



**City of Hermosa Beach,
California**

Comprehensive Annual Financial Report

For the year ended June 30, 2008

City of Hermosa Beach
Basic Financial Statements
For the year ended June 30, 2008

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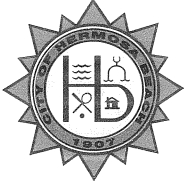
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City of Hermosa Beach

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

November 17, 2008

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, 2008. 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 sixth 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, 2008, 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, 2008, 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 19,527, 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 2007-08 fiscal year, beach attendance ranged from a low of 40,300 in February 2008 to a high of 690,085 in July 2007, 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. The City Council is required to hold a public hearing on the budget, with adoption 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. 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 report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund and major governmental funds with appropriated annual budgets, this comparison is presented as Required Supplementary Information on pages 83-86. 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 eighth highest percentage change in secured and unsecured assessed valuation (11.9%) of the 88 cities in Los Angeles County for 2007-08. Since 2003, the assessed valuation (including exemptions) has risen steadily, averaging 10.9% per year for the past five years, making property tax the number one revenue source in the General Fund. Median home prices in Hermosa Beach as of June 2008 were \$1,035,000, compared to \$415,000 for Los Angeles County. The average median home price for Hermosa Beach for fiscal year 2007-08 was \$1,166,708.

As a beach city, the three highest occupations are management, sales, and administrative support, however residents enjoy access to a much more diverse employment base with the close proximity of all of the other cities in Los Angeles County. The unemployment rate in Hermosa Beach is 2.9%, compared with 7.1% for Los Angeles County, and 7.0% for California.

Secured property taxes increased, 12% in 2007-08 and on the average, 11% 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 to a low in 2006-07. Receipts for 2007-08 are up 4% to \$2.5 million.

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. Growth for 2007-08 was 7%. Average occupancy for 2007-08 was 76.7% for Hermosa Beach compared to the South Bay rate of 77.2%.

Utility user tax (UUT) was 2% less than 2006-07. The utility users 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. Since the new ordinance was not in effect from a practical standpoint until April 2008, the effects are not yet seen in the revenue. The decline in the tax is likely due to cell phone saturation.

The City updated all user fees in 2005-06 and outsourced the billing and collection for ambulance transport services, both of which continue to have a positive impact on revenue. The City plans to update user fees at least every five years.

National Economy. Subsequent to the reporting period of this report, financial markets are in crisis. From the earliest events in the spring of 2008 where the first sub prime mortgage lenders filed for bankruptcy to events at the beginning of the summer with the first bank failures occurring and then into the fall with Treasury Department seizing the Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) and later American International Group, Inc. (AIG), a large insurer. Credit markets were essentially frozen with the municipal bond market only showing signs of a thaw at the end of October.

With few projections of improvement in the economy earlier than 2010-11, the City certainly must proceed cautiously, monitoring the economic effects as they develop.

Fortunately, the City has no direct investment exposure with any of the failed companies or institutions. Exposure to any mortgage foreclosures or declines in property values are expected to be far less in the beach cities than in other locations.

California Public Employees Retirement System (CalPERS). City retirement rates decreased by 2.53 points (2.53% of payroll) from 2006-07. CalPERS double digit earnings for 2003-04 through 2006-07, combined with the rate-smoothing policies implemented are having the desired effect on rates. Rates for 2008-09 increased slightly by .92 points with rates from CalPERS predicted to decrease by 3 points for 2009-10.

The investment return of -2.5% for 2007-08 is a signal of what we now know (as of this writing) to be a meltdown in the overall financial market. The City will need to begin planning for a potential increase in rates assuming conservatively that these losses may grow and continue for some time. The City created a Retirement Stabilization Fund in 2003-04 for this purpose so a determination can be made whether additional set-aside funds are necessary. The fund balance at 6/30/08 is \$748,357.

State Budget. Through passage of Proposition 1A in November 2004, a deal was struck whereby \$1.3 billion in local government funds were shifted to the State in 2004-05 and 2005-06, with funds protected thereafter unless 2/3 of the legislature votes to “borrow” funds again. 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. In spite of this legislation, the State’s structural budget imbalance is still of great concern to local government. The State Budget did not affect general city revenue when their 2008-09 budget was “balanced” in September 2008, however after only two months (November 2008) the Governor has called a special session of the legislature to deal with a projected deficit of at least \$10 billion for 2008-09.

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 2007-08, all unspent funds in the General Fund in the amount of \$1,332,867 were 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 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 federal Community Development Block Grant 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 8 months, with an average yield on investments of 4.79%. 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 25 retirees receiving these benefits. Generally Accepted Accounting Principles (GAAP) do not currently require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits. However, Governmental Accounting Standards Board (GASB) Statements 43 and 45 will require different accounting and reporting for these types of "other post employment benefits" (OPEB). For our size City, the effective date will be fiscal year 2008-09.

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 Notes 10 and 12 in the Notes to the Financial Statements.

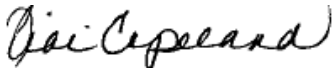
Awards and Acknowledgements

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, 2007. This was the eighteenth 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 cursive script, reading "Viki Copeland".

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, 2007

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.



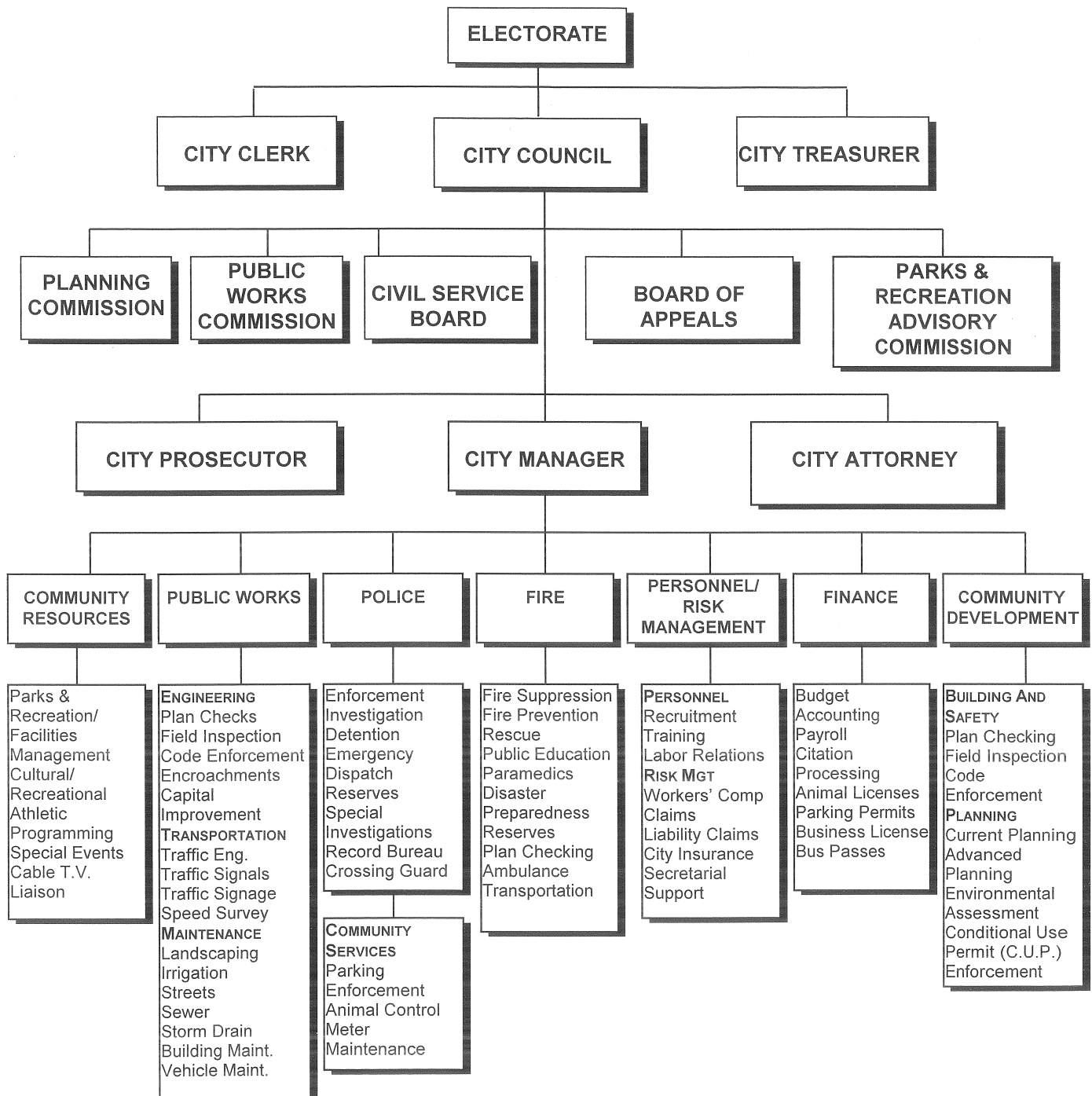
Oliver S. Cox

President

Jeffrey R. Emer

Executive Director

CITY OF HERMOSA BEACH ORGANIZATIONAL CHART



PRINCIPAL OFFICIALS OF THE CITY OF HERMOSA BEACH, CALIFORNIA

June 30, 2008

Elected and Administrative Officials

City Council

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

Michael Earl

Gregory Savelli
Richard Morgan
Steven Parker

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

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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, 2008, 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 statement date of June 30, 2008 and the year then ended, the United States has entered into a Financial Credit Crisis. Although the United States Federal Government has taken actions which, at least in part, are intended to relieve and correct this Financial Credit Crisis, investments are subject to significant impairment and losses. To date, the City has not been informed and is not aware of any investment losses. Accordingly, such investment losses, if any, have not been reflected in the accompanying 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, 2008, 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.

As described in Note 1 to the basic financial statements, the City adopted Statement of Governmental Accounting Standards Board No. 45, *Financial Reporting for Postemployment Benefit Plans (OPEB) other than Pension Plans*, and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

Oakland

180 Grand Ave., Suite 1365
Oakland, California 94612

Orange County

9 Corporate Park, Suite 100
Irvine, California 92606

Sacramento

777 Campus Commons Rd., Suite 200
Sacramento, California 95825

San Diego

4858 Mercury, Suite 106
San Diego, California 92111

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 & Carlson

Irvine, California
November 17, 2008

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, 2008. 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 \$81,653,000 (*net assets*). Of this amount, \$9,176,000 (*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 (\$1,446,000). The decrease is the result of increased revenues for property taxes and services charges which were offset by increased costs for salaries and benefits due to changes in employee memoranda of understanding, the filling of employee vacancies, and increased litigation costs for the MacPherson Oil Company lawsuit.
- As of June 30, 2008, the City of Hermosa Beach's governmental funds reported combined ending fund balances of \$13,369,000, an increase of \$318,000 in comparison with the prior year. Approximately 15% 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 2% is designated for specific uses, with the remainder available for a variety of purposes.
- As of June 30, 2008, 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 2007-08. The balance in the Contingency Fund (or "rainy day fund") is \$4.4 million or 16.5% 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, however because of litigation costs associated with the MacPherson Oil lawsuit, \$500,000 will be transferred to the Insurance Fund to cover a portion of these costs, bringing the balance down to 14.8%. These balances will be addressed as part of the Midyear Budget Review process for 2008-09. 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 21-23 of this report.

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

Governmental funds. *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-seven 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 Capital Improvement 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-three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* 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 30-33 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 38-40 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 pages 44-45 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 49-80 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 82 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 94-136 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, 2008, assets exceeded liabilities by \$81,653,000.

By far the largest portion of the City of Hermosa Beach's net assets, \$67,305,000, (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.

<p style="text-align: center;">Net Assets June 30, 2008 (dollars in thousands)</p>						
	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and Other Assets	\$ 27,696	\$ 26,058	\$ (1,187)	\$ (1,228)	\$ 26,509	\$ 24,830
Capital Assets	57,118	58,249	10,188	10,311	67,306	68,560
Total Assets	84,814	84,307	9,001	9,083	93,815	93,390
Long-term Liabilities						
Outstanding	4,337	3,436	-	-	4,337	3,436
Other Liabilities	7,568	6,479	257	376	7,825	6,855
Total Liabilities	11,905	9,915	257	376	12,162	10,291
 Net Assets:	 72,909	 74,392	 8,744	 8,707	 81,653	 83,099
Invested in Capital Assets	57,118	58,249	10,188	10,311	67,306	68,560
Restricted	5,171	3,813	-	-	5,171	3,813
Unrestricted	10,620	12,330	(1,444)	(1,604)	9,176	10,726
Total Net Assets	\$ 72,909	\$ 74,392	\$ 8,744	\$ 8,707	\$ 81,653	\$ 83,099

A portion of the City of Hermosa Beach's net assets (6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$9,176,000) 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.

