\$ -
Resources (inflows):			
Intergovernmental	20,557	-	(20,557)
Transfers in	-	24,138	24,138
Amount available for appropriation	20,557	24,138	3,581
Charges to appropriations (outflows):			
Capital outlay	797	6,985	(6,188)
Transfers out	20,557	20,557	-
Total charges to appropriations	21,354	27,542	(6,188)
Fund balance, June 30, 2016	\$ 2,607	\$ -	\$ (2,607)

City of Hermosa Beach
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
Tyco Special Revenue Fund
For the Year Ended June 30, 2016

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2015	\$ 431,716	\$ 431,716	\$ -
Resources (inflows):			
Use of money and property	318,845	331,185	12,340
Amount available for appropriation	750,561	762,901	12,340
Charges to appropriations (outflows):			
Capital outlay	758,898	447,011	311,887
Total charges to appropriations	758,898	447,011	311,887
Fund balance, June 30, 2016	<u>\$ (8,337)</u>	<u>\$ 315,890</u>	<u>\$ 324,227</u>

City of Hermosa Beach
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
Tyco Tidelands Special Revenue Fund
For the Year Ended June 30, 2016

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2015	\$ 3,653	\$ 3,653	\$ -
Resources (inflows):			
Use of money and property	<u>40</u>	<u>61</u>	<u>21</u>
Amount available for appropriation	<u>3,693</u>	<u>3,714</u>	<u>21</u>
Charges to appropriations (outflows):			
Capital outlay	<u>3,318</u>	<u>-</u>	<u>3,318</u>
Total charges to appropriations	<u>3,318</u>	<u>-</u>	<u>3,318</u>
Fund balance, June 30, 2016	<u>\$ 375</u>	<u>\$ 3,714</u>	<u>\$ 3,339</u>

City of Hermosa Beach
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
Parks/Recreation Facilities Tax Special Revenue Fund
For the Year Ended June 30, 2016

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
Fund balance, July 1, 2015	\$ 462,738	\$ 462,738	\$ -
Resources (inflows):			
Other taxes	14,347	21,492	7,145
Use of money and property	6,685	7,715	1,030
Charge for services	216,451	138,918	(77,533)
Amount available for appropriation	700,221	630,863	(69,358)
Charges to appropriations (outflows):			
Public works	46,993	21,906	25,087
Capital outlay	653,228	547,466	105,762
Total charges to appropriations	700,221	569,372	130,849
Fund balance, June 30, 2016	\$ -	\$ 61,491	\$ 61,491

City of Hermosa Beach
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
Bayview Drive Administrative Expense Special Revenue Fund
For the Year Ended June 30, 2016

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2015	\$ 588	\$ 588	\$ -
Resources (inflows):			
Use of money and property	37	48	11
Miscellaneous	<u>4,350</u>	<u>4,352</u>	<u>2</u>
Amount available for appropriation	<u>4,975</u>	<u>4,988</u>	<u>13</u>
Charges to appropriations (outflows):			
General government	2,107	1,560	547
Transfers out	<u>2,868</u>	<u>2,868</u>	<u>-</u>
Total charges to appropriations	<u>4,975</u>	<u>4,428</u>	<u>547</u>
Fund balance, June 30, 2016	<u>\$ -</u>	<u>\$ 560</u>	<u>\$ 560</u>

City of Hermosa Beach
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
Lower Pier Administrative Expense Special Revenue Fund
For the Year Ended June 30, 2016

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2015	\$ 3,884	\$ 3,884	\$ -
Resources (inflows):			
Use of money and property	-	22	22
Miscellaneous	<u>2,600</u>	<u>2,600</u>	<u>-</u>
Amount available for appropriation	<u>6,484</u>	<u>6,506</u>	<u>22</u>
Charges to appropriations (outflows):			
General government	1,932	1,275	657
Transfers out	<u>2,249</u>	<u>2,249</u>	<u>-</u>
Total charges to appropriations	<u>4,181</u>	<u>3,524</u>	<u>657</u>
Fund balance, June 30, 2016	<u>\$ 2,303</u>	<u>\$ 2,982</u>	<u>\$ 679</u>

City of Hermosa Beach
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
Myrtle District Administrative Expense Special Revenue Fund
For the Year Ended June 30, 2016

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2015	\$ 12,001	\$ 12,001	\$ -
Resources (inflows):			
Use of money and property	222	323	101
Miscellaneous	<u>9,000</u>	<u>9,000</u>	<u>-</u>
Amount available for appropriation	<u>21,223</u>	<u>21,324</u>	<u>101</u>
Charges to appropriations (outflows):			
General government	6,865	5,608	1,257
Transfers out	<u>5,264</u>	<u>5,264</u>	<u>-</u>
Total charges to appropriations	<u>12,129</u>	<u>10,872</u>	<u>1,257</u>
Fund balance, June 30, 2016	<u>\$ 9,094</u>	<u>\$ 10,452</u>	<u>\$ 1,358</u>

City of Hermosa Beach
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
Loma District Administrative Expense Special Revenue Fund
For the Year Ended June 30, 2016

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2015	\$ 18,299	\$ 18,299	\$ -
Resources (inflows):			
Use of money and property	306	465	159
Miscellaneous	<u>10,000</u>	<u>10,000</u>	<u>-</u>
Amount available for appropriation	<u>28,605</u>	<u>28,764</u>	<u>159</u>
Charges to appropriations (outflows):			
General government	7,176	5,906	1,270
Transfers out	<u>5,710</u>	<u>5,710</u>	<u>-</u>
Total charges to appropriations	<u>12,886</u>	<u>11,616</u>	<u>1,270</u>
Fund balance, June 30, 2016	<u>\$ 15,719</u>	<u>\$ 17,148</u>	<u>\$ 1,429</u>

City of Hermosa Beach
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
Beach Drive Assessment District Administrative Expense Special Revenue Fund
For the Year Ended June 30, 2016

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2015	\$ 2,186	\$ 2,186	\$ -
Resources (inflows):			
Use of money and property	46	68	22
Miscellaneous	<u>3,000</u>	<u>3,000</u>	<u>-</u>
Amount available for appropriation	<u>5,232</u>	<u>5,254</u>	<u>-</u>
Charges to appropriations (outflows):			
General government	1,874	1,449	425
Transfers out	<u>1,891</u>	<u>1,891</u>	<u>-</u>
Total charges to appropriations	<u>3,765</u>	<u>3,340</u>	<u>425</u>
Fund balance, June 30, 2016	<u>\$ 1,467</u>	<u>\$ 1,914</u>	<u>\$ 425</u>

City of Hermosa Beach
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
Proposition "A" Transit Special Revenue Fund
For the Year Ended June 30, 2016

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
Fund balance, July 1, 2015	\$ 743,928	\$ 743,928	\$ -
Resources (inflows):			
Other taxes	357,901	356,492	(1,409)
Use of money and property	8,332	16,610	8,278
Charges for services	6,900	7,080	180
Amount available for appropriation	1,117,061	1,124,110	7,049
Charges to appropriations (outflows):			
General government	56,891	53,245	3,646
Public safety	76,000	73,890	2,110
Community development	16,623	19,149	(2,526)
Culture and recreation	46,000	30,245	15,755
Public works	274,892	-	274,892
Total charges to appropriations	470,406	176,529	293,877
Fund balance, June 30, 2016	\$ 646,655	\$ 947,581	\$ 300,926

