



**City of Hermosa Beach,
California**

**Comprehensive
Annual
Financial
Report**

For the year ended June 30, 2009

City of Hermosa Beach
Basic Financial Statements
For the year ended June 30, 2009

Table of Contents

| | <u>Page</u> |
|--|-------------|
| <u>INTRODUCTORY SECTION (UNAUDITED)</u> | |
| Table of Contents | i |
| Letter of Transmittal | v |
| Certificate of Achievement for Excellence in Financial Reporting - Governmental Finance Officers Association | xi |
| Organizational Chart | xii |
| Principal Officials of the City of Hermosa Beach | xiii |
| <u>FINANCIAL SECTION</u> | |
| Independent Auditors' Report | 1 |
| Management's Discussion and Analysis (Required Supplementary Information) (Unaudited) | 3 |
| Basic Financial Statements: | |
| Government - Wide Financial Statements: | |
| Statement of Net Assets | 19 |
| Statement of Activities and Changes in Net Assets | 20 |
| Fund Financial Statements: | |
| <i>Governmental Fund Financial Statements:</i> | |
| Balance Sheet | 28 |
| Reconciliation of the Governmental Funds Balance Sheet to the Government -Wide Statement of Net Assets | 29 |
| Statement of Revenues, Expenditures and Changes in Fund Balances | 30 |
| Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government - Wide Statement of Activities and Changes in Net Assets | 31 |
| <i>Proprietary Fund Financial Statements:</i> | |
| Statement of Net Assets | 36 |
| Statement of Revenues, Expenses and Changes in Fund Net Assets | 37 |
| Statement of Cash Flows | 38 |
| <i>Fiduciary Fund Financial Statements:</i> | |
| Statement of Fiduciary Net Assets | 42 |
| Index to Notes to Basic Financial Statements | 43 |
| Notes to Basic Financial Statements | 45 |
| Required Supplementary Information (Unaudited) | 77 |

City of Hermosa Beach
Basic Financial Statements
For the year ended June 30, 2009

Table of Contents, Continued

| | <u>Page</u> |
|--|-------------|
| <u>FINANCIAL SECTION, Continued</u> | |
| Supplementary Information: | |
| <i>Non-Major Governmental Funds:</i> | |
| Combining Balance Sheet..... | 88 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balances..... | 94 |
| Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual | |
| <i>Non-Major Special Revenue Funds:</i> | |
| Lighting and Landscape District..... | 99 |
| State Gas Tax..... | 100 |
| AB 939..... | 101 |
| Compensated Absences..... | 102 |
| Prop A Open Space..... | 103 |
| Tyco..... | 104 |
| Tyco Tidelands..... | 105 |
| Parks and Recreation Facilities..... | 106 |
| Building Improvement..... | 107 |
| Bayview Drive Administrative Expense..... | 108 |
| Lower Pier Administrative Expense..... | 109 |
| Myrtle District Administrative Expense..... | 110 |
| Loma District Administrative Expense..... | 111 |
| Beach Drive Assessment District Administrative Expense..... | 112 |
| Community Development Block Grant..... | 113 |
| Prop “A” Transit..... | 114 |
| Grants..... | 115 |
| Air Quality Management District..... | 116 |
| Supplemental Law Enforcement Services (COPS)..... | 117 |
| California Law Enforcement Program (CLEEP)..... | 118 |
| Sewer..... | 119 |
| Asset Seizure and Forfeiture Fund..... | 120 |
| Fire Protection..... | 121 |
| Retirement Stabilization..... | 122 |
| Capital Improvement..... | 123 |
| Artesia Boulevard Relinquishment..... | 124 |
| Beach Drive 2 Underground District..... | 125 |
| Myrtle Utility Underground Improvement..... | 126 |
| Bayview Drive Underground District..... | 127 |
| Beach Drive Underground District..... | 128 |
| Prospect Utility Underground District..... | 129 |

City of Hermosa Beach
Basic Financial Statements
For the year ended June 30, 2009

Table of Contents, Continued

| | <u>Page</u> |
|--|-------------|
| <u>FINANCIAL SECTION, Continued</u> | |
| Supplementary Information, Continued: | |
| <i>Internal Service Funds:</i> | |
| Combining Statement of Net Assets..... | 132 |
| Combining Statement of Revenues, Expenses and Changes in Net Assets..... | 133 |
| Combining Statement of Cash Flows | 134 |
| <i>Fiduciary Fund Financial Statements:</i> | |
| Combining Statement of Fiduciary Net Assets | 136 |
| Combining Statement of Changes in Assets and Liabilities | 137 |
| <i>Capital Assets Used in the Operating Of Governmental Funds:</i> | |
| Schedule by Source | 140 |
| Schedule by Function and Activity..... | 141 |
| Schedule of Changes in Capital Assets by Function and Activity | 142 |
| <u>STATISTICAL SECTION (Unaudited)</u> | |
| Net Assets By Component..... | 144 |
| Changes in Net Assets..... | 145 |
| Governmental Activities Tax Revenues By Source | 149 |
| Fund Balances of Governmental Funds..... | 150 |
| Changes in Fund Balances of Governmental Funds..... | 151 |
| Governmental Activities Tax Revenues By Source..... | 152 |
| Assessed Value and Estimated Actual Value of Taxable Property..... | 153 |
| Direct and Overlapping Government..... | 154 |
| Principal Property Taxpayers..... | 155 |
| Property Tax Levies and Collections..... | 156 |
| Construction Value and Property Value | 157 |
| Direct and Overlapping Debt..... | 158 |
| Legal Debt Margin Information..... | 160 |
| Demographic and Economic Statistics..... | 162 |
| Principal Employers | 163 |
| Full-Time Equivalent City Government Employees by Function..... | 164 |
| Operating Indicators by Function | 165 |
| Capital Asset Statistics by Function | 166 |

This page intentionally left blank.



City of Hermosa Beach

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

November 23, 2009

Honorable Mayor and Members of the City Council:

Introduction

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the City of Hermosa Beach for the fiscal year ended June 30, 2009. The report is intended to update readers on the status of the City's financial position and results of operations for the past fiscal year.

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

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

Audit

The City of Hermosa Beach's financial statements have been audited by Caporicci & Larson, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Hermosa Beach for the fiscal year ended June 30, 2009, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Hermosa Beach's financial statements for the fiscal year ended June 30, 2009, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

Profile of the Government

The City of Hermosa Beach is a beachfront, bedroom community with a stable population, located four miles south of Los Angeles International Airport. The City occupies 1.3 square miles and serves a population of 19,491, according to the State's latest population estimate. However as a beach city, Hermosa experiences a high visitor population and the associated costs. Due to this high visitor population, the City operates in many ways like a larger city. During the 2008-09 fiscal year, beach attendance ranged from a low of 72,000 in December 2008 to a high of 679,000 in July 2009, according to the Los Angeles County Fire Department, Lifeguard Division.

The City of Hermosa Beach, incorporated on January 14, 1907 as a general law city, operates under the Council-Manager form of government. Policy-making and legislative authority are vested in a governing council consisting of five members of the City Council elected on a non-partisan basis at large for a four-year term. Council members serve four-year, staggered terms, with an election every two years. One member is chosen by fellow members to serve as Mayor for a period of nine months; one is chosen to serve as Mayor Pro Tem. The Council is responsible for, among other things, establishing policy, passing ordinances, adopting an annual budget; appointing members to various City Commissions and Boards and hiring the City Manager and City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments.

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

The annual budget serves as the foundation for the City of Hermosa Beach's financial planning and control. All departments of the City of Hermosa Beach are required to submit requests for appropriation to the City Manager according to a budget calendar. The City Manager uses these requests as the starting point for developing a proposed budget, which is presented to the City Council for review by May 15. At least one public budget workshop is held prior to the required public hearing, with adoption required no later than June 30th. If the City Council fails to adopt a budget by that date, the budget submitted by the City Manager, as amended by the City Council, if applicable, is the appropriated budget except for capital improvement outlays. The appropriated budget is prepared by fund and department (e.g., Police Department). The City Manager may make transfers of appropriations between departments within each fund; transfers of appropriations between funds, however, require the approval of the City Council. The City Council receives monthly revenue and expenditure reports during the year and a midyear budget review is conducted after the first six months of the fiscal year to ensure estimates are on target. Budget-to-actual comparisons are provided in this CAFR for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund and major governmental funds with appropriated annual budgets, this comparison is presented as Required Supplementary Information on page 78-82. For non-major governmental funds with appropriated annual budgets, this comparison is presented as Supplementary Information, after the Notes to the Financial Statements.

Factors Affecting Financial Condition

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

Local economy. As a beachfront community, with more bedrooms than businesses, Hermosa Beach had the seventeenth highest percentage change in secured and unsecured assessed valuation (7.4%) of the 88 cities in Los Angeles County for 2008-09. This growth of 7.4% is the lowest rate since the 1999 rate of 5.25%. In the ten years preceding this fiscal year, the increase in assessed valuation averaged 10.19%. Even with lower growth, however, property tax is by far the highest source of revenue for the City. Median home prices in Hermosa Beach as of June 2009 were \$980,000, compared to \$323,750 for Los Angeles County. The Hermosa Beach median home price for June 2008 was \$1,035,000 and the average median price was \$1,116,708. The average median home price for Hermosa Beach for fiscal year 2008-09 was \$1,120,083. Home values adjacent to the beach are obviously holding up much better than other parts of the county.

As a beach city, the three highest occupations are management, sales, and administrative support, however residents enjoy access to a much more diverse employment base with the close proximity of all of the other cities in Los Angeles County. The unemployment rate in Hermosa Beach is 4.7%, compared with 11.3% for Los Angeles County, and 11.6% for California.

Secured property taxes increased 7% in 2008-09 and on average, 10%, over the past five years, corresponding with the increase in assessed valuation mentioned above (in spite of the shift of over \$650,000 in 2004-05 and 2005-06 in property tax funds from local government to the State to balance their budget). The strength in this area helped offset the decline in the sales tax base that began in 2001-02 with the loss of several new auto dealerships: Audi/Porsche in 2002, Volkswagen in 2003 and BMW in 2004. The biggest impact was BMW new car sales, which was felt in full for the first time in 2005-06. BMW still maintains pre-owned sales on a portion of the previous site. Sales tax receipts over the past ten years were highest in 2000-01 at \$2.7 million with the low in 2006-07 of \$2.4 million. Receipts for 2008-09 are down 4% to \$2.4 million, with the largest decline in Auto Dealers/Supplies and Building Materials.

In the past ten year period, transient occupancy tax has increased from a low of \$549,858 in 1998-99 to a high of \$1.9 million in 2007-08, or an average increase of 17%. During that ten years, three new hotels were added; the Beach House (phases 1 and 2), the Holiday Inn Express, and the Hampton Inn. Revenue for 2008-09 declined 13% to \$1.6 million. Average occupancy for 2008-09 was 67.7% for Hermosa Beach compared to last year's rate of 76.7%.

Utility user tax (UUT) was 5% less than 2007-08. The utility user tax is the second highest single source of income for the City. The City was successful in obtaining voter approval (72%) for adoption of a modern UUT ordinance in November 2007. The original ordinance was written in 1985. This new ordinance ensures that the City will continue to collect UUT revenue as technology changes occur and traditional phone service becomes a thing of the past. The decline in the tax is loss of prepaid cell phone revenue which providers no longer pay due to the lack of an ongoing relationship with the purchaser.

National Economy. While the Federal Reserve Chairman recently said that the recession was very likely over, it is not yet apparent with unemployment over 11% at the State and County level. A recent survey of economists by the Wall Street Journal do not expect unemployment to fall below 6% until 2013. While Hermosa Beach fares better with unemployment at an estimated 4.7%, the effects of this economy are still felt with less growth in property tax, declining sales tax and transient occupancy tax revenue.

While many communities are reeling from the effects of the subprime mortgage debacle and impact of numerous bank failures and bankruptcies, Hermosa Beach has only 16 properties that are real estate owned as of June 2009. Hermosa Beach is also fortunate not to have had investments in any of the failed financial institutions.

California Public Employees Retirement System (CalPERS). The City prepaid the employer portion of the contribution for all employee groups, thereby saving \$453,000. If salary estimates generated by CalPERS are lower than City estimates, the CalPERS estimate may be used for prepayment purposes. Evaluation of whether the prepayment option will be used is a year to year evaluation.

Without the prepayment, City retirement rates would have increased by less than 1% from 2007-08. Rates for 2009-10 and 2010-11 are projected to decline slightly, with rates increasing in 2010-12 by about 7% due to CalPERS investment losses.

The investment return of -23% as of June 2009 demonstrates the severity of the economic decline. The City will need to plan for rate increases now, knowing that investment losses may continue for an extended time. The City created a Retirement Stabilization Fund in 2003-04 for this purpose. The fund balance at 6/30/09 is \$499,255.

State Budget. The State's crisis continues with no solution in sight. As of this writing, the Governor is projecting a deficit of \$12 - \$14 billion when he releases the next spending plan in January. We now know that in 2009-10 the State is once again "borrowing" funds from local government to help balance their budget. The impact will be \$951,000 for Hermosa Beach. At least this time, unlike when funds were taken in 2004, the legislature has authorized a securitization program, whereby the State will issue bonds, paying all costs, with proceeds used to pay local agencies back for the funds borrowed. Through passage of Proposition 1A in November 2004, a deal was struck whereby the State may only borrow local government funds twice in any 10 year period. Old loans must first be paid back before any new funds may be borrowed. The borrowing in 2009 and 2004 will constitute those two times until 2014. In spite of this legislation, the State's structural budget imbalance is still a continuing concern of local government.

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

Contingency Fund—Goal of fund balance equal to 15% of the General Fund appropriations for economic uncertainties, unforeseen emergencies.

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

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

Compensated Absences Fund—Goal of fund balance 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 Contingency Fund, Insurance Fund, Equipment Replacement Fund, and Capital Improvement Fund to build equity in those funds. For 2008-09, the City Council determined that all unspent funds in the General Fund (\$933,683) would be transferred to the Insurance 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.

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

Primary projects coming up, (other than street and sewer improvements, which occur every year) are a major improvement to Pier Avenue, the City's main arterial street; continuing upgrades to the Community Center and Emergency Operations Center; refurbishment of the Clark Field Community Building; rehabilitation of beach restrooms; and a major renovation of the Public Works City Yard. The City will use Los Angeles Proposition A Open Space Grant, Traffic Congestion Relief funds, and Federal American Recovery and Reinvestment Act funds for these projects, in addition to City funds.

Cash management policies and practices. Temporarily idle cash was invested during the year in obligations of the U.S. Treasury and the State Treasurer's investment pool. The average maturity was 22 months, with an average yield on investments of 2.01%. Investment income includes changes in the fair value of investments. Changes in fair value during the current year, however, do not necessarily represent trends that will continue nor do such amounts necessarily become realized, since the City intends to hold the investments to maturity.

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

The City of Hermosa Beach purchases workers' compensation coverage through a self-insured program available through ICRMA. The City maintains a \$500,000 self-insured retention limit and participates in a self-insured risk sharing pool through the ICRMA and the California State Association of Counties (CSAC). Together, these two joint powers authorities provide a shared limit of coverage up to a maximum of \$200 million.

Claims defense and settlement are coordinated by third party administrators for both liability and worker's compensation, with oversight by the City's Risk Manager/Human Resources Director.

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

Pension and other post employment benefits. The City of Hermosa Beach provides pension benefits to safety and non-safety employees through the California Public Employees Retirement System (CalPERS). CalPERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The City pays employee contributions as a negotiated benefit. City employer contributions are actuarially determined on an annual basis.

The City of Hermosa Beach also provides post employment health care benefits for certain retirees. As of the end of the current fiscal year, there were 30 retirees receiving these benefits.

The City elected early implementation of GASB 45 and established a trust with an outside party to administer these funds in July 2007. The City is contributing the annual required contribution for all employees as determined by an actuarial study in the manner as is done for retirement contributions to CalPERS.

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

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Hermosa Beach for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2008. This was the nineteenth consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published a report that satisfied both GAAP and applicable legal requirements.

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

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

Respectfully submitted,

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

Viki Copeland
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Hermosa Beach
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

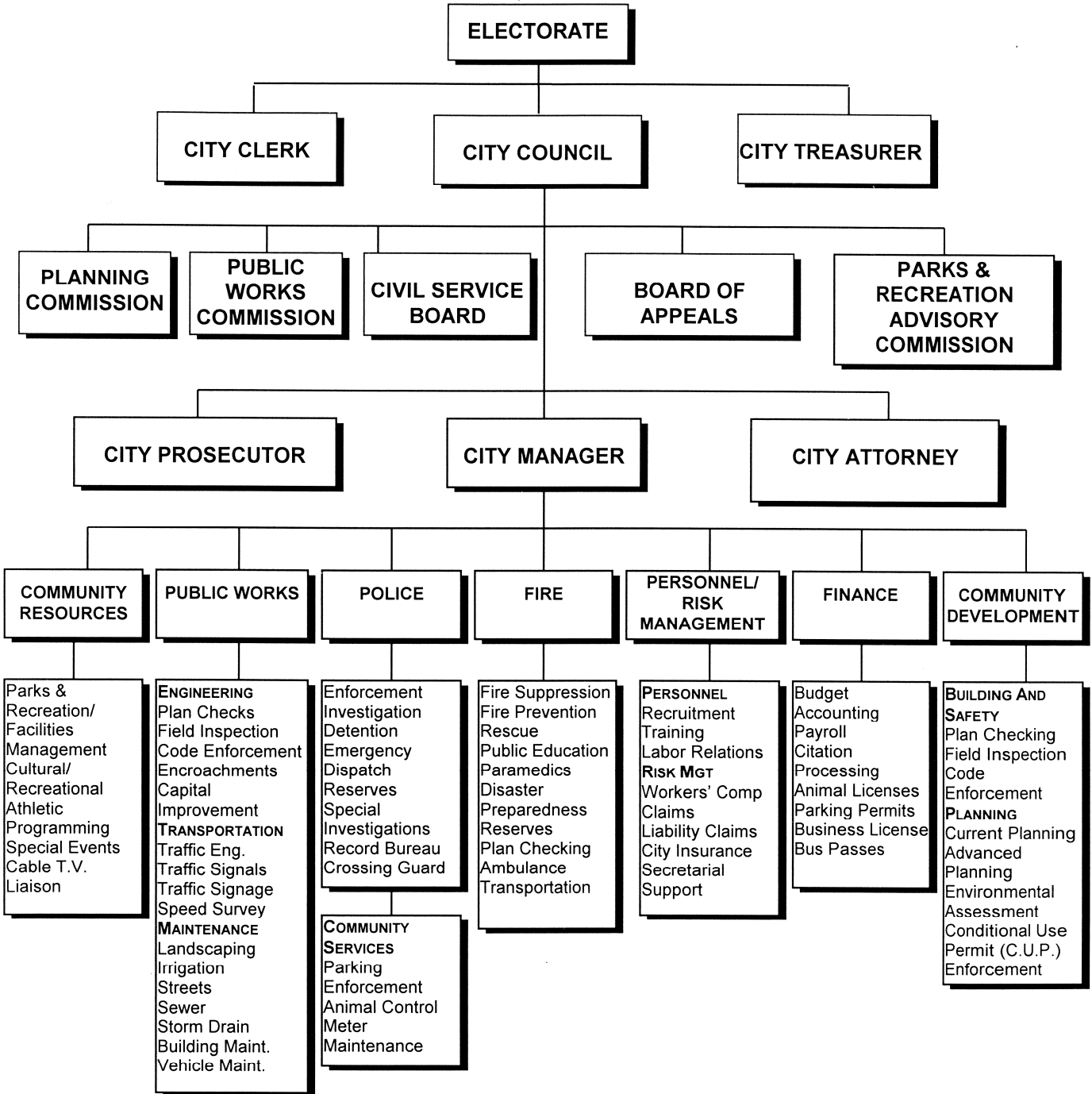
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

CITY OF HERMOSA BEACH ORGANIZATIONAL CHART



PRINCIPAL OFFICIALS OF THE CITY OF HERMOSA BEACH, CALIFORNIA

June 30, 2009

Elected and Administrative Officials

City Council

Patrick "Kit" Bobko
Michael Di Virgilio
Michael Keegan
J. R. Reviczky
Pete Tucker

Mayor
Mayor Pro Tempore
Councilmember
Councilmember
Councilmember

Other Elected Officials

John Workman
Elaine Doerfling

City Treasurer
City Clerk

Administrative Officials

Stephen Burrell
Viki Copeland
Ken Robertson

Lisa Lynn

Unfilled

Gregory Savelli
Richard Morgan
David Lantzer

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

This page intentionally left blank.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hermosa Beach, California (City), as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Subsequent to the basic financial statements date of June 30, 2009 and the year then ended, the State of California (State) has borrowed, deferred paying certain revenues and proposed taking other funds from local governments including the City of Hermosa Beach. These actions by the State include:

- o 8% of Property Taxes borrowed -- to be repaid in 3 years

These above amounts are important as they enable the City to fully fund ongoing operations and capital projects. Certain lawsuits are in process to stop such State actions. In addition, Hermosa Beach is a participant in the Proposition 1A securitization, which will enable local governments to utilize a Joint Power Authority to reimburse the 8% property tax borrowed by the State. For more detailed information, see Note 12 attached in the Notes to Basic Financial Statements.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with generally accepted accounting principles in the United States.

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

The accompanying Required Supplementary Information, such as Management's Discussion and Analysis and budgetary comparison information, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on the Required Supplementary 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 accompanying Supplementary Information is presented for purpose of additional analysis and is not a required part of the basic financial statements. The Supplementary Information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken 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 express no opinion on them.

Capricci & Carson

Irvine, California
November 23, 2009

Management's Discussion and Analysis

As management of the City of Hermosa Beach, we offer readers of the City of Hermosa Beach's financial statements this narrative overview and analysis of the financial activities of the City of Hermosa Beach for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages v - x of this report.

Financial Highlights

- The assets of the City of Hermosa Beach exceeded its liabilities at the close of the last fiscal year by \$80,991,000 (*net assets*). Of this amount, \$9,111,000 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets decreased by \$662,000. The decrease is the result of increased revenue for property taxes, decreased revenues for services, disposal of infrastructure assets recorded in the General Government category and increased litigation costs for the MacPherson Oil Company lawsuit.
- As of June 30, 2009, the City of Hermosa Beach's governmental funds reported combined ending fund balances of \$11,700,000, a decrease of \$1,669,000 in comparison with the prior year. Approximately 14% of this amount is reserved to indicate that it is not available because it has been 1) committed for purchase orders or contracts for the prior period and will be reappropriated, 2) committed for advances between funds for the purchase of property adjacent to City Hall, 3) committed for other specific projects or 4) represents an advance to other funds for utility undergrounding startup costs. Another 4% is designated for specific uses, with the remainder available for a variety of purposes.
- As of June 30, 2009, the unreserved, undesignated fund balance for the General Fund was \$0. Funds remaining unspent in the General Fund at year end are transferred equally to the Contingency Fund, Insurance Fund, Equipment Replacement Fund and the Capital Improvement Fund until financial goals are met. See "Financial Analysis of the Government's Funds" for further discussion of these transfers for 2008-09. The balance in the Contingency Fund (or "rainy day fund") is \$3.9 million or 14.9% of General Fund appropriations and serves as the City's cushion against economic uncertainties. The City's financial policy is to retain a fund balance of 15% of General Fund appropriations. These balances will be addressed as part of the Midyear Budget Review process for 2009-10. The City's financial goals and the progress toward those goals is always reviewed at midyear.
- The City of Hermosa Beach currently has no debt.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Hermosa Beach's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

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

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

The Government-Wide Financial Statements can be found on pages 19-21 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Hermosa Beach, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Hermosa Beach maintains thirty-four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the funds below, which are considered to be major funds:

General Fund Proposition C Fund Contingency 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 thirty-one 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* elsewhere 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 to demonstrate compliance with this budget.

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

Proprietary funds. The City of Hermosa Beach maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Hermosa Beach uses an enterprise fund to account for its downtown enhancement operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Hermosa Beach's various functions. The City of Hermosa Beach uses internal service funds to account for its fleet of vehicles, information systems and equipment and risk management/insurance. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Downtown Enhancement Fund which is considered to be a major fund of the City of Hermosa Beach. Internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 36-38 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City of Hermosa Beach's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Funds of the Lower Pier Avenue, Myrtle Avenue, Loma Drive, Bayview Drive, and Beach Drive Undergrounding Districts are held as fiduciary funds. Other Post Employment Benefits (OPEB) funds that were held previously as fiduciary funds by the City, were placed in a trust fund administered by Public Agency Retirement Services in August 2007.

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 45-76 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Hermosa Beach's major funds. Required supplementary information can be found on page 78 of this report.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 88-129 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As of June 30, 2009, assets exceeded liabilities by \$80,991,000.

By far the largest portion of the City of Hermosa Beach's net assets, \$66,477,000 (82%), reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment). The City of Hermosa Beach uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending.

| <i>Net Assets</i> <i>June 30, 2009</i> <i>(dollars in thousands)</i> | | | | | | |
|--|---------------------|------------------|----------------------|-----------------|------------------|------------------|
| | <i>Governmental</i> | | <i>Business-type</i> | | <i>Total</i> | |
| | <i>Activities</i> | | <i>Activities</i> | | | |
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| <i>Current and Other Assets</i> | \$ 27,312 | \$ 27,696 | \$ (991) | \$ (1,187) | \$ 26,321 | \$ 26,509 |
| <i>Capital Assets</i> | 56,420 | 57,118 | 10,057 | 10,188 | 66,477 | 67,306 |
| Total Assets | 83,732 | 84,814 | 9,066 | 9,001 | 92,798 | 93,815 |
| Long-term Liabilities | | | | | | |
| <i>Outstanding</i> | 4,407 | 4,337 | - | - | 4,407 | 4,337 |
| <i>Other Liabilities</i> | 7,154 | 7,568 | 246 | 257 | 7,400 | 7,825 |
| Total Liabilities | 11,561 | 11,905 | 246 | 257 | 11,807 | 12,162 |
| Net Assets: | 72,171 | 72,909 | 8,820 | 8,744 | 80,991 | 81,653 |
| Invested in Capital Assets | | | | | | |
| <i>Restricted</i> | 5,403 | 5,171 | - | - | 5,403 | 5,171 |
| <i>Unrestricted</i> | 10,348 | 10,620 | (1,237) | (1,444) | 9,111 | 9,176 |
| Total Net Assets | \$ 72,171 | \$ 72,909 | \$ 8,820 | \$ 8,744 | \$ 80,991 | \$ 81,653 |

A portion of the City of Hermosa Beach's net assets (7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$9,111,000) may be used to meet the government's ongoing obligations to citizens and creditors.