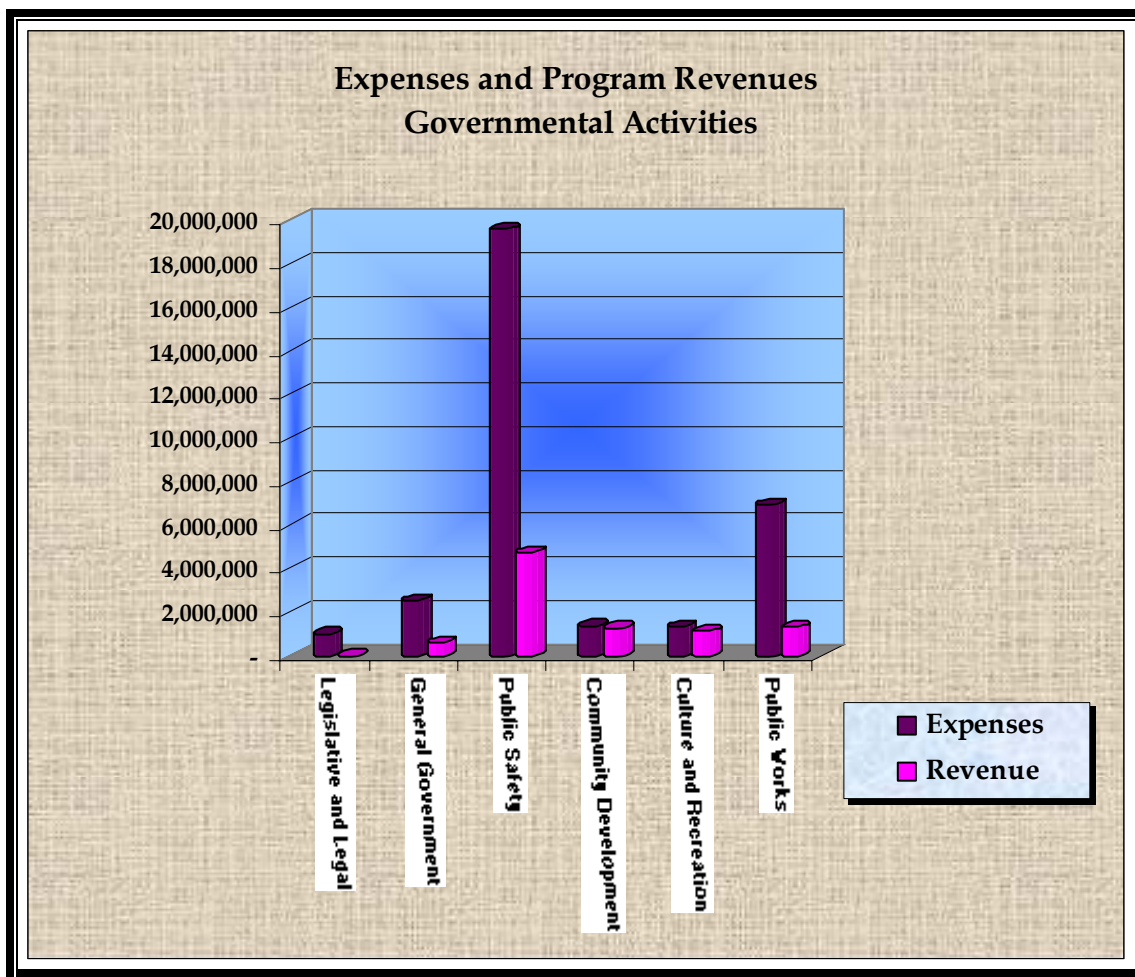
The government's net assets decreased by (\$1,446,000) during the current fiscal year. As mentioned earlier, this decrease is attributable to increased revenues for taxes that were offset by increased costs for salaries and benefits due to changes in employee memoranda of understanding, the filling of employee vacant positions, and increased litigation costs for the MacPherson Oil Company lawsuit. Both revenue and expense increases are discussed in more detail in the following report sections.

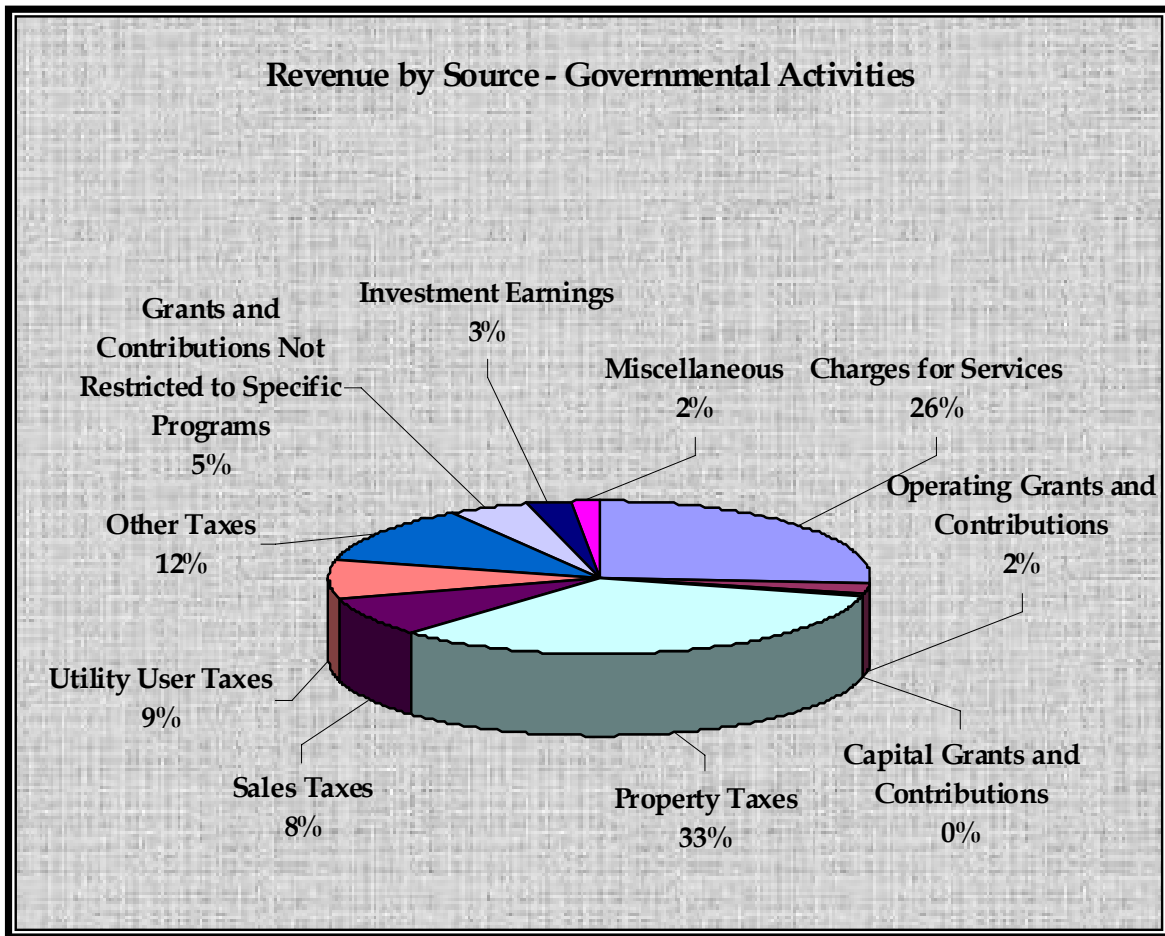
Governmental activities. Governmental activities decreased the City of Hermosa Beach's net assets by (\$1,483,000). Key elements of this decrease are as follows:

Changes in Net Assets June 30, 2008 (dollars in thousands)						
	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program Revenues:						
Charges For Services	\$8,219	\$7,536	\$1,088	\$1,144	\$9,307	\$8,680
Operating Grants and Contributions	731	756	-	-	731	756
Capital Grants and Contributions	69	287	-	-	69	287
General Revenues:			-	-	-	-
Property Taxes	10,458	9,384	-	-	10,458	9,384
Other Taxes	8,957	8,810	-	-	8,957	8,810
Grants and Contributions Not						
Restricted to Specific Programs	1,472	1,274	-	-	1,472	1,274
Other	1,354	1,267	86	134	1,440	1,401
Total Revenues	31,260	29,314	1,174	1,278	32,434	30,592
Expenses:						
Legislative and Legal	990	867	-	-	990	867
General Government	2,544	2,523	-	-	2,544	2,523
Public Safety	19,569	17,237	-	-	19,569	17,237
Community Development	1,358	1,425	-	-	1,358	1,425
Culture and Recreation	1,343	1,254	-	-	1,343	1,254
Public Works	6,943	7,106	-	-	6,943	7,106
Downtown Enhancement	-	-	1,133	1,096	1,133	1,096
Parking	-	-	-	-	-	-
Total Expenses	32,747	30,412	1,133	1,096	33,880	31,508
Increase (Decrease) in Net Assets						
Before Transfers	(1,487)	(1,098)	41	182	(1,446)	(916)
Transfers	4	11	(4)	(11)	-	-
Increase (Decrease) in Net Assets	(1,483)	(1,087)	37	171	(1,446)	(916)
Net Assets - 7/1/07	74,392	75,479	8,707	8,536	83,099	84,015
Net Assets - 6/30/08	\$72,909	\$74,392	\$8,744	\$8,707	\$81,653	\$83,099

- Program revenues increased \$683,000 because of an increased number of special events, increased participation in recreation programs and increased parking fines received as a result of a 23% increase in the number of citations issued over 2006-07.

- Property Taxes overall increased by \$1,074,000 or approximately 11%. Assessed valuations increased 11.9% overall.
- Other Taxes increased 2% as a result of increased revenue from the transient occupancy tax (tax on hotel stays), and a new fiber optic cable franchise that began operating in 2006-07.
- Capital Grants and Contributions decreased due to reductions in County Measure B grant funds, a Federal Firefighters Assistance grant and other State grants for Police Ticket Writers which were completed 2006-07.
- Grants and Contributions Not Restricted to Specific Programs increased for the following reasons: motor vehicle license fees decreased by (\$23,000); a decrease of (\$144,000) as no traffic congestion relief funding was received; Proposition A and C Transit Funds decreased by (\$6,000); the amount of State reimbursed claims for mandated costs was (\$36,000) less because 06-07 included claims that had previously been put on hold for several years. The City received a \$400,000 allocation of Proposition 1B funding. Transit Development Act Revenue was \$7,000 higher for 07-08.
- Other revenue increased primarily due to the exchange of Community Development Block Grant funds for General Funds from the City of San Fernando, California, a large donation for Community Center Theatre Improvements and an increase in reimbursements for Fire Department Strike Teams dispatched to wild fires in 2007-08.



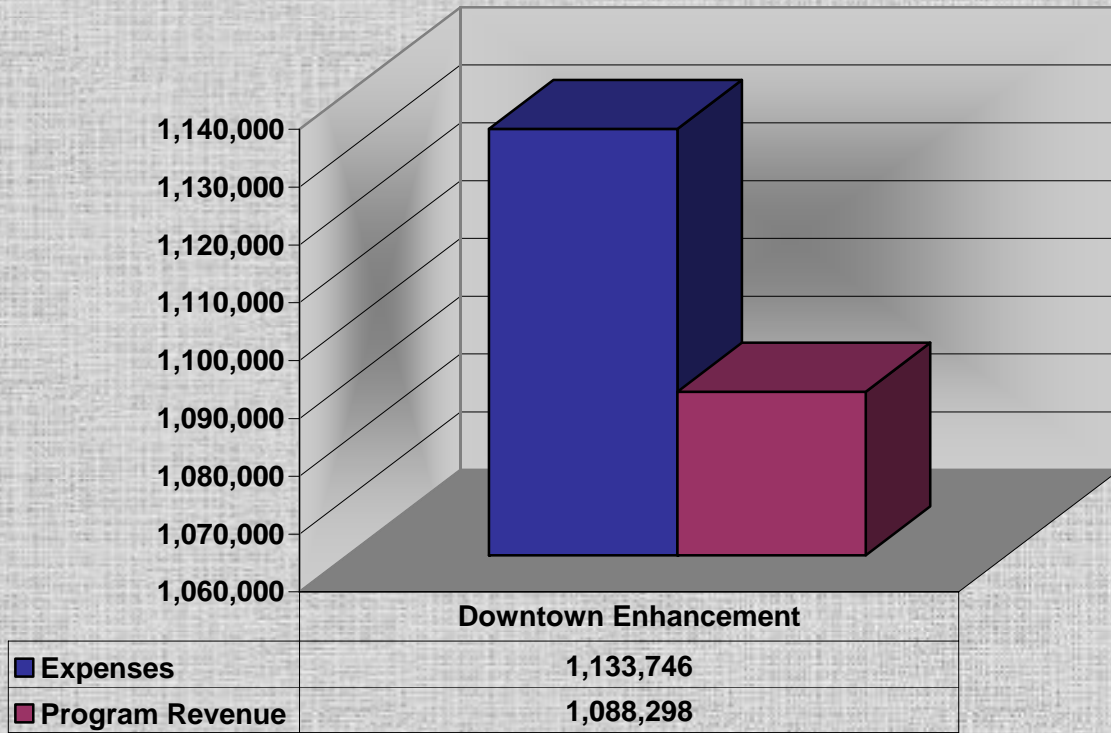


On the expense side, the Legislative and Legal function increased by approximately 14% because there were election costs in 2007-08 and City Councilmembers received an increase to their salary for the first time since 1986. Employee salary and benefit increases of approximately 8%, which include both merit increases and changes to the Memoranda of Understanding (MOU) for all groups, affect all governmental functions. The General Government function increased due to increased legal costs for personnel issues. 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 were recorded in the Insurance Fund which is allocated across functions. The total amount for these legal costs for 2007-08 was \$648,000.