City of Hermosa Beach
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
Proposition "C" Special Revenue Fund
For the Year Ended June 30, 2016

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2015	\$ 764,528	\$ 764,528	\$ -
Resources (inflows):			
Other taxes	296,870	295,316	(1,554)
Use of money and property	<u>12,108</u>	<u>20,742</u>	<u>8,634</u>
Amount available for appropriation	<u>1,073,506</u>	<u>1,080,586</u>	<u>7,080</u>
Charges to appropriations (outflows):			
Public works	69,654	19,358	50,296
Capital outlay	<u>248,041</u>	<u>15,860</u>	<u>232,181</u>
Total charges to appropriations	<u>317,695</u>	<u>35,218</u>	<u>282,477</u>
Fund balance, June 30, 2016	<u>\$ 755,811</u>	<u>\$ 1,045,368</u>	<u>\$ 289,557</u>

City of Hermosa Beach
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
Measure "R" Special Revenue Fund
For the Year Ended June 30, 2016

	Budgeted Amounts <u>Final</u>	Actual Amounts <u> </u>	Variance with Final Budget <u> </u>
Fund balance, July 1, 2015	\$ 761,779	\$ 761,779	\$ -
Resources (inflows):			
Other taxes	221,869	230,969	9,100
Use of money and property	<u>5,646</u>	<u>10,499</u>	<u>4,853</u>
Amount available for appropriation	<u>989,294</u>	<u>1,003,247</u>	<u>13,953</u>
Charges to appropriations (outflows):			
Capital outlay	<u>880,445</u>	<u>453,661</u>	<u>426,784</u>
Total charges to appropriations	<u>880,445</u>	<u>453,661</u>	<u>426,784</u>
Fund balance, June 30, 2016	<u>\$ 108,849</u>	<u>\$ 549,586</u>	<u>\$ 440,737</u>

City of Hermosa Beach
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
Air Quality Management District Special Revenue Fund
For the Year Ended June 30, 2016

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2015	\$ 36,420	\$ 36,420	\$ -
Resources (inflows):			
Use of money and property	194	618	424
Intergovernmental	<u>24,268</u>	<u>25,056</u>	<u>788</u>
Amount available for appropriation	<u>60,882</u>	<u>62,094</u>	<u>1,212</u>
Charges to appropriations (outflows):			
General government	35,871	2,131	33,740
Capital outlay	<u>28,611</u>	<u>-</u>	<u>28,611</u>
Total charges to appropriations	<u>64,482</u>	<u>2,131</u>	<u>62,351</u>
Fund balance, June 30, 2016	<u><u>\$ (3,600)</u></u>	<u><u>\$ 59,963</u></u>	<u><u>\$ 63,563</u></u>

City of Hermosa Beach
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
Supplemental Law Enforcement Services Special Revenue Fund
For the Year Ended June 30, 2016

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2015	\$ 19,962	\$ 19,962	\$ -
Resources (inflows):			
Other taxes	100,000	114,618	14,618
Use of money and property	<u>2,853</u>	<u>3,362</u>	<u>509</u>
Amount available for appropriation	<u>122,815</u>	<u>137,942</u>	<u>15,127</u>
Charges to appropriations (outflows):			
Public safety	40,471	40,274	197
Capital outlay	<u>34,001</u>	<u>33,867</u>	<u>134</u>
Total charges to appropriations	<u>74,472</u>	<u>74,141</u>	<u>331</u>
Fund balance, June 30, 2016	<u>\$ 48,343</u>	<u>\$ 63,801</u>	<u>\$ 15,458</u>

City of Hermosa Beach
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
Asset Seizure and Forfeiture Special Revenue Fund
For the Year Ended June 30, 2016

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2015	\$ 207,206	\$ 207,206	\$ -
Resources (inflows):			
Fines and forfeitures	7,684	167,857	160,173
Use of money and property	4,747	6,157	1,410
Amount available for appropriation	<u>219,637</u>	<u>381,220</u>	<u>161,583</u>
Charges to appropriations (outflows):			
Public safety	12,500	9,312	3,188
Capital outlay	170,481	170,823	(342)
Total charges to appropriations	<u>182,981</u>	<u>180,135</u>	<u>2,846</u>
Fund balance, June 30, 2016	<u>\$ 36,656</u>	<u>\$ 201,085</u>	<u>\$ 164,429</u>

City of Hermosa Beach
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
Fire Protection Special Revenue Fund
For the Year Ended June 30, 2016

	Budgeted Amounts <u>Final</u>	Actual Amounts <u></u>	Variance with Final Budget <u></u>
Fund balance, July 1, 2015	\$ 51,533	\$ 51,533	\$ -
Resources (inflows):			
Use of money and property	471	1,075	604
Charges for services	<u>14,897</u>	<u>22,029</u>	<u>7,132</u>
Total charges to appropriations	<u>66,901</u>	<u>74,637</u>	<u>7,736</u>
Fund balance, June 30, 2016	<u>\$ 66,901</u>	<u>\$ 74,637</u>	<u>\$ 7,736</u>

City of Hermosa Beach
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
Community Development Block Grant Special Revenue Fund
For the Year Ended June 30, 2016

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
Fund balance, July 1, 2015	\$ -	\$ -	\$ -
Resources (inflows):			
Intergovernmental	264,159	33,122	(231,037)
Miscellaneous	6,600	3,486	(3,114)
Amount available for appropriation	<u>270,759</u>	<u>36,608</u>	<u>(234,151)</u>
Charges to appropriations (outflows):			
Community development	6,600	34,865	(28,265)
Capital outlay	264,159	-	264,159
Total charges to appropriations	<u>270,759</u>	<u>34,865</u>	<u>235,894</u>
Fund balance, June 30, 2016	<u>\$ -</u>	<u>\$ 1,743</u>	<u>\$ 1,743</u>

City of Hermosa Beach
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
Grants Special Revenue Fund
For the Year Ended June 30, 2016

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
Fund balance, July 1, 2015	\$ 263,555	\$ 263,555	\$ -
Resources (inflows):			
Intergovernmental	224,535	84,901	(139,634)
Miscellaneous	<u>300,780</u>	<u>153,582</u>	<u>(147,198)</u>
Amount available for appropriation	<u>788,870</u>	<u>502,038</u>	<u>(286,832)</u>
Charges to appropriations (outflows):			
Public safety	3,125	-	3,125
Community development	228,200	85,528	142,672
Public works	68,132	74,176	(6,044)
Capital outlay	<u>489,413</u>	<u>230,876</u>	<u>258,537</u>
Total charges to appropriations	<u>788,870</u>	<u>390,580</u>	<u>398,290</u>
Fund balance, June 30, 2016	<u>\$ -</u>	<u>\$ 111,458</u>	<u>\$ 111,458</u>

City of Hermosa Beach
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
Storm Drains Special Revenue Fund
For the Year Ended June 30, 2016

	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Fund balance, July 1, 2015	\$ -	\$ -	\$ -
Resources (inflows):			
Use of money and property	-	1,382	1,382
Transfers in	423,809	423,809	-
Amount available for appropriation	423,809	425,191	1,382
Charges to appropriations (outflows):			
Public works	358,809	240,581	118,228
Total charges to appropriations	358,809	240,581	118,228
Fund balance, June 30, 2016	\$ 65,000	\$ 184,610	\$ 119,610

City of Hermosa Beach
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
2015 Lease Revenue Bond Debt Service Fund
For the Year Ended June 30, 2016

	Budgeted Amounts <u>Final</u>	Actual Amounts	Variance with Final Budget
Fund balance, July 1, 2015	\$ -	\$ -	\$ -
Resources (inflows):			
Use of money and property	-	25	25
Proceeds from lease revenue bond	11,500,000	11,799,905	299,905
Transfers in	274,994	274,994	-
Amount available for appropriation	11,774,994	12,074,924	299,930
Charges to appropriations (outflows):			
Legislative and legal	11,500,000	301,205	11,198,795
Interest	274,994	270,022	4,972
Transfers out	-	11,500,000	(11,500,000)
Total charges to appropriations	11,774,994	12,071,227	(296,233)
Fund balance, June 30, 2016	\$ -	\$ 3,697	\$ 3,697

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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 and settlement losses.