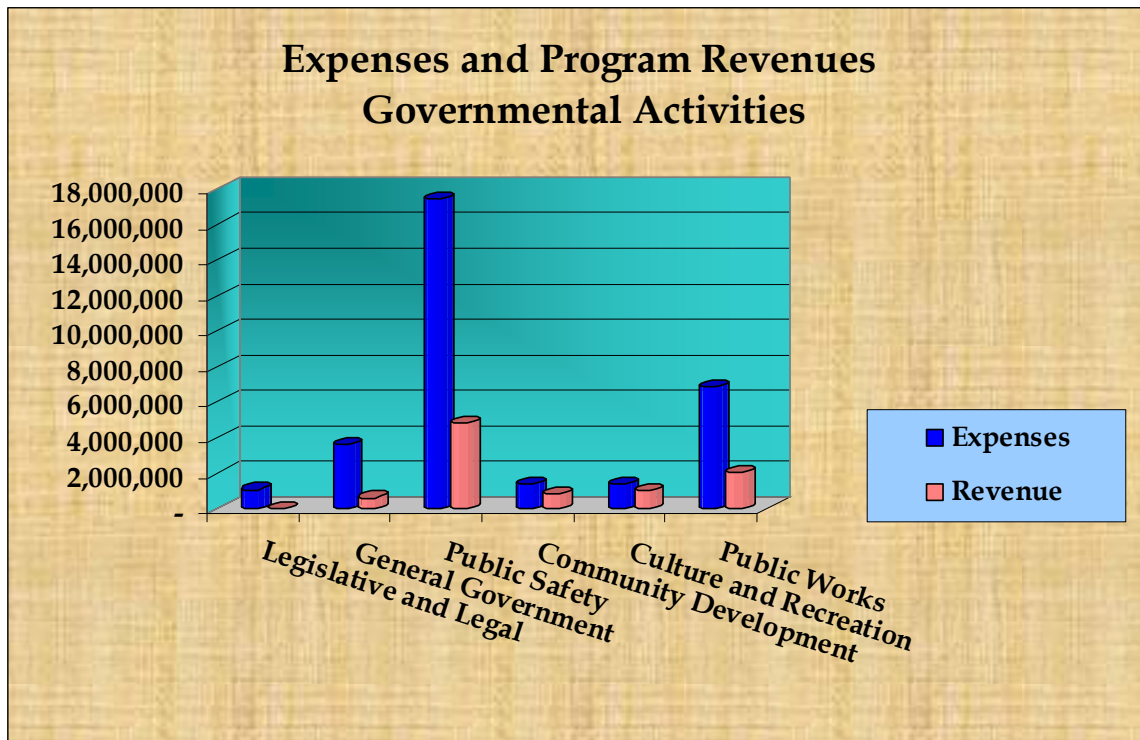
At the end of the current fiscal year, the City of Hermosa Beach is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental activities. The business-type activities show a deficit for unrestricted net assets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

The government's net assets decreased by \$662,000 during the current fiscal year. As mentioned earlier, revenue declined by less than 1%. Increased property taxes helped offset declines in service charges, building permits, transient occupancy taxes and interest earnings. Expenses exceeded revenues, primarily due to infrastructure disposal charges in the General Government category.

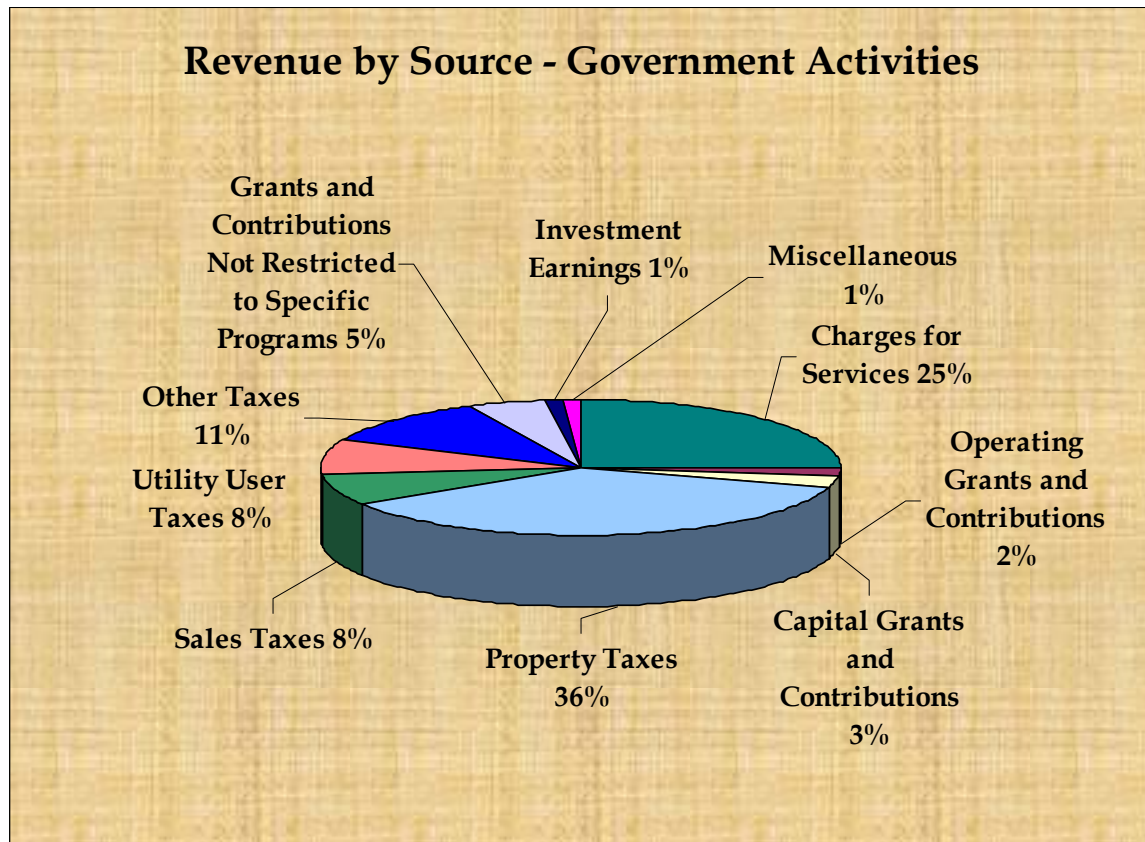
Governmental activities. Governmental activities decreased the City of Hermosa Beach's net assets by \$738,000. Key elements of this decrease are as follows:

| Changes in Net Assets June 30, 2009 (dollars in thousands) | | | | | | |
|--|--------------------------------|-----------------|---------------------------------|----------------|-----------------|-----------------|
| | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | | <u>Total</u> | |
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges For Services | \$7,843 | \$8,219 | \$1,021 | \$1,088 | \$8,864 | \$9,307 |
| Operating Grants and Contributions | 540 | 731 | - | - | 540 | 731 |
| Capital Grants and Contributions | 850 | 69 | - | - | 850 | 69 |
| General Revenues: | | | | | | |
| Property Taxes | 11,188 | 10,458 | - | - | 11,188 | 10,458 |
| Other Taxes | 8,460 | 8,957 | - | - | 8,460 | 8,957 |
| Grants and Contributions Not Restricted to Specific Programs | 1,454 | 1,472 | - | - | 1,454 | 1,472 |
| Other | 733 | 1,354 | 21 | 86 | 754 | 1,440 |
| Total Revenues | 31,068 | 31,260 | 1,042 | 1,174 | 32,110 | 32,434 |
| Expenses: | | | | | | |
| Legislative and Legal | 1,060 | 990 | - | - | 1,060 | 990 |
| General Government | 3,579 | 2,544 | - | - | 3,579 | 2,544 |
| Public Safety | 17,471 | 19,569 | - | - | 17,471 | 19,569 |
| Community Development | 1,417 | 1,358 | - | - | 1,417 | 1,358 |
| Culture and Recreation | 1,421 | 1,343 | - | - | 1,421 | 1,343 |
| Public Works | 6,861 | 6,943 | - | - | 6,861 | 6,943 |
| Downtown Enhancement | - | - | 963 | 1,133 | 963 | 1,133 |
| Parking | - | - | - | - | - | - |
| Total Expenses | 31,809 | 32,747 | 963 | 1,133 | 32,772 | 33,880 |
| Increase (Decrease) in Net Assets Before Transfers | (741) | (1,487) | 79 | 41 | (662) | (1,446) |
| Transfers | 3 | 4 | (3) | (4) | - | - |
| Increase (Decrease) in Net Assets | (738) | (1,483) | 76 | 37 | (662) | (1,446) |
| Net Assets - 7/1/08 | 72,909 | 74,392 | 8,744 | 8,707 | 81,653 | 83,099 |
| Net Assets - 6/30/09 | \$72,171 | \$72,909 | \$8,820 | \$8,744 | \$80,991 | \$81,653 |

- Program revenues decreased \$376,000 primarily due to a major reduction in development related revenues as a result of the declining economy. Revenue received for facilities rentals and special events was less due to renovations and construction at the Community Center.
- Property Taxes overall increased by \$730,000 or approximately 7%. Assessed valuations increased 7.4% overall.
- Other Taxes decreased approximately 5% as a result of decreases in revenue from the transient occupancy tax (tax on hotel stays), transfer tax (tax on transfers of real property), sales tax and utility users' tax.
- Capital Grants and Contributions increased primarily because of a grant received from the Federal Government for local surface transportation and street repairs (STPL). The grant is administered by the State of California Department of Transportation.
- Grants and Contributions Not Restricted to Specific Programs decreased for the following reasons: motor vehicle license fees decreased by \$19,000; an increase of \$165,000 as traffic congestion relief funding was received; Proposition A and C Transit Funds decreased by \$54,000 since they are collected as a portion of the sales tax which is declining; the amount of State reimbursed claims for mandated costs was \$14,000 less. The City allocation of Proposition 1B funding was \$195,000 less than 07-08. Transit Development Act Revenue was \$14,000 less for 08-09 and as no new projects were scheduled for 2008-09 funding was put on reserve for future years.
- Other revenue decreased primarily due to the exchange of Community Development Block Grant funds for General Funds from the City of San Fernando, California that took place in 2007-08, a large donation for Community Center Theatre Improvements that was received in 2007-08 and a decrease of nearly 50% for investment earnings due to falling interest rates.



Revenue by Source - Government Activities

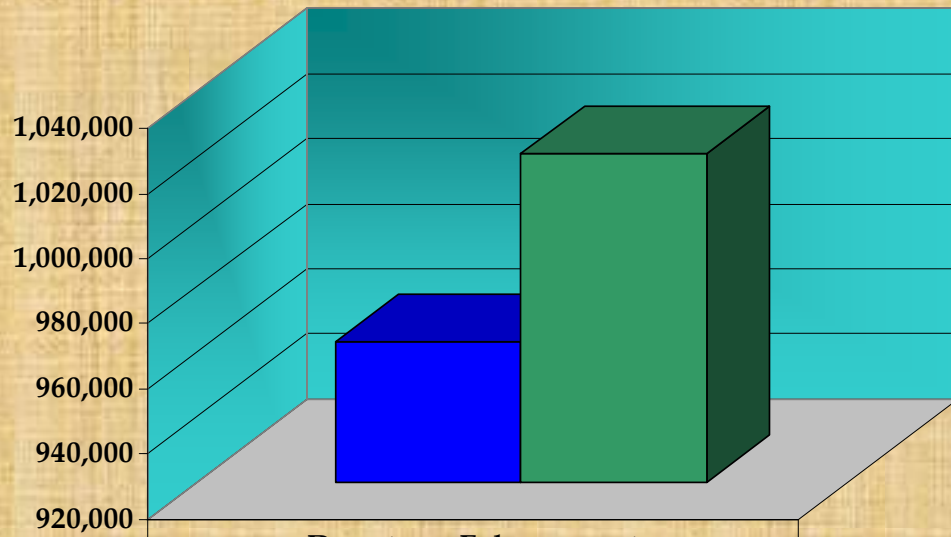


On the expense side, the Legislative and Legal function increased by approximately 7% because of an increase to legal costs related to the MacPherson Oil lawsuit and a one-time contribution to the Hermosa Beach School District. The General Government function shows an increase since changes in infrastructure assets are recorded in this category. Without that entry, the General Government category only increased \$12,000 or less than ½%. The Public Safety function decreased in part due to the retirement of five long term employees. Community Development and Culture and Recreation both increased because vacancies were filled. Recreation class instructor payments were more in 2008-09 due to higher enrollment in classes. Increased legal costs for the ongoing MacPherson Oil Company litigation, discussed in Note 12 of the Notes to the Basic Financial Statements, impacted all governmental functions since these costs, recorded in the Insurance Fund, are allocated across all functions. The total amount for these legal costs for 2008-09 was \$814,000, an increase over 2007-08 of approximately \$180,000. Expenses in total declined because the adjustments for internal service funds that are allocated across all government functions were less in 2008-09 primarily due to a decrease in workers compensation and liability claims expense and a reduction in year end estimated claims liabilities from 2007-08.

Business-type activities. Business-type activities increased the net assets by \$76,000. The primary contributing factors to this increase were:

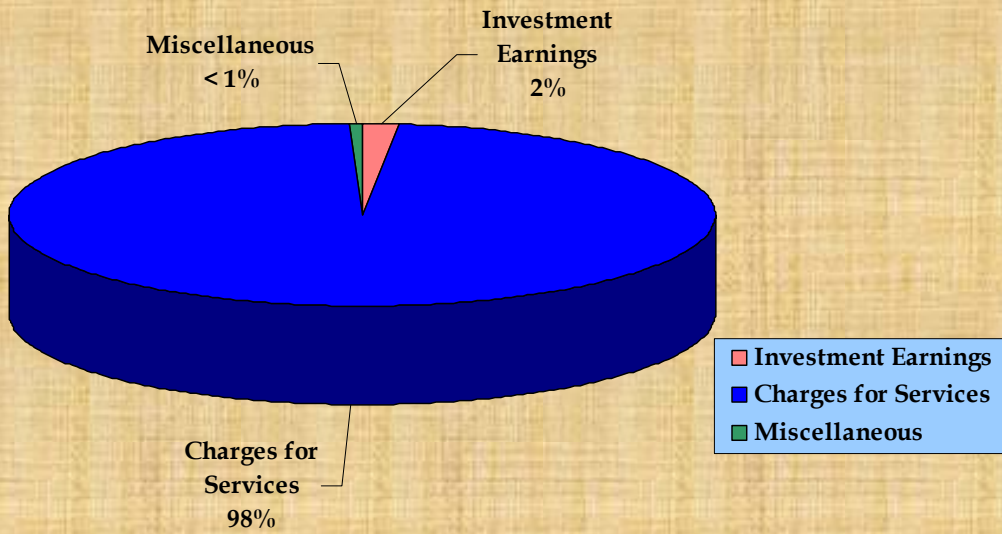
- Charges for Services decreased 6% due to a decrease in parking lot revenue received in 2008-09.
- Other revenue decreased due to the decrease in investment earnings from 2007-08 and cessation of donations for the City's Centennial celebration which took place in the prior year.
- The Downtown Enhancement operation shows decreased expenses because Centennial Celebrations increased costs for 2007-08.

Expenses and Program Revenue Business-type Activities



| Downtown Enhancement | |
|----------------------|-----------|
| ■ Expenses | 963,304 |
| ■ Program Revenue | 1,021,114 |

Revenue by Source - Business-type Activities



Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the City of Hermosa Beach's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spending* resources. Such information is useful in assessing the City of Hermosa Beach's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Hermosa Beach's governmental funds reported combined ending fund balances of \$11,700,000, a decrease of \$1,669,000 (12%), in comparison with the prior year. Approximately 86% of this total amount, \$10,113,000, constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to 1) liquidate contracts and purchase orders of the prior period (\$781,000), 2) fund transportation development act projects (\$2,000), 3) fund traffic congestion relief projects (\$181,000) to account for advances to undergrounding district funds (\$266,000), 4) to account for an advance to the Downtown Enhancement proprietary fund for the purchase of a storage lot facility (\$302,000), 5) to fund future parking facility projects (\$10,000), and 6) for future Theatre Improvements donated by a local resident (\$45,000).

Three funds qualify 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, Proposition C Fund, and Contingency Fund .

The General Fund is the chief operating fund of the City of Hermosa Beach. At the end of the current fiscal year, the total fund balance was \$661,000, with \$258,000 reserved for re-appropriations, \$45,000 reserved for Theatre Improvements, \$10,000 reserved for future parking facility projects and \$348,000 unreserved, but designated for certain purposes. The City's financial policies require that unspent funds in the General Fund transfer to meet specific funding targets at year end. As those targets or goals are met, transfers may be redirected where funds are needed. For 2008-09, the City Council redirected that funds left unspent in the General Fund at year end transfer to the Insurance Fund to help cover MacPherson Oil lawsuit legal costs and build equity in the fund. The transfer to the Insurance Fund was \$933,683. Funds were available at year end primarily because expenditures were 4% less than budgeted, namely due to a number of temporarily vacant positions created by the retirement of seven City employees and other vacant positions that remain unfilled.

The Proposition C Fund qualifies as a major fund in 2008-09 because funds are currently being accumulated for the improvement of the City's main arterial street, Pier Avenue. The project is the culmination of a four year public outreach process. The project includes streetscape, enhanced landscaping, new street lights, widened sidewalks and bus transit improvements. Project plans and specifications are complete; the construction contract will be awarded in December 2009.

The Contingency Fund serves as the City's "rainy day fund" or reserve for economic uncertainties. A goal amount of 15% of General Fund appropriations has been established. The unreserved, undesignated balance of \$3.3 million represents 12% of appropriations and is less than the financial goal because funds have been used for the MacPherson lawsuit. The status of financial goals is reviewed during the Midyear Budget Review Process as explained earlier.

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

Unrestricted net assets of the Downtown Enhancement operation at the end of the year were (\$1,237,000). The deficit is due to the purchase of a storage lot facility with partial funding from internal loans from the Contingency, Insurance and Equipment Replacement Funds. The loans were recorded as if they were being made to the Downtown Enhancement Fund. These loans are being repaid from revenue received from the lease of the facility and any unrestricted net assets that become available, which will ultimately eliminate the deficit.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were less than 1% for estimated revenue and less than 1% for appropriations. Actual revenue was lower than the final budget by 2% for the following reasons:

- Property taxes, which now include vehicle license revenue since the measurement and growth of these fees is based on assessed valuation, increased by 7%.
- Other tax revenue decreased 6% primarily due to decreases in transient occupancy tax, sales tax, and utility users' tax.
- Licenses and Permits declined 23% as a result of lower building permit activity.

Differences between original and final appropriations other than Transfers Out equaled \$55,000 or less than 1%. All functions experienced a reduction in retirement costs because the City prepaid the employer contribution for all groups. Differences are briefly summarized as follows:

- \$44,000 in increases in the Legislative/Legal category due to higher legal costs for the MacPherson oil drilling case.
- \$172,000 decrease in the General Government function represents funds transferred from a Prospective Expenditure account to other functions as costs of negotiated Memoranda of Understanding (MOU) were known.
- \$61,000 in Public Safety decreases resulting from the amount of the negotiated MOU increases that were offset by the reduction for the prepayment of employer retirement costs for 2008-09.
- \$145,000 in Community Resources increases for increased recreation class instructor payments as a result of higher class enrollment. Class revenue is shared between the instructor and the City.
- \$50,000 in increases for Public Works for Memorial Bench donations, negotiated MOU increases, reductions for prepaid employer retirement costs and funding to cover the cost for public works inspection services during an employee leave.

Differences between the final appropriations and actual expenditures totaled \$1,701,000. The largest variances can be summarized as follows:

- Public Safety expenditures were less than budget by \$1,212,000 primarily due to the retirement of 1 Police Captain, 1 Police Lieutenant, 2 Sergeants, the Assistant Fire Chief and 2 Community Services employees.
- Vacancies in the Senior Building Inspector and Planning Assistant positions were the main factors for Community Development expenditures being under budget by \$141,091.
- Expenditures in the Public Works category were less than budgeted by \$108,639 due to continued use of a Maintenance I employee to fill a Maintenance II position, lower than anticipated street sweeping and utility costs and unspent emergency traffic signal and street repair funds.

Transfers Out increased due to funds remaining in the General Fund at year end, which transfer to meet funding goals as explained on the previous page.

Capital Asset and Debt Administration

Capital assets. The City of Hermosa Beach's investment in capital assets for its governmental and business type activities as of June 30, 2009, amounts to \$66,477,000 (net of accumulated depreciation). This investment in capital assets includes land, buildings and structures, improvements, machinery and equipment, park facilities, roads, highways, and monuments. The total decrease in the City of Hermosa Beach's investment in capital assets for the 2008-09 fiscal year was 1% (a 1% decrease for governmental activities and a 1% decrease for business-type activities).

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

Governmental Activities

- Construction in progress on a variety of street projects (widening and expansion of existing streets) and sewer projects was \$1,758,000 at the end of the fiscal year.
- Construction in progress on the Community Center Electrical Upgrades, Community Center General Improvements and the Community Center Senior Activity Center projects was \$395,000 at the end of the fiscal year.
- Construction in progress on the City Yard Renovation was \$253,000 at the end of the fiscal year.
- Construction in progress on Beach Restroom Rehabilitation was \$101,000 at the end of the fiscal year.

Business type Activities

- There were no significant changes to the capital assets in business type activities.

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

Economic Factors and Next Year's Budgets and Rates

- Property tax revenue, the highest source of revenue for Hermosa Beach, rose 7% for 2008-09. Growth of 3% is projected for 2009-10 due to the lower volume of sales and lower home prices. With many areas of California showing double digit declines in value, Hermosa Beach is fortunate to still have positive growth.
- Sales tax revenue decreased 4% from 2007-08 and is 11% lower than the highest year of 2000-01. The highest sales tax producing category, Eating and Drinking Places, rose 5% and represents 39% of the sales tax revenue.
- City retirement rates increased by less than 1% for 2008-09, with rates projected to decline slightly for 2009-10 and 2010-11 due to CalPERS investment losses of 23% in 2008-09; rates for 2011-12 will increase by about 7% overall. A snapshot of CalPERS investment earnings is as follows: 2001, -7.2%; 2002, -5.9%; 2003, 3.9%; 2004, 16.7%; 2005, 12.7%; 2006, 12.3%; 2007, 19.1%; 2008, -2.5%; and 2009, -23.4%. While historically, CalPERS investment earnings have funded 65-85% of pension costs, current investment losses will reduce this percentage for the future. The City does have its own Retirement Stabilization Fund to set aside funds for use in times of high retirement rates and has used these funds to offset rate increases. With the turmoil in the financial markets and investment

losses occurring at CalPERS, the City will have to strive to maintain the appropriate level of funding in our Stabilization Fund to ensure that funds are available to offset higher rates if investment losses continue.

- The City elected in 2003-04 to begin making the Annual Required Contribution (ARC) for Other Post Employment Benefits (OPEB) after obtaining an actuarial study to value these employee benefits. The City complied early with Governmental Accounting Standards Board (GASB) requirements to account for these benefits in the same manner as pension benefits. In August 2007 the City placed accumulated funds in a trust with an outside party who will administer these funds.
- The City was successful in obtaining voter approval of 72% for adoption of a modern utility user tax (UUT) ordinance in November 2007, with changes taking effect in April 2008. The original ordinance was written in 1985. This new ordinance ensures that the City will continue to collect UUT revenue as technology changes occur. Since UUT revenue is the second highest source of revenue for the City, this issue was of the utmost importance.
- Significant expenditures from the Insurance Fund continue for the ongoing MacPherson Oil lawsuit. See the Notes to the Financial Statements for a complete history of this lawsuit.
- The State of California structural deficit, is still a source of great concern for local government. Proposition 1A (passed in November 2004), provided some protection in that funds may only be borrowed twice in a 10 year period and only if previous loans have been repaid. In September 2009, the State enacted the second borrowing, with the first occurring in 2004. For this recent borrowing, at least the legislature provided a mechanism for local government to be reimbursed through a no-cost securitization of the amounts owed by the State to local government.
- Hermosa Beach has no debt and therefore has no adverse affects in this area.

All of these factors were considered in preparing the City of Hermosa Beach's budget for the 2009-2010 fiscal year. A discussion of the factors affecting the City's financial condition may be found in the transmittal letter at the front of this report.

With the economy showing the worst performance in 50 years (according to the Los Angeles Economic Development Corporation), and no consensus on when an upturn will begin, the City certainly faces the most challenging environment possible in which to provide the quality and level of service that residents want.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

This page intentionally left blank.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

This page intentionally left blank.

City of Hermosa Beach
Statement of Net Assets
June 30, 2009

| | Primary Government | | Total |
|--|-------------------------|--------------------------|----------------------|
| | Governmental Activities | Business-Type Activities | |
| ASSETS | | | |
| Current assets: | | | |
| Cash and investments | \$ 22,279,552 | \$ 407,850 | \$ 22,687,402 |
| Reimbursable grants receivable | 427,712 | | 427,712 |
| Interest receivable on investments | 84,519 | 3,562 | 88,081 |
| Other accounts receivable | 1,427,375 | 9,539 | 1,436,914 |
| Property taxes receivable | 1,192,423 | | 1,192,423 |
| Internal Balance | 1,411,842 | (1,411,842) | - |
| Deposits | 140,000 | | 140,000 |
| Other assets | 348,758 | | 348,758 |
| Total current assets | 27,312,181 | (990,891) | 26,321,290 |
| Noncurrent assets: | | | |
| Capital assets: | | | |
| Non-depreciable | 20,059,303 | 5,188,092 | 25,247,395 |
| Depreciable, net | 36,360,289 | 4,869,128 | 41,229,417 |
| Total capital assets | 56,419,592 | 10,057,220 | 66,476,812 |
| Total noncurrent assets | 56,419,592 | 10,057,220 | 66,476,812 |
| Total assets | 83,731,773 | 9,066,329 | 92,798,102 |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Workers' compensation claims payable - due within one year | 562,045 | | 562,045 |
| General liability claims payable - due within one year | 471,313 | | 471,313 |
| Compensated absences - due within one year | 524,505 | | 524,505 |
| Accounts payable and accrued liabilities | 1,464,721 | 205,916 | 1,670,637 |
| Accrued wages and compensated absences | 1,985,458 | 13,041 | 1,998,499 |
| Refundable deposits | 497,466 | 27,012 | 524,478 |
| Unearned revenue | 1,564,588 | | 1,564,588 |
| Other liabilities | 84,266 | | 84,266 |
| Total current liabilities | 7,154,362 | 245,969 | 7,400,331 |
| Noncurrent liabilities: | | | |
| Workers' compensation claims payable | 3,169,994 | | 3,169,994 |
| General liability claims payable | 833,179 | | 833,179 |
| Compensated absences | 403,331 | | 403,331 |
| Total noncurrent liabilities | 4,406,504 | - | 4,406,504 |
| Total liabilities | 11,560,866 | 245,969 | 11,806,835 |
| NET ASSETS | | | |
| Invested in capital assets | 56,419,592 | 10,057,220 | 66,476,812 |
| Restricted for: | | | |
| Capital projects | 877,269 | | 877,269 |
| Street and sewer purposes | 453,864 | | 453,864 |
| Transportation purposes | 3,231,707 | | 3,231,707 |
| Public safety | 431,757 | | 431,757 |
| Other purposes | 408,403 | | 408,403 |
| Total restricted assets | 5,403,000 | - | 5,403,000 |
| Unrestricted | 10,348,315 | (1,236,860) | 9,111,455 |
| Total net assets | \$ 72,170,907 | \$ 8,820,360 | \$ 80,991,267 |

See accompanying Notes to Basic Financial Statements.

City of Hermosa Beach
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2009

| Functions/Programs | Expenses | Program Revenues | | | Total Program Revenues |
|----------------------------------|----------------------|----------------------|------------------------------------|----------------------------------|------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Primary government: | | | | | |
| Governmental activities: | | | | | |
| Legislative and legal | \$ 1,059,528 | | | | |
| General government | 3,579,453 | \$ 569,772 | \$ 25,714 | | \$ 595,486 |
| Public safety | 17,471,578 | 4,633,478 | 145,744 | \$ 15,802 | 4,795,024 |
| Community development | 1,416,714 | 782,904 | 9,045 | | 791,949 |
| Culture and recreation | 1,420,956 | 949,439 | 5,691 | 94,388 | 1,049,518 |
| Public works | 6,860,854 | 907,579 | 353,324 | 740,167 | 2,001,070 |
| Total governmental activities | 31,809,083 | 7,843,172 | 539,518 | 850,357 | 9,233,047 |
| Business-type activities: | | | | | |
| Downtown Enhancement | 963,303 | 1,021,114 | | | 1,021,114 |
| Total business-type activities | 963,303 | 1,021,114 | - | - | 1,021,114 |
| Total primary government | \$ 32,772,386 | \$ 8,864,286 | \$ 539,518 | \$ 850,357 | \$ 10,254,161 |

General Revenues:

Taxes:

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

Grants and contributions not restricted to specific programs

Investment earnings

Miscellaneous

Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning of year

Net assets - end of year

Net (Expense) Revenue and
Changes in Net Assets

| Governmental Activities | Business-type Activities | Total |
|----------------------------|-----------------------------|----------------|
| \$ (1,059,528) | | \$ (1,059,528) |
| (2,983,967) | | (2,983,967) |
| (12,676,554) | | (12,676,554) |
| (624,765) | | (624,765) |
| (371,438) | | (371,438) |
| (4,859,784) | | (4,859,784) |
| (22,576,036) | \$ - | (22,576,036) |
| | 57,811 | 57,811 |
| - | 57,811 | 57,811 |
| (22,576,036) | 57,811 | (22,518,225) |
| 11,188,377 | | 11,188,377 |
| 2,390,658 | | 2,390,658 |
| 140,113 | | 140,113 |
| 674,947 | | 674,947 |
| 1,645,571 | | 1,645,571 |
| 866,072 | | 866,072 |
| 2,575,209 | | 2,575,209 |
| 167,427 | | 167,427 |
| 19,648,374 | - | 19,648,374 |
| 1,454,006 | | 1,454,006 |
| 429,087 | 17,749 | 446,836 |
| 303,035 | 4,597 | 307,632 |
| 3,461 | (3,461) | - |
| 21,837,963 | 18,885 | 21,856,848 |
| (738,073) | 76,696 | (661,377) |
| 72,908,980 | 8,743,664 | 81,652,644 |
| \$ 72,170,907 | \$ 8,820,360 | \$ 80,991,267 |

This page intentionally left blank.

FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements

Proprietary Fund Financial Statements

Fiduciary Fund Financial Statements

This page intentionally left blank.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

This page intentionally left blank.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Governmental Funds of the City are outlined below:

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

Proposition "C" Transit Fund - The Proposition C Fund 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.

Contingency Special Revenue Fund - "Rainy day" funds set aside for unforeseen emergencies, unexpected economic events, etc. City Council adopted goal is 15% of appropriations.

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

City of Hermosa Beach
Balance Sheet
Governmental Funds
June 30, 2009

| | Major Funds | | | | Total |
|--|---------------------|-------------------------------------|-----------------------------------|--------------------------------|----------------------|
| | General | Proposition C Special Revenue | Contingency Special Revenue | Other Governmental Funds | |
| ASSETS | | | | | |
| Cash and investments | \$ 2,662,159 | \$ 2,206,743 | \$ 3,290,523 | \$ 5,126,734 | \$ 13,286,159 |
| Reimbursable grants receivable | | | | 427,712 | 427,712 |
| Interest receivable on investments | 20,478 | 13,087 | 20,407 | 30,547 | 84,519 |
| Other accounts receivable | 1,235,365 | | | 145,731 | 1,381,096 |
| Property taxes receivable | 1,170,900 | | | 21,523 | 1,192,423 |
| Other assets | 255,725 | | | | 255,725 |
| Due from other funds | | | | 329,128 | 329,128 |
| Advances to other funds | | | 567,468 | | 567,468 |
| Total assets | \$ 5,344,627 | \$ 2,219,830 | \$ 3,878,398 | \$ 6,081,375 | \$ 17,524,230 |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts payable and accrued liabilities | \$ 664,756 | \$ 30,156 | | \$ 432,170 | \$ 1,127,082 |
| Wages and compensated absences payable | 1,893,821 | 1 | | 62,843 | 1,956,665 |
| Refundable deposits | 497,466 | | | | 497,466 |
| Deferred revenue | 1,543,065 | | | 21,523 | 1,564,588 |
| Due to other funds | | | | 329,128 | 329,128 |
| Advances from other funds | | | | 265,520 | 265,520 |
| Other liabilities | 84,266 | | | | 84,266 |
| Total liabilities | 4,683,374 | 30,157 | \$ - | 1,111,184 | 5,824,715 |
| Fund Balances: | | | | | |
| Reserved for: | | | | | |
| Re-appropriations | 258,288 | 88,215 | | 434,735 | 781,238 |
| Greenwald Theatre Improv Donation | 45,000 | | | | 45,000 |
| Capital Outlay/Parking Facilities | 9,592 | | | | 9,592 |
| Bike paths | | | | 2,094 | 2,094 |
| Traffic congestion relief | | | | 181,250 | 181,250 |
| Used oil grant | | | | | - |
| Advances to other funds | | | 265,520 | | 265,520 |
| Storage lot purchase loan | | | 301,948 | | 301,948 |
| Unreserved, designated for: | | | | | |
| Sales tax in-lieu | 161,351 | | | | 161,351 |
| Affordable housing | 51,831 | | | | 51,831 |
| OPEB MOU increase | 128,000 | | | | 128,000 |
| Clark building future renovations | 1,000 | | | | 1,000 |
| Verizon PEG grant | 6,191 | | | | 6,191 |
| Justice and treasury department | | | | 118,878 | 118,878 |
| Unreserved, undesignated: | | | | | |
| Special revenue | | 2,101,458 | 3,310,930 | 4,233,234 | 9,645,622 |
| Total fund balances | 661,253 | 2,189,673 | 3,878,398 | 4,970,191 | 11,699,515 |
| Total liabilities and fund balances | \$ 5,344,627 | \$ 2,219,830 | \$ 3,878,398 | \$ 6,081,375 | \$ 17,524,230 |

See accompanying Notes to Basic Financial Statements.

City of Hermosa Beach
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2009

Total Fund Balances - Total Governmental Funds \$ 11,699,515

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

| | Governmental- Wide Statement of Net Assets | Internal Service Funds | |
|---|--|---------------------------|------------|
| Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet. | | | |
| Non-depreciable | \$ 20,059,303 | \$ (356,868) | 19,702,435 |
| Depreciable, net | 36,360,289 | (1,941,537) | 34,418,752 |
| Total capital assets | \$ 56,419,592 | \$ (2,298,405) | 54,121,187 |

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

| | |
|------------------------------|-----------|
| Insurance Fund | 1,200,444 |
| Equipment Replacement Fund | 6,077,597 |
| Total internal service funds | 7,278,041 |

Compensated absences were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet. (927,836)

Net Assets of Governmental Activities \$ 72,170,907

City of Hermosa Beach
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2009

| | Major Funds | | | | Total |
|---|-------------------|-----------------|------------------|--------------------|--------------------|
| | General | Proposition C | Contingency | Other | |
| | | Special Revenue | Special Revenue | Governmental Funds | |
| REVENUES: | | | | | |
| Property taxes | \$ 11,188,377 | | | \$ 450,971 | \$ 11,639,348 |
| Other taxes | 8,459,997 | \$ 234,852 | | 384,397 | 9,079,246 |
| Licenses and permits | 678,477 | | | | 678,477 |
| Fines and forfeitures | 2,075,238 | | | 36,229 | 2,111,467 |
| Use of money and property | 303,315 | | | 412,900 | 716,215 |
| Intergovernmental | 171,555 | | | 1,617,029 | 1,788,584 |
| Charges for services | 4,007,358 | | | 95,601 | 4,102,959 |
| Miscellaneous | 256,917 | | | 179,221 | 436,138 |
| Interest earned on investments | 29,472 | 78,874 | \$ 131,496 | 189,250 | 429,092 |
| Total revenues | 27,170,706 | 313,726 | 131,496 | 3,365,598 | 30,981,526 |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| Legislative and legal | 1,057,092 | | | | 1,057,092 |
| General government | 2,346,708 | | | 166,939 | 2,513,647 |
| Public safety | 16,896,337 | | | 78,483 | 16,974,820 |
| Community development | 1,375,233 | | | 25,700 | 1,400,933 |
| Culture and recreation | 1,321,916 | | | 50,695 | 1,372,611 |
| Public works | 2,992,365 | | | 1,295,814 | 4,288,179 |
| Capital outlay | 105,000 | 291,784 | | 2,898,033 | 3,294,817 |
| Total expenditures | 26,094,651 | 291,784 | - | 4,515,664 | 30,902,099 |
| REVENUES OVER (UNDER) EXPENDITURES | 1,076,055 | 21,942 | 131,496 | (1,150,066) | 79,427 |
| OTHER FINANCING SOURCES (USES): | | | | | |
| Transfers in | 1,028,511 | | | 890,792 | 1,919,303 |
| Transfers out | (1,942,054) | | (626,661) | (1,099,208) | (3,667,923) |
| Total other financing sources (uses) | (913,543) | - | (626,661) | (208,416) | (1,748,620) |
| Net change in fund balances | 162,512 | 21,942 | (495,165) | (1,358,482) | (1,669,193) |
| FUND BALANCES: | | | | | |
| Beginning of year | 498,741 | 2,167,731 | 4,373,563 | 6,328,673 | 13,368,708 |
| End of year | \$ 661,253 | \$ 2,189,673 | \$ 3,878,398 | \$ 4,970,191 | \$ 11,699,515 |

See accompanying Notes to Basic Financial Statements.

City of Hermosa Beach

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets For the year ended June 30, 2009

| | |
|---|-----------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ (1,669,193) |
|---|-----------------------|

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

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

| | |
|---|------------------|
| Total capital outlay expenditures reported in governmental funds | 3,294,817 |
| Less repair and maintenance expenditures reported in public works | (364,828) |
| Total | 2,929,989 |

Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in governmental funds. Except for the Internal Service Funds amounts of \$438,258 which are reported below.

| | |
|--|--------------------|
| Total depreciation reported in Government-Wide Statement of Activities | (2,894,918) |
| Less depreciation reported in Internal Service Funds | 445,716 |
| Total | (2,449,202) |

Gain on disposal of capital assets was reported on the Government-wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources.

| |
|--------------------|
| (1,029,710) |
|--------------------|

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

| |
|---------|
| 156,122 |
|---------|

Internal Service Funds are used by management to charge the costs of certain activities, such as insurance and equipment replacement, to individual funds. The net revenue of the Internal Service Funds is reported with Governmental Activities.

| |
|-----------|
| 1,323,921 |
|-----------|

Change in Net Assets of Governmental Activities

| |
|---------------------|
| \$ (738,073) |
|---------------------|

This page intentionally left blank.

PROPRIETARY FUND FINANCIAL STATEMENTS

This page intentionally left blank.

PROPRIETARY FUND FINANCIAL STATEMENTS

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

City of Hermosa Beach
Statement of Net Assets
Proprietary Funds
June 30, 2009

| | Major Enterprise Fund Downtown Enhancement | Governmental Activities Internal Service Funds |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and investments | \$ 407,850 | \$ 8,993,393 |
| Interest receivable on investments | 3,562 | |
| Other accounts receivable | 9,539 | 46,279 |
| Advances to other funds | | 1,109,894 |
| Deposits | | 140,000 |
| Other assets | | 93,033 |
| Total current assets | 420,951 | 10,382,599 |
| Noncurrent assets: | | |
| Capital assets, net of accumulated depreciation | 10,057,220 | 2,298,405 |
| Total noncurrent assets | 10,057,220 | 2,298,405 |
| Total assets | 10,478,171 | 12,681,004 |
| LIABILITIES | | |
| Current liabilities: | | |
| Current portion of long-term liabilities | | 1,033,358 |
| Accounts payable | 205,916 | 337,639 |
| Accrued wages and compensated absences | 13,041 | 28,793 |
| Refundable deposit | 27,012 | |
| Advances from other funds | 1,411,842 | |
| Unearned revenue | | |
| Total current liabilities | 1,657,811 | 1,399,790 |
| Long-term liabilities: | | |
| Workers' compensation claims payable | | 3,732,039 |
| General liability claims payable | | 1,304,492 |
| Less current portion above | | (1,033,358) |
| Total long-term liabilities | - | 4,003,173 |
| Total liabilities | 1,657,811 | 5,402,963 |
| NET ASSETS | | |
| Investment in capital assets | 10,057,220 | 2,298,405 |
| Reserved: | | |
| Re-appropriations | | 63,406 |
| Unrestricted | (1,236,860) | 4,916,230 |
| Total net assets | \$ 8,820,360 | \$ 7,278,041 |

See accompanying Notes to Basic Financial Statements

City of Hermosa Beach
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the year ended June 30, 2009

| | Major Enterprise Fund Downtown Enhancement | Governmental Activities Internal Service Funds |
|---|---|---|
| OPERATING REVENUES: | | |
| Lease revenues | \$ 247,274 | |
| Charges for services | 773,840 | \$ 3,594,528 |
| Miscellaneous revenue | 4,597 | 86,023 |
| Total operating revenues | 1,025,711 | 3,680,551 |
| OPERATING EXPENSES: | | |
| Salaries and wages | 62,509 | 317,026 |
| Contractor services | 674,887 | 1,770,678 |
| Supplies | 95,549 | 161,819 |
| Claims expense | | 1,421,085 |
| Depreciation | 130,358 | 445,716 |
| Total operating expenses | 963,303 | 4,116,324 |
| OPERATING INCOME (LOSS) | 62,408 | (435,773) |
| NONOPERATING REVENUES (EXPENSES): | | |
| Interest earned on investments | 17,749 | |
| Gain on disposal of capital assets | | 7,613 |
| Total nonoperating revenues (expenses) | 17,749 | 7,613 |
| INCOME (LOSS) BEFORE TRANSFERS | 80,157 | (428,160) |
| Transfers in | 842 | 1,852,081 |
| Transfers out | (4,303) | (100,000) |
| Total transfers | (3,461) | 1,752,081 |
| Change in net assets | 76,696 | 1,323,921 |
| NET ASSETS: | | |
| Beginning of the year | 8,743,664 | 5,954,120 |
| End of the year | \$ 8,820,360 | \$ 7,278,041 |

See accompanying Notes to Basic Financial Statements.

City of Hermosa Beach
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2009

| | Major Enterprise Fund Downtown Enhancement | Governmental Activities Internal Service Funds |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from customers | \$ 1,027,162 | \$ 86,216 |
| Cash received for services from other funds | | 3,594,528 |
| Cash payments to other funds for services | (190,138) | |
| Cash payments to suppliers for goods and services | (778,102) | (1,830,669) |
| Cash payments to employees for services | (63,397) | (332,589) |
| Insurance premiums and settlements | | (1,540,984) |
| Net cash provided by (used for) operating activities | (4,475) | (23,498) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| Transfers in | 842 | 1,852,081 |
| Transfers out | (4,303) | (100,000) |
| Net cash provided by (used for) noncapital financing activities | (3,461) | 1,752,081 |
| CASH FLOWS CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Acquisition of capital assets | - | (289,086) |
| Net cash provided by (used for) capital and related financing activities | - | (289,086) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Interest receivable on investments | 20,144 | |
| Net cash provided by (used for) investing activities | 20,144 | - |
| Net increase (decrease) in cash and cash equivalents | 12,208 | 1,439,497 |
| CASH AND CASH EQUIVALENTS: | | |
| Beginning of year | 395,642 | 7,553,896 |
| End of year | \$ 407,850 | \$ 8,993,393 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES: | | |
| Operating income (loss) | \$ 62,408 | \$ (435,773) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation | 130,358 | 445,716 |
| Changes in operating assets and liabilities: | | |
| Other accounts receivable | 3,807 | (45,829) |
| Deposits | | - |
| Other assets | | (80,737) |
| Worker's compensation claims payable | | 120,821 |
| General liability claims payable | | (240,720) |
| Accounts payable | (7,666) | 101,828 |
| Accrued wages and compensated absences | (888) | (15,563) |
| Advances from (to) other fund | (190,138) | 126,759 |
| Unearned revenue | (2,356) | |
| Total adjustments | (66,883) | 412,275 |
| Net cash provided by (used for) operating activities | \$ (4,475) | \$ (23,498) |
| DISCLOSURE OF NON-CASH TRANSACTION: | | |
| Gain on disposal of capital assets | \$ - | \$ 7,613 |

See accompanying Notes to Basic Financial Statements.

FIDUCIARY FUND FINANCIAL STATEMENTS

This page intentionally left blank.

FIDUCIARY FUND FINANCIAL STATEMENTS

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

City of Hermosa Beach
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2009

| | <u>Agency Funds</u> |
|---------------------------|--------------------------|
| ASSETS | |
| Cash and investments | \$ 331,742 |
| Interest receivable | 1,966 |
| Other accounts receivable | <u>20,428</u> |
| Total assets | <u>\$ 354,136</u> |
| LIABILITIES | |
| Assessment: | |
| Installment account | \$ 337,502 |
| Reserve requirement | <u>16,634</u> |
| Total liabilities | <u>\$ 354,136</u> |
| NET ASSETS | |

See accompanying Notes to Basic Financial Statements.

City of Hermosa Beach
Index to Notes to Basic Financial Statements
For the year ended June 30, 2009

| | <u>Page</u> |
|---|-------------|
| Note 1 - Summary of Significant Accounting Policies..... | 45 |
| A. Financial Reporting Entity..... | 45 |
| B. Basis of Accounting and Measurement Focus..... | 46 |
| C. Use of Restricted/Unrestricted Net Assets..... | 49 |
| D. Cash and Investments..... | 49 |
| E. Property Tax Receivable..... | 50 |
| F. Interfund Transactions..... | 50 |
| G. Capital Assets..... | 50 |
| H. Claims Payable..... | 51 |
| I. Compensated Absences Payable..... | 51 |
| J. Unearned and Deferred Revenue..... | 52 |
| K. Long-Term Debt..... | 52 |
| L. Net Assets..... | 52 |
| M. Fund Balances..... | 53 |
| N. Use of Estimates..... | 53 |
| Note 2 - Cash and Investments | 54 |
| Note 3 - Receivables..... | 57 |
| Note 4 - Lease Revenues..... | 59 |
| Note 5 - Interfund Transactions..... | 60 |
| Note 6 - Capital Assets..... | 62 |
| Note 7 - Long-Term Debt | 65 |
| Note 8 - Other Required Fund Disclosures | 68 |
| Note 9 - Risk Management | 68 |
| Note 10 -Retirement Plans | 70 |
| Note 11 - Commitments and Contingencies..... | 74 |
| Note 12 - Subsequent Events..... | 75 |

This page intentionally left blank.

City of Hermosa Beach
Notes to Basic Financial Statements
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Hermosa Beach, California, (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Boards (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Financial Reporting Entity

The City of Hermosa Beach 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.

As required by GAAP, the basic financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are in substance, part of the City's operations and data from these units are combined with data of the City. Each blended component unit has a June 30 year-end. Discretely presented component units, on the other hand, are reported in a separate column in the combined basic financial statements to emphasize their legal separateness from the City. The City had no discretely presented component units. The following entities are reported as blended component units because the governing board is substantively the same as the primary government:

Hermosa Beach Street Lighting and Landscaping District

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

Lower Pier Avenue Assessment District Improvement Fund

This fund is used to account for the funds of the assessment district, which was created in November 1997 pursuant to Street and Highway Code 10000 for improvements in the downtown Pier Plaza.

Myrtle Underground Utility District Improvement Fund

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

Bayview Drive Underground District Improvement Fund

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

Beach Drive Assessment District Improvement Fund

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

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus

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

Government - Wide Financial Statements

These statements are presented as required by GASB Statement No. 34. The City Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental and Business-Type Activities for the City, the primary government, accompanied by a total column. Fiduciary activities of the City are not included in these statements.

The basic financial statements are presented on an “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all of the City’s assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the City are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated because their expenses are reported a second time as expenditures/expenses in the funds that are billed for the goods or services they provide. However, transactions between governmental and business-type activities have not been eliminated. The following interfund activities, if applicable, have been eliminated:

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

The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, to the business-type activities, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the committee on Accounting Procedure. The City applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Governmental Fund Financial Statements, Continued

These statements are presented as required by GASB Statement No. 34. Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the government-wide financial statements. 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. The City reports the following major governmental funds:

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

Proposition C Transit Fund. This fund is used to account for funds allocated from the 1992 voter-approved ½ cent sales tax increase. Funds must be used for transit purposes.

Contingency Fund. This fund accounts for "Rainy Day" funds set aside for unforeseen emergencies, unexpected economic events, etc.

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

Revenues are recorded when received in cash, except those revenues subject to accrual (generally 60 days after year-end) which are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, intergovernmental revenues and other taxes. The exception to that rule is sales tax. Beginning in 2004-05, the State took sales tax revenue (Sales Tax In Lieu) from cities and counties, in order to use the source of funds as a guarantee for state issued debt to finance budget deficits. Sales tax is received on a monthly basis. Funds will be repaid according to the property tax schedule, with the bulk of payments occurring only twice a year. As such, the City has adopted an accrual policy of 7 to 12 months for recording this revenue. The revenue was earned by June 30, however the payment will not be received until January 2010. A designation in this amount has been set up to reflect that these funds are not available for appropriation. Business license fees are recorded as received.

Expenditures are recorded in the accounting period in which the related fund liability is incurred.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Governmental Fund Financial Statements, Continued

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

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

Proprietary Fund Financial Statements

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

The City reports the following major enterprise fund:

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

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

Proprietary funds are accounted for using the “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. In these funds, receivables have been recorded as revenue and provisions have been made for uncollectible amounts if applicable.

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

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Fiduciary Fund Financial Statements

Fiduciary Fund Financial Statements include a Statement of Net Assets. The City's Fiduciary funds represent Agency Funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary fund types are accounted for according to the nature of the fund. Funds held as fiduciary funds represent assets resulting from assessments to the property owners in four utility undergrounding districts, two reserve funds for utility undergrounding districts and a downtown improvement district. The assets are used to repay bonds secured by the private property in the district. The temporary agency fund established in 2003-2004 to account for contributions and expenditures related to other post employment benefits for City employees was transferred to a trust administered by Public Agencies Retirement Services in August 2007. Further discussion of the trust can be found in Note 10.

C. Use of Restricted/Unrestricted Net Assets

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

D. Cash and Investments

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

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

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

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

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Cash and Investments, Continued

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)*, certain disclosure requirements, if applicable for deposit and investment risk are specified for the following areas:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentrations of Credit Risk
- Foreign Currency Risk

E. Property Tax Receivable

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

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

F. Interfund Transactions

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans).” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

G. Capital Assets

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

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

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

G. Capital Assets, Continued

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with GASB Statement No. 34, the City has included all infrastructure as of June 30, 2009 into the 2008-2009 Basic Financial Statements.

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

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

H. Claims Payable

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

I. Compensated Absences Payable

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

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

J. Unearned and Deferred Revenue

In the Government-Wide Financial Statements, unearned revenue is recognized for transactions for which revenue has not yet been earned. Typical transactions recorded as unearned revenues in the Government-Wide Financial Statements are cell phone site license lease payments received in advance, prepaid charges for services and facility rentals paid in advance.

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

K. Long-Term Debt

Government-Wide Financial Statements

The City has no long-term debt. Other long-term obligations are reported on the Statement of Net Assets as liabilities in the appropriate activities.

Fund Financial Statements

Long-term debt is not presented in the fund financial statements, but long-term liabilities are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets located after the governmental funds balance sheet in the fund financial statements.

L. Net Assets

Government-Wide Financial Statements

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

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

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

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

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

M. Fund Balances

In 2001 - 2002, the City established financial goals for the following funds:

Contingency Fund - Goal of fund balance equal to 15% of the General Fund operating budget appropriations for economic uncertainties, unforeseen emergencies.

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

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

Compensated Absences Fund - Goal of fund balance equal to 50% funding for accrued liabilities for employee vacation, sick and compensatory time. In 2005-2006, the goal for this fund was changed to 25% funding for accrued liabilities for employee vacation, sick and compensatory time.

Generally, any funds remaining unspent at year-end in the General Fund transfer equally to the Contingency Fund, Insurance Fund, Equipment Replacement Fund and the Capital Improvement Fund. As goals are met according to the above policy, transfers may be redirected to the Capital Improvement Fund (since there are never enough capital improvement funds) or other funds, as the need arises.

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties to use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

N. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

2. CASH AND INVESTMENTS

The City maintains a cash and investment pool which includes cash balances and authorized investments of all funds. This pooled cash is invested by the City Treasurer to enhance earnings. The pooled interest earned is allocated to the fund based on cash and investment balances in these funds at the end of each accounting period. The City had the following cash and investments at June 30, 2009:

| | <u>Government-Wide Statement of Net Assets</u> | | | <u>Funds Financial</u> | |
|----------------------|--|----------------------|----------------------|------------------------|----------------------|
| | <u>Governmental</u> | <u>Business-type</u> | <u>Total</u> | <u>Fiduciary Funds</u> | <u>Statement of</u> |
| | <u>activities</u> | <u>activities</u> | | <u>Net Assets</u> | <u>Total</u> |
| Cash and investments | <u>\$ 22,279,552</u> | <u>\$ 407,850</u> | <u>\$ 22,687,402</u> | <u>\$ 331,742</u> | <u>\$ 23,019,144</u> |

The City's Cash and Investments at June 30 in more detail:

| | <u>Fair value</u> |
|-----------------------------------|----------------------|
| City Treasury: | |
| <i>Cash deposits:</i> | |
| Demand accounts | \$ 1,148,054 |
| Less items in transit | <u>(323,488)</u> |
| Total cash deposits | <u>824,566</u> |
| <i>Investments:</i> | |
| Local Agency Investment Fund | 21,147,078 |
| U.S. government notes | <u>1,047,500</u> |
| Total investments | <u>22,194,578</u> |
| Total cash and investments | <u>\$ 23,019,144</u> |

A. Cash Deposits

The carrying amounts of the City's cash deposits were \$824,566 at June 30, 2009. Bank balances at June 30, 2009, were \$1,148,054 which were fully insured or collateralized with securities held by the pledging financial institutions in the City's name as discussed below.

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

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

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

2. CASH AND INVESTMENTS, Continued

A. Cash Deposits, Continued

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures, if applicable. Interest income from cash and investments with fiscal agents is credited directly to the related fund. Interest income earned on pooled cash and investments is allocated on an accounting period basis to the various funds based on the period-end cash and investment balances. Interest is not allocated to the Compensated Absences Fund, the Other Post Employment Benefit Fund, funds created to advance costs for utility undergrounding districts, reimbursable grant funds or internal service funds.

B. Investments

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

- Securities of the U.S. Government, or its agencies
- Banker's acceptances
- Time Certificates of Deposits
- Negotiable certificates of Deposit
- California Local Agency Investment Fund
- Corporate Medium-Term Notes

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the City's investments are carried at fair value instead of cost. Accordingly, the City adjusts the carrying value of its investments to reflect their fair value at each fiscal year-end with the effects of these adjustments included in income for that fiscal year. Changes in value for the fiscal year ended June 30, 2009, amounted to an unrealized increase of \$43,394.

The City's investments with the Local Agency Investment Fund (LAIF), the State of California's investment pool, at June 30, 2009, included a portion of the pooled funds invested in Structured Notes and Asset-Backed Securities. These investments included the following:

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

Asset-Backed Securities, the bulk of which are mortgage-backed securities, and which entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages, such as collateralized mortgage obligations (CMO's), or credit card receivables.

As of June 30, 2009, the City had \$21,147,078 invested in LAIF. 14.71% of pool investment funds were invested in Structured Notes and Asset-Backed Securities.

The City valued its investments in LAIF as of June 30, 2009 by multiplying its account balance with LAIF by a fair value factor determined by LAIF. This fair value factor was determined by dividing all LAIF participants' total aggregate fair value by total aggregate amortized cost resulting in a factor of 1.001364207.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

2. CASH AND INVESTMENTS, Continued

C. Risk Disclosures

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits investments to a maximum maturity of five years. At June 30, 2009, the City had the following investment maturities:

| Investment Type | Fair value | Investment maturities (in years) | |
|--|----------------------|----------------------------------|---------------------|
| | | Less than 1 | 1 to 2 |
| Federal Home Loan Mortgage Corporation | \$ 516,095 | | \$ 516,095 |
| Federal Farm Credit Bank | 531,405 | | 531,405 |
| Local Agency Investment Fund | 21,147,078 | \$ 21,147,078 | |
| Total | \$ 22,194,578 | \$ 21,147,078 | \$ 1,047,500 |

Custodial Risk - For deposits, custodial credit risk is the risk that, in the event of the failure of a deposit financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The City's investment policy requires that all securities purchased from brokers/dealers shall be held in third party safekeeping. All Treasury bills and most other Treasury securities are "book entry" securities that are held at the Federal Reserve Union Bank of California. Collateral for time deposits in banks, savings and loans are held by the Federal Home Loan Bank or an approved agency of depository of the financial institution. The City's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the provision for deposits stated in Note 2A. \$898,054 of the City's deposits with financial institutions in excess of federal depository insurance limits was held in uncollateralized accounts.