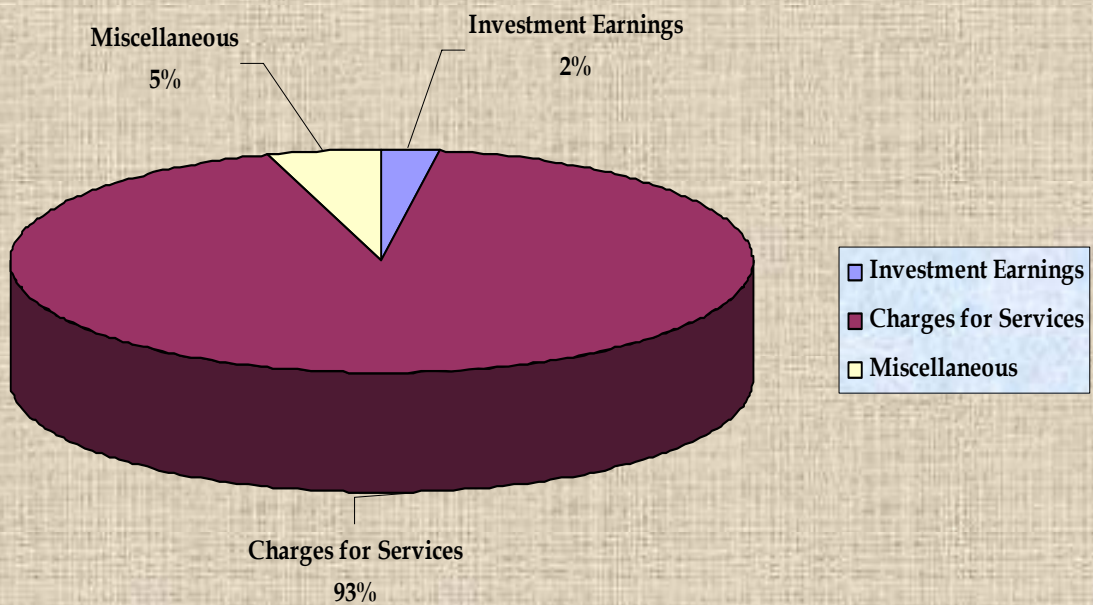
Business-type activities. Business-type activities increased the net assets by \$37,000. The primary contributing factors to this increase were:

- Charges for Services decreased 7% due to a decrease in parking lot revenue received in 2007-08.
- Other revenue decreased due to the decrease in investment earnings over 2006-07 and decreased donations received for the City's Centennial celebrations being held throughout the year.
- The Downtown Enhancement operation shows increased expenses primarily due to an increase in the costs for the St. Patrick's Day Parade event, a 4% increase to lot operator expenses for salary and benefit increases, and Centennial Celebrations held throughout the year.

Expenses and Program Revenue Business-type Activities



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 \$13,369,000, an increase of \$318,000 (2%), in comparison with the prior year. Approximately 85% of this total amount \$11,393,000 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 (\$1,208,000), 2) fund transportation development act projects (\$14,000), 3) fund traffic congestion relief projects (\$13,000) 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 (\$365,000), 5) to fund future parking facility projects (\$10,000), and 6) for future Theatre Improvements donated by a local resident (\$100,000)

Four 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, Contingency Fund and Capital Improvement 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 \$499,000, with \$132,000 reserved for re-appropriations, \$100,000 reserved for Theatre Improvements, \$10,000 reserved for future parking facility projects and \$257,000 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 2007-08, 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. The transfer to the Insurance Fund was \$1,332,867. Key reasons funds were available at year end are as follows:

- Property taxes, which now include vehicle license revenue since the measurement and growth of these fees is based on assessed valuation, increased by 11%.
- Other tax revenue increased 2% primarily due to increases in transient occupancy tax, and a new fiber optic cable franchise that began in 2006-07.
- Other revenue increased primarily due to a donation received for future theatre improvements, and an increase to Strike Team reimbursement for wild fires.
- Expenditures were 3% less than budgeted, namely due to a number of newly vacant positions, vacant positions that remain unfilled and salary savings due to injured Public Safety employees.

The Proposition C Fund qualifies as a major fund in 2007-08, primarily because funds are currently being accumulated in a capital reserve for the improvement of the City's main arterial street, Pier Avenue. The street has experienced many failures and was identified by the pavement management report as a candidate for reconstruction. Design is scheduled to be completed in 2008-09 with construction beginning later that year. The Memorandum of Understanding for the capital reserve, approved by the Metropolitan Transit Authority, is due to expire in September 2010.

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 \$4.4 million represents 16.5% of appropriations. As previously mentioned, \$500,000 of this balance will be transferred to the Insurance Fund to cover a portion of the legal costs associated with the MacPherson Oil lawsuit. Since the fund balance will be less than 15%, the shortage will be addressed during the Midyear Budget Review Process for 2008-09 as explained earlier.

The Capital Improvement Fund provides funding for most of the City's major multi-year projects. Financing sources for the fund are interfund transfers and interest earned on investments. Major changes to net assets are experienced when there are many ongoing project expenditures in any given year. Since capital projects are ongoing, the City policy is to provide funding whenever excess discretionary funds are available.

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 (\$1,444,000). 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 1% for estimated revenue and 1% for appropriations. Actual revenue was higher than the final budget by 3% due to the aforementioned revenue increases.

Differences between original and final appropriations other than Transfers Out equaled \$277,000 or about 1%. They are briefly summarized as follows:

- \$50,000 in increases in the Legislative/Legal category to provide funding for additional training, lobby benches for the Council Chambers, the Streetlight Banner Program, bank service charges, and increased legal costs.
- \$131,000 increase in the General Government function represents funding provided for an increase in personnel legal costs and recruiting services for Fire Chief.
- \$47,000 in Public Safety increases for items for the Emergency Operations Center (EOC) and an Emergency Services Coordinator that were reappropriated from 2006-07.
- \$28,000 in Community Resources increases for donations received for recreation programs.
- \$36,000 in increases for Public Works for Memorial Bench donations, and fence repair at Clark Field.

Differences between the final appropriations and actual expenditures totaled \$782,000. The largest variances can be summarized as follows:

- Public Safety expenditures were less than budget by \$190,160 primarily due to vacancies in the Assistant Fire Chief and paramedic positions for the year and salary savings due to employees out with injuries. Funds for Emergency Operating Center equipment that was not yet purchased will be used to purchase the equipment in 2008-09.

- Vacancies in the Senior Building Inspector, Senior Planner, and Planning Assistant positions were the main factors for Community Development expenditures being under budget by \$323,985.
- Expenditures in the Public Works category were less than budgeted by \$175,009 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, 2008, amounts to \$67,306,000 (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 2007-08 fiscal year was 2% (a 2% 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 \$246,000 at the end of the fiscal year.
- Construction in progress on the Clark Building refurbishment was \$44,000 at the end of the fiscal year.
- Construction in progress on the City Yard Renovation was \$244,000 at the end of the fiscal year.
- Construction in progress on Beach Restroom Rehabilitation was \$68,000 at the end of the fiscal year.

Business type Activities

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

City of Hermosa Beach's Capital Assets
(net of depreciation)
(dollars in thousands)

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$17,552	\$17,552	\$5,188	\$5,188	\$22,740	\$22,740
Buildings and Structures	3,062	3,326	4,927	5,072	7,989	8,398
Than Buildings	7,776	8,780	5	5	7,781	8,785
Equipment	1,275	1,329	8	9	1,283	1,338
Vehicles	1,367	1,517	-	-	1,367	1,517
Infrastructure	24,520	24,550	60	-	24,580	24,550
Construction in Progress	1,566	1,195	-	37	1,566	1,232
Total	\$57,118	\$58,249	\$10,188	\$10,311	\$67,306	\$68,560

Additional information on the City of Hermosa Beach's capital assets can be found in note 6 on pages 66-68 of this report.

Economic Factors and Next Year's Budgets and Rates

- Housing sales and prices were still strong in Hermosa Beach for 2007-08, despite the sub-prime mortgage debacle. Foreclosures in the beach-adjacent areas such as Hermosa Beach are expected to be far less than in other areas. Assessed property values grew almost 12%, as did property tax revenue. The assessed valuation in Hermosa Beach has risen 10.9% on average for the last five years. We anticipated less growth for 2008-09 (7%), but not a decline. A recent economic forecast by Beacon Economics projected a 56% decline in home values nationally, a 36% decline in Los Angeles County, and almost no decline in the beach areas such as Hermosa Beach.
- Sales tax revenue increased 4% from 2006-07 and is 7% lower than the highest year of 2000-01. The highest sales tax producing category, Eating and Drinking Places, rose 6% and represents 32% of the sales tax revenue.
- City retirement rates decreased by 2.53 points (2.53% of payroll) from 2006-07. Rates for 2008-09 increased slightly by .92 points with rates from CalPERS predicted to decrease by 3 points for 2009-10. The City set up its own Retirement Stabilization Fund to set aside funds for use in times of high retirement rates and has used these funds to offset the high rates. Improved investment earnings and rate smoothing policies adopted by CalPERS are finally making an impact. 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%; and 2008, -2.5%. With the recent turmoil in the financial markets, and investment losses occurring at CalPERS, the City will have to determine the appropriate level of funding to maintain in our Stabilization Fund to ensure that funds are available to offset potential higher rates if investment losses continue.
- The City elected in 2003-04 to begin making the annual required contribution for Other Post Employment Benefits (OPEB) after obtaining an actuarial study to value these employee benefits. Accounting for these benefits in much the same way as retirement benefits will be required beginning 7/1/2008 for our size government. 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's fiscal outlook, is still a source of 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. No funds were "borrowed" when the State's budget was adopted late, in September, however the Governor has recently called the Legislature back for new budget balancing sessions since a shortfall of \$10 million is now projected, only two months after the budget was adopted

All of these factors were considered in preparing the City of Hermosa Beach's budget for the 2008-2009 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.

Since the City budget was adopted in June, financial market conditions have disintegrated, with the economy in or on the brink of a recession. The Federal Government bailed out Fannie Mae and Freddie Mac and seized control of the largest insurance company in the United States, American International Group, Inc. (AIG). Lehman Brothers, the 4th largest investment bank in the U.S. filed for bankruptcy and Washington Mutual was seized by regulators and sold to J. P. Morgan Chase & Company. This was the biggest bank failure in history.

With turmoil such as this occurring and markets not yet responding to the actions taken by the government, local governments will have to monitor effects on revenue, investments, and retirement funds carefully. Fortunately, Hermosa Beach has no debt and therefore has no adverse affects there.

Requests for Information

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

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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City of Hermosa Beach
Statement of Net Assets
June 30, 2008

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 22,559,736	\$ 395,642	\$ 22,955,378
Reimbursable grants receivable	46,127		46,127
Interest receivable on investments	158,912	5,957	164,869
Other accounts receivable	1,979,898	13,346	1,993,244
Property taxes receivable	1,079,855		1,079,855
Internal Balance	1,601,980	(1,601,980)	-
Deposits	140,000		140,000
Other assets	129,797		129,797
Total current assets	27,696,305	(1,187,035)	26,509,270
Noncurrent assets:			
Capital assets:			
Non-depreciable	19,117,991	5,188,092	24,306,083
Depreciable, net	37,999,541	4,999,486	42,999,027
Total capital assets	57,117,532	10,187,578	67,305,110
Total noncurrent assets	57,117,532	10,187,578	67,305,110
Total assets	84,813,837	9,000,543	93,814,380
LIABILITIES			
Current liabilities:			
Workers' compensation claims payable - due within one year	711,902		711,902
General liability claims payable - due within one year	626,636		626,636
Compensated absences - due within one year	565,067		565,067
Accounts payable and accrued liabilities	1,533,785	213,582	1,747,367
Accrued wages and compensated absences	2,132,314	13,929	2,146,243
Refundable deposits	540,589	27,012	567,601
Unearned revenue	1,391,633	2,356	1,393,989
Other liabilities	66,148		66,148
Total current liabilities	7,568,074	256,879	7,824,953
Noncurrent liabilities:			
Workers' compensation claims payable	2,899,316		2,899,316
General liability claims payable	918,576		918,576
Compensated absences	518,891		518,891
Total noncurrent liabilities	4,336,783	-	4,336,783
Total liabilities	11,904,857	256,879	12,161,736
NET ASSETS			
Invested in capital assets	57,117,532	10,187,578	67,305,110
Restricted for:			
Capital projects	299,641		299,641
Specific projects	4,872,001		4,872,001
Total restricted assets	5,171,642	-	5,171,642
Unrestricted	10,619,806	(1,443,914)	9,175,892
Total net assets	\$ 72,908,980	\$ 8,743,664	\$ 81,652,644

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, 2008

Functions/Programs	Expenses	Program Revenues			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Program Revenues
Primary government:					
Governmental activities:					
Legislative and legal	\$ 990,342				
General government	2,544,004	\$ 563,583	\$ 26,259		\$ 589,842
Public safety	19,569,031	4,423,335	306,165	\$ 22,735	4,752,235
Community development	1,358,051	1,262,109	9,535		1,271,644
Culture and recreation	1,343,223	1,092,512	9,229	5,612	1,107,353
Public works	6,942,530	877,367	379,909	40,515	1,297,791
Total governmental activities	32,747,181	8,218,906	731,097	68,862	9,018,865
Business-type activities:					
Downtown Enhancement	1,133,746	1,088,298			1,088,298
Total business-type activities	1,133,746	1,088,298	-	-	1,088,298
Total primary government	\$ 33,880,927	\$ 9,307,204	\$ 731,097	\$ 68,862	\$ 10,107,163

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
\$ (990,342)		\$ (990,342)
(1,954,162)		(1,954,162)
(14,816,796)		(14,816,796)
(86,407)		(86,407)
(235,870)		(235,870)
(5,644,739)		(5,644,739)
(23,728,316)	\$ -	(23,728,316)
	(45,448)	(45,448)
-	(45,448)	(45,448)
(23,728,316)	(45,448)	(23,773,764)
10,458,034		10,458,034
2,500,659		2,500,659
226,349		226,349
634,421		634,421
1,892,363		1,892,363
802,347		802,347
2,714,029		2,714,029
187,277		187,277
19,415,479	-	19,415,479
1,472,191	-	1,472,191
850,176	28,320	878,496
503,414	57,840	561,254
4,259	(4,259)	-
22,245,519	81,901	22,327,420
(1,482,797)	36,453	(1,446,344)
74,391,777	8,707,211	83,098,988
\$ 72,908,980	\$ 8,743,664	\$ 81,652,644

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FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements

Proprietary Fund Financial Statements

Fiduciary Fund Financial Statements

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

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.