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

City of Hermosa Beach
Combining Statement of Net Position
All Internal Service Funds
June 30, 2016

	Insurance Fund	Equipment Replacement Fund	Total
ASSETS			
Current assets:			
Cash and investments	\$ 9,027,286	\$ 5,001,739	\$ 14,029,025
Other assets	79,000	87,316	166,316
Total current assets	<u>9,106,286</u>	<u>5,089,055</u>	<u>14,195,341</u>
Capital assets:			
Nondepreciable	-	163,841	163,841
Depreciable, net	-	3,411,056	3,411,056
Total capital assets	<u>-</u>	<u>3,574,897</u>	<u>3,574,897</u>
Total assets	<u>9,106,286</u>	<u>8,663,952</u>	<u>17,770,238</u>
LIABILITIES			
Current liabilities:			
Accounts payable	62,860	66,811	129,671
Accrued wages and benefits payable	3,499	7,390	10,889
Workers' compensation claims payable, due within one year	719,617	-	719,617
General liability claims payable, due within one year	316,291	-	316,291
Compensated absences due within one year	9,721	9,254	18,975
Total current liabilities	<u>1,111,988</u>	<u>83,455</u>	<u>1,195,443</u>
Long-term liabilities:			
Workers' compensation claims payable, due in more than one year	3,957,033	-	3,957,033
General liability claims payable, due in more than one year	384,279	-	384,279
Total long-term liabilities	<u>4,341,312</u>	<u>-</u>	<u>4,341,312</u>
Total liabilities	<u>5,453,300</u>	<u>83,455</u>	<u>5,536,755</u>
NET POSITION			
Investment in capital assets	-	3,574,897	3,574,897
Unrestricted	3,652,986	5,005,600	8,658,586
Total net position	<u>\$ 3,652,986</u>	<u>\$ 8,580,497</u>	<u>\$ 12,233,483</u>

City of Hermosa Beach
Combining Statement of Revenues, Expenses, and Changes in Net Position
All Internal Service Funds
For the Year Ended June 30, 2016

	Insurance Fund	Equipment Replacement Fund	Total
OPERATING REVENUES:			
Charges for services	\$ 2,927,445	\$ 1,572,195	\$ 4,499,640
Miscellaneous	75,933	4,136	80,069
Total operating revenues	3,003,378	1,576,331	4,579,709
OPERATING EXPENSES:			
Salaries and wages	108,273	172,441	280,714
Contractor services	980,348	530,261	1,510,609
Supplies	14	355,508	355,522
Claims expense	1,130,624	-	1,130,624
Depreciation	-	380,243	380,243
Total operating expenses	2,219,259	1,438,453	3,657,712
OPERATING INCOME	784,119	137,878	921,997
NONOPERATING REVENUES (EXPENSES):			
Operating grant	-	500	500
Gain on disposal of capital assets	-	12,216	12,216
Total nonoperating revenues (expenses)	-	12,716	12,716
INCOME BEFORE TRANSFERS	784,119	150,594	934,713
TRANSFERS:			
Transfers in	11,500,000	844,421	12,344,421
Transfers out	(1,685,129)	(376,455)	(2,061,584)
Total transfers	9,814,871	467,966	10,282,837
Changes in net position	10,598,990	618,560	11,217,550
NET POSITION:			
Beginning of the year	(6,946,004)	7,961,937	1,015,933
End of the year	\$ 3,652,986	\$ 8,580,497	\$ 12,233,483

City of Hermosa Beach
Combining Statement of Cash Flows
All Internal Service Funds
For the Year Ended June 30, 2016

	Insurance Fund	Equipment Replacement Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received for services from other funds	\$ 2,927,445	\$ 1,572,195	\$ 4,499,640
Cash received for insurance recovery	75,933	-	75,933
Cash payments to suppliers of goods and services	(12,461,497)	(1,453,672)	(13,915,169)
Cash payments to employees for services	(105,818)	(173,841)	(279,659)
Cash payment for insurance premiums	(1,463,049)	4,136	(1,458,913)
Net cash used in operating activities	(11,026,986)	(51,182)	(11,078,168)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Contributions	-	500	500
Interest paid	(133,867)	-	(133,867)
Transfers in	11,500,000	844,421	12,344,421
Transfers out	(1,685,129)	-	(1,685,129)
Net cash provided by noncapital financing activities	9,681,004	844,921	10,525,925
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of capital assets	-	(1,285,599)	(1,285,599)
Proceeds from sale of capital assets	-	39,937	39,937
Net cash used in capital and related financing activities	-	(1,245,662)	(1,245,662)
Net decrease in cash and cash equivalents	(1,345,982)	(451,923)	(1,797,905)
CASH AND CASH EQUIVALENTS:			
Beginning of year	10,373,268	5,453,662	15,826,930
End of year	<u>\$ 9,027,286</u>	<u>\$ 5,001,739</u>	<u>\$ 14,029,025</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES:			
Operating income	\$ 784,119	\$ 137,878	\$ 921,997
Adjustments to reconcile net operating income to net cash used in operating activities:			
Depreciation	-	380,243	380,243
(Increase) Decrease in:			
Other assets	-	(87,316)	(87,316)
Increase (Decrease) in:			
Accounts payable	18,865	(480,587)	(461,722)
Accrued wages and benefits payable	355	(1,400)	(1,045)
Workers' compensation claims payable	(144,695)	-	(144,695)
General liability claims payable	(187,730)	-	(187,730)
Settlement payable	(11,500,000)	-	(11,500,000)
Compensated absences	2,100	-	2,100
Total adjustments	(11,811,105)	(189,060)	(12,000,165)
Net cash used in operating activities	\$ (11,026,986)	\$ (51,182)	\$ (11,078,168)
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES			
Transfer of infrastructure	\$ -	\$ (376,455)	\$ (376,455)

FIDUCIARY FUND FINANCIAL STATEMENTS

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, 2016

	Bayview Drive Redemption	Bayview Drive Reserve	Lower Pier Avenue Assessment District Redemption	Beach Drive Assessment District Redemption
ASSETS				
Cash and investments	\$ 147,007	\$ 13,934	\$ 55,530	\$ 75,173
Interest receivable	285	33	92	154
Other accounts receivable	689	-	-	342
Other assets	-	-	-	-
Total assets	\$ 147,981	\$ 13,967	\$ 55,622	\$ 75,669
LIABILITIES				
Assessment:				
Installment account	\$ 147,981	\$ 3,967	\$ 55,622	\$ 75,669
Reserve requirement	-	10,000	-	-
Total liabilities	\$ 147,981	\$ 13,967	\$ 55,622	\$ 75,669