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

| | Moody's | Standard & Poor's |
|--|-----------|-------------------|
| U.S. Agencies | | |
| Federal Home Loan Mortgage Corporation | Aaa | AAA |
| Federal Farm Credit Bank | Aaa | AAA |
| External Pool | | |
| State of California - Local Agency Investment Fund | Not Rated | Not Rated |

Concentration of credit risk - The City's investment policy does not allow for an investment in any one institution that is in excess of 5% of the government's total portfolio. The City is in compliance with the investment policy related to the concentration of credit risk.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

3. RECEIVABLES

Government-Wide Financial Statements

At June 30, 2009, the Government-Wide Financial Statements show the following miscellaneous receivables net of allowances for uncollectible amounts, if any:

| | Government-Wide Statement of Net Assets | | Fiduciary Funds | Total |
|--------------|--|-----------------------------|----------------------------|---------------------|
| | Governmental activities | Business-type activities | Statement of Net Assets | |
| Accounts | \$ 1,427,375 | \$ 9,539 | \$ 20,428 | \$ 1,457,342 |
| Taxes | 1,192,423 | | | 1,192,423 |
| Interest | 84,519 | 3,562 | 1,966 | 90,047 |
| Grants | 427,712 | | | 427,712 |
| Total | \$ 3,132,029 | \$ 13,101 | \$ 22,394 | \$ 3,167,524 |

Fund Financial Statements

At June 30, 2009, the Fund Financial Statements show the following receivables:

A. Accounts Receivable

Accounts receivable consisted of amounts accrued in the ordinary course of operations. The total amount of accounts receivable for each major and non-major fund in the aggregate as of June 30, 2009, were as follows:

| | |
|---------------------------------|---------------------|
| <i>Governmental funds:</i> | |
| General Fund | \$ 1,235,365 |
| Non-major Funds | 145,731 |
| <i>Internal Service funds</i> | 46,279 |
| Total governmental funds | 1,427,375 |
| <i>Enterprise fund:</i> | |
| Downtown Enhancement Fund | 9,539 |
| Total Enterprise fund | 9,539 |
| Total | 1,436,914 |
| <i>Agency funds</i> | 20,428 |
| Total account receivable | \$ 1,457,342 |

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

3. RECEIVABLES, Continued

B. Taxes Receivable

At June 30, 2009, the City had taxes receivable in the following major funds and non-major funds in the aggregate:

| | Property taxes |
|----------------------------|---------------------|
| <i>Governmental Funds:</i> | |
| General Fund | \$ 1,170,900 |
| Non-major funds | 21,523 |
| Total | \$ 1,192,423 |

C. Interest Receivable

Interest receivable consists of interest from investments pooled by the City, which is distributed among the funds according to their cash balances at the end of the accounting period, and interest receivable on restricted investments held by the fiscal agents, which are recorded in the funds holding the investment. The interest receivable as of June 30, 2009, was as follows:

| | City pooled investments |
|----------------------------------|----------------------------|
| <i>Governmental funds:</i> | |
| General Fund | \$ 20,478 |
| Proposition C Fund | 13,087 |
| Contingency Fund | 20,407 |
| Non-major Funds | 30,547 |
| Total governmental funds | 84,519 |
| <i>Enterprise fund:</i> | |
| Downtown Enhancement Fund | 3,562 |
| Total Enterprise fund | 3,562 |
| Total | 88,081 |
| <i>Agency funds</i> | |
| | 1,966 |
| Total interest receivable | \$ 90,047 |

D. Reimbursable Grants Receivable

Grants receivable consists of a variety of reimbursable grants from other agencies. The total amount of reimbursable grants for each major and non-major funds in the aggregate as of June 30, 2009 were as follows:

| | |
|---------------------------------|-------------------|
| <i>Governmental Funds:</i> | |
| Non-major funds | \$ 427,712 |
| Total governmental funds | \$ 427,712 |

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

4. LEASE REVENUES

In January 2000, the North Pier Parking Structure was completed. The parking structure contains 400 parking spaces and was funded in part by a downtown developer in exchange for the use of 100 spaces in the structure. The remainder of the funding was provided by the City's Downtown Enhancement Fund and Prop A Open Space funding contributed by the Los Angeles County Department of Beaches and Harbors. In consideration of the County contribution, 50% of the annual net income derived from the parking structure must be shared with the County each year by September 1. The payment to the County for fiscal year 2008-2009 is \$148,898.

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 \$2,376. The lease includes a negotiated increase to the monthly lease payment to be calculated every 60 months based on the consumer price index. The next increase is due in January 2011.

In February 2004, the City entered into a 5 year lease agreement with Sprint, a cellular telephone company, for placement of an antenna on the North Pier Parking Structure. The lease includes a provision for 5 lease extensions with a 5 year term for each. In February 2009, the lease was extended through January 31, 2014. The City receives a monthly lease payment in the amount of \$2,427.

In June 2005, the City purchased property adjacent to City Hall that is used as a self-storage facility. The existing lease for the storage facility was transferred to the City as a condition of the sale. The original lease term was through January 31, 2009, however the lease was extended for 3 years beginning February 1, 2009. The monthly lease payment increases in February of each year based on the consumer price index up to a maximum of 3% per year. The City receives a monthly lease payment in the amount of \$16,116.

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, | | |
|-------------------------|-----------|------------------|
| 2010 | \$ | 267,744 |
| 2011 | | 259,319 |
| 2012 | | 177,316 |
| 2013 | | 57,631 |
| 2014 | | 45,498 |
| 2015-2019 | | 142,560 |
| 2020-2024 | | 142,560 |
| 2025-2029 | | 142,560 |
| 2030-2034 | | 142,560 |
| 2035-2039 | | 142,560 |
| 2040-2044 | | 142,560 |
| 2045-2049 | | 142,560 |
| 2050 | | 42,768 |
| Total | \$ | 1,848,196 |

Lease revenue for fiscal year 2009 was \$308,159 with \$60,884 reflected in the General Fund and \$247,275 in the Downtown Enhancement Fund, an enterprise fund.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

5. INTERFUND TRANSACTIONS

A. Government-Wide Financial Statements

Transfers

At June 30, 2009, the City had the following transfers:

| | | |
|---------------------|-------------------------|--------------------------|
| | | Transfers out |
| | | Business-type activities |
| | | <hr/> |
| Transfers in | Governmental activities | \$ 3,461 |
| | | <hr/> <hr/> |

B. Fund Financial Statements

Due To/From Other Funds

The composition of due to/from other funds at June 30, 2009 is as follows:

| | | |
|-----------------------------|------------------------------|------------------------------|
| | | Due to other funds |
| | | Non-major Governmental Funds |
| | | <hr/> |
| Due from other funds | Non-major Governmental Funds | \$ 329,128 |
| | | <hr/> <hr/> |

The balance of \$329,128 in non-major governmental funds resulted from the time lag between the dates that reimbursable expenditures occur and payments are received from other agencies. All balances are scheduled to be collected in the subsequent year.

Advances From/To Other Funds

At June 30, 2009, the composition of advances to other funds is as follows:

| | | | | |
|--------------------------------|------------------------|----------------------------------|------------------------------|--------------|
| | | Advances from other funds | | |
| | | Downtown Enhancement Fund | Non-major Governmental Funds | |
| | | <hr/> | <hr/> | |
| Advances to other funds | Contingency Fund | \$ 301,948 | \$ 265,520 | \$ 567,468 |
| | Internal Service Funds | 1,109,894 | | 1,109,894 |
| | Total | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| | | \$ 1,411,842 | \$ 265,520 | \$ 1,677,362 |

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

5. INTERFUND TRANSACTIONS, Continued

B. Fund Financial Statements, Continued

The balance of \$265,520 advanced from the Contingency Fund to the non-major governmental funds resulted from long-term loans for the start up costs of two utility undergrounding districts. Since the advances are not scheduled to be collected in the subsequent year, the fund balance of the funds were reserved to reflect that the financial resources are not currently available. The balance of \$1,109,894 from the Contingency Fund and Internal Service funds to the Downtown Enhancement Fund, represents the balance owed to these funds for the purchase of real property. The advances will be repaid from lease proceeds from a storage facility located on the property and unrestricted net assets available at year end.

Transfers

At June 30, 2009, the City had the following transfers:

| | | Transfers out | | | | | Total |
|--------------|---------------------------|---------------------|-------------------|------------------------------|---------------------------|------------------------|---------------------|
| | | General | Contingency Fund | Non-major Governmental funds | Downtown Enhancement Fund | Internal Service funds | |
| Transfers in | General Fund | | | \$ 924,208 | \$ 4,303 | \$ 100,000 | \$ 1,028,511 |
| | Non-major | | | | | | |
| | Governmental funds | \$ 715,792 | | 175,000 | | | 890,792 |
| | Downtown Enhancement Fund | 842 | | | | | 842 |
| | Internal Service funds | 1,225,420 | \$ 626,661 | | | | 1,852,081 |
| Total | | \$ 1,942,054 | \$ 626,661 | \$ 1,099,208 | \$ 4,303 | \$ 100,000 | \$ 3,772,226 |

In general, transfers are used to 1) transfer any unexpended balance in the General Fund according to the City's financial policies, 2) use unrestricted revenues collected in one fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) to reimburse the General Fund for administration services provided to other funds.

In the year ended June 30, 2009, the following one-time transfers were made:

- The Contingency Fund transferred \$626,661 to the Internal Service Insurance Fund to provide funding for the MacPherson Oil lawsuit legal costs.
- The Special Revenue Compensated Absences Fund made a transfer in the amount of \$136,020 to the General Fund to unanticipated cashouts for 9 retiring employees.
- The Special Revenue Building Improvement Fund transferred \$3,013 to the General Fund to provide funding toward new carpet and furniture in the Police Department Briefing Room.
- The Special Revenue California Law Enforcement Equipment Program Fund made a transfer in the amount of \$972 to the General Fund to provide funding for patrol car lighting.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

5. INTERFUND TRANSACTIONS, Continued

B. Fund Financial Statements, Continued

- The General Fund transferred \$842 to the Downtown Enhancement Fund, \$2,692 to the Internal Service Insurance Fund, \$304 to the Internal Service Equipment Replacement Fund, and \$7,142 to Non-major governmental funds to cover Memorandum of Understanding (MOU) increases for fiscal year 2008-09 employee group contracts.
- The General Fund transferred \$8,690 to the Equipment Replacement Fund for first year maintenance costs for the Police mobile vision patrol car video system equipment and software.

6. CAPITAL ASSETS

In accordance with GASB Statement No. 34, the City reports all capital assets, including infrastructure, in the Government-Wide Statement of Net Assets. The City elected to use the “Basic Approach” as defined by GASB Statement No. 34 for infrastructure reporting. The basic approach records accumulated depreciation and depreciation expense.

A. Government-Wide Financial Statements

At June 30, 2009, the City’s capital assets consisted of the following:

| | Government Activities | Business-Type Activities | Total |
|------------------------------------|--------------------------|-----------------------------|----------------------|
| <i>Non-Depreciable Assets:</i> | | | |
| Land | \$ 17,552,077 | \$ 5,188,092 | \$ 22,740,169 |
| Construction in progress | 2,507,226 | - | 2,507,226 |
| Total non-depreciable assets | 20,059,303 | 5,188,092 | 25,247,395 |
| <i>Depreciable Assets:</i> | | | |
| Buildings and structures | 5,327,863 | 5,879,099 | 11,206,962 |
| Improvements other than buildings | 13,257,411 | 5,610 | 13,263,021 |
| Machinery and equipment | 3,114,284 | 19,267 | 3,133,551 |
| Vehicles | 3,090,564 | - | 3,090,564 |
| Infrastructure | 40,591,173 | 59,650 | 40,650,823 |
| Total depreciable assets | 65,381,295 | 5,963,626 | 71,344,921 |
| Less accumulated depreciation for: | | | |
| Buildings and structures | (1,897,876) | (1,077,604) | (2,975,480) |
| Improvements other than buildings | (6,460,084) | (1,122) | (6,461,206) |
| Machinery and equipment | (1,976,223) | (12,790) | (1,989,013) |
| Vehicles | (1,859,933) | - | (1,859,933) |
| Infrastructure | (16,826,890) | (2,982) | (16,829,872) |
| Total accumulated depreciation | (29,021,006) | (1,094,498) | (30,115,504) |
| Total depreciable assets, net | 36,360,289 | 4,869,128 | 41,229,417 |
| Total capital assets | \$ 56,419,592 | \$ 10,057,220 | \$ 66,476,812 |

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

6. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

The following is a summary of capital assets for governmental activities for the year ended June 30, 2009:

| | Balance July 1, 2008 | Additions | Deletions | Balance June 30, 2009 |
|--|-------------------------|--------------------|-----------------------|--------------------------|
| <i>Capital assets not being depreciated:</i> | | | | |
| Land | \$ 17,552,077 | | | \$ 17,552,077 |
| Construction in progress | 1,565,914 | \$ 997,795 | \$ (56,483) | 2,507,226 |
| Total capital assets not being depreciated | <u>19,117,991</u> | <u>997,795</u> | <u>(56,483)</u> | <u>20,059,303</u> |
| <i>Capital assets being depreciated:</i> | | | | |
| Buildings and structures | 4,776,417 | 551,446 | | 5,327,863 |
| Improvements other than buildings | 13,232,411 | 25,000 | | 13,257,411 |
| Machinery and equipment | 3,035,076 | 160,225 | (81,017) | 3,114,284 |
| Vehicles | 3,014,921 | 151,061 | (75,418) | 3,090,564 |
| Infrastructure | 41,334,028 | 1,401,217 | (2,144,072) | 40,591,173 |
| Total capital assets being depreciated | <u>65,392,853</u> | <u>2,288,949</u> | <u>(2,300,507)</u> | <u>65,381,295</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and structures | (1,715,583) | (182,293) | | (1,897,876) |
| Improvements other than buildings | (5,456,232) | (1,003,852) | | (6,460,084) |
| Machinery and equipment | (1,759,819) | (296,068) | 79,664 | (1,976,223) |
| Vehicles | (1,648,027) | (285,100) | 73,194 | (1,859,933) |
| Infrastructure | (16,813,651) | (1,127,601) | 1,114,362 | (16,826,890) |
| Total accumulated depreciation | <u>(27,393,312)</u> | <u>(2,894,914)</u> | <u>1,267,220</u> | <u>(29,021,006)</u> |
| Total capital assets being depreciated, net | <u>37,999,541</u> | <u>(605,965)</u> | <u>(1,033,287)</u> | <u>36,360,289</u> |
| Total governmental activities | <u>\$ 57,117,532</u> | <u>\$ 391,830</u> | <u>\$ (1,089,770)</u> | <u>\$ 56,419,592</u> |

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

| | |
|---|---------------------|
| General government | \$ 60,079 |
| Public safety | 221,312 |
| Community development | 7,511 |
| Culture and recreation | 41,182 |
| Public works | 991,513 |
| Infrastructure | 1,127,601 |
| Capital assets held by the governments internal service funds are charged to the various functions based on their usage of the assets | <u>445,716</u> |
| Total depreciation expenses | <u>\$ 2,894,914</u> |

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

6. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

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

| | Balance July 1, 2008 | Additions | Deletions | Balance June 30, 2009 |
|--|-------------------------|---------------------|-------------|--------------------------|
| <i>Capital assets not being depreciated:</i> | | | | |
| Land | \$ 5,188,092 | | | \$ 5,188,092 |
| Construction in progress | - | | | - |
| Total capital assets not being depreciated | 5,188,092 | \$ - | \$ - | 5,188,092 |
| <i>Capital assets being depreciated:</i> | | | | |
| Buildings and structures | 5,879,099 | | | 5,879,099 |
| Improvements other than buildings | 5,610 | | | 5,610 |
| Machinery and equipment | 19,267 | | | 19,267 |
| Infrastructure | | | | 59,650 |
| Total capital assets, being depreciated | 5,963,626 | - | - | 5,963,626 |
| Less accumulated depreciation for: | | | | |
| Buildings and structures | (951,827) | (125,777) | | (1,077,604) |
| Improvements other than buildings | (842) | (280) | | (1,122) |
| Machinery and equipment | (11,471) | (1,319) | | (12,790) |
| Infrastructure | | (2,982) | | (2,982) |
| Total accumulated depreciation | (964,140) | (130,358) | - | (1,094,498) |
| Total capital assets being depreciated, net | 4,999,486 | (130,358) | - | 4,869,128 |
| Total business-type activities | \$ 10,187,578 | \$ (130,358) | \$ - | \$ 10,057,220 |

Business-type activities depreciation expenses for capital assets for the year ended June 30, 2009 are as follows:

| | |
|-----------------------------------|-------------------|
| Downtown Enhancement | \$ 130,358 |
| Total depreciation expense | \$ 130,358 |

B. Fund Financial Statements

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

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

7. LONG-TERM DEBT

A. Long-Term Debt with City Commitment

The following is a summary of compensated absences payable transactions for the year ended June 30, 2009:

| | Balance | | | Balance June 30, 2009 | Classification | |
|---------------------------------|--------------|--------------|----------------|--------------------------|--------------------|------------------------------|
| | July 1, 2008 | Additions | Retirements | | Due in one year | Due in more than one year |
| <i>Governmental activities:</i> | | | | | | |
| Compensated absences | \$ 1,083,958 | \$ 1,235,334 | \$ (1,391,456) | \$ 927,836 | \$ 524,505 | \$ 403,331 |

The long-term portion of compensated absences payable has been accrued for the Governmental Activities on the Government-Wide Financial Statement. Typically, the General Fund (major fund), the Lighting and Landscaping District Fund, AB939 Fund and the Sewer Fund (non-major funds) have been used to liquidate the liability for compensated absences. There is no fixed payment schedule to pay these liabilities. The total amount of compensated absences payable at June 30, 2009, was \$927,836.

B. Long-Term Debt without City Commitment

At June 30, 2009, 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 in no way financially obligated for payments of the bonds, which are secured by private property in the district. The bonds will be repaid from assessments to the property owners as part of their annual property tax bill.

The annual debt service requirements by year are as follows:

| Year ending June 30, | Principal | Interest | Balance total |
|-------------------------|-------------------|------------------|-------------------|
| 2010 | \$ 20,000 | \$ 15,275 | \$ 35,275 |
| 2011 | 20,000 | 13,975 | 33,975 |
| 2012 | 25,000 | 12,512 | 37,512 |
| 2013 | 25,000 | 10,888 | 35,888 |
| 2014 | 25,000 | 9,263 | 34,263 |
| 2015-2018 | 130,000 | 17,550 | 147,550 |
| Total | \$ 245,000 | \$ 79,463 | \$ 324,463 |

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

7. LONG-TERM DEBT, Continued

B. Long-Term Debt without City Commitment, Continued

1999 Myrtle Utility Underground District Special Assessment Bonds

In October 1999, limited obligation improvement bonds in the amount of \$1,159,114 were issued for the Myrtle Avenue Utility Underground Assessment District for the undergrounding of utilities within the district. The City is in no way financially obligated for payment of the bonds, which are secured by private property in the district. The bonds will be repaid from assessments to the property owners as part of their annual property tax bill.

The annual debt service requirements by year are as follows:

| Year ending June 30, | Principal | Interest | Balance total |
|-------------------------|-------------------|-------------------|-------------------|
| 2010 | \$ 50,000 | \$ 37,905 | \$ 87,905 |
| 2011 | 50,000 | 35,330 | 85,330 |
| 2012 | 55,000 | 32,573 | 87,573 |
| 2013 | 55,000 | 29,630 | 84,630 |
| 2014 | 60,000 | 26,495 | 86,495 |
| 2015-2019 | 355,000 | 75,280 | 430,280 |
| 2020 | 80,000 | 2,300 | 82,300 |
| Total | \$ 705,000 | \$ 239,513 | \$ 944,513 |

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 in no way financially obligated for payment of the bonds, which are secured by private property in the district. The bonds will be repaid from assessments to the property owners as part of their annual property tax bill.

The annual debt service requirements by year are as follows:

| Year ending June 30, | Principal | Interest | Balance total |
|-------------------------|-------------------|-------------------|---------------------|
| 2010 | \$ 50,000 | \$ 41,283 | \$ 91,283 |
| 2011 | 55,000 | 38,578 | 93,578 |
| 2012 | 55,000 | 35,690 | 90,690 |
| 2013 | 60,000 | 32,612 | 92,612 |
| 2014 | 65,000 | 29,205 | 94,205 |
| 2015-2019 | 390,000 | 83,741 | 473,741 |
| 2020 | 90,000 | 2,588 | 92,588 |
| Total | \$ 765,000 | \$ 263,697 | \$ 1,028,697 |

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

7. LONG-TERM DEBT, Continued

B. Long-Term Debt without City Commitment, Continued

2004 Beach Drive Utility Underground Assessment District Special Assessment Bonds

In July 2004, limited obligation improvement bonds in the amount of \$404,341 were issued for the Beach Drive Utility Underground Assessment District for the undergrounding of utilities within the district. The City is in no way financially obligated for payment of the bonds, which are secured by private property in the district. The bonds will be repaid from assessments to the property owners as part of their annual property tax bill.

The annual debt service requirements by year are as follows:

| Year ending June 30, | Principal | Interest | Balance total |
|-------------------------|------------|------------|------------------|
| 2010 | \$ 15,104 | \$ 16,513 | \$ 31,617 |
| 2011 | 15,828 | 15,770 | 31,598 |
| 2012 | 16,588 | 14,992 | 31,580 |
| 2013 | 17,385 | 14,177 | 31,562 |
| 2014 | 18,219 | 13,322 | 31,541 |
| 2015-2019 | 105,083 | 52,288 | 157,371 |
| 2020-2024 | 132,842 | 23,862 | 156,704 |
| 2025 | 30,514 | 732 | 31,246 |
| | \$ 351,563 | \$ 151,656 | \$ 503,219 |

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 in no way financially obligated for payment of the bonds, which are secured by private property in the district. The bonds will be repaid from assessments to the property owners as part of their annual property tax bill.

The annual debt service requirements by year are as follows:

| Year ending June 30, | Principal | Interest | Balance total |
|-------------------------|------------|------------|------------------|
| 2010 | \$ 30,280 | \$ 29,711 | \$ 59,991 |
| 2011 | 31,779 | 28,392 | 60,171 |
| 2012 | 33,342 | 27,009 | 60,351 |
| 2013 | 34,972 | 25,557 | 60,529 |
| 2014 | 36,670 | 24,035 | 60,705 |
| 2015-2019 | 191,472 | 96,343 | 287,815 |
| 2020-2024 | 241,178 | 50,993 | 292,171 |
| 2025-2026 | 114,533 | 4,927 | 119,460 |
| Total | \$ 714,226 | \$ 286,967 | \$ 1,001,193 |

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

8. OTHER REQUIRED FUND DISCLOSURES

A. Deficit Fund Balances

At June 30, 2009, the following funds had a deficit fund balance:

| | |
|---------------------------------------|---------------------|
| Beach Drive 2 Underground District | <u>\$ (65,520)</u> |
| Prospect Utility Underground District | <u>\$ (200,000)</u> |

The deficits in the Beach Drive 2 Underground District and the Prospect Utility Underground District funds represent “start up” costs for the districts and will be eliminated once the districts have been formed and assessment collections are received. If the districts are not approved, the costs will be borne by the City and transferred to another fund.

B. Deficit Unrestricted Net Assets

At June 30, 2009, the following fund had deficit unrestricted net assets:

| | |
|----------------------|---------------------|
| Downtown Enhancement | <u>\$ 1,236,859</u> |
|----------------------|---------------------|

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

9. RISK MANAGEMENT

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

The City is self-insured for each general liability claim up to \$250,000. The City is insured above the self-insured retention for general liability insurance coverage, up to a maximum of \$20,000,000 per occurrence, as a member of the Independent Cities Risk Management Authority (ICRMA).

The City of Hermosa Beach purchases workers’ compensation coverage through a self-insured program available through ICRMA. The City maintains a \$500,000 self-insured retention limit and participates in a self-insured risk sharing pool through the ICRMA and the California State Association of Counties (CSAC). Together, these two joint powers authorities provide a shared limit of coverage up to a maximum of \$200 million.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

9. RISK MANAGEMENT, Continued

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

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

The City's premiums to ICRMA in the amount of \$493,803 for the fiscal year 2008-2009 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 \$5,036,531 reported at June 30, 2009, are based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the Fund's claims liability amounts were as follows:

| | Beginning of Year Liability | Claims and Changes in Estimates | Claim Payments | End of Year Liability | Amounts Due within One Year |
|------------------------------|-----------------------------------|---------------------------------------|-------------------|-----------------------------|-----------------------------------|
| <i>Workers' Compensation</i> | | | | | |
| 2005-2006 | 3,037,557 | 676,379 | (712,689) | 3,001,247 | 746,000 |
| 2006-2007 | 3,001,247 | 902,765 | (1,115,581) | 2,788,431 | 538,526 |
| 2007-2008 | 2,788,431 | 2,014,658 | (1,191,871) | 3,611,218 | 711,902 |
| 2008-2009 | 3,611,218 | 921,435 | (800,614) | 3,732,039 | 562,045 |
| <i>General Liability</i> | | | | | |
| 2005-2006 | 617,933 | 1,046,991 | (810,322) | 854,602 | 302,000 |
| 2006-2007 | 854,602 | 1,286,956 | (1,031,824) | 1,109,734 | 455,520 |
| 2007-2008 | 1,109,734 | 1,334,987 | (899,509) | 1,545,212 | 626,436 |
| 2008-2009 | 1,545,212 | 499,302 | (740,022) | 1,304,492 | 471,313 |

Detailed financial information may be obtained from the ICRMA Program Administrator located at 3780 Kilroy Airport Way, Suite 470, Long Beach, California 90806.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

10. RETIREMENT PLANS

A. Public Employee Retirement System

Plan Description

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

Funding Policy

City employees are required by State statute to contribute 7% for miscellaneous employees and 9% for safety employees of their annual covered salary. As a negotiated benefit, the City makes the contributions required of City employees on their behalf. Those contributions amounted to \$882,651 for the year ended June 30, 2009. The City, as the employer, is required to contribute for fiscal year 2008-2009 at actuarially determined rates which are applied to annual covered payroll. The 2008-2009 rate is 14.1586% for miscellaneous employees, 48.8502% for police employees and 35.2851% for fire employees. The contribution requirements of City employees and the City employer are established and may be amended by CalPERS.

Annual Pension Cost

For fiscal year 2008-2009, the City's annual pension cost of \$3,265,032 for CalPERS was equal to the City's required and actual contributions, of which \$819,860 is for the miscellaneous plan, \$1,702,907 for the police plan and \$742,265 for the fire plan. In July 2008, the City prepaid the employer portion of retirement costs for all 3 employee groups resulting in a savings of \$453,411 and reducing the employer rates as a percentage of payroll costs. The required contribution was originally determined as part of the June 30, 2006, actuarial valuation using the entry age normal actuarial cost method as described below.

The following actuarial assumptions, while not required, are included to provide information deemed useful to the City Council: (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases ranging from 3.25% to 14.45% depending on age, service, and type of employment, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen year period. PERS unfunded actuarial accrued liability (or surplus) is being amortized as a level percentage of projected payroll over a closed period equal to the average amortization period at the plan's date of entry into the CalPERS Risk Pool. The amortization period at June 30, 2006 was 15 years for prior and current service unfunded liability.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

10. RETIREMENT PLANS, Continued

A. Public Employee Retirement System, Continued

Annual Pension Cost, Continued

THREE-YEAR TREND INFORMATION FOR PERS

| <u>Miscellaneous Plan</u> | | | |
|---------------------------|-----------------------|--------------------|---------------------------|
| Fiscal Year | Pension Cost (APC) | APC Contributed | Net Pension Obligation |
| 6/30/2007 | \$ 813,702 | 100% | \$ - |
| 6/30/2008 | 849,334 | 100% | - |
| 6/30/2009 | 819,860 | 100% | - |

| <u>Police Plan</u> | | | |
|--------------------|---------------------------------|-------------------------------------|---------------------------|
| Fiscal Year | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
| 6/30/2007 | \$ 1,847,429 | 100% | \$ - |
| 6/30/2008 | 1,950,264 | 100% | - |
| 6/30/2009 | 1,702,907 | 100% | - |

| <u>Fire Plan</u> | | | |
|------------------|---------------------------------|-------------------------------------|---------------------------|
| Fiscal Year | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
| 6/30/2007 | \$ 755,290 | 100% | \$ - |
| 6/30/2008 | 663,857 | 100% | - |
| 6/30/2009 | 742,265 | 100% | - |

B. Other Post-Employment Benefits

On June 12, 2008, the City Council adopted a resolution authorizing participation in a post retirement health care plan trust to be administered by Public Agency Retirement Services (PARS) and Union Bank of California. In July 2007, the City signed an agreement with Public Agency Retirement Services to create and administer an irrevocable trust fund for the payment of other post employment benefits for city employees in compliance with Governmental Accounting Standards Board Statement 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Funds in the amount of \$1,401,000 that were previously set aside for this purpose in a temporary Agency Fund were forwarded to Union Bank pursuant to the agreement to establish the trust. Contributions were forwarded on a monthly basis.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

10. RETIREMENT PLANS, Continued

B. Other Post-Employment Benefits, Continued

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

The Plan is comprised of several groups with those retirees providing service to the City prior to the year 2000 and 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 \$550 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, 2009 were as follows:

| <u>Participants</u> | <u>Total</u> |
|---------------------|-------------------|
| Active employees | 134 |
| Retirees | <u>30</u> |
| Total | <u><u>164</u></u> |

Funding Policy. The contribution requirements for Plan members and the City are established by a Memorandum of Understanding as negotiated by each group or bargaining unit. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2009, the City contributed \$475,000. Plan members receiving benefits contributed \$184,000 of the total premiums, as their required contributions.