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

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, 2008

	Major Funds					Total
	General	Proposition C Special Revenue	Contingency Special Revenue	Capital Improvement Special Revenue	Other Governmental Funds	
ASSETS						
Cash and investments	\$ 2,301,753	\$ 2,146,436	\$ 3,904,443	\$ 1,942,494	\$ 4,710,714	\$ 15,005,840
Reimbursable grants receivable					46,127	46,127
Interest receivable on investments	35,977	21,296	38,273	19,319	44,047	158,912
Other accounts receivable	1,347,380				632,068	1,979,448
Property taxes receivable	1,062,167				17,688	1,079,855
Other assets	111,885				5,616	117,501
Due from other funds					53,732	53,732
Advances to other funds			430,847	200,000		630,847
Total assets	\$ 4,859,162	\$ 2,167,732	\$ 4,373,563	\$ 2,161,813	\$ 5,509,992	\$ 19,072,262
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities	\$ 446,838			\$ 521,894	\$ 329,242	\$ 1,297,974
Wages and compensated absences payable	2,011,126	\$ 1		5,471	71,360	2,087,958
Refundable deposits	540,589					540,589
Deferred revenue	1,295,720				95,913	1,391,633
Due to other funds					53,732	53,732
Advances from other funds					265,520	265,520
Other liabilities	66,148					66,148
Total liabilities	4,360,421	1	-	527,365	815,767	5,703,554
Fund Balances:						
Reserved for:						
Re-appropriations	131,550	150,000		471,142	455,235	1,207,927
Greenwald Theatre Improv Donation	100,000					100,000
Capital Outlay/Parking Facilities	9,592					9,592
Bike paths					14,752	14,752
Traffic congestion relief					12,682	12,682
Used oil grant						-
Advances to other funds			65,520	200,000		265,520
Storage lot purchase loan			365,327			365,327
Unreserved, designated for:						
Sales tax in-lieu	145,768					145,768
Affordable housing	111,831					111,831
Justice and treasury department					39,212	39,212
Unreserved, undesignated:						
Special revenue		2,017,731	3,942,716	963,306	4,172,344	11,096,097
Total fund balances	498,741	2,167,731	4,373,563	1,634,448	4,694,225	13,368,708
Total liabilities and fund balances	\$ 4,859,162	\$ 2,167,732	\$ 4,373,563	\$ 2,161,813	\$ 5,509,992	\$ 19,072,262

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, 2008

Total Fund Balances - Total Governmental Funds	\$ 13,368,708
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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	\$ 19,117,991	\$ (348,235)	18,769,756
Depreciable, net	37,999,541	(2,099,187)	35,900,354
Total capital assets	<u>\$ 57,117,532</u>	<u>\$ (2,447,422)</u>	<u>54,670,110</u>

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	52,080
Equipment Replacement Fund	<u>5,902,040</u>
Total internal service funds	<u>5,954,120</u>

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

	<u>(1,083,958)</u>
--	--------------------

Net Assets of Governmental Activities	<u>\$ 72,908,980</u>
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City of Hermosa Beach
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2008

	Major Funds					Total
	General	Proposition C	Contingency	Capital	Other	
		Special Revenue	Special Revenue	Improvement Special Revenue	Governmental Funds	
REVENUES:						
Property taxes	\$ 10,458,034				\$ 449,085	\$ 10,907,119
Other taxes	8,957,445	\$ 258,984			413,936	9,630,365
Licenses and permits	877,775					877,775
Fines and forfeitures	1,957,484				37,038	1,994,522
Use of money and property	379,528				300,000	679,528
Intergovernmental	217,886				1,059,194	1,277,080
Charges for services	4,081,035				90,130	4,171,165
Miscellaneous	302,421			\$ 100,000	334,691	737,112
Interest earned on investments	69,974	125,417	\$ 260,314	124,746	269,725	850,176
Total revenues	27,301,582	384,401	260,314	224,746	2,953,799	31,124,842
EXPENDITURES:						
Current:						
Legislative and legal	967,423					967,423
General government	2,233,417				199,809	2,433,226
Public safety	17,139,655				234,958	17,374,613
Community development	1,261,825				21,492	1,283,317
Culture and recreation	1,230,077				19,174	1,249,251
Public works	2,902,980	1,600		9,610	1,078,865	3,993,055
Capital outlay	28,768	3,200		852,569	787,904	1,672,441
Total expenditures	25,764,145	4,800	-	862,179	2,342,202	28,973,326
REVENUES OVER (UNDER) EXPENDITURES	1,537,437	379,601	260,314	(637,433)	611,597	2,151,516
OTHER FINANCING SOURCES (USES):						
Transfers in	781,918			175,000	798,440	1,755,358
Transfers out	(2,131,307)		(469,598)	(56,305)	(931,664)	(3,588,874)
Total other financing sources (uses)	(1,349,389)	-	(469,598)	118,695	(133,224)	(1,833,516)
Net change in fund balances	188,048	379,601	(209,284)	(518,738)	478,373	318,000
FUND BALANCES:						
Beginning of year	310,693	1,788,130	4,582,847	2,153,186	4,215,852	13,050,708
End of year	\$ 498,741	\$ 2,167,731	\$ 4,373,563	\$ 1,634,448	\$ 4,694,225	\$ 13,368,708

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, 2008

Net Change in Fund Balances - Total Governmental Funds	\$ 318,000
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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	1,672,441
Less repair and maintenance expenditures reported in public works	(276,221)
Total	1,396,220

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	(2,987,661)
Less depreciation reported in Internal Service Funds	438,258
Total	(2,549,403)

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.

6,662

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.

(654,276)

Change in Net Assets of Governmental Activities	\$ (1,482,797)
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PROPRIETARY FUND FINANCIAL STATEMENTS

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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, 2008

	Major Enterprise Fund Downtown Enhancement	Governmental Activities Internal Service Funds
ASSETS		
Current assets:		
Cash and investments	\$ 395,642	\$ 7,553,896
Interest receivable on investments	5,957	
Other accounts receivable	13,346	450
Advances to other funds		1,236,653
Deposits		140,000
Other assets		12,296
Total current assets	414,945	8,943,295
Noncurrent assets:		
Capital assets, net of accumulated depreciation	10,187,578	2,447,422
Total noncurrent assets	10,187,578	2,447,422
Total assets	10,602,523	11,390,717
LIABILITIES		
Current liabilities:		
Current portion of long-term liabilities		1,338,538
Accounts payable	213,582	235,811
Accrued wages and compensated absences	13,929	44,356
Refundable deposit	27,012	
Advances from other funds	1,601,980	
Unearned revenue	2,356	
Total current liabilities	1,858,859	1,618,705
Long-term liabilities:		
Workers' compensation claims payable		3,611,218
General liability claims payable		1,545,212
Less current portion above		(1,338,538)
Total long-term liabilities	-	3,817,892
Total liabilities	1,858,859	5,436,597
NET ASSETS		
Investment in capital assets	10,187,578	2,447,422
Reserved:		
Re-appropriations	38,284	251,116
Unrestricted	(1,482,198)	3,255,582
Total net assets	\$ 8,743,664	\$ 5,954,120

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, 2008

	Major Enterprise Fund Downtown Enhancement	Governmental Activities Internal Service Funds
OPERATING REVENUES:		
Lease revenues	\$ 240,627	
Charges for services	847,671	\$ 3,247,125
Miscellaneous revenue	57,840	135,283
Total operating revenues	1,146,138	3,382,408
OPERATING EXPENSES:		
Salaries and wages	65,116	384,145
Contractor services	809,059	1,445,407
Supplies	112,771	270,071
Claims expense		3,355,596
Depreciation	146,800	438,258
Total operating expenses	1,133,746	5,893,477
OPERATING INCOME (LOSS)	12,392	(2,511,069)
NONOPERATING REVENUES (EXPENSES):		
Interest earned on investments	28,320	
Gain on disposal of capital assets		19,018
Total nonoperating revenues (expenses)	28,320	19,018
INCOME (LOSS) BEFORE TRANSFERS	40,712	(2,492,051)
Transfers in		1,837,775
Transfers out	(4,259)	
Total transfers	(4,259)	1,837,775
Change in net assets	36,453	(654,276)
NET ASSETS:		
Beginning of the year	8,707,211	6,608,396
End of the year	\$ 8,743,664	\$ 5,954,120

See accompanying Notes to Basic Financial Statements.

City of Hermosa Beach
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2008

	Major Enterprise Fund Downtown Enhancement	Governmental Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 1,154,454	\$ 240,144
Cash received for services from other funds		3,247,125
Cash payments to other funds for services	(184,573)	
Cash payments to suppliers for goods and services	(996,861)	(1,804,269)
Cash payments to employees for services	(63,927)	(384,669)
Insurance premiums and settlements		(2,097,331)
Net cash provided by (used for) operating activities	(90,907)	(799,000)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers in		1,837,775
Transfers out	(4,259)	
Net cash provided by (used for) noncapital financing activities	(4,259)	1,837,775
CASH FLOWS CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(23,013)	(440,743)
Net cash provided by (used for) capital and related financing activities	(23,013)	(440,743)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest receivable on investments	33,973	
Net cash provided by (used for) investing activities	33,973	-
Net increase (decrease) in cash and cash equivalents	(84,206)	598,032
CASH AND CASH EQUIVALENTS:		
Beginning of year	479,848	6,955,864
End of year	\$ 395,642	\$ 7,553,896
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Operating income (loss)	\$ 12,392	\$ (2,511,069)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	146,800	438,258
Changes in operating assets and liabilities:		
Other accounts receivable	5,573	3,645
Deposits		(60,000)
Other assets	48,789	38,167
Worker's compensation claims payable		822,787
General liability claims payable		435,478
Accounts payable	(75,031)	(88,791)
Accrued wages and compensated absences	1,189	(524)
Advances from (to) other fund	(184,573)	123,049
Unearned revenue	(46,046)	
Total adjustments	(103,299)	1,712,069
Net cash provided by (used for) operating activities	\$ (90,907)	\$ (799,000)
DISCLOSURE OF NON-CASH TRANSACTION:		
Gain on disposal of capital assets	\$ -	\$ 19,018

See accompanying Notes to Basic Financial Statements.

FIDUCIARY FUND FINANCIAL STATEMENTS

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FIDUCIARY FUND FINANCIAL STATEMENTS

Other Post Employment Benefits (OPEB) Trust Fund is used to administer an irrevocable trust fund for the payment of other post employment benefits for city employees. In fiscal year 2008, the City contributed \$1,400,967 to PARS to administrate other post employment benefits, and OPEB fund will be closed this year.

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, 2008

	Other Post Employment Benefits Trust Fund	Agency Funds
ASSETS		
Cash and investments		\$ 316,141
Interest receivable		3,134
Other accounts receivable		17,073
Total assets	\$ -	\$ 336,348
LIABILITIES		
Assessment:		
Installment account		\$ 320,313
Reserve requirement		16,035
Total liabilities	-	\$ 336,348
NET ASSETS		
Held in trust for OPEB	\$ -	

City of Hermosa Beach
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the year ended June 30, 2008

	Other Post Employment Benefits Trust Fund
ADDITIONS:	
Contributions	\$ -
Total additions	-
DEDUCTIONS:	
Contribution to Trust	1,400,967
Total deductions	1,400,967
Change in net assets	(1,400,967)
NET ASSETS:	
Beginning of year	1,400,967
End of year	\$ -

See accompanying Notes to Basic Financial Statements.

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City of Hermosa Beach
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For the year ended June 30, 2008

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City of Hermosa Beach
Notes to Basic Financial Statements
For the year ended June 30, 2008

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, 2008

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, 2008

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.

Capital Improvement Fund. This fund accounts for funds set aside for capital improvement projects.

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 2009. 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, 2008

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, 2008

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, 2008

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, 2008

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, 2006 into the 2005-2006 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, 2008

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, 2008

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 retained earnings for claims reserves and catastrophic losses.

Equipment Replacement Fund - Goal of retained earnings 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.