City of Hermosa Beach
Combining Statement of Fiduciary Net Position (Continued)
All Agency Funds
June 30, 2016

	<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	\$ 4,242	\$ 134,385	\$ 155,689	\$ 585,960
Interest receivable	10	240	284	1,098
Other accounts receivable	-	3,645	2,945	7,621
Other assets	-	-	90	90
Total assets	<u>\$ 4,252</u>	<u>\$ 138,270</u>	<u>\$ 159,008</u>	<u>\$ 594,769</u>
LIABILITIES				
Assessment:				
Installment account	\$ 1,252	\$ 138,270	\$ 159,008	\$ 581,769
Reserve requirement	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>13,000</u>
Total liabilities	<u>\$ 4,252</u>	<u>\$ 138,270</u>	<u>\$ 159,008</u>	<u>\$ 594,769</u>

City of Hermosa Beach
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
For the Year Ended June 30, 2016

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
ASSETS				
Bayview Drive Redemption Fund:				
Cash and investments	\$ 140,414	\$ 65,372	\$ (58,779)	\$ 147,007
Interest receivable	311	211	(237)	285
Other accounts receivable	590	461	(362)	689
Bayview Drive Reserve Fund:				
Cash and investments	13,613	573	(252)	13,934
Interest receivable	30	25	(22)	33
Lower Pier District Redemption Fund:				
Cash and investments	45,338	46,625	(36,433)	55,530
Interest receivable	101	67	(76)	92
Other accounts receivable	1,467	-	(1,467)	-
Beach Drive Assessment District Redemption Fund:				
Cash and investments	73,696	34,494	(33,017)	75,173
Interest receivable	163	116	(125)	154
Other accounts receivable	-	468	(126)	342
Beach Drive Assessment District Reserve Fund:				
Cash and investments	4,144	175	(77)	4,242
Interest receivable	9	8	(7)	10
Myrtle Avenue Assessment Fund:				
Cash and investments	128,581	100,532	(94,728)	134,385
Interest receivable	282	176	(218)	240
Other accounts receivable	2,428	3,645	(2,428)	3,645
Loma Drive Assessment Fund:				
Cash and investments	149,937	106,071	(100,319)	155,689
Interest receivable	329	207	(252)	284
Other accounts receivable	2,833	2,946	(2,834)	2,945
Other assets	90	-	-	90
Total assets	<u>\$ 564,356</u>	<u>\$ 362,172</u>	<u>\$ (331,759)</u>	<u>\$ 594,769</u>
LIABILITIES				
Bayview Drive Redemption Fund:				
Assessment installment account	\$ 141,315	\$ 66,044	\$ (59,378)	\$ 147,981
Bayview Drive Reserve Fund:				
Assessment installment account	3,643	598	(274)	3,967
Assessment reserve requirement	10,000	-	-	10,000
Lower Pier District Redemption Fund:				
Assessment installment account	46,906	46,692	(37,976)	55,622
Beach Drive Assessment District Redemption Fund:				
Assessment installment account	73,859	35,078	(33,268)	75,669
Beach Drive Assessment District Reserve Fund:				
Assessment installment account	1,153	183	(84)	1,252
Assessment reserve requirement	3,000	-	-	3,000
Myrtle Avenue Assessment Fund:				
Assessment installment account	131,291	104,353	(97,374)	138,270
Loma Drive Assessment Fund:				
Assessment installment account	153,189	109,224	(103,405)	159,008
Total liabilities	<u>\$ 564,356</u>	<u>\$ 362,172</u>	<u>\$ (331,759)</u>	<u>\$ 594,769</u>

STATISTICAL SECTION

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STATISTICAL SECTION

OVERVIEW

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	150-155
These schedules contain trend information to help the reader understand how the government's financial performance and well being have changed over time.	
Revenue Capacity	157-167
These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.	
Debt Capacity	168-173
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.	
Demographic and Economic Information	174-176
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	177-178
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.	

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

	Fiscal Year				
	2007	2008	2009	2010	2011
Governmental activities:					
Net investment in capital assets	\$ 58,249,212	\$ 57,117,532	\$ 56,419,592	\$ 56,599,591	\$ 56,693,499
Restricted	3,813,004	5,171,642	5,403,000	4,518,727	1,968,275
Unrestricted	12,424,195	10,619,806	10,348,315	10,768,025	14,122,551
Total governmental activities net assets	<u>\$ 74,486,411</u>	<u>\$ 72,908,980</u>	<u>\$ 72,170,907</u>	<u>\$ 71,886,343</u>	<u>\$ 72,784,325</u>
Business-type activities:					
Net investment in capital assets	\$ 10,311,365	\$ 10,187,758	\$ 10,057,219	\$ 9,926,861	\$ 9,998,669
Restricted	-	-	-	-	-
Unrestricted	(1,604,154)	(1,443,914)	(1,236,859)	(1,074,651)	(838,749)
Total business-type activities net assets	<u>\$ 8,707,211</u>	<u>\$ 8,743,844</u>	<u>\$ 8,820,360</u>	<u>\$ 8,852,210</u>	<u>\$ 9,159,920</u>
Primary government:					
Net investment in capital assets	\$ 68,560,577	\$ 67,305,110	\$ 66,476,811	\$ 66,526,450	\$ 66,692,168
Restricted	3,813,004	5,171,642	5,403,000	4,518,727	1,968,275
Unrestricted	10,820,041	9,175,892	9,111,456	9,693,374	13,283,802
Total primary government net assets	<u>\$ 83,193,622</u>	<u>\$ 81,652,644</u>	<u>\$ 80,991,267</u>	<u>\$ 80,738,551</u>	<u>\$ 81,944,245</u>

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

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

	Fiscal Year				
	2012	2013	2014	2015	2016
Governmental activities:					
Net investment in capital assets	\$ 65,518,736	\$ 64,135,741	\$ 64,828,005	\$ 66,733,301	\$ 66,933,796
Restricted	3,860,192	4,050,722	4,476,554	4,188,404	3,768,552
Unrestricted	10,589,507	17,294,405	22,988,231	(24,869,037)	(18,769,530)
Total governmental activities net assets	<u>\$ 79,968,435</u>	<u>\$ 85,480,868</u>	<u>\$ 92,292,790</u>	<u>\$ 46,052,668</u>	<u>\$ 51,932,818</u>
Business-type activities:					
Net investment in capital assets	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	-	-	-	-	-
Unrestricted	-	-	-	-	-
Total business-type activities net assets	<u>\$ -¹</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Primary government:					
Net investment in capital assets	\$ 65,518,736	\$ 64,135,741	\$ 64,828,005	\$ 66,733,301	\$ 66,933,796
Restricted	3,860,192	4,050,722	4,476,554	4,188,404	3,768,552
Unrestricted	10,589,507	17,294,405	22,988,231	(24,869,037)	(18,769,530)
Total primary government net assets	<u>\$ 79,968,435</u>	<u>\$ 85,480,868</u>	<u>\$ 92,292,790</u>	<u>\$ 46,052,668</u>	<u>\$ 51,932,818</u>