Annual OPEB Cost and Net OPEB Obligation. The City’s Annual Other Postemployment Benefit (OPEB) cost (expense) is calculated based on the *Annual Required Contribution of the Employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excesses) over a period not to exceed thirty years. The City has elected to amortize its Unfunded Actuarial Accrued Liability (UAAL) during the current fiscal year.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

10. RETIREMENT PLANS, Continued

B. Other Post-Employment Benefits, Continued

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

| | <u>Total</u> |
|--|------------------|
| Annual required contribution | \$ 554,000 |
| Interest on net OPEB obligation | - |
| Adjustment to annual required contribution | <u>(79,000)</u> |
| Annual OPEB cost (expense) | 475,000 |
| Contribution Plan: | |
| 2009 contribution | <u>475,000</u> |
| Contributions made | <u>(475,000)</u> |
| Increase in net OPEB obligation | - |
| Net OPEB obligation - beginning of year | - |
| Net OPEB obligation - end of year | <u>\$ -</u> |

The City's Annual OPEB cost, the percentage of Annual OPEB cost contributed to the Plan and the net OPEB obligation for 2009 and is as follows:

| <u>Year Ended</u> | <u>OPEB Cost</u> | <u>OPEB Cost Contributed</u> | <u>OPEB Obligation</u> |
|-----------------------|----------------------|----------------------------------|----------------------------|
| 6/30/2008 | \$ 475,000 | 100.00% | \$ - |
| 6/30/2009 | 475,000 | 100.00% | - |

Funded Status and Funding Progress. In August 2007, the City made an initial contribution of \$1,401,000. As of June 30, 2009, the Actuarial Accrued Liability for benefits was \$4,241,000, and the actuarial value of assets was \$1,763,000, resulting in an UAAL of \$(2,478,000). The funded ratio was 41.6 percent. The covered payroll (annual payroll of active employees covered by the Plan) was \$8,459,000, and the ratio of UALL to the covered payroll was 29.3 percent.

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

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

10. RETIREMENT PLANS, Continued

B. Other Post-Employment Benefits, Continued

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

In the June 30, 2005, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of administrative expenses), which is based on the expected return on funds invested, and an annual healthcare cost trend rate of 10% initially reduced by decrements to an ultimate rate of 5 percent thereafter. The actuarial assumption for inflation was 3 percent, and the aggregate payroll increases was 3.25 percent used in the actuarial valuation.

The next actuarial valuation will take place in 2009-2010 fiscal year.

11. COMMITMENTS AND CONTINGENCIES

A. Commitments

The City had several outstanding or planned construction projects as of June 30, 2009. These projects are evidenced by contractual commitments with contractors and include:

| Project | Spent to Date | Commitment Remaining |
|---------------------------------------|---------------------|-------------------------|
| Infrastructure | \$ 1,757,947 | \$ 2,720,421 |
| Community Center Electrical Upgrades | 237,183 | 17,990 |
| Community Center General Improvements | 16,808 | 415,546 |
| Hermosa Senior Activity Center | 141,135 | 15,000 |
| City Yard Renovation | 253,027 | 1,014,227 |
| Beach Restroom Rehabilitation | 101,126 | 1,013,422 |
| Total | \$ 2,507,226 | \$ 5,196,606 |

The infrastructure projects include both street and sewer projects that are funded by multiple funds including the Proposition C Fund, the Capital Improvement Fund and the Sewer Fund and an American Reinvestment and Recovery Act (ARRA) grant administered by the State Water Resources Board recorded in the Grants Fund. The City Yard Renovation is funded by the Equipment Replacement Fund. The Beach Restroom Rehabilitation Project is funded by a grant recorded in the Proposition A Open Space Fund, the Tyco Fund and the Tyco Tidelands Fund. The Hermosa Senior Activity Center Project is funded by a grant recorded in the Proposition A Open Space Fund and the Parks/Rec Facility Tax Fund. The Community Center Electrical Upgrades Project is funded by the Capital Improvement Fund. The Community Center General Improvements Project is funded by the Parks/Rec Facility Tax Fund and the Capital Improvement fund.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

11. COMMITMENTS AND CONTINGENCIES, Continued

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.

12. SUBSEQUENT EVENTS

MacPherson Oil Project

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

MacPherson has now 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 \$100 million. In its motion, the City contended that because the Court of Appeals has ruled Proposition E not to be an unconstitutional impairment of contract, it cannot work a breach. The City further contended that the passage of Proposition E made performance of the lease impossible. Finally, the City contended that if MacPherson is entitled to any damages, it is limited to restitution, and not lost profits.

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

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

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

12. SUBSEQUENT EVENTS, Continued

Cross-motions for summary judgment on liability were filed and heard, and in early 2008 Judge O'Donnell denied the City's motion and granted Macpherson's motion, ruling that the City bore the risk of a breach by way of Proposition E and that the "compliance with all laws" clause in the lease does not provide the City with a defense. The City's petitions to the Court of Appeal and the California Supreme Court seeking review of that decision were both denied. On October 16, 2008, Judge O'Donnell scheduled a trial date for the damages phase of the trial for August 12, 2009 (later continued to September 2, 2009). In July, 2009, the City brought another motion for summary adjudication on the issue of causation in order to limit the City's liability in damages; the basis of the motion was that the City Council had a contractual right to terminate the oil project in September, 1998 on the ground that it was hazardous. Judge O'Donnell denied the motion and the City petitioned the Court of Appeal for a writ, which was granted. The Court of Appeal vacated the trial date, ordered further briefing and scheduled an oral argument on the writ for December 7, 2009. The matter is now fully briefed and the parties await oral argument; trial preparation has ceased.

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

Property Taxes borrowed by the State

Subsequent to June 30, 2009, the State of California (State) has decided to borrow, to defer certain revenue payments and to take certain funds from local governments, including our City. These amounts are as follows:

- Property Taxes \$951,144

Property Taxes borrowed by the State for fiscal year 2009-2010 were nearly \$2 billion statewide to help the State's budget shortfall. Legislators and the Governor promised to allow local agencies to sell their eventual repayment from the State to investors to cover the property taxes and to pay the full cost of the sale, or securitization. Passage of Senate Bill 67 (SB 67) was accomplished on October 14, 2009. The bond sale to complete the funding or securitization closed on November 19, 2009. The City has planned to use these funds in the 2009-2010 budget.

**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

City of Hermosa Beach
Required Supplementary Information (Unaudited)
For the year ended June 30, 2009

BUDGETS AND BUDGETARY ACCOUNTING

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

The appropriated budget is prepared by fund, department and division. The City Council may amend the budget by motion during the fiscal year. Expenditures may not legally exceed appropriations at the fund level. The City Manager is authorized to transfer budgeted amounts between departments within the same fund, however, any transfers between funds or revisions that alter total appropriations of any fund require City Council approval. The legal level of control is therefore at the fund level. An example of this would be the Finance Department, which has two divisions, Finance Administration, funded by the General Fund and Finance Cashier, funded by the Parking Fund. The City Manager may approve a transfer from Finance Administration to another department within the General Fund, however, a transfer from Finance Administration to Finance Cashier would require City Council approval because the divisions are in two different funds.

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

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

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

City of Hermosa Beach
Required Supplementary Information (Unaudited), Continued
For the year ended June 30, 2009

BUDGETS AND BUDGETARY ACCOUNTING, Continued

Budgetary Comparison Schedule - General Fund

| | Budgeted Amounts | | Actual Amounts | Positive (Negative) Variance with Final Budget |
|--|-------------------|---------------------|-------------------|---|
| | Original | Final | | |
| Fund Balance, July 1, 2008 | \$ 367,191 | \$ 498,741 | \$ 498,741 | \$ - |
| Resources (inflows): | | | | |
| Property taxes | 11,106,458 | 11,159,837 | 11,188,377 | 28,540 |
| Other taxes | 8,963,547 | 8,889,285 | 8,459,997 | (429,288) |
| Licenses and permits | 786,987 | 796,746 | 678,477 | (118,269) |
| Fines and forfeitures | 2,037,593 | 2,076,593 | 2,075,238 | (1,355) |
| Use of money and property | 384,675 | 382,487 | 303,315 | (79,172) |
| Intergovernmental | 224,412 | 176,104 | 171,555 | (4,549) |
| Charges for services | 4,187,828 | 3,986,597 | 4,007,358 | 20,761 |
| Miscellaneous | 61,426 | 123,362 | 256,917 | 133,555 |
| Interest earned on investments | 95,833 | 27,150 | 29,472 | 2,322 |
| Transfers in | 892,742 | 1,028,762 | 1,028,511 | (251) |
| Amount available for appropriation | <u>29,108,692</u> | <u>29,145,664</u> | <u>28,697,958</u> | <u>(447,706)</u> |
| Charges to appropriations (outflows): | | | | |
| Legislative and legal | 1,014,151 | 1,057,993 | 1,057,092 | 901 |
| General government | 2,691,440 | 2,519,027 | 2,346,708 | 172,319 |
| Public safety | 18,169,495 | 18,108,137 | 16,896,337 | 1,211,800 |
| Community development | 1,571,160 | 1,516,324 | 1,375,233 | 141,091 |
| Culture and recreation | 1,243,338 | 1,388,249 | 1,321,916 | 66,333 |
| Public works | 3,051,209 | 3,101,004 | 2,992,365 | 108,639 |
| Capital outlay | - | 105,000 | 105,000 | - |
| Transfers out | 988,701 | 1,942,055 | 1,942,054 | 1 |
| Total charges to appropriations | <u>28,729,494</u> | <u>29,737,789</u> | <u>28,036,705</u> | <u>1,701,084</u> |
| Fund Balance, June 30, 2009 | <u>\$ 379,198</u> | <u>\$ (592,125)</u> | <u>\$ 661,253</u> | <u>\$ 1,253,378</u> |

City of Hermosa Beach
Required Supplementary Information (Unaudited), Continued
For the year ended June 30, 2009

BUDGETS AND BUDGETARY ACCOUNTING, Continued

Budgetary Comparison Schedule – Proposition C Fund

| | Budgeted Amounts | | Actual Amounts | Positive (Negative) Variance with Final Budget |
|--|------------------|--------------|-------------------|---|
| | Original | Final | | |
| Fund Balance, July 1, 2008 | \$ 2,017,547 | \$ 2,167,731 | \$ 2,167,731 | \$ - |
| Resources (inflows): | | | | |
| Other Taxes | 265,529 | 265,529 | 234,852 | (30,677) |
| Interest earned on investments | 109,098 | 83,044 | 78,874 | (4,170) |
| Amount available for appropriation | 2,392,174 | 2,516,304 | 2,481,457 | (34,847) |
| Charges to appropriations (outflows): | | | | |
| Capital outlay | 1,508,816 | 1,658,816 | 291,784 | 1,367,032 |
| Total charges to appropriations | 1,508,816 | 1,658,816 | 291,784 | 1,367,032 |
| Fund Balance, June 30, 2009 | \$ 883,358 | \$ 857,488 | \$ 2,189,673 | \$ 1,332,185 |

City of Hermosa Beach
Required Supplementary Information (Unaudited), Continued
For the year ended June 30, 2009

BUDGETS AND BUDGETARY ACCOUNTING, Continued

Budgetary Comparison Schedule - Contingency Fund

| | Budgeted Amounts | | Actual Amounts | Positive (Negative) Variance with Final Budget |
|--|------------------|--------------|-------------------|---|
| | Original | Final | | |
| Fund Balance, July 1, 2007 | \$ 4,372,456 | \$ 4,373,563 | \$ 4,373,563 | \$ - |
| Resources (inflows): | | | | |
| Interest earned on investments | 234,697 | 147,954 | 131,496 | (16,458) |
| Amount available for appropriation | 4,607,153 | 4,521,517 | 4,505,059 | (16,458) |
| Charges to appropriations (outflows): | | | | |
| Transfers out | 500,000 | 626,661 | 626,661 | - |
| Total charges to appropriations | 500,000 | 626,661 | 626,661 | - |
| Fund Balance, June 30, 2008 | \$ 4,107,153 | \$ 3,894,856 | \$ 3,878,398 | \$ (16,458) |

City of Hermosa Beach
Required Supplementary Information (Unaudited), Continued
For the year ended June 30, 2009

Schedule of Funding Progress for the City's OPEB Plan

| <u>Actuarial Valuation Date</u> | <u>Actuarial Asset Value</u> | <u>Actuarial Accrued Liability Entry Age</u> | <u>Unfunded Actuarial Accrued Liability</u> | <u>Funded Ratio</u> | <u>Covered Payroll</u> | <u>Unfunded Actuarial Liability as Percentage of Covered Payroll</u> |
|---|--------------------------------------|--|---|-------------------------|----------------------------|--|
| 6/30/2008 | \$ 1,763,000 | \$ 4,241,000 | \$ (2,478,000) | 41.6% | \$ 8,459,000 | 29.3% |

SUPPLEMENTARY INFORMATION

This page intentionally left blank.

NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds:

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

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

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

Compensated Absences Fund - This fund is used to account for funds set aside to provide for liabilities associated with vacation time, sick time, etc. accumulated by employees.

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.

Building Improvement Fund - This fund is intended to provide funds for ongoing building maintenance.

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.

NON-MAJOR GOVERNMENTAL FUNDS, Continued

Special Revenue Funds, Continued:

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.

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

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

Grants Fund - This fund is used to account for State and Federal grants for specific projects.

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

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

California Law Enforcement Equipment Program Fund (CLEEP) - Funds received for the purchase of high technology law enforcement equipment.

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

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

NON-MAJOR GOVERNMENTAL FUNDS, Continued

Special Revenue Funds, Continued:

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.

Retirement Stabilization Fund - This fund is used to account for funds set aside for use when retirement rates are unstable and have therefore increased beyond expectations.

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

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

Beach Drive 2 Underground District Fund - This fund is used to account for funds set aside for the creation of a new utility undergrounding district. The expenditures in this fund will be reimbursed to the City upon formation of the district.

Myrtle Utility Underground Improvement Fund - This fund is used to account for expenditures relating to the cost for utility undergrounding in the special assessment district. It is also used to account for proceeds from bonds sold to finance the cost of the undergrounding. The bonds are secured by liens against real property within the district and will be repaid from assessments against the property. The City is not obligated in any way with respect to the bonds.

Bayview Drive Underground District Improvement Fund - This fund is used to account for expenditures relating to the cost for utility undergrounding in the special assessment district. It is also used to account for proceeds from bonds sold to finance the cost of the undergrounding. The bonds are secured by liens against real property within the district and will be repaid from assessments against the property. The City is not obligated in any way with respect to the bonds.

Beach Drive Underground District Improvement Fund - This fund is used to account for expenditures relating to the cost for utility undergrounding in the special assessment district. It is also used to account for proceeds from bonds sold to finance the cost of the undergrounding. The bonds are secured by liens against real property within the district and will be repaid from assessments against the property. The City is not obligated in any way with respect to the bonds.

Prospect Utility Underground District Fund - This fund is used to account for funds set aside for the creation of a new utility undergrounding district. The expenditures in this fund will be reimbursed to the City upon formation of the district.

City of Hermosa Beach
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2009

| | Special Revenue Funds | | | | |
|--|---|-------------------|-------------------|-------------------------|-------------------------|
| | Lighting and Landscaping District | State Gas Tax | AB 939 | Compensated Absences | Prop A Open Space |
| ASSETS | | | | | |
| Cash and investments | \$ 81,630 | \$ 384,758 | \$ 285,894 | \$ 136,635 | |
| Reimbursable grants receivable | | | | | \$ 94,388 |
| Interest receivable | | | | | |
| on investments | 482 | 2,275 | 1,699 | | |
| Other accounts receivable | 10,921 | 66,831 | 4,865 | | |
| Property taxes receivable | 21,523 | | | | |
| Other assets | | | | | |
| Due from other funds | | | | | |
| Total assets | \$ 114,556 | \$ 453,864 | \$ 292,458 | \$ 136,635 | \$ 94,388 |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 25,348 | | \$ 16,145 | | \$ 8,920 |
| Accrued wages and compensated absences | 18,126 | | 8,753 | | |
| Deferred revenue | 21,523 | | | | |
| Due to other funds | | | | | 85,464 |
| Advances to other funds | | | | | |
| Total liabilities | 64,997 | \$ - | 24,898 | \$ - | \$ 94,384 |
| Fund Balances: | | | | | |
| Reserved: | | | | | |
| Re-appropriations | | | | | |
| Bike paths | | 2,094 | | | |
| Traffic congestion relief | | 181,250 | | | |
| Unreserved, designated: | | | | | |
| Special revenue | | | | | |
| Justice and treasury department | | | | | |
| Unreserved, undesignated: | | | | | |
| Special revenue | 49,559 | 270,520 | 267,560 | 136,635 | 4 |
| Total fund balances | 49,559 | 453,864 | 267,560 | 136,635 | 4 |
| Total liabilities and fund balances | \$ 114,556 | \$ 453,864 | \$ 292,458 | \$ 136,635 | \$ 94,388 |

Special Revenue Funds

| Tyco | Tyco Tidelands | Parks/ Recreation Facility Tax | Building Improvement | Bayview Dr Admin Expense | Lower Pier Admin Expense | Myrtle Dist Admin Expense | Loma Dist Admin Expense |
|-------------------|-------------------|--------------------------------------|-------------------------|--------------------------------|--------------------------------|---------------------------------|-------------------------------|
| \$ 557,075 | \$ 218,797 | \$ 31,904 | \$ 881 | \$ 1,281 | \$ 3,876 | \$ 12,186 | \$ 15,996 |
| 3,402 | 1,297 | | 1 | 8 | | 72 | 95 |
| <u>\$ 560,477</u> | <u>\$ 220,094</u> | <u>\$ 31,904</u> | <u>\$ 882</u> | <u>\$ 1,289</u> | <u>\$ 3,876</u> | <u>\$ 12,258</u> | <u>\$ 16,091</u> |
| \$ 50,309 | | \$ 3,483 | | \$ 352 | \$ 301 | \$ 405 | \$ 474 |
| <u>\$ 50,309</u> | <u>\$ -</u> | <u>3,483</u> | <u>\$ -</u> | <u>352</u> | <u>301</u> | <u>405</u> | <u>474</u> |
| | 41,422 | 28,246 | | | | | |
| 510,168 | 178,672 | 175 | 882 | 937 | 3,575 | 11,853 | 15,617 |
| 510,168 | 220,094 | 28,421 | 882 | 937 | 3,575 | 11,853 | 15,617 |
| <u>\$ 560,477</u> | <u>\$ 220,094</u> | <u>\$ 31,904</u> | <u>\$ 882</u> | <u>\$ 1,289</u> | <u>\$ 3,876</u> | <u>\$ 12,258</u> | <u>\$ 16,091</u> |

(Continued)

City of Hermosa Beach
Combining Balance Sheet, Continued
Non-Major Governmental Funds, Continued
June 30, 2009

| | Special Revenue Funds | | | | | |
|--|--|--|----------------------------|-------------------|--|--|
| | Beach Drive Assessment Dist Admin Expense | Community Development Block Grant | Proposition "A" Transit | Grants | Air Quality Management District | Supplemental Law Enforcement Services |
| ASSETS | | | | | | |
| Cash and investments | \$ 1,315 | | \$ 1,098,846 | | \$ 122,729 | \$ 198,141 |
| Reimbursable grants receivable | | \$ 60,508 | | \$ 272,816 | | |
| Interest receivable on investments | 8 | | 6,519 | | 727 | 1,172 |
| Other accounts receivable | | | 1,120 | | 6,105 | 25,000 |
| Property taxes receivable | | | | | | |
| Due from other funds | | | | | | |
| Total assets | \$ 1,323 | \$ 60,508 | \$ 1,106,485 | \$ 272,816 | \$ 129,561 | \$ 224,313 |
| LIABILITIES AND FUND BALANCES | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable | \$ 338 | \$ 22,918 | \$ 64,132 | \$ 63,905 | \$ 31,278 | |
| Accrued wages and compensated absences | | | 319 | (3) | 30 | |
| Deferred revenue | | | | | | |
| Due to other funds | | 37,580 | | 206,084 | | |
| Advances from other funds | | | | | | |
| Total liabilities | 338 | 60,498 | 64,451 | 269,986 | 31,308 | \$ - |
| Fund Balances: | | | | | | |
| Reserved: | | | | | | |
| Re-appropriations | | | | 3,354 | | 46,409 |
| Bike paths | | | | | | |
| Traffic Congestion Relief | | | | | | |
| Unreserved, designated: | | | | | | |
| Special revenue | | | | | | |
| Justice and treasury department | | | | | | |
| Unreserved, undesignated: | | | | | | |
| Special revenue | 985 | 10 | 1,042,034 | (524) | 98,253 | 177,904 |
| Total fund balances | 985 | 10 | 1,042,034 | 2,830 | 98,253 | 224,313 |
| Total liabilities and fund balances | \$ 1,323 | \$ 60,508 | \$ 1,106,485 | \$ 272,816 | \$ 129,561 | \$ 224,313 |

Special Revenue Funds

| California Law Enforcement Equipment Program (CLEEP) | Sewer | Asset Seizure and Forfeiture | Fire Protection | Retirement Stabilization | Capital Improvement | Artesia Blvd. Relinquish- ment | Beach Drive 2 Underground District |
|--|-------------------|------------------------------------|--------------------|-----------------------------|------------------------|---|--|
| \$ 412 | \$ 339,322 | \$ 191,456 | \$ 9,290 | \$ 496,303 | \$ 615,391 | \$ 14,645 | |
| | 1,944 24,541 | 1,137 6,348 | 52 | 2,952 | 4,759 | 116 | |
| | | | | | 329,128 | | |
| <u>\$ 412</u> | <u>\$ 365,807</u> | <u>\$ 198,941</u> | <u>\$ 9,342</u> | <u>\$ 499,255</u> | <u>\$ 949,278</u> | <u>\$ 14,761</u> | <u>\$ -</u> |
| | \$ 40,129 | \$ 111 | \$ 1,140 | | \$ 101,665 | \$ 817 | |
| | 25,296 | | | | 10,322 | | |
| | | | | | | | \$ 65,520 |
| <u>\$ -</u> | <u>65,425</u> | <u>111</u> | <u>1,140</u> | <u>\$ -</u> | <u>111,987</u> | <u>817</u> | <u>65,520</u> |
| | 110,285 | | 8,700 | | 196,319 | | |
| | | 118,878 | | | | | |
| <u>412</u> | <u>190,097</u> | <u>79,952</u> | <u>(498)</u> | <u>499,255</u> | <u>640,972</u> | <u>13,944</u> | <u>(65,520)</u> |
| <u>412</u> | <u>300,382</u> | <u>198,830</u> | <u>8,202</u> | <u>499,255</u> | <u>837,291</u> | <u>13,944</u> | <u>(65,520)</u> |
| <u>\$ 412</u> | <u>\$ 365,807</u> | <u>\$ 198,941</u> | <u>\$ 9,342</u> | <u>\$ 499,255</u> | <u>\$ 949,278</u> | <u>\$ 14,761</u> | <u>\$ -</u> |

(Continued)

City of Hermosa Beach
Combining Balance Sheet, Continued
Non-Major Governmental Funds, Continued
June 30, 2009

| | Special Revenue Funds | | | | |
|---|--|------------------------------------|--|--|--------------------------------------|
| | Myrtle Utility Underground Improvement | Bayview Underground District | Beach Drive Underground District | Prospect Utility Underground District | Total Other Governmental Funds |
| ASSETS | | | | | |
| Cash and investments | \$ 9,923 | \$ 205,888 | \$ 92,160 | | \$ 5,126,734 |
| Reimbursable grants receivable | | | | | 427,712 |
| Interest receivable on investments | 60 | 1,223 | 547 | | 30,547 |
| Other accounts receivable | | | | | 145,731 |
| Property taxes receivable | | | | | 21,523 |
| Due from other funds | | | | | 329,128 |
| Total assets | \$ 9,983 | \$ 207,111 | \$ 92,707 | \$ - | \$ 6,081,375 |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts payable | | | | | \$ 432,170 |
| Accrued wages and compensated absences | | | | | 62,843 |
| Deferred revenue | | | | | 21,523 |
| Due to other funds | | | | | 329,128 |
| Advances from other funds | | | | \$ 200,000 | 265,520 |
| Total liabilities | \$ - | \$ - | \$ - | 200,000 | 1,111,184 |
| Fund Balances: | | | | | |
| Reserved: | | | | | |
| Re-appropriations | | | | | 434,735 |
| Bike paths | | | | | 2,094 |
| Strand walkways | | | | | 181,250 |
| Unreserved, designated: | | | | | |
| Special revenue Justice and treasury department | | | | | 118,878 |
| Unreserved, undesignated: | | | | | |
| Special revenue | 9,983 | 207,111 | 92,707 | (200,000) | 4,233,234 |
| Total fund balances | 9,983 | 207,111 | 92,707 | (200,000) | 4,970,191 |
| Total liabilities and fund balances | \$ 9,983 | \$ 207,111 | \$ 92,707 | \$ - | \$ 6,081,375 |

(Concluded)

This page intentionally left blank.