O. New Pronouncements

In 2008, the City adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- GASB Statement No. 45, *Financial Reporting for Postemployment Benefit Plans (OPEB) other than Pension Plans* – the Statement establishes uniform financial reporting standards for OPEB plans. The standards in this statement apply for OPEB Trust Funds included in the financial reports of Plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties, that administer time.
- GASB Statement No. 50, *Pension Disclosures – An amendment of GASB Statements No. 25 and 27* - This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI).

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

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, 2008:

	Government-Wide Statement of Net Assets			Funds Financial Fiduciary Funds	
	Governmental activities	Business-type activities	Total	Statement of Net Assets	Total
Cash and investments	\$ 22,559,736	\$ 395,642	\$ 22,955,378	\$ 316,141	\$ 23,271,519

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

	Fair value
City Treasury:	
<i>Cash deposits:</i>	
Demand accounts	\$ 589,841
Less items in transit	(204,267)
Total cash deposits	385,574
<i>Investments:</i>	
Local Agency Investment Fund	22,383,945
U.S. government notes	502,000
Total investments	22,885,945
Total cash and investments	\$ 23,271,519

A. Cash Deposits

The carrying amounts of the City's cash deposits were \$385,574 at June 30, 2008. Bank balances at June 30, 2008, were \$589,841 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 \$100,000 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, 2008

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, 2008, amounted to an unrealized increase of \$13,190.

The City's investments with the Local Agency Investment Fund (LAIF), the State of California's investment pool, at June 30, 2008, 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, 2008, the City had \$22,383,945 invested in LAIF. 14.72% of pool investment funds were invested in Structured Notes and Asset-Backed Securities.

The City valued its investments in LAIF as of June 30, 2008 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 .999950219.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

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, 2008, 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	\$ 502,000	\$ 502,000	
Local Agency Investment Fund	22,383,945	22,383,945	
Total	\$ 22,885,945	\$ 22,885,945	\$ -

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 and 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. \$575,967 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
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, 2008

3. RECEIVABLES

Government-Wide Financial Statements

At June 30, 2008, 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 Statement of Net Assets	Total
	Governmental activities	Business-type activities		
Accounts	\$ 1,979,898	\$ 13,346	\$ 17,073	\$ 2,010,317
Taxes	1,079,855			1,079,855
Interest	158,912	5,957	3,134	168,003
Grants	46,127			46,127
Total	\$ 3,264,792	\$ 19,303	\$ 20,207	\$ 3,304,302

Fund Financial Statements

At June 30, 2008, 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, 2008, were as follows:

<i>Governmental funds:</i>	
General Fund	\$ 1,347,380
Non-major funds	632,068
<i>Internal Service funds</i>	450
Total governmental funds	1,979,898
<i>Enterprise fund:</i>	
Downtown Enhancement Fund	13,346
Total Enterprise fund	13,346
<i>Agency funds</i>	17,073
Total	\$ 2,010,317

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

3. RECEIVABLES, Continued

B. Taxes Receivable

At June 30, 2008, 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	\$ 1,062,167
Non-major funds	17,688
Total	\$ 1,079,855

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, 2008, was as follows:

	City pooled investments
<i>Governmental funds:</i>	
General Fund	\$ 35,977
Proposition C Fund	21,296
Contingency Fund	38,273
Capital Improvement Fund	19,319
Non-major Funds	44,047
Total governmental funds	158,912
<i>Enterprise fund:</i>	
Downtown Enhancement Fund	5,957
Total Enterprise fund	5,957
Total	164,869
<i>Agency funds</i>	3,134
Total interest receivable	\$ 168,003

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, 2008 were as follows:

<i>Governmental Funds:</i>	
Non-major funds	\$ 46,127
Total governmental funds	\$ 46,127

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

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 2007-2008 is \$143,988.

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 City receives a monthly lease payment in the amount of \$2,376.

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 monthly lease payment increases in February of each year based on the consumer price index up to a maximum of 3% per year. The City receives a monthly lease payment in the amount of \$15,647.

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,		
2009	\$	169,608
2010		28,512
2011		28,512
2012		28,512
2013		28,512
2014-2018		142,560
2019-2023		142,560
2024-2028		142,560
2029-2033		142,560
2034-2038		142,560
2039-2043		142,560
2044-2048		142,560
2049-2051		71,280
Total	\$	1,352,856

Lease revenue for fiscal year 2008 was \$305,575 with \$76,339 reflected in the General Fund and \$229,236 in the Downtown Enhancement Fund, an enterprise fund.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

5. INTERFUND TRANSACTIONS

A. Government-Wide Financial Statements

Transfers

At June 30, 2008, the City had the following transfers:

		Transfers out
		Business-type activities
Transfers in	Governmental activities	\$ 4,259

B. Fund Financial Statements

Due To/From Other Funds

The composition of due to/from other funds at June 30, 2008 is as follows:

		Due to other funds
		Non-major Governmental Funds
Due from other funds	Non-major Governmental Funds	\$ 53,732

The balance of \$53,732 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, 2008, the composition of advances to other funds is as follows:

		Advances from other funds		
		Downtown Enhancement Fund	Non-major Governmental Funds	Total
Advances to other funds	Contingency Fund	\$ 365,327	\$ 65,520	\$ 430,847
	Capital Improvement Fund		200,000	200,000
	Internal Service Funds	1,236,653		1,236,653
	Total	\$ 1,601,980	\$ 265,520	\$ 1,867,500

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

5. INTERFUND TRANSACTIONS, Continued

B. Fund Financial Statements, Continued

The balances of \$200,000 advanced from the Capital Improvement Fund and \$65,520 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 \$1,601,980 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, 2008, the City had the following transfers:

		Transfers out				
		Contingency	Capital	Non-major	Downtown	
		Fund	Improvement	Governmental	Enhancement	
		General	Fund	Funds	Fund	Total
Transfers in	General Fund		\$ 56,305	\$ 721,354	\$ 4,259	\$ 781,918
	Capital					
	Improvement Fund			175,000		175,000
	Non-major					
	Governmental funds	\$ 798,440				798,440
	Internal Service funds	1,332,867	\$ 469,598	35,310		1,837,775
Total		\$ 2,131,307	\$ 469,598	\$ 931,664	\$ 4,259	\$ 3,593,133

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, 2008, the following one-time transfers were made:

- Excess funds in the Contingency Fund in the amount of \$469,598 were transferred to the Internal Service Insurance Fund to eliminate the deficit in that fund.
- The Special Revenue Compensated Absences Fund made a transfer in the amount of \$35,310 to the Internal Service Insurance Fund to assist in eliminating the deficit in that fund.
- The 4% Utility Users Tax Railroad Right of Way Fund transferred \$904 to the General Fund to close out the fund.
- The Non-major governmental Sewer Fund made a transfer in the amount of \$15,600 to the General Fund to provide funding for services related to a new restaurant grease trap inspection program.
- The Capital Improvement Fund made a transfer of \$56,305 to the General Fund for on-time capital purchases.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

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, 2008, 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	1,565,914	-	1,565,914
Total non-depreciable assets	19,117,991	5,188,092	24,306,083
<i>Depreciable Assets:</i>			
Buildings and structures	4,776,417	5,879,099	10,655,516
Improvements other than buildings	13,232,411	5,610	13,238,021
Machinery and equipment	3,035,076	19,267	3,054,343
Vehicles	3,014,921		3,014,921
Infrastructure	41,334,028	59,650	41,393,678
Total depreciable assets	65,392,853	5,963,626	71,356,479
Less accumulated depreciation for:			
Buildings and structures	(1,715,583)	(951,827)	(2,667,410)
Improvements other than buildings	(5,456,232)	(842)	(5,457,074)
Machinery and equipment	(1,759,819)	(11,471)	(1,771,290)
Vehicles	(1,648,027)	-	(1,648,027)
Infrastructure	(16,813,651)	-	(16,813,651)
Total accumulated depreciation	(27,393,312)	(964,140)	(28,357,452)
Total depreciable assets, net	37,999,541	4,999,486	42,999,027
Total capital assets	\$ 57,117,532	\$ 10,187,578	\$ 67,305,110

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

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, 2008:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
<i>Capital assets not being depreciated:</i>				
Land	\$ 17,552,077			\$ 17,552,077
Construction in progress	1,194,718	\$ 498,831	\$ (127,635)	1,565,914
Total capital assets not being depreciated	18,746,795	498,831	(127,635)	19,117,991
<i>Capital assets being depreciated:</i>				
Buildings and structures	4,776,417			4,776,417
Improvements other than buildings	13,232,411			13,232,411
Machinery and equipment	2,810,659	224,417		3,035,076
Vehicles	3,100,196	149,068	(234,343)	3,014,921
Infrastructure	40,212,301	1,265,762	(144,035)	41,334,028
Total capital assets being depreciated	64,131,984	1,639,247	(378,378)	65,392,853
Less accumulated depreciation for:				
Buildings and structures	(1,450,361)	(265,222)		(1,715,583)
Improvements other than buildings	(4,452,381)	(1,003,851)		(5,456,232)
Machinery and equipment	(1,482,032)	(277,787)		(1,759,819)
Vehicles	(1,582,691)	(289,252)	223,916	(1,648,027)
Infrastructure	(15,662,102)	(1,151,549)		(16,813,651)
Total accumulated depreciation	(24,629,567)	(2,987,661)	223,916	(27,393,312)
Total capital assets being depreciated, net	39,502,417	(1,348,414)	(154,462)	37,999,541
Total governmental activities	\$ 58,249,212	\$ (849,583)	\$ (282,097)	\$ 57,117,532

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

General government	\$ 60,080
Public safety	298,294
Community development	7,511
Culture and recreation	40,681
Public works	991,288
Infrastructure	1,151,549
Capital assets held by the governments internal service funds are charged to the various functions based on their usage of the assets	438,258
Total depreciation expenses	\$ 2,987,661

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

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, 2007	Additions	Deletions	Balance June 30, 2008
<i>Capital assets not being depreciated:</i>				
Land	\$ 5,188,092			\$ 5,188,092
Construction in progress	36,637		\$ (36,637)	-
Total capital assets not being depreciated	5,224,729	\$ -	\$ (36,637)	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		59,650
Total capital assets, being depreciated	5,903,976	59,650	-	5,963,626
Less accumulated depreciation for:				
Buildings and structures	(806,623)	(145,204)		(951,827)
Improvements other than buildings	(562)	(280)		(842)
Machinery and equipment	(10,155)	(1,316)		(11,471)
Infrastructure				-
Total accumulated depreciation	(817,340)	(146,800)	-	(964,140)
Total capital assets being depreciated, net	5,086,636	(87,150)	-	4,999,486
Total business-type activities	\$ 10,311,365	\$ (87,150)	\$ (36,637)	\$ 10,187,578

Business-type activities depreciation expenses for capital assets for the year ended June 30, 2008 are as follows:

Downtown Enhancement	\$ 146,800
Total depreciation expense	\$ 146,800

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, 2008

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, 2008:

	Balance July 1, 2007	Additions	Retirements	Balance June 30, 2008	Classification	
					Due in one year	Due in more than one year
<i>Governmental activities:</i>						
Compensated absences	\$ 1,090,620	\$ 1,173,028	\$ (1,179,690)	\$ 1,083,958	\$ 565,067	\$ 518,891

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, 2008, was \$1,083,958.

B. Long-Term Debt without City Commitment

At June 30, 2008, 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
2009	\$ 20,000	\$ 16,575	\$ 36,575
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
2014-2018	155,000	26,813	181,813
Total	\$ 265,000	\$ 96,038	\$ 361,038

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

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
2009	\$ 45,000	\$ 40,878	\$ 85,878
2010	50,000	38,477	88,477
2011	50,000	35,902	85,902
2012	55,000	33,145	88,145
2013	55,000	30,202	85,202
2014-2018	345,000	97,454	442,454
2019-2020	160,000	9,200	169,200
Total	\$ 760,000	\$ 285,258	\$ 1,045,258

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
2009	\$ 50,000	\$ 44,350	\$ 94,350
2010	55,000	41,697	96,697
2011	55,000	38,865	93,865
2012	55,000	35,978	90,978
2013	60,000	32,900	92,900
2014-2018	370,000	106,765	476,765
2019-2020	180,000	10,350	190,350
Total	\$ 825,000	\$ 310,905	\$ 1,135,905

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

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
2009	\$ 14,412	\$ 17,221	\$ 31,633
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
2014-2018	100,270	57,216	157,486
2019-2023	126,758	30,092	156,850
2024-2025	59,630	2,896	62,526
	<u>\$ 365,975</u>	<u>\$ 168,877</u>	<u>\$ 534,852</u>

2005 Bayview Drive Utility Underground Assessment District Improvement Bonds

In February 2005, limited obligation improvement bonds in the amount of \$951,667 were issued for the Bayview Drive Utility Underground Assessment District for the undergrounding of utilities within the district. The City is 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
2009	\$ 33,841	\$ 31,074	\$ 64,915
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
2014-2018	186,831	104,382	291,213
2019-2023	229,308	60,991	290,299
2024-2026	167,714	10,925	178,639
Total	<u>\$ 748,067</u>	<u>\$ 318,041</u>	<u>\$ 1,066,108</u>

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

8. OTHER REQUIRED FUND DISCLOSURES

A. Deficit Fund Balances

At June 30, 2008, the following funds had a deficit fund balance:

Beach Drive 2 Underground District	\$ (65,520)
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, 2008, the following fund had deficit unrestricted net assets:

Downtown Enhancement	<u>\$(1,443,914)</u>
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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.