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

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

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

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 Positions (Continued)
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year				
	2012	2013	2014	2015	2016
Expenses:					
Governmental activities:					
Legislative and legal	\$ 4,677,233	\$ 881,556	\$ 1,076,211	\$ 1,293,214	\$ 2,083,261
General government	2,376,929	2,458,548	2,827,895	3,078,044	2,411,160
Public safety	18,179,929	16,431,962	16,856,166	16,737,044	19,936,973
Community development	1,235,058	1,260,996	1,519,632	1,710,563	1,316,365
Culture and recreation	1,037,790	1,087,000	1,068,388	1,257,311	1,097,502
Public works	7,239,076	7,529,499	7,420,724	6,985,762	9,128,401
Total governmental activities expenses	<u>34,746,015</u>	<u>29,649,561</u>	<u>30,769,016</u>	<u>31,061,938</u>	<u>35,973,662</u>
Business-type activities:					
Downtown Enhancement	906,244	-	-	-	-
Parking	-	-	-	-	-
Proposition "A" Transit	-	-	-	-	-
Proposition "C" Transit	-	-	-	-	-
Total business-type activities expenses	<u>906,244</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total primary government expenses	<u>35,652,259</u>	<u>29,649,561</u>	<u>30,769,016</u>	<u>31,061,938</u>	<u>35,973,662</u>
Program revenues:					
Governmental activities:					
Charges for services:					
General government	555,607	2,275,297	2,323,797	2,582,857	2,414,955
Public safety	5,112,011	5,282,223	5,455,694	5,398,329	5,254,859
Community development	860,158	1,125,637	1,641,773	1,679,400	1,996,538
Culture and recreation	957,989	1,271,845	1,425,451	1,522,417	1,178,323
Public works	938,822	989,656	892,784	1,085,165	2,217,610
Operating grants and contributions	828,722	702,873	1,106,254	983,628	755,650
Capital grants and contributions	759,889	255,996	260,844	328,649	203,033
Total governmental activities program revenues:	<u>10,013,198</u>	<u>11,903,527</u>	<u>13,106,597</u>	<u>13,580,445</u>	<u>14,020,968</u>
Business-type activities:					
Charges for services:					
Downtown Enhancement	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>1,649,197</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total primary government program revenues:	<u>11,662,395</u>	<u>11,903,527</u>	<u>13,106,597</u>	<u>13,580,445</u>	<u>14,020,968</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 Positions (Continued)
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year				
	2007	2008	2009	2010	2011
Net revenues (expenses):					
Governmental activities	(21,833,790)	(23,728,315)	(22,576,036)	(21,623,879)	(21,261,820)
Business-type activities	48,627	(45,448)	57,810	29,047	531,931
Total net revenues (expenses)	<u>(21,785,163)</u>	<u>(23,773,763)</u>	<u>(22,518,226)</u>	<u>(21,594,832)</u>	<u>(20,729,889)</u>
General revenues and other changes in net assets:					
Governmental activities:					
Taxes:					
Property taxes	9,383,544	10,458,034	11,188,377	11,407,964	11,518,645
Sales tax	2,395,390	2,500,659	2,390,658	2,112,971	2,209,559
Other taxes	6,414,534	6,456,786	6,069,339	5,962,978	6,060,992
Grants and contributions not restricted to specific programs	1,273,625	1,472,191	1,454,006	1,242,064	1,666,460
Investment income	1,097,128	850,176	429,087	135,423	91,910
Other general revenues	170,325	503,414	303,035	473,559	352,723
Transfers	11,255	4,259	3,461	4,356	259,513
Settlement (Note 14)	-	-	-	-	-
Total governmental activities	<u>20,745,801</u>	<u>22,245,519</u>	<u>21,837,963</u>	<u>21,339,315</u>	<u>22,159,802</u>
Business-type activities:					
Investment income	48,113	28,320	17,749	5,609	4,679
Other general revenues	-	-	-	-	-
Miscellaneous	86,112	57,840	4,597	1,550	30,613
Transfers	(11,255)	(4,259)	(3,461)	(4,356)	(259,513)
Total business-type activities	<u>122,970</u>	<u>81,901</u>	<u>18,885</u>	<u>2,803</u>	<u>(224,221)</u>
Total primary government	<u>20,868,771</u>	<u>22,327,420</u>	<u>21,856,848</u>	<u>21,342,118</u>	<u>21,935,581</u>
Changes in net assets					
Governmental activities:	(1,087,989)	(1,482,796)	(738,073)	(284,564)	897,982
Business-type activities:	171,597	36,453	76,695	31,850	307,710
Total primary government	<u>\$ (916,392)</u>	<u>\$ (1,446,343)</u>	<u>\$ (661,378)</u>	<u>\$ (252,714)</u>	<u>\$ 1,205,692</u>

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 Positions (Continued)
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year				
	2012	2013	2014	2015	2016
Net revenues (expenses):					
Governmental activities	(24,732,817)	(17,746,034)	(17,662,419)	(17,481,493)	(21,952,694)
Business-type activities	742,953	-	-	-	-
Total net revenues (expenses)	<u>(23,989,864)</u>	<u>(17,746,034)</u>	<u>(17,662,419)</u>	<u>(17,481,493)</u>	<u>(21,952,694)</u>
General revenues and other changes in net assets:					
Governmental activities:					
Taxes:					
Property taxes	11,598,615	12,151,229	12,910,426	13,739,648	15,317,458
Sales tax	2,474,651	2,598,752	2,653,631	2,768,225	2,895,794
Other taxes	6,461,065	6,638,189	6,924,202	7,179,945	7,527,467
Grants and contributions not restricted to specific programs	1,121,380	1,156,589	1,222,808	1,246,419	1,369,042
Investment income	109,571	130,709	141,794	510,668	455,234
Other general revenues	237,670	582,999	621,480	489,740	267,849
Transfers	9,913,975	-	-	-	-
Settlement (Note 14)	-	-	-	(14,000,000)	-
Total governmental activities	<u>31,916,927</u>	<u>23,258,467</u>	<u>24,474,341</u>	<u>11,934,645</u>	<u>27,832,844</u>
Business-type activities:					
Investment income	6,418	-	-	-	-
Other general revenues	-	-	-	-	-
Miscellaneous	4,684	-	-	-	-
Transfers	(9,913,975)	-	-	-	-
Total business-type activities	<u>(9,902,873)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total primary government	<u>22,014,054</u>	<u>23,258,467</u>	<u>24,474,341</u>	<u>11,934,645</u>	<u>27,832,844</u>
Changes in net assets					
Governmental activities:	7,184,110	5,512,433	6,811,922	(5,546,848)	5,880,150
Business-type activities:	(9,159,920)	-	-	-	-
Total primary government	<u>\$ (1,975,810)</u>	<u>\$ 5,512,433</u>	<u>\$ 6,811,922</u>	<u>\$ (5,546,848)</u>	<u>\$ 5,880,150</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.