City of Hermosa Beach
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the year ended June 30, 2009

| | Special Revenue Funds | | | | |
|---|---|------------------|-----------------|-------------------------|-------------------------|
| | Lighting and Landscaping District | State Gas Tax | AB 939 | Compensated Absences | Prop A Open Space |
| REVENUES: | | | | | |
| Property taxes | \$ 450,971 | | | | |
| Other taxes | | | | | |
| Fines and forfeitures | | | | | |
| Use of money and property | | | | | |
| Intergovernmental | | \$ 685,449 | | | \$ 114,945 |
| Charges for services | | | \$ 58,836 | | |
| Miscellaneous | | | | | |
| Interest earned on investments | 1,863 | 7,327 | 10,358 | | |
| Total revenues | 452,834 | 692,776 | 69,194 | \$ - | 114,945 |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| General government | | | 98,032 | | |
| Public safety | | | | | |
| Community development | | | | | |
| Culture & recreation | | | | | |
| Public works | 520,355 | 12,847 | | | |
| Capital outlay | | 404,374 | | | 94,387 |
| Total expenditures | 520,355 | 417,221 | 98,032 | - | 94,387 |
| REVENUES OVER (UNDER) EXPENDITURES | (67,521) | 275,555 | (28,838) | - | 20,558 |
| OTHER FINANCING SOURCES (USES): | | | | | |
| Transfers in | 9,267 | | 373 | | |
| Transfers out | (10,967) | (370,211) | | (136,020) | (20,557) |
| Total other financing sources (uses) | (1,700) | (370,211) | 373 | (136,020) | (20,557) |
| NET CHANGE IN FUND BALANCES | (69,221) | (94,656) | (28,465) | (136,020) | 1 |
| FUND BALANCES: | | | | | |
| Beginning of year | 118,780 | 548,520 | 296,025 | 272,655 | 3 |
| End of year | \$ 49,559 | \$ 453,864 | \$ 267,560 | \$ 136,635 | \$ 4 |

Special Revenue Funds

| Tyco | Tyco Tidelands | Parks/ Recreation Facility Tax | Building Improvement | Bayview Dr Admin Expense | Lower Pier Admin Expense | Myrtle Dist Admin Expense | Loma Dist Admin Expense |
|------------|-------------------|--------------------------------------|-------------------------|--------------------------------|--------------------------------|---------------------------------|-------------------------------|
| | | \$ 3,500 | | | | | |
| \$ 412,900 | | | | | | | |
| | | 21,192 | | \$ 4,620 | \$ 3,324 | \$ 9,391 | \$ 10,337 |
| 17,751 | \$ 8,314 | 5,637 | \$ 47 | 59 | | 462 | 599 |
| 430,651 | 8,314 | 30,329 | 47 | 4,679 | 3,324 | 9,853 | 10,936 |
| | | | | 1,575 | 1,340 | 5,469 | 5,793 |
| | | 20,332 | | | | | |
| | | 6,967 | | | | | |
| 93,948 | 33,447 | 210,080 | | | | | |
| 93,948 | 33,447 | 237,379 | - | 1,575 | 1,340 | 5,469 | 5,793 |
| 336,703 | (25,133) | (207,050) | 47 | 3,104 | 1,984 | 4,384 | 5,143 |
| (175,000) | | | (3,013) | (2,693) | (1,132) | (3,279) | (3,748) |
| (175,000) | - | - | (3,013) | (2,693) | (1,132) | (3,279) | (3,748) |
| 161,703 | (25,133) | (207,050) | (2,966) | 411 | 852 | 1,105 | 1,395 |
| 348,465 | 245,227 | 235,471 | 3,848 | 526 | 2,723 | 10,748 | 14,222 |
| \$ 510,168 | \$ 220,094 | \$ 28,421 | \$ 882 | \$ 937 | \$ 3,575 | \$ 11,853 | \$ 15,617 |

(Continued)

City of Hermosa Beach
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds, Continued
For the year ended June 30, 2009

Special Revenue Funds

| | Beach Drive Assessment Dist Admin Expense | Community Development Block Grant | Proposition "A" Transit | Grants | Air Quality Management District | Supplemental Law Enforcement |
|---|--|--|----------------------------|----------------|--|------------------------------------|
| REVENUES: | | | | | | |
| Property taxes | | | | | | |
| Other taxes | | | \$ 280,897 | | | \$ 100,000 |
| Fines and forfeitures | | | | | | |
| Use of money and property | | | | | | |
| Intergovernmental | | \$ 142,799 | | \$ 621,438 | \$ 22,714 | |
| Charges for services | | | 5,545 | | | |
| Miscellaneous | \$ 2,958 | | | 5,691 | | |
| Interest earned on investments | 54 | | 36,031 | | 4,797 | 7,039 |
| Total revenues | 3,012 | 142,799 | 322,473 | 627,129 | 27,511 | 107,039 |
| EXPENDITURES: | | | | | | |
| Current: | | | | | | |
| General government | 1,527 | | 51,209 | | 310 | |
| Public safety | | | 51,589 | 5,791 | | 20,811 |
| Community development | | 9,044 | 16,656 | | | |
| Culture & recreation | | | 30,363 | | | |
| Public works | | | | 10,928 | | |
| Capital outlay | | 133,752 | | 616,827 | 61,523 | 45,147 |
| Total expenditures | 1,527 | 142,796 | 149,817 | 633,546 | 61,833 | 65,958 |
| REVENUES OVER (UNDER) EXPENDITURES | 1,485 | 3 | 172,656 | (6,417) | (34,322) | 41,081 |
| OTHER FINANCING SOURCES (USES): | | | | | | |
| Transfers in | | | | | | |
| Transfers out | (1,144) | | | | | |
| Total other financing sources (uses) | (1,144) | - | - | - | - | - |
| NET CHANGE IN FUND BALANCES | 341 | 3 | 172,656 | (6,417) | (34,322) | 41,081 |
| FUND BALANCES: | | | | | | |
| Beginning of year | 644 | 7 | 869,378 | 9,247 | 132,575 | 183,232 |
| End of year | \$ 985 | \$ 10 | \$ 1,042,034 | \$ 2,830 | \$ 98,253 | \$ 224,313 |

Special Revenue Funds

| California Law Enforcement Equipment Program (CLEEP) | Sewer | Asset Seizure and Forfeiture | Fire Protection | Retirement Stabilization | Capital Improvement | Artesia Blvd. Relinquish- ment | Beach Drive 2 Underground District |
|--|------------|------------------------------------|--------------------|-----------------------------|------------------------|---|--|
| | | \$ 36,229 | | | | | |
| | \$ 29,684 | | | | | | |
| | 31,220 | | | | | | |
| | 7,450 | 50,000 | \$ 64,258 | | | | |
| \$ 11 | 13,700 | 5,017 | 1,453 | \$ 21,370 | \$ 36,479 | \$ 722 | |
| 11 | 82,054 | 91,246 | 65,711 | 21,370 | 36,479 | 722 | \$ - |
| | | 1,684 | | | | | |
| 292 | | | | | | | |
| | 741,893 | | | | | 2,824 | |
| | 165,026 | 3,762 | 22,206 | | 1,013,554 | | |
| 292 | 906,919 | 5,446 | 22,206 | - | 1,013,554 | 2,824 | - |
| (281) | (824,865) | 85,800 | 43,505 | 21,370 | (977,075) | (2,102) | - |
| | 701,234 | | | | 179,918 | | |
| (972) | | | (100,000) | (270,472) | | | |
| (972) | 701,234 | - | (100,000) | (270,472) | 179,918 | - | - |
| (1,253) | (123,631) | 85,800 | (56,495) | (249,102) | (797,157) | (2,102) | - |
| 1,665 | 424,013 | 113,030 | 64,697 | 748,357 | 1,634,448 | 16,046 | (65,520) |
| \$ 412 | \$ 300,382 | \$ 198,830 | \$ 8,202 | \$ 499,255 | \$ 837,291 | \$ 13,944 | \$ (65,520) |

(Continued)

City of Hermosa Beach
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds, Continued
For the year ended June 30, 2009

| | Special Revenue Funds | | | | |
|---|--|------------------------------------|--|--|--------------------------------------|
| | Myrtle Utility Underground Improvement | Bayview Underground District | Beach Drive Underground District | Prospect Utility Underground District | Total Other Governmental Funds |
| REVENUES: | | | | | |
| Property taxes | | | | | \$ 450,971 |
| Other taxes | | | | | 384,397 |
| Fines and forfeitures | | | | | 36,229 |
| Use of money and property | | | | | 412,900 |
| Intergovernmental | | | | | 1,617,029 |
| Charges for services | | | | | 95,601 |
| Miscellaneous | | | | | 179,221 |
| Interest earned on investments | \$ 324 | \$ 6,794 | \$ 3,042 | | 189,250 |
| Total revenues | 324 | 6,794 | 3,042 | \$ - | 3,365,598 |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| General government | | | | | 166,939 |
| Public safety | | | | | 78,483 |
| Community development | | | | | 25,700 |
| Culture & recreation | | | | | 50,695 |
| Public works | | | | | 1,295,814 |
| Capital outlay | | | | | 2,898,033 |
| Total expenditures | - | - | - | - | 4,515,664 |
| REVENUES OVER (UNDER) EXPENDITURES | 324 | 6,794 | 3,042 | - | (1,150,066) |
| OTHER FINANCING SOURCES (USES): | | | | | |
| Transfers in | | | | | 890,792 |
| Transfers out | | | | | (1,099,208) |
| Total other financing sources (uses) | - | - | - | - | (208,416) |
| NET CHANGE IN FUND BALANCES | 324 | 6,794 | 3,042 | - | (1,358,482) |
| FUND BALANCES: | | | | | |
| Beginning of year | 9,659 | 200,317 | 89,665 | (200,000) | 6,328,673 |
| End of year | \$ 9,983 | \$ 207,111 | \$ 92,707 | \$ (200,000) | \$ 4,970,191 |

(Concluded)

City of Hermosa Beach

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

Lighting and Landscaping District

For the year ended June 30, 2009

| | Budgeted Amounts <u>Final</u> | Actual Amounts <u> </u> | Positive (Negative) Variance with Final Budget <u> </u> |
|---------------------------------------|-------------------------------------|--|--|
| Fund balance, July 1, 2008 | \$ 118,780 | \$ 118,780 | \$ - |
| Resources (inflows): | | | |
| Property taxes | 450,997 | 450,971 | (26) |
| Interest earned on investments | 2,427 | 1,863 | (564) |
| Transfers in | <u>9,267</u> | <u>9,267</u> | <u>-</u> |
| Amount available for appropriation | <u>581,471</u> | <u>580,881</u> | <u>(590)</u> |
| Charges to appropriations (outflows): | | | |
| Public works | 558,247 | 520,355 | 37,892 |
| Transfers out | <u>10,967</u> | <u>10,967</u> | <u>-</u> |
| Total charges to appropriations | <u>569,214</u> | <u>531,322</u> | <u>37,892</u> |
| Fund balance, June 30, 2009 | <u>\$ 12,257</u> | <u>\$ 49,559</u> | <u>\$ 37,302</u> |

City of Hermosa Beach

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

State Gas Tax

For the year ended June 30, 2009

| | Budgeted Amounts <u>Final</u> | Actual Amounts <u> </u> | Positive (Negative) Variance with Final Budget <u> </u> |
|---------------------------------------|-------------------------------------|--|--|
| Fund balance, July 1, 2008 | \$ 548,520 | \$ 548,520 | \$ - |
| Resources (inflows): | | | |
| Intergovernmental | 542,180 | 685,449 | 143,269 |
| Interest earned on investments | 5,078 | 7,327 | 2,249 |
| Amount available for appropriation | <u>1,095,778</u> | <u>1,241,296</u> | <u>145,518</u> |
| Charges to appropriations (outflows): | | | |
| Public Works | 14,375 | 12,847 | 1,528 |
| Capital outlay | 644,377 | 404,374 | 240,003 |
| Transfers out | 370,211 | 370,211 | - |
| Total charges to appropriations | <u>1,028,963</u> | <u>787,432</u> | <u>241,531</u> |
| Fund balance, June 30, 2009 | <u>\$ 66,815</u> | <u>\$ 453,864</u> | <u>\$ 387,049</u> |

City of Hermosa Beach

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

AB 939

For the year ended June 30, 2009

| | Budgeted Amounts <u>Final</u> | Actual Amounts <u> </u> | Positive (Negative) Variance with Final Budget <u> </u> |
|---------------------------------------|-------------------------------------|--|--|
| Fund balance, July 1, 2008 | \$ 296,025 | \$ 296,025 | \$ - |
| Resources (inflows): | | | |
| Charges for services | 57,307 | 58,836 | 1,529 |
| Transfers in | 373 | 373 | - |
| Interest earned on investments | 11,389 | 10,358 | (1,031) |
| Amount available for appropriation | <u>365,094</u> | <u>365,592</u> | <u>498</u> |
| Charges to appropriations (outflows): | | | |
| General government | 102,069 | 98,032 | 4,037 |
| Capital outlay | 41,600 | <u> </u> | 41,600 |
| Total charges to appropriations | <u>143,669</u> | <u>98,032</u> | <u>45,637</u> |
| Fund balance, June 30, 2009 | <u>\$ 221,425</u> | <u>\$ 267,560</u> | <u>\$ 46,135</u> |

City of Hermosa Beach

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

Compensated Absences

For the year ended June 30, 2009

| | Budgeted Amounts <u>Final</u> | Actual Amounts <u></u> | Positive (Negative) Variance with Final Budget <u></u> |
|---------------------------------------|-------------------------------------|------------------------------|--|
| Fund balance, July 1, 2008 | \$ 272,655 | \$ 272,655 | \$ - |
| Charges to appropriations (outflows): | | | |
| Transfers out | <u>136,020</u> | <u>136,020</u> | <u>-</u> |
| Total charges to appropriations | <u>136,020</u> | <u>136,020</u> | <u>-</u> |
| Fund balance, June 30, 2009 | <u>\$ 136,635</u> | <u>\$ 136,635</u> | <u>\$ -</u> |

City of Hermosa Beach

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

Prop A Open Space

For the year ended June 30, 2009

| | Budgeted Amounts <u>Final</u> | Actual Amounts <u> </u> | Positive (Negative) Variance with Final Budget <u> </u> |
|---------------------------------------|-------------------------------------|--|--|
| Fund balance, July 1, 2008 | \$ 3 | \$ 3 | \$ - |
| Resources (inflows): | | | |
| Intergovernmental | 364,945 | 114,945 | (250,000) |
| Amount available for appropriation | <u>364,948</u> | <u>114,948</u> | <u>(250,000)</u> |
| Charges to appropriations (outflows): | | | |
| Capital outlay | 344,388 | 94,387 | 250,001 |
| Transfers out | 20,557 | 20,557 | - |
| Total charges to appropriations | <u>364,945</u> | <u>114,944</u> | <u>250,001</u> |
| Fund balance, June 30, 2009 | <u>\$ 3</u> | <u>\$ 4</u> | <u>\$ 1</u> |

City of Hermosa Beach

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

Tyco

For the year ended June 30, 2009

| | Budgeted Amounts <u>Final</u> | Actual Amounts <u> </u> | Positive (Negative) Variance with Final Budget <u> </u> |
|---------------------------------------|-------------------------------------|--|--|
| Fund balance, July 1, 2008 | \$ 348,465 | \$ 348,465 | \$ - |
| Resources (inflows): | | | |
| Use of money and property | 412,900 | 412,900 | - |
| Interest earned on investments | <u>15,644</u> | <u>17,751</u> | <u>2,107</u> |
| Amount available for appropriation | <u>777,009</u> | <u>779,116</u> | <u>2,107</u> |
| Charges to appropriations (outflows): | | | |
| Capital outlay | 307,495 | 93,948 | 213,547 |
| Transfers out | <u>175,000</u> | <u>175,000</u> | <u>-</u> |
| Total charges to appropriations | <u>482,495</u> | <u>268,948</u> | <u>213,547</u> |
| Fund balance, June 30, 2009 | <u>\$ 294,514</u> | <u>\$ 510,168</u> | <u>\$ 215,654</u> |

City of Hermosa Beach

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

Tyco Tidelands

For the year ended June 30, 2009

| | Budgeted Amounts <u>Final</u> | Actual Amounts <u></u> | Positive (Negative) Variance with Final Budget <u></u> |
|---------------------------------------|-------------------------------------|------------------------------|--|
| Fund balance, July 1, 2008 | \$ 245,227 | \$ 245,227 | \$ - |
| Resources (inflows): | | | |
| Interest earned on investment | 9,491 | 8,314 | (1,177) |
| Amount available for appropriation | <u>254,718</u> | <u>253,541</u> | <u>(1,177)</u> |
| Charges to appropriations (outflows): | | | |
| Capital outlay | <u>243,432</u> | <u>33,447</u> | <u>209,985</u> |
| Total charges to appropriations | <u>243,432</u> | <u>33,447</u> | <u>209,985</u> |
| Fund balance, June 30, 2009 | <u>\$ 11,286</u> | <u>\$ 220,094</u> | <u>\$ 208,808</u> |

City of Hermosa Beach

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

Parks/Recreation Facility Tax

For the year ended June 30, 2009

| | Budgeted Amounts <u>Final</u> | Actual Amounts <u> </u> | Positive (Negative) Variance with Final Budget <u> </u> |
|---------------------------------------|-------------------------------------|--|--|
| Fund balance, July 1, 2008 | \$ 235,471 | \$ 235,471 | \$ - |
| Resources (inflows): | | | |
| Other taxes | 7,000 | 3,500 | (3,500) |
| Miscellaneous | 151,652 | 21,192 | (130,460) |
| Interest earned on investments | 8,328 | 5,637 | (2,691) |
| Amount available for appropriation | <u>402,451</u> | <u>265,800</u> | <u>(136,651)</u> |
| Charges to appropriations (outflows): | | | |
| Culture and recreation | 40,265 | 20,332 | 19,933 |
| Public works | 24,155 | 6,967 | 17,188 |
| Capital outlay | 338,031 | 210,080 | 127,951 |
| Total charges to appropriations | <u>402,451</u> | <u>237,379</u> | <u>165,072</u> |
| Fund balance, June 30, 2008 | <u>\$ -</u> | <u>\$ 28,421</u> | <u>\$ 28,421</u> |

City of Hermosa Beach

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

Building Improvement

For the year ended June 30, 2009

| | Budgeted Amounts Final | Actual Amounts | Positive (Negative) Variance with Final Budget |
|--|------------------------------|-------------------|---|
| Fund balance, July 1, 2008 | \$ 3,848 | \$ 3,848 | \$ - |
| Resources (inflows): | | | |
| Interest earned on investments | 88 | 47 | (41) |
| Amount available for appropriation | 3,936 | 3,895 | (41) |
| Charges to appropriations (outflows): | | | |
| Transfers out | 3,013 | 3,013 | - |
| Total charges to appropriations | \$ 3,013 | \$ 3,013 | \$ - |
| Fund balance, June 30, 2009 | \$ 923.00 | \$ 882.00 | \$ (41.00) |

City of Hermosa Beach

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

Bayview Drive Administrative Expense

For the year ended June 30, 2009

| | Budgeted Amounts <u>Final</u> | Actual Amounts <u> </u> | Positive (Negative) Variance with Final Budget <u> </u> |
|---------------------------------------|-------------------------------------|--|--|
| Fund balance, July 1, 2008 | \$ 526 | \$ 526 | \$ - |
| Resources (inflows): | | | |
| Miscellaneous | 4,620 | 4,620 | - |
| Interest earned on investments | <u>47</u> | <u>59</u> | <u>12</u> |
| Amount available for appropriation | <u>5,193</u> | <u>5,205</u> | <u>12</u> |
| Charges to appropriations (outflows): | | | |
| General government | 1,925 | 1,575 | 350 |
| Transfers out | <u>2,693</u> | <u>2,693</u> | <u>-</u> |
| Total charges to appropriations | <u>4,618</u> | <u>4,268</u> | <u>350</u> |
| Fund balance, June 30, 2009 | <u>\$ 575</u> | <u>\$ 937</u> | <u>\$ 362</u> |

City of Hermosa Beach

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

Lower Pier Administrative Expense

For the year ended June 30, 2009

| | Budgeted Amounts <u>Final</u> | Actual Amounts <u></u> | Positive (Negative) Variance with Final Budget <u></u> |
|---------------------------------------|-------------------------------------|------------------------------|--|
| Fund balance, July 1, 2008 | \$ 2,723 | \$ 2,723 | \$ - |
| Resources (inflows): | | | |
| Miscellaneous | <u>3,324</u> | <u>3,324</u> | <u>-</u> |
| Amount available for appropriation | <u>6,047</u> | <u>6,047</u> | <u>-</u> |
| Charges to appropriations (outflows): | | | |
| General government | 1,650 | 1,340 | 310 |
| Transfers out | <u>1,132</u> | <u>1,132</u> | <u>-</u> |
| Total charges to appropriations | <u>2,782</u> | <u>2,472</u> | <u>310</u> |
| Fund balance, June 30, 2009 | <u>\$ 3,265</u> | <u>\$ 3,575</u> | <u>\$ 310</u> |

City of Hermosa Beach

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

Myrtle District Administrative Expense

For the year ended June 30, 2009

| | Budgeted Amounts <u>Final</u> | Actual Amounts <u> </u> | Positive (Negative) Variance with Final Budget <u> </u> |
|---------------------------------------|-------------------------------------|--|--|
| Fund balance, July 1, 2008 | \$ 10,748 | \$ 10,748 | \$ - |
| Resources (inflows): | | | |
| Miscellaneous | 9,391 | 9,391 | - |
| Interest earned on investments | <u>462</u> | <u>462</u> | <u>-</u> |
| Amount available for appropriation | <u>20,601</u> | <u>20,601</u> | <u>-</u> |
| Charges to appropriations (outflows): | | | |
| General government | 6,160 | 5,469 | 691 |
| Transfers out | <u>3,279</u> | <u>3,279</u> | <u>-</u> |
| Total charges to appropriations | <u>9,439</u> | <u>8,748</u> | <u>691</u> |
| Fund balance, June 30, 2009 | <u>\$ 11,162</u> | <u>\$ 11,853</u> | <u>\$ 691</u> |

City of Hermosa Beach

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

Loma District Administrative Expense

For the year ended June 30, 2009

| | Budgeted Amounts <u>Final</u> | Actual Amounts <u> </u> | Positive (Negative) Variance with Final Budget <u> </u> |
|---------------------------------------|-------------------------------------|--|--|
| Fund balance, July 1, 2008 | \$ 14,222 | \$ 14,222 | \$ - |
| Resources (inflows): | | | |
| Miscellaneous | 10,337 | 10,337 | - |
| Interest earned on investments | <u>602</u> | <u>599</u> | <u>(3)</u> |
| Amount available for appropriation | <u>25,161</u> | <u>25,158</u> | <u>(3)</u> |
| Charges to appropriations (outflows): | | | |
| General government | 6,710 | 5,793 | 917 |
| Transfers out | <u>3,748</u> | <u>3,748</u> | <u>-</u> |
| Total charges to appropriations | <u>10,458</u> | <u>9,541</u> | <u>917</u> |
| Fund balance, June 30, 2009 | <u>\$ 14,703</u> | <u>\$ 15,617</u> | <u>\$ 914</u> |

City of Hermosa Beach

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

Beach Drive Assessment District Administrative Expense

For the year ended June 30, 2009

| | Budgeted Amounts <u>Final</u> | Actual Amounts <u> </u> | Positive (Negative) Variance with Final Budget <u> </u> |
|---------------------------------------|-------------------------------------|--|--|
| Fund balance, July 1, 2008 | \$ 644 | \$ 644 | \$ - |
| Resources (inflows): | | | |
| Miscellaneous | 2,958 | 2,958 | - |
| Interest earned on investments | <u>45</u> | <u>54</u> | <u>9</u> |
| Amount available for appropriation | <u>3,647</u> | <u>3,656</u> | <u>9</u> |
| Charges to appropriations (outflows): | | | |
| General government | 1,925 | 1,527 | 398 |
| Transfers out | <u>1,144</u> | <u>1,144</u> | <u>-</u> |
| Total charges to appropriations | <u>3,069</u> | <u>2,671</u> | <u>398</u> |
| Fund balance, June 30, 2009 | <u>\$ 578</u> | <u>\$ 985</u> | <u>\$ 407</u> |

City of Hermosa Beach

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

Community Development Block Grant

For the year ended June 30, 2009

| | Budgeted Amounts <u>Final</u> | Actual Amounts <u></u> | Positive (Negative) Variance with Final Budget <u></u> |
|---------------------------------------|-------------------------------------|------------------------------|--|
| Fund balance, July 1, 2008 | \$ 7 | \$ 7 | \$ - |
| Resources (inflows): | | | |
| Intergovernmental | <u>168,665</u> | <u>142,799</u> | <u>(25,866)</u> |
| Amount available for appropriation | <u>168,672</u> | <u>142,806</u> | <u>(25,866)</u> |
| Charges to appropriations (outflows): | | | |
| Community development | 9,241 | 9,044 | 197 |
| Capital outlay | <u>159,424</u> | <u>133,752</u> | <u>25,672</u> |
| Total charges to appropriations | <u>168,665</u> | <u>142,796</u> | <u>25,869</u> |
| Fund balance, June 30, 2009 | <u>\$ 7</u> | <u>\$ 10</u> | <u>\$ 3</u> |

City of Hermosa Beach

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

Proposition "A" Transit

For the year ended June 30, 2009

| | Budgeted Amounts <u>Final</u> | Actual Amounts <u> </u> | Positive (Negative) Variance with Final Budget <u> </u> |
|---------------------------------------|-------------------------------------|--|--|
| Fund balance, July 1, 2008 | \$ 869,378 | \$ 869,378 | \$ - |
| Resources (inflows): | | | |
| Other taxes | 320,077 | 280,897 | (39,180) |
| Charges for services | 6,255 | 5,545 | (710) |
| Interest earned on investments | 35,359 | 36,031 | 672 |
| Amount available for appropriation | <u>1,231,069</u> | <u>1,191,851</u> | <u>(39,218)</u> |
| Charges to appropriations (outflows): | | | |
| General government | 102,684 | 51,209 | 51,475 |
| Public safety | 50,000 | 51,589 | (1,589) |
| Community development | 17,195 | 16,656 | 539 |
| Culture and recreation | 30,000 | 30,363 | (363) |
| Total charges to appropriations | <u>199,879</u> | <u>149,817</u> | <u>50,062</u> |
| Fund balance, June 30, 2009 | <u>\$ 1,031,190</u> | <u>\$ 1,042,034</u> | <u>\$ 10,844</u> |

City of Hermosa Beach

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

For the year ended June 30, 2009

| | Budgeted Amounts <u>Final</u> | Actual Amounts <u> </u> | Positive (Negative) Variance with Final Budget <u> </u> |
|---------------------------------------|-------------------------------------|--|--|
| Fund balance, July 1, 2008 | \$ 9,247 | \$ 9,247 | \$ - |
| Resources (inflows): | | | |
| Intergovernmental | 1,410,424 | 621,438 | (788,986) |
| Miscellaneous | <u>-</u> | <u>5,691</u> | <u>5,691</u> |
| Amount available for appropriation | <u>1,419,671</u> | <u>636,376</u> | <u>(783,295)</u> |
| Charges to appropriations (outflows): | | | |
| Public safety | 56,352 | 5,791 | 50,561 |
| Public works | 13,699 | 10,928 | 2,771 |
| Capital outlay | <u>1,354,598</u> | <u>616,827</u> | <u>737,771</u> |
| Total charges to appropriations | <u>1,424,649</u> | <u>633,546</u> | <u>791,103</u> |
| Fund balance, June 30, 2009 | <u>\$ (4,978)</u> | <u>\$ 2,830</u> | <u>\$ 7,808</u> |

City of Hermosa Beach

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

Air Quality Management District

For the year ended June 30, 2009

| | Budgeted Amounts <u>Final</u> | Actual Amounts <u> </u> | Positive (Negative) Variance with Final Budget <u> </u> |
|---------------------------------------|-------------------------------------|--|--|
| Fund balance, July 1, 2008 | \$ 132,575 | \$ 132,575 | \$ - |
| Resources (inflows): | | | |
| Intergovernmental | 23,751 | 22,714 | (1,037) |
| Interest earned on investments | 4,974 | 4,797 | (177) |
| Amount available for appropriation | <u>161,300</u> | <u>160,086</u> | <u>(1,214)</u> |
| Charges to appropriations (outflows): | | | |
| General government | 1,000 | 310 | 690 |
| Capital outlay | 61,524 | 61,523 | 1 |
| Total charges to appropriations | <u>62,524</u> | <u>61,833</u> | <u>691</u> |
| Fund balance, June 30, 2009 | <u>\$ 98,776</u> | <u>\$ 98,253</u> | <u>\$ (523)</u> |

City of Hermosa Beach

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

Supplemental Law Enforcement Services

For the year ended June 30, 2009

| | Budgeted Amounts <u>Final</u> | Actual Amounts <u> </u> | Positive (Negative) Variance with Final Budget <u> </u> |
|---------------------------------------|-------------------------------------|--|--|
| Fund balance, July 1, 2008 | \$ 183,232 | \$ 183,232 | \$ - |
| Resources (inflows): | | | |
| Other taxes | 50,000 | 100,000 | 50,000 |
| Interest earned on investments | <u>7,029</u> | <u>7,039</u> | <u>10</u> |
| Amount available for appropriation | <u>240,261</u> | <u>290,271</u> | <u>50,010</u> |
| Charges to appropriations (outflows): | | | |
| Public safety | 50,050 | 20,811 | 29,239 |
| Capital outlay | <u>70,853</u> | <u>45,147</u> | <u>25,706</u> |
| Total charges to appropriations | <u>120,903</u> | <u>65,958</u> | <u>54,945</u> |
| Fund balance, June 30, 2009 | <u>\$ 119,358</u> | <u>\$ 224,313</u> | <u>\$ 104,955</u> |