C. Fund Closures

The Special Revenue 4% Utility Users Tax Railroad Right of Way Fund was combined with the General Fund since the funds were used for parks capital improvement projects. The remaining balance of \$904 was interest earned by the fund through June 30, 2008.

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, 2008

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 \$445,322 for the fiscal year 2007-2008 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 \$5,156,430 reported at June 30, 2008, 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>					
2004-2005	\$ 2,563,966	\$ 1,566,804	\$ (1,093,213)	\$ 3,037,557	\$ 690,000
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
<i>General Liability</i>					
2004-2005	370,675	983,340	(736,082)	617,933	202,000
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

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, 2008

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 \$912,648 for the year ended June 30, 2008. The City, as the employer, is required to contribute for fiscal year 2007-2008 at actuarially determined rates which are applied to annual covered payroll. The 2007-2008 rate is 14.835% for miscellaneous employees, 51.366% for police employees and 36.281% 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 2007-2008, the City's annual pension cost of \$3,463,455 for CalPERS was equal to the City's required and actual contributions, of which \$849,334 is for the miscellaneous plan, \$1,950,264 for the police plan and \$663,857 for the fire plan. The required contribution was determined as part of the June 30, 2005, actuarial valuation using the entry age normal actuarial cost method.

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, 2005 was 15 years for prior and current service unfunded liability.

THREE-YEAR TREND INFORMATION FOR PERS

Fiscal Year	<u>Miscellaneous Plan</u>		
	Pension Cost (APC)	APC Contributed	Net Pension Obligation
6/30/2006	\$ 686,428	100%	\$ -
6/30/2007	813,702	100%	-
6/30/2008	849,334	100%	-

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

10. RETIREMENT PLANS, Continued

A. Public Employee Retirement System, Continued

Annual Pension Cost, Continued

<u>Police Plan</u>			
Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2006	\$ 1,583,411	100%	\$ -
6/30/2007	1,847,429	100%	-
6/30/2008	1,950,264	100%	-

<u>Fire Plan</u>			
Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2006	\$ 708,865	100%	\$ -
6/30/2007	755,290	100%	-
6/30/2008	663,857	100%	-

B. Other Post-Employment Benefits

An actuary was hired to determine the Annual Required Contribution for benefits for police officers retiring after July 1, 2003. A temporary Agency Fund was established in 2003-2004 to account for contributions and expenditures related to these benefits. In June 2005, an actuary was hired to determine the Annual Required Contributions for all city employees retiring after June 30, 2005. In 2005-06, these benefits were added to the temporary agency fund previously mentioned. 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 (See Note 12 - Subsequent Events for details). 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 \$1,400,967 that were previously set aside for this purpose in a temporary Agency Fund were forwarded to Union Bank pursuant to the agreement in August 2007 to establish the trust. Contributions were forwarded on a monthly basis. For fiscal year 2007-2008, twenty-five retirees received benefits at a total cost of \$60,682.

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.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

10. RETIREMENT PLANS, Continued

B. Other Post-Employment Benefits, Continued

The range of monthly benefits to be paid by the City ranges from \$40 to \$350 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, 2008 are as follows:

Participants	Total
Active employees	132
Retirees	25
Total	157

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 2008, the City contributed \$1,876,647, which included the City's initial contribution of \$1,400,967 to the Plan. Plan members receiving benefits contributed \$167,395 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. The following table shows the components of the City's Annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB Obligation to the Plan:

	Total
Annual required contribution	\$ 554,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	(79,000)
Annual OPEB cost (expense)	475,000
Contribution Plan:	
Initial contribution	1,401,000
2008 contribution	475,000
Contributions made	(1,876,000)
Increase in net OPEB obligation	(1,401,000)
Net OPEB obligation - beginning of year	1,401,000
Net OPEB obligation - end of year	\$ -

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

10. RETIREMENT PLANS, Continued

B. Other Post-Employment Benefits, Continued

The City's Annual OPEB cost, the percentage of Annual OPEB cost contributed to the Plan and the net OPEB obligation for 2008 and is as follows:

Fiscal Year Ended	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2008	\$ 475,000	100.00%	\$ -

Funded Status and Funding Progress. As of June 30, 2005, the most recent actuarial valuation date, the Plan was not funded. In August 2007, the City made an initial contribution of \$1,400,967. As of June 30, 2008, 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.

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.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

11. COMMITMENTS AND CONTINGENCIES

A. Commitments

The City had several outstanding or planned construction projects as of June 30, 2008. These projects are evidenced by contractual commitments with contractors and include:

Project	Spent to Date	Commitment
		Remaining
Infrastructure	\$ 245,630	\$ 889,528
Clark Building Refurbishment	43,804	161,805
Community Center Improvements - Phase 4 (Restrooms)	12,678	220,867
Community Center General Improvements	16,808	298,415
Hermosa Senior Activity Center	5,612	109,388
City Yard Renovation	244,394	991,330
Beach Restroom Rehabilitation	67,680	403,111
Total	\$ 636,606	\$ 3,074,444

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 a State Clean Beaches Initiative Grant recorded in the Grants Fund. The Clark Building Refurbishment Project is funded by the Parks/Rec Facility Tax Fund and the Capital Improvement 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 Improvements, Phase 4 (Restrooms) Project is funded by a grant recorded in the Community Development Block Grant Fund and the Parks/Rec Facility Tax Fund. The Community Center General Improvements Project is funded by the Parks/Rec Facility Tax Fund and the Capital Improvement fund.

B. Contingencies

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

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

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

12. SUBSEQUENT EVENTS, Continued

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.

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. The City intends to bring yet another motion for summary adjudication on the issue of causation in order to limit the City's liability in damages; at some point in the proceeding, the City will also seek to limit MacPherson's relief to restitution on the theory that an assessment of lost profits is too speculative.

The City continues to vigorously defend the case. The City has, unsuccessfully thus far, sought legislation in an effort to limit its damages liability, and has resurrected settlement negotiations. 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.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

12. SUBSEQUENT EVENTS, Continued

Pension Obligation Bonds

On June 10, 2008, the City Council authorized participation in the California Statewide Communities Development Authority (CSCDA) and issuance of Pension Obligation Bonds ("POBs") by the City. The POBs will be issued through (CSCDA), a statewide financing authority jointly sponsored by the California State Association of Counties and the League of California Cities.

The purpose of the borrowing is to refinance the City's Unfunded Accrued Actuarial Liability ("UAAL") owed to CalPERS. As of June 30, 2006, the City has a UAAL of \$19,462,461. The UAAL is amortized by CalPERS at an interest rate of 7.75%. At the time the City approved the issuance, it was estimated that the City would be able to refinance the unfunded liability by issuing Pension Obligation Bonds at interest rates around 5.00% for a 9 year amortization period, which is the current amortization period with CalPERS. The primary benefit of issuing POBs would be a reduction in the City's contribution rate for pension benefits, thereby reducing expenditures.

The City's scheduled 2008-09 payment for the UAAL is \$1,668,207 (this amount is paid through our PERS rates as part of the employer contribution). The expected POB debt service payment in 2008-09 at the projected interest rate would be \$1,509,601, with the difference being \$158,606 in budgetary savings. Future POB payments would also be lower than the expected payments due to CalPERS. Issuing the POBs through the CSCDA financing authority is beneficial because the costs are lower than issuing alone, documentation is standardized and the overall process will take less staff time. The statewide program also offers the City structuring options so we can schedule the City's repayment to meet our future budgetary constraints. Finally, through the statewide financing authority we expect to obtain the highest credit rating through municipal bond insurance which lowers the cost. Filing of a validation action in Superior Court is part of the process. The validation action is necessary to establish the City's existing obligation and to allow for the issuance of bonds representing a refunding of the existing liability as an obligation statutorily required by law. The validation judgment was entered on September 9, 2008 with a 30-day appeal period which ended October 9, 2008. The law firm of Orrick, Herrington & Sutcliffe will serve as bond counsel; J.P. Morgan Securities, one of the Finance Teams for CSCDA will serve as financial advisor.

Due to the recent turmoil in the financial markets, the bond rates have changed drastically from the point in time when the issuance was approved by the City Council. Markets will return to normal at some point, however, and the City will be prepared to move forward when the rates are favorable.

**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

City of Hermosa Beach
Required Supplementary Information (Unaudited)
For the year ended June 30, 2008

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, 2008

BUDGETS AND BUDGETARY ACCOUNTING, Continued

Budgetary Comparison Schedule - General Fund

	Budgeted Amounts		Actual	Positive (Negative) Variance with Final Budget
	Original	Final	Amounts	
Fund Balance, July 1, 2007	\$ 264,049	\$ 310,693	\$ 310,693	\$ -
Resources (inflows):				
Property taxes	10,281,609	10,468,776	10,458,034	(10,742)
Other taxes	8,891,038	8,851,073	8,957,445	106,372
Licenses and permits	721,997	741,081	877,775	136,694
Fines and forfeitures	1,723,627	1,786,719	1,957,484	170,765
Use of money and property	276,900	287,900	379,528	91,628
Intergovernmental	231,068	206,077	217,886	11,809
Charges for services	3,848,327	3,881,152	4,081,035	199,883
Miscellaneous	42,608	212,507	302,421	89,914
Interest earned on investments	164,579	76,689	69,974	(6,715)
Transfers in	869,239	869,239	781,918	(87,321)
Amount available for appropriation	27,315,041	27,691,906	28,394,193	702,287
Charges to appropriations (outflows):				
Legislative and legal	944,280	994,677	967,423	27,254
General government	2,197,177	2,328,157	2,233,417	94,740
Public safety	17,282,643	17,329,815	17,139,655	190,160
Community development	1,581,710	1,585,810	1,261,825	323,985
Culture and recreation	1,201,983	1,230,077	1,230,077	-
Public works	3,041,617	3,077,989	2,902,980	175,009
Capital outlay			28,768	(28,768)
Transfers out	798,440	2,131,308	2,131,307	1
Total charges to appropriations	27,047,850	28,677,833	27,895,452	782,381
Fund Balance, June 30, 2008	\$ 267,191	\$ (985,927)	\$ 498,741	\$ 1,484,668

City of Hermosa Beach
Required Supplementary Information (Unaudited), Continued
For the year ended June 30, 2008

BUDGETS AND BUDGETARY ACCOUNTING, Continued

Budgetary Comparison Schedule – Proposition C Fund

	Budgeted Amounts		Actual	Positive (Negative) Variance with Final Budget
	Original	Final	Amounts	
Fund Balance, July 1, 2007	\$ 99,228	\$ 1,788,130	\$ 1,788,130	\$ -
Resources (inflows):				
Other Taxes	262,100	262,100	258,984	(3,116)
Interest earned on investments	109,820	135,739	125,417	(10,322)
Amount available for appropriation	471,148	2,185,969	2,172,531	(13,438)
Charges to appropriations (outflows):				
Public Works		1,600	1,600	-
Capital outlay		1,662,016	3,200	1,658,816
Total charges to appropriations	-	1,662,016	4,800	1,658,816
Fund Balance, June 30, 2008	\$ 471,148	\$ 523,953	\$ 2,167,731	\$ 1,643,778

City of Hermosa Beach
Required Supplementary Information (Unaudited), Continued
For the year ended June 30, 2008

BUDGETS AND BUDGETARY ACCOUNTING, Continued

Budgetary Comparison Schedule - Contingency Fund

	Budgeted Amounts		Actual	Positive (Negative) Variance with Final Budget
	Original	Final	Amounts	
Fund Balance, July 1, 2007	\$ 4,384,403	\$ 4,582,847	\$ 4,582,847	\$ -
Resources (inflows):				
Interest earned on investments	224,309	295,169	260,314	(34,855)
Amount available for appropriation	4,608,712	4,878,016	4,843,161	(34,855)
Charges to appropriations (outflows):				
Transfers out		469,598	469,598	-
Total charges to appropriations	-	469,598	469,598	-
Fund Balance, June 30, 2008	<u>\$ 4,608,712</u>	<u>\$ 4,408,418</u>	<u>\$ 4,373,563</u>	<u>\$ (34,855)</u>

City of Hermosa Beach
Required Supplementary Information (Unaudited), Continued
For the year ended June 30, 2008

BUDGETS AND BUDGETARY ACCOUNTING, Continued

Budgetary Comparison Schedule - Capital Improvement Fund

	Budgeted Amounts		Actual	Positive (Negative) Variance with Final Budget
	Original	Final	Amounts	
Fund Balance, July 1, 2007	\$ 1,268,137	\$ 2,153,186	\$ 2,153,186	\$ -
Resources (inflows):				
CDBG Funds Exchange			100,000	100,000
Interest earned on investments	263,324	142,526	124,746	(17,780)
Transfers in	175,000	175,000	175,000	-
Amount available for appropriation	1,706,461	2,470,712	2,552,932	82,220
Charges to appropriations (outflows):				
Capital outlay	1,420,918	2,200,746	862,179	(1,338,567)
Transfers out	56,305	56,305	56,305	-
Total charges to appropriations	1,477,223	2,257,051	918,484	(1,338,567)
Fund Balance, June 30, 2008	\$ 229,238	\$ 213,661	\$ 1,634,448	\$ 1,420,787

City of Hermosa Beach
Required Supplementary Information (Unaudited), Continued
For the year ended June 30, 2008

Schedule of Funding Progress for the City's OPEB Plan

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

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SUPPLEMENTARY INFORMATION

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NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds:

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

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

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

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.