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

Fiscal year ended June 30	Property tax	Sales tax	Real property transfer tax	Franchise fees	1/2 cent sales tax extension for public safety	Transient occupancy tax	Utility user's tax	Business license	Total
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	2,204,420	2,443,285	1,006,478	22,479,921
2015	13,739,648	2,768,225	312,416	785,935	229,824	2,349,750	2,442,575	1,059,445	23,687,818
2016	15,317,458	2,895,794	320,731	776,316	212,511	2,762,444	2,388,824	1,058,663	25,732,741

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

	Fiscal Year				
	2007	2008	2009	2010	2011
General Fund:					
Reserved	\$ 142,604	\$ 241,142	\$ 312,880	\$ 447,426	
Unreserved	168,089	257,599	348,373	253,005	
Non-spendable					\$ 35,613
Restricted					172,021
Committed					10,592
Assigned					5,635,231
Total general fund	<u>\$ 310,693</u>	<u>\$ 498,741</u>	<u>\$ 661,253</u>	<u>\$ 700,431</u>	<u>\$ 5,853,457</u>
All other governmental funds:					
Reserved	\$ 3,875,682	\$ 1,734,658	\$ 1,273,762	\$ 3,060,042	
Unreserved, reported in:					
Special revenue funds	8,864,333	11,135,309	9,764,500	6,965,596	
Non-spendable					
Restricted					
Committed					
Assigned					\$ 4,216,497
Total all other governmental funds	<u>\$ 12,740,015</u>	<u>\$ 12,869,967</u>	<u>\$ 11,038,262</u>	<u>\$ 10,025,638</u>	<u>\$ 4,216,497</u>
Total governmental funds	<u>\$ 13,050,708</u>	<u>\$ 13,368,708</u>	<u>\$ 11,699,515</u>	<u>\$ 10,726,069</u>	<u>\$ 10,069,954</u>

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

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

	Fiscal Year				
	2012	2013	2014	2015	2016
General Fund:					
Reserved					
Unreserved					
Non-spendable	\$ 14,271	\$ 21,589	\$ 10,603	\$ 19,444	\$ 21,261
Restricted	255,200	391,504	410,289	460,304	329,890
Committed	10,592	10,592	28,900	28,900	28,900
Assigned	<u>5,776,500</u>	<u>6,555,423</u>	<u>7,655,210</u>	<u>10,005,040</u>	<u>8,397,991</u>
Total general fund	<u>\$ 6,056,563</u>	<u>\$ 6,979,108</u>	<u>\$ 8,105,002</u>	<u>\$ 10,513,688</u>	<u>\$ 8,778,042</u>
All other governmental funds:					
Reserved					
Unreserved, reported in:					
Special revenue funds					
Non-spendable	\$ 1,500		\$ 1,600	-	\$ 5,835
Restricted	3,604,992	\$ 3,659,218	4,083,450	\$ 3,728,100	3,430,617
Committed	117,415	137,166	432,606	431,716	1,305,276
Assigned	<u>961,251</u>	<u>847,266</u>	<u>2,831,179</u>	<u>7,646,948</u>	<u>11,455,686</u>
Total all other governmental funds	<u>\$ 4,685,158</u>	<u>\$ 4,643,650</u>	<u>\$ 7,348,835</u>	<u>\$ 11,806,764</u>	<u>\$ 16,197,414</u>
Total governmental funds	<u>\$ 10,741,721</u>	<u>\$ 11,622,758</u>	<u>\$ 15,453,837</u>	<u>\$ 22,320,452</u>	<u>\$ 24,975,456</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				
	2007	2008	2009	2010	2011
Revenues:					
Property taxes	\$ 9,834,400	\$ 10,907,119	\$ 11,639,348	\$ 11,863,846	\$ 11,978,616
Other taxes	9,488,447	9,630,365	9,079,246	8,760,988	9,023,359
Licenses and permits	772,832	877,775	678,477	556,737	627,056
Fines and forfeitures	1,615,777	1,994,522	2,111,467	2,075,759	2,219,052
Use of money and property	656,966	679,528	716,215	622,847	653,752
Intergovernmental	1,299,426	1,277,080	1,788,584	2,578,807	1,678,980
Charges for services	4,125,954	4,171,165	4,102,959	4,080,450	4,005,420
Miscellaneous	349,856	737,112	436,138	301,179	538,098
Interest earned on investments	1,097,128	850,176	429,092	135,423	91,913
Total revenues	29,240,786	31,124,842	30,981,526	30,976,036	30,816,246
Expenditures					
Current:					
Legislative and legal	858,017	967,423	1,057,092	976,862	960,365
General government	2,426,179	2,433,226	2,513,647	2,350,692	3,001,906
Public safety	16,236,080	17,374,613	16,974,820	17,251,686	16,516,892
Community development	1,417,596	1,283,317	1,400,933	1,229,909	1,189,993
Culture and recreation	1,205,653	1,249,251	1,372,611	1,201,057	1,044,131
Public works	3,895,291	3,993,055	4,288,179	4,158,945	3,907,921
Capital outlay	4,722,412	1,672,441	3,294,817	4,176,566	3,044,697
Debt service:	n/a	n/a	n/a	n/a	n/a
Total expenditures	30,761,228	28,973,326	30,902,099	31,345,717	29,665,905
Excess (deficiency) of revenues over (under) expenditures	(1,520,442)	2,151,516	79,427	(369,681)	1,150,341
Other financing sources (uses)					
Proceeds from sale of assets					
Transfers in	2,550,370	1,755,358	1,919,303	2,316,998	2,239,196
Transfers out	(3,094,756)	(3,588,874)	(3,667,923)	(2,993,912)	(4,045,652)
Total other financing sources (uses)	(544,386)	(1,833,516)	(1,748,620)	(676,914)	(1,806,456)
Net change in fund balances	\$ (2,064,828)	\$ 318,000	\$ (1,669,193)	\$ (1,046,595)	\$ (656,115)
Debt service as a percentage of noncapital expenditures	0.0%	0.0%	0.0%	0.0%	0.0%

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

	Fiscal Year				
	2012	2013	2014	2015	2016
Revenues:					
Property taxes	\$ 12,056,548	\$ 12,618,579	\$ 13,368,615	\$ 14,198,054	\$ 15,113,479
Other taxes	9,722,036	10,076,591	10,492,906	10,992,377	11,302,910
Licenses and permits	668,405	783,121	971,336	916,073	1,111,366
Fines and forfeitures	2,475,311	2,416,031	2,781,240	2,652,193	2,412,554
Use of money and property	815,367	1,102,797	1,077,154	1,087,758	965,738
Intergovernmental	1,555,097	896,216	1,350,674	1,290,849	949,255
Charges for services	4,301,971	6,312,731	6,722,773	7,318,409	8,130,681
Miscellaneous	198,858	469,725	630,271	688,047	679,937
Interest earned on investments	109,186	131,749	137,909	244,026	445,260
Total revenues	31,902,779	34,807,540	37,532,878	39,387,786	41,111,180
Expenditures					
Current:					
Legislative and legal	1,170,820	893,460	1,093,518	1,170,229	1,958,940
General government	2,293,402	2,550,162	2,806,176	3,040,426	3,458,191
Public safety	16,604,695	16,926,014	17,768,720	18,142,958	21,272,474
Community development	1,177,696	1,279,999	1,548,185	1,722,513	1,806,130
Culture and recreation	989,265	1,110,456	1,132,849	1,246,532	1,291,808
Public works	3,852,318	4,946,423	5,216,430	5,317,541	6,622,698
Capital outlay	2,414,507	1,813,990	2,774,016	3,620,185	2,953,123
Debt service:	n/a	n/a	n/a	n/a	233,425
Total expenditures	28,502,703	29,520,504	32,339,894	34,260,384	39,596,789
Excess (deficiency) of revenues over (under) expenditures	3,400,076	5,287,036	5,192,984	5,127,402	1,514,391
Other financing sources (uses)					
Proceeds from sale of assets	2,360	-	-	-	11,799,905
Transfers in	1,911,100	1,381,842	3,905,349	6,911,913	5,864,667
Transfers out	(4,641,769)	(5,787,841)	(5,267,254)	(5,172,700)	(16,523,959)
Total other financing sources (uses)	(2,728,309)	(4,405,999)	(1,361,905)	1,739,213	1,140,613
Net change in fund balances	\$ 671,767	\$ 881,037	\$ 3,831,079	\$ 6,866,615	\$ 2,655,004
Debt service as a percentage of noncapital expenditures	0.0%	0.0%	0.0%	0.0%	0.6%