City of Hermosa Beach

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

California Law Enforcement Equipment Program

For the year ended June 30, 2009

| | Budgeted Amounts <u>Final</u> | Actual Amounts <u> </u> | Positive (Negative) Variance with Final Budget <u> </u> |
|---------------------------------------|-------------------------------------|--|--|
| Fund balance, July 1, 2008 | \$ 1,665 | \$ 1,665 | \$ - |
| Resources (inflows): | | | |
| Interest earned on investments | 28 | 11 | (17) |
| Amount available for appropriation | <u>1,693</u> | <u>1,676</u> | <u>(17)</u> |
| Charges to appropriations (outflows): | | | |
| Public safety | 440 | 292 | 148 |
| Transfers out | <u>1,223</u> | <u>972</u> | <u>251</u> |
| Total charges to appropriations | <u>1,663</u> | <u>1,264</u> | <u>399</u> |
| Fund balance, June 30, 2009 | <u>\$ 30</u> | <u>\$ 412</u> | <u>\$ 382</u> |

City of Hermosa Beach

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

Sewer

For the year ended June 30, 2009

| | Budgeted Amounts <u>Final</u> | Actual Amounts <u> </u> | Positive (Negative) Variance with Final Budget <u> </u> |
|---------------------------------------|-------------------------------------|--|--|
| Fund balance, July 1, 2008 | \$ 424,013 | \$ 424,013 | \$ - |
| Resources (inflows): | | | |
| Intergovernmental | 30,164 | 29,684 | (480) |
| Charges for services | 36,329 | 31,220 | (5,109) |
| Miscellaneous | 7,049 | 7,450 | 401 |
| Interest earned on investments | 18,221 | 13,700 | (4,521) |
| Transfers in | 701,234 | 701,234 | - |
| Amount available for appropriation | <u>1,217,010</u> | <u>1,207,301</u> | <u>(9,709)</u> |
| Charges to appropriations (outflows): | | | |
| Public works | 860,497 | 741,893 | 118,604 |
| Capital outlay | 282,193 | 165,026 | 117,167 |
| Total charges to appropriations | <u>1,142,690</u> | <u>906,919</u> | <u>235,771</u> |
| Fund balance, June 30, 2009 | <u>\$ 74,320</u> | <u>\$ 300,382</u> | <u>\$ 226,062</u> |

City of Hermosa Beach

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

Asset Seizure and Forfeiture

For the year ended June 30, 2009

| | Budgeted Amounts <u>Final</u> | Actual Amounts <u> </u> | Positive (Negative) Variance with Final Budget <u> </u> |
|---------------------------------------|-------------------------------------|--|--|
| Fund balance, July 1, 2008 | \$ 113,030 | \$ 113,030 | \$ - |
| Resources (inflows): | | | |
| Fines and forfeitures | 16,300 | 36,229 | 19,929 |
| Miscellaneous | | 50,000 | 50,000 |
| Interest earned on investments | <u>4,207</u> | <u>5,017</u> | <u>810</u> |
| Amount available for appropriation | <u>133,537</u> | <u>204,276</u> | <u>70,739</u> |
| Charges to appropriations (outflows): | | | |
| Public Safety | 1,910 | 1,684 | 226 |
| Capital Outlay | <u>4,000</u> | <u>3,762</u> | <u>238</u> |
| Total charges to appropriations | <u>5,910</u> | <u>5,446</u> | <u>464</u> |
| Fund balance, June 30, 2009 | <u>\$ 127,627</u> | <u>\$ 198,830</u> | <u>\$ 71,203</u> |

City of Hermosa Beach

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

Fire Protection

For the year ended June 30, 2009

| | Budgeted Amounts <u>Final</u> | Actual Amounts <u> </u> | Positive (Negative) Variance with Final Budget <u> </u> |
|---------------------------------------|-------------------------------------|--|--|
| Fund balance, July 1, 2008 | \$ 64,697 | \$ 64,697 | \$ - |
| Resources (inflows): | | | |
| Miscellaneous | 91,647 | 64,258 | (27,389) |
| Interest earned on investments | <u>2,420</u> | <u>1,453</u> | <u>(967)</u> |
| Amount available for appropriation | <u>158,764</u> | <u>130,408</u> | <u>(28,356)</u> |
| Charges to appropriations (outflows): | | | |
| Capital outlay | 58,764 | 22,206 | 36,558 |
| Transfers out | <u>100,000</u> | <u>100,000</u> | <u>-</u> |
| Total charges to appropriations | <u>158,764</u> | <u>122,206</u> | <u>36,558</u> |
| Fund balance, June 30, 2009 | <u>\$ -</u> | <u>\$ 8,202</u> | <u>\$ 8,202</u> |

City of Hermosa Beach

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

Retirement Stabilization

For the year ended June 30, 2009

| | Budgeted Amounts <u>Final</u> | Actual Amounts <u> </u> | Positive (Negative) Variance with Final Budget <u> </u> |
|---------------------------------------|-------------------------------------|--|--|
| Fund balance, July 1, 2008 | \$ 748,357 | \$ 748,357 | \$ - |
| Resources (inflows): | | | |
| Interest earned on investments | <u>26,466</u> | <u>21,370</u> | <u>(5,096)</u> |
| Amount available for appropriation | <u>774,823</u> | <u>769,727</u> | <u>(5,096)</u> |
| Charges to appropriations (outflows): | | | |
| Transfers out | <u>270,472</u> | <u>270,472</u> | <u>-</u> |
| Total charges to appropriations | <u>270,472</u> | <u>270,472</u> | <u>-</u> |
| Fund balance, June 30, 2009 | <u>\$ 504,351</u> | <u>\$ 499,255</u> | <u>\$ (5,096)</u> |

City of Hermosa Beach

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

Capital Improvement

For the year ended June 30, 2009

| | Budgeted Amounts <u>Final</u> | Actual Amounts <u> </u> | Positive (Negative) Variance with Final Budget <u> </u> |
|---------------------------------------|-------------------------------------|--|--|
| Fund balance, July 1, 2008 | \$ 1,634,448 | \$ 1,634,448 | \$ - |
| Resources (inflows): | | | |
| Interest earned on investments | 52,546 | 36,479 | (16,067) |
| Transfers in | <u>179,918</u> | <u>179,918</u> | |
| Amount available for appropriation | <u>1,866,912</u> | <u>1,850,845</u> | <u>(16,067)</u> |
| Charges to appropriations (outflows): | | | |
| Public works | 27,335 | - | 27,335 |
| Capital outlay | <u>1,587,463</u> | <u>1,013,554</u> | <u>573,909</u> |
| Total charges to appropriations | <u>1,614,798</u> | <u>1,013,554</u> | <u>601,244</u> |
| Fund balance, June 30, 2009 | <u>\$ 252,114</u> | <u>\$ 837,291</u> | <u>\$ 585,177</u> |

City of Hermosa Beach

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

Artesia Boulevard Relinquishment

For the year ended June 30, 2009

| | Budgeted Amounts <u>Final</u> | Actual Amounts <u></u> | Positive (Negative) Variance with Final Budget <u></u> |
|---------------------------------------|-------------------------------------|------------------------------|--|
| Fund balance, July 1, 2008 | \$ 16,046 | \$ 16,046 | \$ - |
| Resources (inflows): | | | |
| Interest earned on investments | 812 | 722 | (90) |
| Amount available for appropriation | 16,858 | 16,768 | (90) |
| Charges to appropriations (outflows): | | | |
| Public works | 16,858 | 2,824 | 14,034 |
| Total charges to appropriations | 16,858 | 2,824 | 14,034 |
| Fund balance, June 30, 2009 | \$ - | \$ 13,944 | \$ 13,944 |

City of Hermosa Beach

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

Beach Drive 2 Underground District

For the year ended June 30, 2009

| | Budgeted Amounts <u>Final</u> | Actual Amounts <u> </u> | Positive (Negative) Variance with Final Budget <u> </u> |
|------------------------------------|-------------------------------------|--|--|
| Fund balance, July 1, 2008 | \$ (65,520) | \$ (65,520) | \$ - |
| Amount available for appropriation | <u>(65,520)</u> | <u>(65,520)</u> | <u>-</u> |
| Fund balance, June 30, 2009 | <u>\$ (65,520)</u> | <u>\$ (65,520)</u> | <u>\$ -</u> |

City of Hermosa Beach

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

Myrtle Utility Underground Improvement

For the year ended June 30, 2009

| | Budgeted Amounts <u>Final</u> | Actual Amounts <u> </u> | Positive (Negative) Variance with Final Budget <u> </u> |
|------------------------------------|-------------------------------------|--|--|
| Fund balance, July 1, 2008 | \$ 9,659 | \$ 9,659 | \$ - |
| Resources (inflows): | | | |
| Interest earned on investments | 371 | 324 | (47) |
| Amount available for appropriation | 10,030 | 9,983 | (47) |
| Fund balance, June 30, 2009 | <u>\$ 10,030</u> | <u>\$ 9,983</u> | <u>\$ (47)</u> |

City of Hermosa Beach

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

Bayview Drive Underground District

For the year ended June 30, 2009

| | Budgeted Amounts <u>Final</u> | Actual Amounts <u> </u> | Positive (Negative) Variance with <u>Final Budget</u> |
|---------------------------------------|-------------------------------------|--|--|
| Fund balance, July 1, 2008 | \$ 200,317 | \$ 200,317 | \$ - |
| Resources (inflows): | | | |
| Interest earned on investments | <u>7,779</u> | <u>6,794</u> | <u>(985)</u> |
| Amount available for appropriation | <u>208,096</u> | <u>207,111</u> | <u>(985)</u> |
| Charges to appropriations (outflows): | | | |
| Capital outlay | <u>157,086</u> | <u>-</u> | <u>157,086</u> |
| Total charges to appropriations | <u>157,086</u> | <u>-</u> | <u>157,086</u> |
| Fund balance, June 30, 2009 | <u>\$ 51,010</u> | <u>\$ 207,111</u> | <u>\$ 156,101</u> |

City of Hermosa Beach

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

Beach Drive Underground District

For the year ended June 30, 2009

| | Budgeted Amounts <u>Final</u> | Actual Amounts <u> </u> | Positive (Negative) Variance with Final Budget <u> </u> |
|------------------------------------|-------------------------------------|--|--|
| Fund balance, July 1, 2008 | \$ 89,665 | \$ 89,665 | \$ - |
| Resources (inflows): | | | |
| Interest earned on investments | 3,470 | 3,042 | (428) |
| Amount available for appropriation | 93,135 | 92,707 | (428) |
| Fund balance, June 30, 2009 | <u>\$ 93,135</u> | <u>\$ 92,707</u> | <u>\$ (428)</u> |

City of Hermosa Beach

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

Prospect Utility Underground District

For the year ended June 30, 2009

| | Budgeted Amounts <u>Final</u> | Actual Amounts <u> </u> | Positive (Negative) Variance with Final Budget <u> </u> |
|------------------------------------|-------------------------------------|--|--|
| Fund balance, July 1, 2008 | \$ (200,000) | \$ (200,000) | \$ - |
| Amount available for appropriation | (200,000) | (200,000) | - |
| Fund balance, June 30, 2009 | <u>\$ (200,000)</u> | <u>\$ (200,000)</u> | <u>\$ -</u> |

This page intentionally left blank.

INTERNAL SERVICE FUNDS

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

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

City of Hermosa Beach
Combining Statement of Net Assets
All Internal Service Funds
June 30, 2009

| | Insurance Fund | Equipment Replacement Fund | Total |
|--|---------------------|----------------------------------|---------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and investments | \$ 5,702,808 | \$ 3,290,585 | \$ 8,993,393 |
| Other accounts receivables | 46,279 | | 46,279 |
| Deposits | 140,000 | | 140,000 |
| Advances to other funds | 554,946 | 554,948 | 1,109,894 |
| Other assets | 91,842 | 1,191 | 93,033 |
| Total current assets | 6,535,875 | 3,846,724 | 10,382,599 |
| Capital assets, net of accumulated depreciation | | 2,298,405 | 2,298,405 |
| Total assets | 6,535,875 | 6,145,129 | 12,681,004 |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Current portion of long-term liabilities | 1,033,358 | | 1,033,358 |
| Accounts payable | 294,037 | 43,602 | 337,639 |
| Accrued wages and compensated absences | 4,863 | 23,930 | 28,793 |
| Total current liabilities | 1,332,258 | 67,532 | 1,399,790 |
| Long-term liabilities: | | | |
| Workers' compensation claims payable | 3,732,039 | | 3,732,039 |
| General liability claims payable | 1,304,492 | | 1,304,492 |
| Less current portion above | (1,033,358) | | (1,033,358) |
| Total long-term liabilities | 4,003,173 | - | 4,003,173 |
| Total liabilities | 5,335,431 | 67,532 | 5,402,963 |
| NET ASSETS | | | |
| Invested in capital assets | | 2,298,405 | 2,298,405 |
| Reserved: | | | |
| Re-appropriations | | 63,406 | 63,406 |
| Unrestricted | 1,200,444 | 3,715,786 | 4,916,230 |
| Total net assets | \$ 1,200,444 | \$ 6,077,597 | \$ 7,278,041 |

City of Hermosa Beach
Combining Statement of Revenues, Expenses, and Changes in Net Assets
All Internal Service Funds
For the year ended June 30, 2009

| | Insurance Fund | Equipment Replacement Fund | Total |
|---|---------------------|----------------------------------|---------------------|
| OPERATING REVENUES: | | | |
| Charges for services | \$ 2,150,866 | \$ 1,443,662 | \$ 3,594,528 |
| Miscellaneous | 79,346 | 6,677 | 86,023 |
| Total operating revenues | 2,230,212 | 1,450,339 | 3,680,551 |
| OPERATING EXPENSES: | | | |
| Salaries and wages | 111,419 | 205,607 | 317,026 |
| Contractor services | 1,391,994 | 378,684 | 1,770,678 |
| Supplies | 437 | 161,382 | 161,819 |
| Claims expense | 1,421,085 | | 1,421,085 |
| Depreciation | | 445,716 | 445,716 |
| Total operating expenses | 2,924,935 | 1,191,389 | 4,116,324 |
| OPERATING INCOME (LOSS) | (694,723) | 258,950 | (435,773) |
| NONOPERATING REVENUES (EXPENSES): | | | |
| Gain on disposal of capital assets | | 7,613 | 7,613 |
| Total nonoperating revenues (expenses) | - | 7,613 | 7,613 |
| INCOME (LOSS) BEFORE TRANSFERS | (694,723) | 266,563 | (428,160) |
| Transfers in | 1,843,087 | 8,994 | 1,852,081 |
| Transfers out | | (100,000) | (100,000) |
| Total transfers | 1,843,087 | (91,006) | 1,752,081 |
| Change in net assets | 1,148,364 | 175,557 | 1,323,921 |
| NET ASSETS | | | |
| Beginning of the year | 52,080 | 5,902,040 | 5,954,120 |
| End of the year | \$ 1,200,444 | \$ 6,077,597 | \$ 7,278,041 |

City of Hermosa Beach
Combining Statement of Cash Flows
All Internal Service Funds
For the year ended June 30, 2009

| | Insurance Fund | Equipment Replacement Fund | Total |
|---|---------------------|----------------------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Cash received from customers | \$ 6,564 | \$ 79,652 | \$ 86,216 |
| Cash received for services from other funds | 2,150,866 | 1,443,662 | 3,594,528 |
| Cash payments to suppliers of goods and services | (1,257,561) | (573,108) | (1,830,669) |
| Cash payments to employees for services | (130,745) | (201,844) | (332,589) |
| Insurance premiums and settlements | (1,540,984) | | (1,540,984) |
| Net cash provided by (used for) operating activities | (771,860) | 748,362 | (23,498) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | | |
| Transfers in | 1,843,087 | 8,994 | 1,852,081 |
| Transfers out | | (100,000) | (100,000) |
| Net cash provided by (used for) noncapital financing activities | 1,843,087 | (91,006) | 1,752,081 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | |
| Acquisition of capital assets | | (289,086) | (289,086) |
| Net cash provided by (used for) capital and related financing activities | - | (289,086) | (289,086) |
| Net increase (decrease) in cash and cash equivalents | 1,071,227 | 368,270 | 1,439,497 |
| CASH AND CASH EQUIVALENTS: | | | |
| Beginning of year | 4,631,581 | 2,922,315 | 7,553,896 |
| End of year | \$ 5,702,808 | \$ 3,290,585 | \$ 8,993,393 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES: | | | |
| Operating income (loss) | \$ (694,723) | \$ 258,950 | \$ (435,773) |
| Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities: | | | |
| Depreciation | | 445,716 | 445,716 |
| Changes in current assets and liabilities: | | | |
| Other Accounts Receivables | (46,279) | 450 | (45,829) |
| Deposits | - | | - |
| Advances to other funds | 63,380 | 63,379 | 126,759 |
| Other assets | (89,883) | 9,146 | (80,737) |
| Worker's compensation claims payable | 120,821 | | 120,821 |
| General liability claims payable | (240,720) | | (240,720) |
| Accounts payable | 134,870 | (33,042) | 101,828 |
| Accrued wages and compensated absences | (19,326) | 3,763 | (15,563) |
| Total adjustments | (77,137) | 489,412 | 412,275 |
| Net cash provided by (used for) operating activities | \$ (771,860) | \$ 748,362 | \$ (23,498) |
| DISCLOSURE OF NON-CASH TRANSACTION: | | | |
| Gain on disposal of capital assets | \$ - | \$ 7,613 | \$ 7,613 |

FIDUCIARY FUNDS

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

City of Hermosa Beach
Combining Statement of Fiduciary Net Assets
All Agency Funds
June 30, 2009

| | Bayview Drive Redemption | Lower Pier District Redemption | Beach Drive Assessment District Redemption | Beach Drive Assessment Reserve | Myrtle Avenue Assessment | Loma Drive Assessment | Bayview Drive Reserve | Total |
|---------------------------|--------------------------------|--------------------------------------|---|--------------------------------------|-----------------------------|--------------------------|-----------------------------|-------------------|
| ASSETS | | | | | | | | |
| Cash and investments | \$ 53,949 | \$ 38,695 | \$ 21,352 | \$ 3,860 | \$ 99,260 | \$ 101,950 | \$ 12,676 | \$ 331,742 |
| Interest receivable | 319 | 229 | 126 | 23 | 589 | 605 | 75 | 1,966 |
| Other accounts receivable | 555 | 3,027 | 5,205 | | 5,102 | 6,539 | | 20,428 |
| Total assets | \$ 54,823 | \$ 41,951 | \$ 26,683 | \$ 3,883 | \$ 104,951 | \$ 109,094 | \$ 12,751 | \$ 354,136 |
| LIABILITIES | | | | | | | | |
| Assessment: | | | | | | | | |
| Installment account | \$ 54,823 | \$ 41,951 | \$ 26,683 | | \$ 104,951 | \$ 109,094 | | \$ 337,502 |
| Reserve requirement | | | | \$ 3,883 | | | \$ 12,751 | 16,634 |
| Total liabilities | \$ 54,823 | \$ 41,951 | \$ 26,683 | \$ 3,883 | \$ 104,951 | \$ 109,094 | \$ 12,751 | \$ 354,136 |

City of Hermosa Beach
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
For the year ended June 30, 2009

| | Balance July 1, 2008 | Additions | Deletions | Balance June 30, 2009 |
|---|-------------------------|-------------------|---------------------|--------------------------|
| ASSETS | | | | |
| Bayview Drive Redemption Fund: | | | | |
| Cash and investments | \$ 51,983 | \$ 72,863 | \$ (70,897) | \$ 53,949 |
| Interest receivable | 514 | 814 | (1,009) | 319 |
| Other accounts receivable | 5,526 | 555 | (5,526) | 555 |
| Lower Pier District Redemption Fund: | | | | |
| Cash and investments | 38,652 | 43,505 | (43,462) | 38,695 |
| Interest receivable | 383 | 598 | (752) | 229 |
| Other accounts receivable | 3,027 | 3,027 | (3,027) | 3,027 |
| Beach Drive Assessment District Redemption Fund: | | | | |
| Cash and investments | 25,661 | 33,027 | (37,336) | 21,352 |
| Interest receivable | 254 | 371 | (499) | 126 |
| Other accounts receivable | - | 5,205 | - | 5,205 |
| Beach Drive Assessment District Reserve Fund: | | | | |
| Cash and investments | 3,708 | 235 | (83) | 3,860 |
| Interest receivable | 37 | 58 | (72) | 23 |
| Myrtle Avenue Assessment Fund: | | | | |
| Cash and investments | 92,352 | 101,048 | (94,140) | 99,260 |
| Interest receivable | 917 | 1,472 | (1,800) | 589 |
| Other accounts receivable | 2,435 | 5,102 | (2,435) | 5,102 |
| Loma Drive Assessment Fund: | | | | |
| Cash and investments | 91,615 | 112,584 | (102,249) | 101,950 |
| Interest receivable | 909 | 1,479 | (1,783) | 605 |
| Other accounts receivable | 6,085 | 6,539 | (6,085) | 6,539 |
| Bayview Drive Reserve Fund | | | | |
| Cash and investments | 12,170 | 771 | (265) | 12,676 |
| Interest receivable | 120 | 191 | (236) | 75 |
| Total assets | \$ 336,348 | \$ 389,444 | \$ (371,656) | \$ 354,136 |
| LIABILITIES | | | | |
| Bayview Drive Redemption Fund: | | | | |
| Assessment installment account | \$ 58,023 | \$ 74,232 | \$ (77,432) | \$ 54,823 |
| Lower Pier District Redemption Fund: | | | | |
| Assessment installment account | 42,062 | 47,130 | (47,241) | 41,951 |
| Beach Drive Assessment District Redemption Fund: | | | | |
| Assessment installment account | 25,915 | 38,603 | (37,835) | 26,683 |
| Beach Drive Assessment District Reserve Fund: | | | | |
| Reserve requirement | 3,745 | 293 | (155) | 3,883 |
| Myrtle Avenue Assessment Funds: | | | | |
| Assessment installment account | 95,704 | 107,622 | (98,375) | 104,951 |
| Loma Drive Assessment Fund: | | | | |
| Assessment installment account | 98,609 | 120,602 | (110,117) | 109,094 |
| Bayview Drive Reserve Fund | | | | |
| Reserve requirement | 12,290 | 962 | (501) | 12,751 |
| Total liabilities | \$ 336,348 | \$ 389,444 | \$ (371,656) | \$ 354,136 |

This page intentionally left blank.

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

City of Hermosa Beach
Capital Assets Used in the Operation of Governmental Funds
Schedule By Source*
For the year ended June 30, 2009

GOVERNMENTAL FUNDS CAPITAL ASSETS:

| | |
|---|----------------------|
| Land | \$ 17,448,235 |
| Buildings and improvements | 5,056,010 |
| Improvements other than buildings | 13,252,866 |
| Machinery and equipment | 1,878,184 |
| Vehicles | 25,996 |
| Construction in progress | 2,254,201 |
| Infrastructure | 40,591,172 |
| Total governmental funds capital assets | 80,506,664 |
| Accumulated depreciation | (26,385,479) |
| Total governmental funds capital assets, net | \$ 54,121,185 |

INVESTMENTS IN GOVERNMENTAL FUNDS CAPITAL ASSETS BY SOURCE:

| | |
|---|----------------------|
| State grants | \$ 62,880 |
| General fund revenues | 32,391,564 |
| Special revenue funds revenues | 47,577,002 |
| Donated assets | 475,218 |
| Total governmental funds capital assets | 80,506,664 |
| Accumulated depreciation | (26,385,479) |
| Total governmental funds capital assets, net | \$ 54,121,185 |

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

City of Hermosa Beach
Capital Assets Used in the Operation of Governmental Funds
Schedule by Function and Activity*
For the year ended June 30, 2009

| | Land | Buildings and Structures | Improvements Other than Buildings | Machinery and Equipment | Vehicles | Infrastructure | Construction in Progress | Total |
|--|----------------------|--------------------------------|---|-------------------------------|-----------------|----------------------|-----------------------------|----------------------|
| GOVERNMENTAL FUNDS | | | | | | | | |
| CAPITAL ASSETS | | | | | | | | |
| General government | \$ 307,349 | \$ 2,111,825 | \$ 97,728 | \$ 301,702 | | | | \$ 2,818,604 |
| Public safety | | 534,812 | 751,295 | 1,235,765 | \$ 25,996 | | | 2,547,868 |
| Community development | | | 99,858 | 12,755 | | | | 112,613 |
| Culture and recreation | 650,000 | 1,464,047 | 203,154 | 130,357 | | | | 2,447,558 |
| Public works | 16,490,886 | 945,326 | 12,100,831 | 197,605 | | \$ 40,591,172 | \$ 2,254,201 | 72,580,021 |
| Total governmental funds capital assets | 17,448,235 | 5,056,010 | 13,252,866 | 1,878,184 | 25,996 | 40,591,172 | 2,254,201 | 80,506,664 |
| Accumulated depreciation | | (1,881,566) | (6,457,925) | (1,200,224) | (18,874) | (16,826,890) | | (26,385,479) |
| Total governmental funds capital assets | \$ 17,448,235 | \$ 3,174,444 | \$ 6,794,941 | \$ 677,960 | \$ 7,122 | \$ 23,764,282 | \$ 2,254,201 | \$ 54,121,185 |

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

City of Hermosa Beach
Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes in Capital Assets - By Function by Activity*
For the year ended June 30, 2009

| | Capital Assets July 1, 2008 | Additions | Deletions | Capital Assets June 30, 2009 |
|---|-----------------------------------|--------------------|-----------------------|------------------------------------|
| Function and Activity: | | | | |
| General government | \$ 2,719,332 | \$ 105,000 | \$ (5,728) | \$ 2,818,604 |
| Public safety | 2,541,041 | 8,138 | (1,311) | 2,547,868 |
| Community development | 112,613 | | | 112,613 |
| Culture and recreation | 1,989,604 | 457,954 | | 2,447,558 |
| Public works | 72,365,197 | 2,415,379 | (2,200,555) | 72,580,021 |
| Total governmental funds capital assets | <u>79,727,787</u> | <u>2,986,471</u> | <u>(2,207,594)</u> | <u>80,506,664</u> |
| Accumulated depreciation | <u>(25,057,677)</u> | <u>(2,449,204)</u> | <u>1,121,402</u> | <u>(26,385,479)</u> |
| Total governmental funds capital assets, net | <u>\$ 54,670,110</u> | <u>\$ 537,267</u> | <u>\$ (1,086,192)</u> | <u>\$ 54,121,185</u> |

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

STATISTICAL SECTION

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

| Contents | Page |
|--|-------------|
| Financial Trends These schedules contain trend information to help the reader understand how the government's financial performance and well being have changed over time. | 144 |
| Revenue Capacity These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax. | 152 |
| Debt Capacity These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future. ¹ | 158 |
| Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place. | 162 |
| Operating Information 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. | 164 |

¹ Since the City of Hermosa Beach has no debt, the following schedules are not included in the Statistical Section:

- Ratios of Outstanding Debt by Type
- Ratios of General Bonded Debt Outstanding
- Pledged-Revenue Coverage