4% Utility Users Tax Fund - This fund was used to account for funds remaining from a 4% utility users tax which was pledged for lease payments relating to certificates of participation (COPs) for the purchase of open space. The COPs were defeased in 1997. The remaining balance in the fund was closed out to the General Fund in 2007-08.

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.

Taskforce for Regional Auto Theft Prevention (TRAP) Fund - Funds provided by a \$1 fee on vehicle registration implemented by the Los Angeles County Board of Supervisor for a program to deter, investigate and prosecute vehicle theft in Los Angeles County.

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.

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, 2008

Special Revenue Funds						
	Lighting and Landscaping District	State Gas Tax	AB 939	Compensated Absences	Prop A Open Space	Tyco
ASSETS						
Cash and investments	\$ 138,749	\$ 32,152	\$ 298,160	\$ 272,655	\$ 3	\$ 422,337
Reimbursable grants receivable					5,612	
Interest receivable						
on investments	1,374	129	2,974			4,353
Other accounts receivable	17,464	516,239	4,928			
Property taxes receivable	17,688					
Other assets						
Due from other funds						
Total assets	\$ 175,275	\$ 548,520	\$ 306,062	\$ 272,655	\$ 5,615	\$ 426,690
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 22,421		\$ 2,005		5,612	
Accrued wages and compensated absences	16,386		8,032			
Deferred revenue	17,688					78,225
Due to other funds						
Advances to other funds						
Total liabilities	56,495	-	10,037	\$ -	\$ 5,612	\$ 78,225
Fund Balances:						
Reserved:						
Re-appropriations			41,600			
Bike paths		14,752				
Traffic congestion relief		12,682				
Unreserved, designated:						
Special revenue						
Justice and treasury department						
Unreserved, undesignated:						
Special revenue	118,780	521,086	254,425	272,655	3	348,465
Total fund balances	118,780	548,520	296,025	272,655	3	348,465
Total liabilities and fund balances	\$ 175,275	\$ 548,520	\$ 306,062	\$ 272,655	\$ 5,615	\$ 426,690

Special Revenue Funds							
Tyco Tidelands	Parks/ Recreation Facility Tax	4% Utility Users Tax	Building Improvement	Bayview Dr Admin Expense	Lower Pier Admin Expense	Myrtle Dist Admin Expense	Loma Dist Admin Expense
\$ 256,606	\$ 255,202		\$ 3,817	\$ 931	\$ 3,060	\$ 11,129	\$ 14,764
2,552	2,538		31	9		110	147
<u>\$ 259,158</u>	<u>\$ 257,740</u>	<u>\$ -</u>	<u>\$ 3,848</u>	<u>\$ 940</u>	<u>\$ 3,060</u>	<u>\$ 11,239</u>	<u>\$ 14,911</u>
\$ 13,931	\$ 16,964			\$ 414	\$ 337	\$ 491	\$ 689
	5,305						
<u>\$ 13,931</u>	<u>22,269</u>	<u>-</u>	<u>-</u>	<u>414</u>	<u>337</u>	<u>491</u>	<u>689</u>
49,172	167,118						
196,055	68,353	-	3,848	526	2,723	10,748	14,222
245,227	235,471	-	3,848	526	2,723	10,748	14,222
<u>\$ 259,158</u>	<u>\$ 257,740</u>	<u>\$ -</u>	<u>\$ 3,848</u>	<u>\$ 940</u>	<u>\$ 3,060</u>	<u>\$ 11,239</u>	<u>\$ 14,911</u>

(Continued)

City of Hermosa Beach
Combining Balance Sheet, Continued
Non-Major Governmental Funds, Continued
June 30, 2008

	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	\$ 973	\$ 217	\$ 902,074		\$ 125,250	\$ 185,719
Reimbursable grants receivable				\$ 40,515		
Interest receivable on investments	10		8,953		1,241	1,753
Other accounts receivable		1,114	4,265		6,078	
Property taxes receivable						
Other assets			200			
Due from other funds						
Total assets	\$ 983	\$ 1,331	\$ 915,492	\$ 40,515	\$ 132,569	\$ 187,472
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 339	\$ 1,324	\$ 45,586	\$ 7,036		
Accrued wages and compensated absences			528	(3)	(6)	\$ 4,240
Deferred revenue						
Due to other funds				24,235		
Advances from other funds						
Total liabilities	339	1,324	46,114	31,268	(6)	4,240
Fund Balances:						
Reserved:						
Re-appropriations				8,534		26,739
Bike paths						
Traffic Congestion Relief						
Unreserved, designated:						
Special revenue						
Justice and treasury department						
Unreserved, undesignated:						
Special revenue	644	7	869,378	713	132,575	156,493
Total fund balances	644	7	869,378	9,247	132,575	183,232
Total liabilities and fund balances	\$ 983	\$ 1,331	\$ 915,492	\$ 40,515	\$ 132,569	\$ 187,472

Special Revenue Funds							
California Law Enforcement Equipment Program (CLEEP)	Taskforce for Regional Auto Theft Prevention	Sewer	Asset Seizure and Forfeiture	Fire Protection	Retirement Stabilization	Artesia Blvd. Relinquish- ment	Beach Drive 2 Underground District
\$ 1,653		\$ 565,189	\$ 98,043	\$ 66,522	\$ 740,987	\$ 17,822	
12		5,695	975	655	7,370	225	
	\$ 37,756	30,212	14,012				
		5,416					
		53,732					
<u>\$ 1,665</u>	<u>\$ 37,756</u>	<u>\$ 660,244</u>	<u>\$ 113,030</u>	<u>\$ 67,177</u>	<u>\$ 748,357</u>	<u>\$ 18,047</u>	<u>\$ -</u>
		\$ 207,638		\$ 2,454		\$ 2,001	
	\$ 8,259	28,593		26			
	29,497						
							65,520
<u>-</u>	<u>37,756</u>	<u>236,231</u>	<u>\$ -</u>	<u>\$ 2,480</u>	<u>\$ -</u>	<u>2,001</u>	<u>65,520</u>
		54,929		64,697		16,046	
			39,212				
<u>1,665</u>	<u>-</u>	<u>369,084</u>	<u>73,818</u>		<u>748,357</u>		<u>(65,520)</u>
<u>1,665</u>	<u>-</u>	<u>424,013</u>	<u>113,030</u>	<u>64,697</u>	<u>748,357</u>	<u>16,046</u>	<u>(65,520)</u>
<u>\$ 1,665</u>	<u>\$ 37,756</u>	<u>\$ 660,244</u>	<u>\$ 113,030</u>	<u>\$ 67,177</u>	<u>\$ 748,357</u>	<u>\$ 18,047</u>	<u>\$ -</u>

(Continued)

City of Hermosa Beach
Combining Balance Sheet, Continued
Non-Major Governmental Funds, Continued
June 30, 2008

	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	\$ 9,563	\$ 198,352	\$ 88,785		\$ 4,710,714
Reimbursable grants receivable					46,127
Interest receivable on investments	96	1,965	880		44,047
Other accounts receivable					632,068
Property taxes receivable					17,688
Other assets					5,616
Due from other funds					53,732
Total assets	\$ 9,659	\$ 200,317	\$ 89,665	\$ -	\$ 5,509,992
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable					\$ 329,242
Accrued wages and compensated absences					71,360
Deferred revenue					95,913
Due to other funds					53,732
Advances from other funds				200,000	265,520
Total liabilities	\$ -	\$ -	\$ -	200,000	815,767
Fund Balances:					
Reserved:					
Re-appropriations		26,400			455,235
Bike paths					14,752
Strand walkways					12,682
Unreserved, designated:					
Special revenue					
Justice and treasury department					39,212
Unreserved, undesignated:					
Special revenue	9,659	173,917	89,665	(200,000)	4,172,344
Total fund balances	9,659	200,317	89,665	(200,000)	4,694,225
Total liabilities and fund balances	\$ 9,659	\$ 200,317	\$ 89,665	\$ -	\$ 5,509,992

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City of Hermosa Beach
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the year ended June 30, 2008

	Special Revenue Funds					
	Lighting and Landscaping District	State Gas Tax	AB 939	Compensated Absences	Prop A Open Space	Tyco
REVENUES:						
Property taxes	\$ 449,085					
Other taxes						
Fines and forfeitures						
Use of money and property						\$ 300,000
Intergovernmental		\$ 760,898			\$ 26,169	
Charges for services			\$ 58,458			
Miscellaneous	94					
Interest earned on investments	5,524	255	19,419			17,708
Total revenues	454,703	761,153	77,877	\$ -	26,169	317,708
EXPENDITURES:						
Current:						
General government			84,986			
Public safety						
Community development						
Culture & recreation						
Public works	524,232					
Capital outlay		19,518			5,612	251
Total expenditures	524,232	19,518	84,986	-	5,612	251
REVENUES OVER (UNDER) EXPENDITURES	(69,529)	741,635	(7,109)	-	20,557	317,457
OTHER FINANCING SOURCES (USES):						
Transfers in	98,440					
Transfers out	(10,835)	(264,672)		(35,310)	(20,557)	(175,000)
Total other financing sources (uses)	87,605	(264,672)	-	(35,310)	(20,557)	(175,000)
NET CHANGE IN FUND BALANCES	18,076	476,963	(7,109)	(35,310)	-	142,457
FUND BALANCES:						
Beginning of year	100,704	71,557	303,134	307,965	3	206,008
End of year	\$ 118,780	\$ 548,520	\$ 296,025	\$ 272,655	\$ 3	\$ 348,465

Special Revenue Funds							
Tyco Tidelands	Parks/ Recreation Facility Tax	4% Utility Users Tax	Building Improvement	Bayview Dr Admin Expense	Lower Pier Admin Expense	Myrtle Dist Admin Expense	Loma Dist Admin Expense
	\$ 3,500						
	190,536			\$ 4,620	\$ 3,324	\$ 9,391	\$ 10,379
\$ 17,801	9,934	\$ 1,713	\$ 189	83		706	926
17,801	203,970	1,713	189	4,703	3,324	10,097	11,305
				1,565	1,325	5,415	5,879
	3,786						
	57,229						
56,010	37,544						
56,010	98,559	-	-	1,565	1,325	5,415	5,879
(38,209)	105,411	1,713	189	3,138	1,999	4,682	5,426
		(904)		(2,693)	(1,132)	(3,279)	(3,748)
-	-	(904)	-	(2,693)	(1,132)	(3,279)	(3,748)
(38,209)	105,411	809	189	445	867	1,403	1,678
283,436	130,060	(809)	3,659	81	1,856	9,345	12,544
\$ 245,227	\$ 235,471	\$ -	\$ 3,848	\$ 526	\$ 2,723	\$ 10,748	\$ 14,222

(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, 2008

	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			\$ 310,436			\$ 100,000
Fines and forfeitures						
Use of money and property						
Intergovernmental		\$ 9,536		\$ 62,201	\$ 23,259	
Charges for services			5,919			
Miscellaneous	\$ 2,958			9,287		
Interest earned on investments	67		50,731		7,121	10,561
Total revenues	3,025	9,536	367,086	71,488	30,380	110,561
EXPENDITURES:						
Current:						
General government	1,434		98,980		225	
Public safety			39,982	9,192		38,456
Community development		9,534	11,958			
Culture & recreation			15,388			
Public works				3,865		
Capital outlay				57,428		50,444
Total expenditures	1,434	9,534	166,308	70,485	225	88,900
REVENUES OVER (UNDER) EXPENDITURES	1,591	2	200,778	1,003	30,155	21,661
OTHER FINANCING SOURCES (USES):						
Transfers in						
Transfers out	(1,144)					
Total other financing sources (uses)	(1,144)	-	-	-	-	-
NET CHANGE IN FUND BALANCES	447	2	200,778	1,003	30,155	21,661
FUND BALANCES:						
Beginning of year	197	5	668,600	8,244	102,420	161,571
End of year	\$ 644	\$ 7	\$ 869,378	\$ 9,247	\$ 132,575	\$ 183,232

Special Revenue Funds							
California Law Enforcement Equipment Program (CLEEP)	Taskforce for Regional Auto Theft Prevention	Sewer	Asset Seizure and Forfeiture	Fire Protection	Retirement Stabilization	Artesia Blvd. Relinquish- ment	Beach Drive 2 Underground District
			\$ 37,038				
	\$ 147,328	\$ 29,803					
		25,753					
		2,862	5,980	\$ 95,260			
\$ 77		42,260	5,083	6,547	\$ 52,327	\$ 1,854	
77	147,328	100,678	48,101	101,807	52,327	1,854	\$ -
	147,328						
		489,268				4,271	
		509,434		28,219			
-	147,328	998,702	-	28,219	-	4,271	-
77	-	(898,024)	48,101	73,588	52,327	(2,417)	-
		700,000					
		(15,600)		(162,000)	(234,790)		
-	-	684,400	-	(162,000)	(234,790)	-	-
77	-	(213,624)	48,101	(88,412)	(182,463)	(2,417)	-
1,588	-	637,637	64,929	153,109	930,820	18,463	(65,520)
\$ 1,665	\$ -	\$ 424,013	\$ 113,030	\$ 64,697	\$ 748,357	\$ 16,046	\$ (65,520)