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
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
2015	14,198,054	2,768,225	312,416	785,935	2,349,750	2,442,575	2,333,476	25,190,431
2016	15,113,479	2,895,794	320,731	776,316	2,762,444	2,388,824	2,158,801	26,416,389

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
2007	\$ 3,579,546	\$ 258,573	\$ 8,653	\$ 83,453	\$ (35,325)	\$ 3,894,900	1.00	\$ 3,930,225	12.29%
2008	3,978,216	305,364	11,695	108,583	(45,501)	4,358,357	1.00	4,403,858	11.90%
2009	4,261,900	355,516	12,724	96,991	(45,381)	4,681,750	1.00	4,705,847	7.42%
2010	4,350,467	378,930	12,442	128,227	(46,338)	4,823,728	1.00	4,870,066	3.03%
2011	4,422,662	397,297	12,412	76,659	(46,807)	4,862,223	1.00	4,909,030	0.80%
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)	5,379,727	1.00	5,332,719	5.63%
2015	5,181,815	455,035	12,635	104,834	(43,278)	5,711,041	1.00	5,667,767	6.16%
2016	5,522,546	484,979	13,186	111,635	(43,260)	6,089,086	1.00	6,045,828	6.62%

NOTE:

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

Source: Los Angeles County Auditor-Controller

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

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

Fiscal Year	City	Overlapping rates					Total
	direct rate	Hermosa Beach School District	El Camino Community College District	Los Angeles County	Flood Control District	Metropolitan Water District	
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
2015	1.000000	0.014729	0.017422	-	-	0.003500	1.035651
2016	1.000000	0.015746	0.017447	-	-	0.003500	1.036693

* 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.

Source: Los Angeles County Auditor-Controller

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

Taxpayer	2016		2007	
	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)	\$ 78,024,766	1.28%	\$	
EQR Gallery Apartments Limited Partnership (1)	69,853,155	1.15%	-	
1601 PCH, LLP (1)	24,518,113	0.40%	-	
Strand and Pier Holding Company LLC (4)	20,019,902	0.33%	-	
Hermosa Hotel Investments LLC (1)	17,259,731	0.28%	-	
Sepulveda Blvd Properties LLC (6)	16,962,712	0.28%	-	
South Bay III LLC (1)	16,218,688	0.27%	-	
Reg8 Plaza Hermosa LLC (7)	15,326,982	0.25%	-	
Johnny and Elizabeth Lopez Trust (1)	15,095,704	0.25%	-	
IWF Hotel Hermosa LP (1)	15,063,966	0.25%	-	
International Church of the Foursquare (40)	-	-	14,684,306	0.38%
Regency Centers LP (7)	-	-	13,479,420	0.35%
Beta Group (2)	-	-	11,640,658	0.30%
Barbara K. Robinson (3)	-	-	11,583,921	0.30%
Robert J. & Ranae Desantis (1)	-	-	11,246,938	0.29%
Delphi Properties 1722 Strand LLC (2)	-	-	9,081,920	0.23%
Barks PCH (1)	-	-	8,364,000	0.21%
Norma L Navarro (6)	-	-	8,132,700	0.21%
Checg Yi & Ying Yin Chang (1)	-	-	7,799,140	0.20%
Formosa Hotel Inc (1)	-	-	7,795,804	0.20%
	<u>\$ 288,343,719</u>	<u>4.74%</u>	<u>\$ 103,808,807</u>	<u>2.67%</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
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%
2015	12,081,959	11,805,592	97.71%		11,805,592	97.71%
2016	12,879,664	12,577,259	97.65%		12,577,259	97.65%

Source: Los Angeles County Auditor-Controller

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

Fiscal year ended June 30	Residential		Commercial		Total assessed value
	Number of permits	Valuation	Number of permits	Valuation	
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
2015	457	39,058,181	52	1,947,535	5,711,045,616
2016	554	44,224,105	68	9,283,387	6,089,089,031

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

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

<u>Governmental Activities</u>						
Fiscal Year Ended June 30	Lease Revenue Bonds	Total Government Activities	Total Primary Government	Percentage of Personal Income ¹	Per Capita Debt ²	
			-	N/A	-	
2007	-	-	-	N/A	-	
2008	-	-	-	N/A	-	
2009	-	-	-	N/A	-	
2010	-	-	-	N/A	-	
2011	-	-	-	N/A	-	
2012	-	-	-	N/A	-	
2013	-	-	-	N/A	-	
2014	-	-	-	N/A	-	
2015	-	-	-	N/A	-	
2016	\$ 11,600,000	\$ 11,600,000	\$ 11,600,000	0.96%	586	

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

¹ This ratio is calculated using the median household income for the prior calendar year.

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

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

Fiscal Year Ended June 30	Outstanding General Bonded Debt					
	Revenue	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal ¹	Interest	
2007	29,241	26,038	3,203	-	-	-
2008	31,125	27,301	3,824	-	-	-
2009	30,982	27,607	3,375	-	-	-
2010	31,049	27,169	3,880	-	-	-
2011	30,816	26,621	4,195	-	-	-
2012	31,903	25,997	5,906	-	-	-
2013	34,808	27,707	7,101	-	-	-
2014	37,533	29,566	7,967	-	-	-
2015	39,388	30,640	8,748	-	-	-
2016	41,111	36,404	4,707	-	270	17.43

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

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

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

Outstanding General Bonded Debt

Fiscal Year Ended June 30	Lease Revenue Bonds	Total	Percent Assessed Value ¹	Per Capita
2007	-	-	-	-
2008	-	-	-	-
2009	-	-	-	-
2010	-	-	-	-
2011	-	-	-	-
2012	-	-	-	-
2013	-	-	-	-
2014	-	-	-	-
2015	-	-	-	-
2016	\$ 11,600,000	\$ 11,600,000	52.49%	586