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

| | Fiscal Year | | | | Fiscal Year | | |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| Governmental activities: | | | | | | | |
| Invested in capital assets, net of related debt | \$ 52,434,822 | \$ 54,115,206 | \$ 57,049,484 | \$ 56,667,910 | \$ 58,249,212 | \$ 57,117,532 | \$ 56,419,592 |
| Restricted | 524,561 | 2,217,823 | 3,305,478 | 3,590,623 | 3,813,004 | 5,171,642 | 5,403,000 |
| Unrestricted | <u>15,165,745</u> | <u>15,218,039</u> | <u>14,932,486</u> | <u>15,221,233</u> | <u>12,424,195</u> | <u>10,619,806</u> | <u>10,348,315</u> |
| Total governmental activities net assets | <u>\$ 68,125,128</u> | <u>\$ 71,551,068</u> | <u>\$ 75,287,448</u> | <u>\$ 75,479,766</u> | <u>\$ 74,486,411</u> | <u>\$ 72,908,980</u> | <u>\$ 72,170,907</u> |
| Business-type activities: | | | | | | | |
| Invested in capital assets, net of related debt | \$ 6,796,868 | \$ 6,880,925 | \$ 8,081,080 | \$ 8,297,790 | \$ 10,311,365 | \$ 10,187,758 | \$ 10,057,219 |
| Restricted | 864,024 | - | - | - | - | - | - |
| Unrestricted | <u>780,346</u> | <u>827,781</u> | <u>502,758</u> | <u>237,824</u> | <u>(1,604,154)</u> | <u>(1,443,914)</u> | <u>(1,236,859)</u> |
| Total business-type activities net assets | <u>\$ 8,441,238</u> | <u>\$ 7,708,706</u> | <u>\$ 8,583,838</u> | <u>\$ 8,535,614</u> | <u>\$ 8,707,211</u> | <u>\$ 8,743,844</u> | <u>\$ 8,820,360</u> |
| Primary government: | | | | | | | |
| Invested in capital assets, net of related debt | \$ 59,231,690 | \$ 60,996,131 | \$ 65,130,564 | \$ 64,965,700 | \$ 68,560,577 | \$ 67,305,110 | \$ 66,476,811 |
| Restricted | 1,388,585 | 2,217,823 | 3,305,478 | 3,590,623 | 3,813,004 | 5,171,642 | 5,403,000 |
| Unrestricted | <u>15,946,091</u> | <u>16,045,820</u> | <u>15,435,244</u> | <u>15,459,057</u> | <u>10,820,041</u> | <u>9,175,892</u> | <u>9,111,456</u> |
| Total primary government net assets | <u>\$ 76,566,366</u> | <u>\$ 79,259,774</u> | <u>\$ 83,871,286</u> | <u>\$ 84,015,380</u> | <u>\$ 83,193,622</u> | <u>\$ 81,652,644</u> | <u>\$ 80,991,267</u> |

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

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

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

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

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

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

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

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

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

| | Fiscal Year | | |
|--|-------------------|-------------------|-------------------|
| | 2007 | 2008 | 2009 |
| Expenses: | | | |
| Governmental activities: | | | |
| Legislative and legal | 867,481 | 990,342 | 1,059,528 |
| General government | 2,523,060 | 2,544,004 | 3,579,453 |
| Public safety | 17,237,156 | 19,569,031 | 17,471,578 |
| Community development | 1,424,766 | 1,358,051 | 1,416,714 |
| Culture and recreation | 1,253,882 | 1,343,223 | 1,420,956 |
| Public works | 7,106,083 | 6,942,529 | 6,860,854 |
| Total governmental activities expenses | <u>30,412,428</u> | <u>32,747,180</u> | <u>31,809,083</u> |
| Business-type activities: | | | |
| Downtown Enhancement | 1,096,039 | 1,133,746 | 963,304 |
| Parking | - | - | - |
| Proposition "A" Transit | - | - | - |
| Proposition "C" Transit | - | - | - |
| Total business-type activities expenses | <u>1,096,039</u> | <u>1,133,746</u> | <u>963,304</u> |
| Total primary government expenses | <u>31,508,467</u> | <u>33,880,926</u> | <u>32,772,387</u> |
| Program revenues: | | | |
| Governmental activities: | | | |
| Charges for services: | | | |
| General government | 497,423 | 563,583 | 569,772 |
| Public safety | 4,078,709 | 4,423,335 | 4,633,478 |
| Community development | 1,179,786 | 1,262,109 | 782,904 |
| Culture and recreation | 944,229 | 1,092,512 | 949,439 |
| Public works | 835,845 | 877,367 | 907,579 |
| Operating grants and contributions | 755,716 | 731,097 | 539,518 |
| Capital grants and contributions | 286,930 | 68,862 | 850,357 |
| Total governmental activities program revenues: | <u>8,578,638</u> | <u>9,018,865</u> | <u>9,233,047</u> |
| Business-type activities: | | | |
| Charges for services: | | | |
| Downtown Enhancement | 1,144,666 | 1,088,298 | 1,021,114 |
| Parking | - | - | - |
| Proposition A Transit | - | - | - |
| Proposition C Transit | - | - | - |
| 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> |
| Total primary government program revenues: | <u>9,723,304</u> | <u>10,107,163</u> | <u>10,254,161</u> |

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

| | Fiscal Year | | |
|--|---------------------|---------------------|---------------------|
| | 2007 | 2008 | 2009 |
| Net revenues (expenses): | | | |
| Governmental activities | (21,833,790) | (23,728,315) | (22,576,036) |
| Business-type activities | 48,627 | (45,448) | 57,810 |
| Total net revenues (expenses) | <u>(21,785,163)</u> | <u>(23,773,763)</u> | <u>(22,518,226)</u> |
| General revenues and other changes in net assets: | | | |
| Governmental activities: | | | |
| Taxes: | | | |
| Property taxes | 9,383,544 | 10,458,034 | 11,188,377 |
| Sales tax | 2,395,390 | 2,500,659 | 2,390,658 |
| Other taxes | 6,414,534 | 6,456,786 | 6,069,339 |
| Grants and contributions not restricted to specific programs | 1,273,625 | 1,472,191 | 1,454,006 |
| Investment income | 1,097,128 | 850,176 | 429,087 |
| Other general revenues | 170,325 | 503,414 | 303,035 |
| Transfers | 11,255 | 4,259 | 3,461 |
| Total governmental activities | <u>20,745,801</u> | <u>22,245,519</u> | <u>21,837,963</u> |
| Business-type activities: | | | |
| Investment income | 48,113 | 28,320 | 17,749 |
| Other general revenues | - | - | - |
| Miscellaneous | 86,112 | 57,840 | 4,597 |
| Transfers | (11,255) | (4,259) | (3,461) |
| Total business-type activities | <u>122,970</u> | <u>81,901</u> | <u>18,885</u> |
| Total primary government | <u>20,868,771</u> | <u>22,327,420</u> | <u>21,856,848</u> |
| Changes in net assets | | | |
| Governmental activities: | (1,087,989) | (1,482,796) | (738,073) |
| Business-type activities: | 171,597 | 36,453 | 76,695 |
| Total primary government | <u>(916,392)</u> | <u>(1,446,343)</u> | <u>(661,378)</u> |

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

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

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

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

| Fiscal year ended June 30 | Property tax | Sales tax | Real property transfer tax | Franchise fees | 1/2 cent sales tax extension for public safety | Transient occupancy tax | Utility user's tax | Business license | Total |
|---------------------------|--------------|--------------|----------------------------|----------------|--|-------------------------|--------------------|------------------|---------------|
| 2003 | \$ 5,282,147 | \$ 2,508,346 | \$ 194,035 | \$ 517,907 | \$ 150,453 | \$ 1,054,272 | \$ 2,137,975 | \$ 689,270 | \$ 12,534,405 |
| 2004 | 5,885,480 | 2,596,135 | 243,390 | 514,403 | 162,902 | 1,291,689 | 2,652,821 | 693,865 | 14,040,685 |
| 2005 | 6,221,535 | 2,584,015 | 279,627 | 590,372 | 178,539 | 1,477,612 | 2,675,196 | 696,562 | 14,703,458 |
| 2006 | 8,361,888 | 2,511,004 | 305,018 | 597,754 | 188,644 | 1,628,394 | 2,726,085 | 740,746 | 17,059,533 |
| 2007 | 9,383,544 | 2,395,390 | 279,219 | 606,572 | 189,852 | 1,769,015 | 2,769,113 | 800,763 | 18,193,468 |
| 2008 | 10,458,034 | 2,500,659 | 226,349 | 634,421 | 187,277 | 1,892,363 | 2,714,029 | 802,347 | 19,415,479 |
| 2009 | 11,188,377 | 2,390,658 | 140,113 | 674,947 | 167,427 | 1,645,571 | 2,575,209 | 866,072 | 19,648,374 |

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

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

| | Fiscal Year | | | | | | |
|------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| General Fund: | | | | | | | |
| Reserved | \$ 231,701 | \$ 230,527 | \$ 103,014 | \$ 158,854 | \$ 142,604 | \$ 241,142 | \$ 312,880 |
| Unreserved | 461,115 | 403,455 | 373,817 | 211,191 | 168,089 | 257,599 | 348,373 |
| Total general fund | <u>692,816</u> | <u>633,982</u> | <u>476,831</u> | <u>370,045</u> | <u>310,693</u> | <u>498,741</u> | <u>661,253</u> |
| All other governmental funds: | | | | | | | |
| Reserved | 909,806 | 1,459,679 | 4,107,762 | 3,845,091 | 3,875,682 | 1,734,658 | 1,273,762 |
| Unreserved, reported in: | | | | | | | |
| Special revenue funds | <u>11,053,526</u> | <u>12,038,695</u> | <u>10,516,612</u> | <u>10,900,400</u> | <u>8,864,333</u> | <u>11,135,309</u> | <u>9,764,500</u> |
| Total all other governmental funds | <u>\$ 11,963,332</u> | <u>\$ 13,498,374</u> | <u>\$ 14,624,374</u> | <u>\$ 14,745,491</u> | <u>\$ 12,740,015</u> | <u>\$ 12,869,967</u> | <u>\$ 11,038,262</u> |

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

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

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

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

City of Hermosa Beach
General Government Tax Revenues By Source
Last Seven Fiscal Years
(modified accrual basis of accounting)

| Fiscal year ended June 30 | Property tax | Sales tax | Real property transfer tax | Franchise fees | Transient occupancy tax | Utility user's tax | Other | Total |
|---------------------------|--------------|--------------|----------------------------|----------------|-------------------------|--------------------|------------|---------------|
| 2003 | \$ 5,736,937 | \$ 2,508,346 | \$ 194,035 | \$ 517,907 | \$ 1,054,272 | \$ 2,137,975 | \$ 910,732 | \$ 13,060,204 |
| 2004 | 6,339,123 | 2,596,135 | 243,390 | 514,403 | 1,291,689 | 2,652,821 | 963,767 | 14,601,328 |
| 2005 | 6,668,515 | 2,584,015 | 279,627 | 590,372 | 1,477,612 | 2,675,196 | 1,478,482 | 15,753,819 |
| 2006 | 8,818,051 | 2,511,004 | 305,018 | 597,754 | 1,628,394 | 2,726,085 | 1,636,670 | 18,222,976 |
| 2007 | 9,834,400 | 2,395,390 | 279,219 | 606,572 | 1,769,015 | 2,769,113 | 1,669,138 | 19,322,847 |
| 2008 | 10,907,119 | 2,500,659 | 226,349 | 634,421 | 1,892,363 | 2,714,029 | 1,662,544 | 20,537,484 |
| 2009 | 11,639,348 | 2,390,658 | 140,113 | 674,947 | 1,645,571 | 2,575,209 | 1,652,748 | 20,718,594 |

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

City of Hermosa Beach
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
(In Thousands)

| Fiscal year ended June 30 | Residential property | Commercial property | Industrial property | Other | Less exemptions | Total taxable assessed value | Total direct tax rate | Estimated actual taxable value | Percentage increase |
|---------------------------|----------------------|---------------------|---------------------|------------|-----------------|------------------------------|-----------------------|--------------------------------|---------------------|
| 2000 | \$ 1,785,340 | \$ 145,703 | \$ 6,735 | \$ 101,038 | \$ (29,734) | \$ 2,009,081 | 1.00 | \$ 2,038,816 | |
| 2001 | 1,959,668 | 148,003 | 7,004 | 105,278 | (30,692) | 2,189,260 | 1.00 | 2,219,952 | 8.97% |
| 2002 | 2,163,509 | 163,177 | 7,552 | 91,586 | (26,278) | 2,399,546 | 1.00 | 2,425,824 | 9.61% |
| 2003 | 2,342,017 | 175,517 | 7,340 | 101,252 | (29,039) | 2,597,087 | 1.00 | 2,626,126 | 8.23% |
| 2004 | 2,581,409 | 191,355 | 7,867 | 93,753 | (27,925) | 2,846,459 | 1.00 | 2,874,384 | 9.60% |
| 2005 | 2,834,252 | 201,708 | 7,276 | 98,635 | (31,158) | 3,110,712 | 1.00 | 3,141,870 | 9.28% |
| 2006 | 3,158,374 | 228,948 | 7,853 | 102,802 | (29,415) | 3,468,562 | 1.00 | 3,497,977 | 11.50% |
| 2007 | 3,545,052 | 260,957 | 8,653 | 103,957 | (23,719) | 3,894,900 | 1.00 | 3,930,225 | 12.29% |
| 2008 | 3,954,478 | 316,611 | 11,695 | 97,336 | (21,763) | 4,358,357 | 1.00 | 4,382,494 | 11.90% |
| 2009 | 4,237,823 | 355,516 | 12,724 | 99,784 | (24,097) | 4,681,750 | 1.00 | 4,705,847 | 7.42% |

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 | | | | | | |
| | Basic rate | Hermosa Beach School District | El Camino Community College District | Los Angeles County | Flood Control District | Metropolitan Water District | |
| 2000 | 1.000000 | | | 0.001451 | 0.001953 | 0.008900 | 1.012304 |
| 2001 | 1.000000 | | | 0.001314 | 0.001552 | 0.008800 | 1.011666 |
| 2002 | 1.000000 | | | 0.001033 | 0.000881 | 0.006700 | 1.008614 |
| 2003 | 1.000000 | | | 0.001033 | 0.000881 | 0.006700 | 1.008614 |
| 2004 | 1.000000 | 0.019308 | 0.019025 | 0.000992 | 0.000462 | 0.006100 | 1.045887 |
| 2005 | 1.000000 | 0.016685 | 0.016558 | 0.000923 | 0.000245 | 0.005800 | 1.040211 |
| 2006 | 1.000000 | 0.014660 | 0.018380 | 0.000800 | 0.000050 | 0.005200 | 1.039090 |
| 2007 | 1.000000 | 0.020430 | 0.035700 | 0.000660 | 0.000050 | 0.004700 | 1.061540 |
| 2008 | 1.000000 | 0.017139 | 0.016467 | - | - | 0.004500 | 1.038106 |
| 2009 | 1.000000 | 0.016398 | 0.017026 | - | - | 0.004300 | 1.037724 |

Source: Los Angeles County Auditor-Controller

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

| Taxpayer | 2009 | | 2000 | |
|---|------------------------|--|------------------------|--|
| | 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) | \$ 71,601,400 | 1.54% | | |
| EQR Gallery Apartments Limited Partnership (1) | 65,901,100 | 1.42% | | |
| Diana Albergate Trust (4) | 24,100,000 | 0.52% | | |
| Hermosa Hotel Investments | 16,113,834 | 0.33% | | |
| Regency Centers Limited Partnership (7) | 14,023,975 | 0.30% | \$ 14,259,788 | 0.70% |
| Barbara K. Robinson (4) | 13,935,562 | 0.30% | | |
| Beta Group (2) | 12,109,976 | 0.26% | 8,659,650 | 0.42% |
| Time Warner Cable (4) | 11,989,346 | 0.26% | | |
| Robert J. & Ranae R. Desantis Trust (1) | 11,701,312 | 0.25% | | |
| Realty Associates Fund VIII LP (1) | 10,150,000 | 0.22% | | |
| International Church of the Foursquare (7) | | | 10,938,839 | 0.54% |
| Playa Pacifica Limited (2) | | | 10,894,217 | 0.53% |
| California Water Service Company (4) | | | 8,416,862 | 0.41% |
| Cheng Yi and Ying Yin Chang (1) | | | 6,798,491 | 0.33% |
| Roger E. Bacon (5) | | | 5,377,844 | 0.26% |
| George L. Schuler Trust (1) | | | 4,750,000 | 0.23% |
| Century Valley Cable Corporation (2) | | | 4,738,111 | 0.23% |
| Shook Development Corporation (2) | | | 4,469,723 | 0.22% |
| | <u>\$ 73,910,171</u> | <u>5.40%</u> | <u>79,303,525</u> | <u>3.87%</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 |
| 2000 | \$ 4,002,324 | \$ 3,808,235 | 95.15% | \$ 142,174 | \$ 3,950,409 | 98.70% |
| 2001 | 4,370,463 | 4,239,808 | 97.01% | 130,655 | 4,370,463 | 100.00% |
| 2002 | 4,790,920 | 4,576,910 | 95.53% | 112,090 | 4,689,000 | 97.87% |
| 2003 | 5,193,796 | 5,017,148 | 96.60% | 140,296 | 5,157,444 | 99.30% |
| 2004 | 5,688,428 | 5,489,332 | 96.50% | 115,084 | 5,604,416 | 98.52% |
| 2005 | 6,215,435 | 5,708,000 | 91.84% | 121,467 | 5,829,467 | 93.79% |
| 2006 | 6,938,764 | 6,717,516 | 96.81% | 142,471 | 6,859,987 | 98.86% |
| 2007 | 8,256,383 | 7,778,209 | 94.21% | 209,018 | 7,987,227 | 96.74% |
| 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% |

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 | |
| 2000 | 476 | \$ 27,553,549 | 57 | \$ 6,044,503 | \$ 2,038,815,726 |
| 2001 | 540 | 32,136,129 | 56 | 7,402,324 | 2,219,952,219 |
| 2002 | 591 | 19,260,802 | 43 | 2,142,566 | 2,425,823,846 |
| 2003 | 630 | 23,174,222 | 65 | 2,499,590 | 2,626,125,947 |
| 2004 | 596 | 28,114,344 | 75 | 6,713,988 | 2,874,383,847 |
| 2005 | 610 | 33,433,982 | 74 | 4,388,664 | 3,141,870,060 |
| 2006 | 696 | 41,088,855 | 66 | 4,101,562 | 3,497,977,443 |
| 2007 | 526 | 26,041,241 | 52 | 4,595,140 | 3,894,900,286 |
| 2008 | 531 | 29,341,001 | 73 | 4,600,100 | 4,358,356,873 |
| 2009 | 416 | 16,284,748 | 72 | 5,004,689 | 4,705,847,448 |

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

City of Hermosa Beach
Direct and Overlapping Debt
June 30, 2009

| | Percentage applicable | Outstanding debt 6/30/09 | Estimated share of overlapping debt |
|---|--------------------------|-----------------------------|--|
| City assessed valuation | | \$ 4,681,750,248 | |
| Redevelopment agency incremental valuation | | - | |
| Total assessed valuation | | <u>\$ 4,681,750,248</u> | |
| Overlapping debt repaid with property taxes: | | | |
| West Basin Water District debt service | 0.543% | \$ 137,096,151 | \$ 744,727 |
| El Camino Community College District 2002 series 2003A | 5.908% | 8,175,000 | 482,959 |
| El Camino Community College District 2005 refunding | 5.908% | 30,176,173 | 1,782,735 |
| El Camino Community College District 2002 series 2006B | 5.908% | <u>142,150,000</u> | <u>8,397,875</u> |
| Total overlapping debt repaid with property taxes | | <u>\$ 317,597,324</u> | <u>11,408,296</u> |
| City direct debt | | | |
| Hermosa Beach City School District debt service 2002 | 100.000% | | 1,704,401 |
| Hermosa Beach School District debt service 2005 | 100.000% | | 3,994,298 |
| Hermosa Beach School District debt service 2005 refunding | 100.000% | | <u>6,325,074</u> |
| Total city direct debt | | | <u>12,023,773</u> |
| Total direct and overlapping debt | | | <u>\$ 23,432,069</u> |

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

This page intentionally left blank.

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

| | Fiscal Year | | | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 2000 | 2001 | 2002 | 2003 |
| Assessed valuation | \$ 2,038,815,726 | \$ 2,219,952,219 | \$ 2,425,823,846 | \$ 2,626,125,947 |
| Conversion percentage | 25% | 25% | 25% | 25% |
| Adjusted assessed valuation | \$ 509,703,932 | \$ 554,988,055 | \$ 606,455,962 | \$ 656,531,487 |
| Debt limit percentage | 15% | 15% | 15% | 15% |
| Debt limit | \$ 76,455,590 | \$ 83,248,208 | \$ 90,968,394 | \$ 98,479,723 |
| Total net debt applicable to limit | \$ - | \$ - | \$ - | \$ - |
| Legal debt margin | <u>\$ 76,455,590</u> | <u>\$ 83,248,208</u> | <u>\$ 90,968,394</u> | <u>\$ 98,479,723</u> |
| Total debt applicable to the limit as a percentage of debt limit | 0% | 0% | 0% | 0% |

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

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

| Fiscal Year | | | | | | |
|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|--|
| 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | |
| \$ 2,874,383,847 | \$ 3,141,870,060 | \$ 3,497,977,443 | \$ 3,930,224,784 | \$ 4,382,493,918 | \$ 4,705,847,448 | |
| 25% | 25% | 25% | 25% | 25% | 25% | |
| \$ 718,595,962 | \$ 785,467,515 | \$ 874,494,361 | \$ 982,556,196 | \$ 1,095,623,480 | \$ 1,176,461,862 | |
| 15% | 15% | 15% | 15% | 15% | 15% | |
| \$ 107,789,394 | \$ 117,820,127 | \$ 131,174,154 | \$ 147,383,429 | \$ 164,343,522 | \$ 176,469,279 | |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | |
| <u>\$ 107,789,394</u> | <u>\$ 117,820,127</u> | <u>\$ 131,174,154</u> | <u>\$ 147,383,429</u> | <u>\$ 164,343,522</u> | <u>\$ 176,469,279</u> | |
| 0% | 0% | 0% | 0% | 0% | 0% | |

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

| Calendar Year | Population (1) | Personal income (in thousands) (2) | Per capita personal income (2) | City per capita personal income (3) | Unemployment rate (4) | School enrollment (5) |
|---------------|----------------|------------------------------------|--------------------------------|-------------------------------------|-----------------------|-----------------------|
| 1999 | 19,401 | \$ 263,987,283 | \$ 27,973 | | 1.4% | 1,384 |
| 2000 | 19,631 | 279,049,532 | 29,232 | 54,244 | 1.5% | 1,420 |
| 2001 | 18,912 | 294,508,314 | 30,503 | 54,184 | 1.4% | 1,430 |
| 2002 | 19,175 | 301,002,945 | 30,828 | 51,979 | 1.4% | 1,471 |
| 2003 | 19,365 | 310,043,501 | 31,452 | | 1.7% | 1,489 |
| 2004 | 19,549 | 329,048,068 | 33,179 | 58,927 | 1.8% | 1,498 |
| 2005 | 19,608 | 342,231,121 | 34,426 | 70,777 | 2.3% | 1,475 |
| 2006 | 19,435 | 369,174,348 | 37,362 | 124,479 | 1.9% | 1,462 |
| 2007 | 19,474 | 390,295,865 | 39,794 | - | 2.0% | 1,449 |
| 2008 | 19,527 | - | - | - | 2.9% | 1,518 |
| 2009 | 19,491 | - | - | - | 4.7% | 1,521 |

Source:

- (1) State of California Department of Finance.
- (2) U.S. Department of Commerce, Bureau of Economic Analysis (data shown is for Los Angeles County). Not available for 2008 or 2009.
- (3) Personal Income figures for 2001, 2002, 2004, 2005 and 2006 are from the Internal Revenue Service individual income tax statistics by zip code and for 2000 from the U.S. Census Bureau, Census 2000. Internal Revenue Service figures are not an ongoing statistical project therefore all years are not available. Census information is available every 10 years.
- (4) State of California Employment Development Department.
- (5) State of California Department of Education.

City of Hermosa Beach
Principal Employers
Current Year and Nine Years Ago

| Employer | 2009 | | 2000 | |
|----------------------------------|---------------------|-----------------------------|---------------------|-----------------------------|
| | Number of employees | Percent of total employment | Number of employees | Percent of total employment |
| 24 Hour Fitness | 187 | 4.64% | | |
| City of Hermosa Beach | 183 | 4.54% | 199 | 0.00% |
| Von's Companies | 131 | 3.25% | 105 | 0.00% |
| Hope Chapel | 92 | 2.28% | 130 | 0.00% |
| Shorewood Realtors, Incorporated | 87 | 2.16% | | |
| Ralph's Grocery | 64 | 1.59% | 65 | 0.00% |
| Hermosa Beach School District | 62 | 1.54% | 100 | 0.00% |
| Patrick Molloy's | 58 | 1.44% | | |
| Intensive Behavior Intervention | 55 | 1.37% | | |
| Comedy & Magic Club | 52 | 1.29% | - ² | 0.00% |
| Hennesey's Tavern | | | 100 | 0.00% |
| Albertson's | | | 65 | 0.00% |
| Brewski's | | | 50 | 0.00% |
| Rocky Cola | | | 47 | 0.00% |

Source: City of Hermosa Beach Finance Department

¹Percent of total employment is not available for 2000.

²Total employment is unavailable; 1999-2000 Comprehensive Annual Financial Report lists this company as a principal employer.

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

| <u>Function</u> | Full-time and part-time employees as of June 30 | | | | | | | | | |
|------------------------|---|------|------|------|------|------|------|------|------|------|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| General government | 19 | 19 | 19 | 20 | 20 | 19 | 18 | 19 | 23 | 19 |
| Public safety | 105 | 105 | 109 | 114 | 106 | 115 | 112 | 103 | 96 | 106 |
| Community development | 9 | 10 | 9 | 11 | 11 | 11 | 11 | 10 | 8 | 10 |
| Culture and recreation | 38 | 42 | 26 | 29 | 32 | 37 | 40 | 36 | 33 | 28 |
| Public works | 22 | 22 | 22 | 23 | 21 | 23 | 22 | 21 | 24 | 20 |
| Total | 193 | 198 | 185 | 197 | 190 | 205 | 203 | 189 | 184 | 183 |

Source: City of Hermosa Beach Finance Department

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

| | Fiscal Year | | | | | | | | | |
|------------------------------|-------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| Public safety | | | | | | | | | | |
| Police: | | | | | | | | | | |
| Physical arrests | 629 | 873 | 1,027 | 1,343 | 1,413 | 1,064 | 887 | 896 | 933 | 648 |
| Traffic citations issued | 3,209 | 2,870 | 3,086 | 3,631 | 3,372 | 2,101 | 1,518 | 1,681 | 2,490 | 2,503 |
| Parking citations issued | 45,810 | 43,139 | 45,339 | 46,342 | 49,379 | 54,010 | 47,770 | 48,329 | 59,656 | 52,080 |
| Fire: | | | | | | | | | | |
| Number of emergency calls | 538 | - | 527 | 605 | 598 | 899 | 866 | 929 | 1,199 | 2,272 |
| Inspections | 486 | - | - | 391 | 28 | 182 | 467 | 751 | 312 | 965 |
| Community development: | | | | | | | | | | |
| Building permits issued | 530 | 594 | 636 | 691 | 676 | 696 | 762 | 597 | 637 | 511 |
| Culture and recreation: | | | | | | | | | | |
| Number of recreation classes | 124 | 115 | 139 | 139 | 135 | 159 | 165 | 186 | 171 | 138 |
| Total enrollment | 5,131 | 4,039 | 5,112 | 4,778 | 4,616 | 5,969 | 5,228 | 5,128 | 4,272 | 3,744 |
| Public works: | | | | | | | | | | |
| Graffiti removal (hours) | 289 | 422 | 285 | 410 | 456 | 217 | 414 | 474 | 461 | 341 |
| Permits issued | 538 | 1,335 | 528 | 567 | 529 | 706 | 875 | 821 | 1,071 | 643 |

Source: Various city departments.

Note:

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

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

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

| | Fiscal Year | | | | | | | | | |
|-----------------------------|-------------|------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| Public safety | | | | | | | | | | |
| Police: | | | | | | | | | | |
| Police stations | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Parking meters ¹ | - | - | 1,611 | 1,611 | 1,666 | 1,666 | 1,666 | 1,666 | 1,666 | 1,666 |
| 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) | 289 | 422 | 285 | 410 | 456 | 217 | 414 | 414 | 414 | 414 |
| Greenbelt (acres) | 19.5 | 19.5 | 19.5 | 19.5 | 19.5 | 19.5 | 19.5 | 19.5 | 19.5 | 19.5 |
| Parks | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 |
| Parks (acres) | 21.7 | 21.7 | 21.7 | 21.7 | 21.7 | 21.7 | 21.7 | 21.7 | 21.7 | 21.7 |
| Sanitary sewers (miles) | 33 | 33 | 33 | 33 | 34 | 34 | 34 | 34 | 34 | 34 |
| Streets (miles) | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 |
| Streetlights | 399 | 399 | 399 | 399 | 399 | 399 | 392 | 392 | 392 | 392 |
| Storm drains (miles) | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Traffic Signals | 17 | 17 | 17 | 17 | 17 | 17 | 17 | 17 | 18 | 18 |

Source: City of Hermosa Beach Finance Department

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