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

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

City of Hermosa Beach
Direct and Overlapping Debt
June 30, 2016

City assessed valuation		\$ 6,089,089,031	
Redevelopment agency incremental valuation		-	
Total assessed valuation		<u>\$ 6,089,089,031</u>	
	<u>Percentage applicable</u>	<u>Outstanding debt 6/30/16</u>	<u>Estimated share of overlapping debt</u>
Overlapping debt repaid with property taxes:			
West Basin Water District debt service	0.592%	\$ 44,916,916	\$ 265,904
Hermosa Beach School District debt service 2005 refunding	100.000%	6,838,773	6,838,773
El Camino Community College District 2016	6.512%	185,825,000	12,100,971
El Camino Community College District 2002 series 2006B	6.512%	5,090,000	331,462
El Camino Community College District 2002 series 2012C	6.512%	180,631,166	11,762,747
El Camino Community College District 2012 refunding	6.512%	<u>41,490,000</u>	<u>2,701,839</u>
Total overlapping debt repaid with property taxes		<u>\$ 464,791,855</u>	<u>34,001,696</u>
Total direct and overlapping debt			<u>\$ 34,001,696</u>
Direct Debt	0.000%		
Overlapping Debt	0.560%		
Total Debt	0.560%		

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

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

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

	Fiscal Year				
	2007	2008	2009	2010	2011
Assessed valuation	\$ 3,930,224,784	\$ 4,382,493,918	\$ 4,705,847,448	\$ 4,823,727,991	\$ 4,862,223,524
Conversion percentage	25%	25%	25%	25%	25%
Adjusted assessed valuation	\$ 982,556,196	\$ 1,095,623,480	\$ 1,176,461,862	\$ 1,205,931,998	\$ 1,215,555,881
Debt limit percentage	15%	15%	15%	15%	15%
Debt limit	\$ 147,383,429	\$ 164,343,522	\$ 176,469,279	\$ 180,889,800	\$ 182,333,382
Total net debt applicable to limit	\$ -	\$ -	\$ -	\$ -	\$ -
Legal debt margin	\$ 147,383,429	\$ 164,343,522	\$ 176,469,279	\$ 180,889,800	\$ 182,333,382
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% valuation. This provision was enacted when assessed valuation was based on 25% of market value. Effective fiscal year 1981-82, each parcel was assessed based on 100% of market value as of the most recent change in ownership. The computations shown above convert the assessed valuation data for each fiscal year from the full valuation perspective to the 25% level that was in effect at the time that the legal debt margin was enacted.

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

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

	Fiscal Year				
	2012	2013	2014	2015	2016
Assessed valuation	\$ 4,944,940,538	\$ 5,093,189,582	\$ 5,379,750,286	\$ 5,711,045,616	\$ 6,089,089,031
Conversion percentage	25%	25%	25%	25%	25%
Adjusted assessed valuation	\$ 1,236,235,135	\$ 1,273,297,396	\$ 1,344,937,572	\$ 1,427,761,404	\$ 1,522,272,258
Debt limit percentage	15%	15%	15%	15%	15%
Debt limit	\$ 185,435,270	\$ 190,994,609	\$ 201,740,636	\$ 214,164,211	\$ 228,340,839
Total net debt applicable to limit	\$ -	\$ -	\$ -	\$ -	\$ -
Legal debt margin	\$ 185,435,270	\$ 190,994,609	\$ 201,740,636	\$ 214,164,211	\$ 228,340,839
Total debt applicable to the limit as a percentage of debt limit	0%	0%	0%	0%	0%

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

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

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

Calendar Year	Population (1)	Personal income (in thousands) (2)	Per capita personal income (2)	City per capita personal income (3)	Unemployment rate (4)	School enrollment (5)
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
2015	19,772	499,767,889	49,400	-	3.1%	1,827
2016	19,801	544,324,900	53,521	-	2.2%	1,765

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 2015.
- (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	2016		2007	
	Number of employees	Percent of total employment	Number of employees	Percent of total employment
City of Hermosa Beach	189	4.15%	189	5.27%
Von's Companies	129	2.84%	144	4.01%
First Steps for Kids, Inc.	98	2.15%	-	0.00%
Hermosa Beach School District	89	1.96%	74	2.06%
Shorewood Realtors	-	0.00%	96	2.67%
Hennessey's Tavern	74	1.63%	70	1.95%
24 Hour Fitness	70	1.54%	147	4.10%
HYFN - Harris & Forstot, Inc.	66	1.45%	-	0.00%
Abigaile & Ocean Bar/Union Cattle Company	65	1.43%	53	1.48%
Intensive Behavior Intervention Consultants LLC	65	1.43%	-	0.00%
Sunrise Assisted Living	61	1.34%	-	0.00%
Patrick Molloy's	55	1.21%	64	1.78%
Hope Chapel	-	0.00%	62	1.73%
Comedy & Magic Club	-	0.00%	54	1.50%

Source: City of Hermosa Beach Finance Department

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

<u>Function</u>	Full-time employees as of June 30									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General government	19	23	19	16	16	13	17	18	20	20
Public safety	90	87	92	95	72	74	74	75	81	82
Community development	9	6	8	8	9	8	8	8	8	10
Culture and recreation	4	4	4	2	3	3	2	2	3	4
Public works	20	24	20	20	16	17	15	20	17	23
Total	142	144	143	141	116	115	116	123	129	139

<u>Function</u>	Part-time employees as of June 30									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General government	-	-	-	-	-	-	-	3	4	6
Public safety	13	9	14	13	26	12	24	13	6	14
Community development	1	2	2	-	1	1	1	2	3	2
Culture and recreation	32	29	24	22	20	19	26	21	25	27
Public works	1	-	-	-	-	1	2	-	3	1
Total	47	40	40	35	47	33	53	39	41	50

Source: City of Hermosa Beach Finance Department

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

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Public safety										
Police:										
Physical arrests	896	933	648	665	795	781	857	945	732	739
Traffic citations issued	1,681	2,490	2,503	2,798	1,593	2,290	1,819	3,421	2,406	1,966
Parking citations issued	48,329	59,656	52,080	47,620	63,010	68,193	70,678	74,228	65,783	62,957
Fire:										
Number of emergency calls ¹	2,255	2,088	2,273	2,162	2,149	2,487	2,488	2,386	2,467	2,678
Inspections	751	312	965	908	436	559	495	657	1,061	540 ²
Community development:										
Building permits issued	597	637	511	441	567	492	462	537	509	622
Culture and recreation:										
Number of recreation classes	186	171	138	165	172	169	129	134	514 ³	526 ³
Total enrollment	5,128	4,272	3,744	3,776	3,798	4,327	4,982	5,464	4,247	4,947
Public works:										
Graffiti removal (hours)	474	461	341	540	468	383	408	212	209	200
Permits issued	821	1,071	643	611	564	718	736	819	904	1,406

Source: Various city departments.

Note:

¹ Emergency calls for 2005-2008 were only available for January through June.

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

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

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

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Public safety										
Police:										
Police stations	1	1	1	1	1	1	1	1	1	1
Parking meters	1,666	1,666	1,666	1,663	1,663 ¹	1,663	1,663	1,565	1,553	1,553
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	40	40	40
Streets (miles)	40	40	40	40	40	40	40	40	40	40
Streetlights	392	392	392	392	392	392	392	400	400	400
Storm drains (miles)	1	1	1	1	1	1	1	2	2	2
Traffic Signals	17	18	18	18	18	19	19	19	19	19
Infiltration (miles) ²					0.6	0.6	0.6	0.6	0.2	0.2

Source: City of Hermosa Beach Finance Department

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

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