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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, 2008

	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					\$ 449,085
Other taxes					413,936
Fines and forfeitures					37,038
Use of money and property					300,000
Intergovernmental					1,059,194
Charges for services					90,130
Miscellaneous					334,691
Interest earned on investments	\$ 597	\$ 12,757	\$ 5,485		269,725
Total revenues	597	12,757	5,485	\$ -	2,953,799
EXPENDITURES:					
Current:					
General government					199,809
Public safety					234,958
Community development					21,492
Culture & recreation					19,174
Public works					1,078,865
Capital outlay		23,444			787,904
Total expenditures	-	23,444	-	-	2,342,202
REVENUES OVER (UNDER) EXPENDITURES	597	(10,687)	5,485	-	611,597
OTHER FINANCING SOURCES (USES):					
Transfers in					798,440
Transfers out					(931,664)
Total other financing sources (uses)	-	-	-	-	(133,224)
NET CHANGE IN FUND BALANCES	597	(10,687)	5,485	-	478,373
FUND BALANCES:					
Beginning of year	9,062	211,004	84,180	(200,000)	4,215,852
End of year	\$ 9,659	\$ 200,317	\$ 89,665	\$ (200,000)	\$ 4,694,225

(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, 2008

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2007	\$ 100,704	\$ 100,704	\$ -
Resources (inflows):			
Property taxes	456,260	449,085	(7,175)
Miscellaneous		94	94
Interest earned on investments	4,310	5,524	1,214
Transfers in	98,440	98,440	-
Amount available for appropriation	659,714	653,847	(5,867)
Charges to appropriations (outflows):			
Public works	591,118	524,232	66,886
Transfers out	10,835	10,835	-
Total charges to appropriations	601,953	535,067	66,886
Fund balance, June 30, 2008	\$ 57,761	\$ 118,780	\$ 61,019

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, 2008

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2007	\$ 71,557	\$ 71,557	\$ -
Resources (inflows):			
Intergovernmental	388,586	760,898	372,312
Interest earned on investments	4,195	255	(3,940)
Amount available for appropriation	464,338	832,710	368,372
Charges to appropriations (outflows):			
Public Works	14,375		14,375
Capital outlay	37,482	19,518	17,964
Transfers out	352,897	264,672	88,225
Total charges to appropriations	404,754	284,190	120,564
Fund balance, June 30, 2008	\$ 59,584	\$ 548,520	\$ 488,936

City of Hermosa Beach

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

AB 939

For the year ended June 30, 2008

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2007	\$ 303,134	\$ 303,134	\$ -
Resources (inflows):			
Charges for services	57,307	58,458	1,151
Interest earned on investments	22,463	19,419	(3,044)
Amount available for appropriation	382,904	381,011	(1,893)
Charges to appropriations (outflows):			
General government	99,264	84,986	14,278
Capital outlay	41,600		41,600
Total charges to appropriations	140,864	84,986	55,878
Fund balance, June 30, 2008	\$ 242,040	\$ 296,025	\$ 53,985

City of Hermosa Beach

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

Compensated Absences

For the year ended June 30, 2008

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2007	\$ 307,965	\$ 307,965	\$ -
Charges to appropriations (outflows):			
Transfers out	35,310	35,310	-
Total charges to appropriations	35,310	35,310	-
Fund balance, June 30, 2008	<u>\$ 272,655</u>	<u>\$ 272,655</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, 2008

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2007	\$ 3	\$ 3	\$ -
Resources (inflows):			
Intergovernmental	370,557	26,169	(344,388)
Amount available for appropriation	370,560	26,172	(344,388)
Charges to appropriations (outflows):			
Capital outlay	350,000	5,612	344,388
Transfers out	20,557	20,557	-
Total charges to appropriations	370,557	26,169	344,388
Fund balance, June 30, 2008	\$ 3	\$ 3	\$ -

City of Hermosa Beach

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

Tyco

For the year ended June 30, 2008

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2007	\$ 206,008	\$ 206,008	\$ -
Resources (inflows):			
Use of money and property	300,000	300,000	-
Interest earned on investments	16,751	17,708	957
Amount available for appropriation	522,759	523,716	957
Charges to appropriations (outflows):			
Capital outlay	213,799	251	213,548
Transfers out	175,000	175,000	-
Total charges to appropriations	388,799	175,251	213,548
Fund balance, June 30, 2008	\$ 133,960	\$ 348,465	\$ 214,505

City of Hermosa Beach

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

Tyco Tidelands

For the year ended June 30, 2008

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2007	\$ 283,436	\$ 283,436	\$ -
Resources (inflows):			
Interest earned on investment	20,947	17,801	(3,146)
Amount available for appropriation	304,383	301,237	(3,146)
Charges to appropriations (outflows):			
Capital outlay	301,950	56,010	245,940
Total charges to appropriations	301,950	56,010	245,940
Fund balance, June 30, 2008	\$ 2,433	\$ 245,227	\$ 242,794

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, 2008

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2007	\$ 130,060	\$ 130,060	\$ -
Resources (inflows):			
Other taxes	3,500	3,500	-
Miscellaneous	155,248	190,536	35,288
Interest earned on investments	9,909	9,934	25
Amount available for appropriation	298,717	334,030	35,313
Charges to appropriations (outflows):			
Culture and recreation	17,234	3,786	13,448
Public works	90,999	57,229	33,770
Capital outlay	190,484	37,544	152,940
Total charges to appropriations	298,717	98,559	200,158
Fund balance, June 30, 2008	\$ -	\$ 235,471	\$ 235,471

City of Hermosa Beach

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

4% Utility Users Tax

For the year ended June 30, 2008

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2007	\$ (809)	\$ (809)	\$ -
Resources (inflows):			
Interest earned on investments	809	1,713	904
Amount available for appropriation	-	904	904
Charges to appropriations (outflows):			
Transfers out		904	(904)
Total charges to appropriations	-	904	(904)
Fund balance, June 30, 2008	\$ -	\$ -	\$ -

City of Hermosa Beach

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

Building Improvement

For the year ended June 30, 2008

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2007	\$ 3,659	\$ 3,659	\$ -
Resources (inflows):			
Interest earned on investments	214	189	(25)
Amount available for appropriation	3,873	3,848	(25)
Fund balance, June 30, 2008	\$ 3,873	\$ 3,848	\$ (25)

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, 2008

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2007	\$ 81	\$ 81	\$ -
Resources (inflows):			
Miscellaneous	4,620	4,620	-
Interest earned on investments	41	83	42
Amount available for appropriation	4,742	4,784	42
Charges to appropriations (outflows):			
General government	1,944	1,565	379
Transfers out	2,693	2,693	-
Total charges to appropriations	4,637	4,258	379
Fund balance, June 30, 2008	\$ 105	\$ 526	\$ 421

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, 2008

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2007	\$ 1,856	\$ 1,856	\$ -
Resources (inflows):			
Miscellaneous	3,324	3,324	-
Amount available for appropriation	5,180	5,180	-
Charges to appropriations (outflows):			
General government	2,215	1,325	890
Transfers out	1,132	1,132	-
Total charges to appropriations	3,347	2,457	890
Fund balance, June 30, 2008	\$ 1,833	\$ 2,723	\$ 890

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, 2008

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2007	\$ 9,345	\$ 9,345	\$ -
Resources (inflows):			
Miscellaneous	9,391	9,391	-
Interest earned on investments	755	706	(49)
Amount available for appropriation	19,491	19,442	(49)
Charges to appropriations (outflows):			
General government	6,157	5,415	742
Transfers out	3,279	3,279	-
Total charges to appropriations	9,436	8,694	742
Fund balance, June 30, 2008	\$ 10,055	\$ 10,748	\$ 693

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, 2008

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2007	\$ 12,544	\$ 12,544	\$ -
Resources (inflows):			
Miscellaneous	10,379	10,379	-
Interest earned on investments	981	926	(55)
Amount available for appropriation	23,904	23,849	(55)
Charges to appropriations (outflows):			
General government	6,634	5,879	755
Transfers out	3,748	3,748	-
Total charges to appropriations	10,382	9,627	755
Fund balance, June 30, 2008	\$ 13,522	\$ 14,222	\$ 700

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, 2008

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2007	\$ 197	\$ 197	\$ -
Resources (inflows):			
Miscellaneous	2,958	2,958	-
Interest earned on investments	31	67	36
Amount available for appropriation	3,186	3,222	36
Charges to appropriations (outflows):			
General government	1,896	1,434	462
Transfers out	1,144	1,144	-
Total charges to appropriations	3,040	2,578	462
Fund balance, June 30, 2008	\$ 146	\$ 644	\$ 498

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, 2008

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2007	\$ 5	\$ 5	\$ -
Resources (inflows):			
Intergovernmental	193,709	9,536	(184,173)
Amount available for appropriation	193,714	9,541	(184,173)
Charges to appropriations (outflows):			
Community development	10,409	9,534	875
Capital outlay	183,300		183,300
Total charges to appropriations	193,709	9,534	184,175
Fund balance, June 30, 2008	\$ 5	\$ 7	\$ 2

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, 2008

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2007	\$ 668,600	\$ 668,600	\$ -
Resources (inflows):			
Other taxes	315,511	310,436	(5,075)
Charges for services	5,880	5,919	39
Interest earned on investments	53,584	50,731	(2,853)
Amount available for appropriation	1,043,575	1,035,686	(7,889)
Charges to appropriations (outflows):			
General government	99,154	98,980	174
Public safety	43,164	39,982	3,182
Community development	11,983	11,958	25
Culture and recreation	30,000	15,388	14,612
Total charges to appropriations	184,301	166,308	17,993
Fund balance, June 30, 2008	\$ 859,274	\$ 869,378	\$ 10,104

City of Hermosa Beach

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

For the year ended June 30, 2008

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2007	\$ 8,244	\$ 8,244	\$ -
Resources (inflows):			
Intergovernmental	1,378,739	62,201	(1,316,538)
Miscellaneous	9,229	9,287	58
Amount available for appropriation	1,396,212	79,732	(1,316,480)
Charges to appropriations (outflows):			
Public safety	9,229	9,192	37
Public works	13,039	3,865	9,174
Capital outlay	1,373,574	57,428	1,316,146
Total charges to appropriations	1,395,842	70,485	1,325,357
Fund balance, June 30, 2008	\$ 370	\$ 9,247	\$ 8,877

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, 2008

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2007	\$ 102,420	\$ 102,420	\$ -
Resources (inflows):			
Intergovernmental	23,751	23,259	(492)
Interest earned on investments	7,398	7,121	(277)
Amount available for appropriation	133,569	132,800	(769)
Charges to appropriations (outflows):			
General government	1,000	225	775
Total charges to appropriations	1,000	225	775
Fund balance, June 30, 2008	\$ 132,569	\$ 132,575	\$ 6

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, 2008

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2007	\$ 161,571	\$ 161,571	\$ -
Resources (inflows):			
Other taxes	100,000	100,000	-
Interest earned on investments	13,179	10,561	(2,618)
Amount available for appropriation	274,750	272,132	(2,618)
Charges to appropriations (outflows):			
Public safety	78,043	38,456	39,587
Capital outlay	86,616	50,444	36,172
Total charges to appropriations	164,659	88,900	75,759
Fund balance, June 30, 2008	\$ 110,091	\$ 183,232	\$ 73,141

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, 2008

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2007	\$ 1,588	\$ 1,588	\$ -
Resources (inflows):			
Interest earned on investments	97	77	(20)
Amount available for appropriation	1,685	1,665	(20)
Fund balance, June 30, 2008	\$ 1,685	\$ 1,665	\$ (20)

City of Hermosa Beach

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

Taskforce for Regional Auto Theft Prevention

For the year ended June 30, 2008

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2007			\$ -
Resources (inflows):			
Intergovernmental	\$ 147,329	\$ 147,328	(1)
Amount available for appropriation	147,329	147,328	(1)
Charges to appropriations (outflows):			
Public safety	147,329	147,328	1
Total charges to appropriations	147,329	147,328	1
Fund balance, June 30, 2008	\$ -	\$ -	\$ -

City of Hermosa Beach

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

Sewer

For the year ended June 30, 2008

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2007	\$ 637,637	\$ 637,637	\$ -
Resources (inflows):			
Intergovernmental	30,164	29,803	(361)
Charges for services	29,751	25,753	(3,998)
Miscellaneous	4,000	2,862	(1,138)
Interest earned on investments	50,710	42,260	(8,450)
Transfers in	700,000	700,000	-
Amount available for appropriation	1,452,262	1,438,315	(13,947)
Charges to appropriations (outflows):			
Public works	653,205	489,268	163,937
Capital outlay	681,999	509,434	172,565
Transfers out	15,600	15,600	-
Total charges to appropriations	1,350,804	1,014,302	336,502
Fund balance, June 30, 2008	\$ 101,458	\$ 424,013	\$ 322,555

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, 2008

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2007	\$ 64,929	\$ 64,929	\$ -
Resources (inflows):			
Fines and forfeitures	13,000	37,038	24,038
Miscellaneous		5,980	5,980
Interest earned on investments	5,055	5,083	28
Amount available for appropriation	82,984	113,030	30,046
Fund balance, June 30, 2008	\$ 82,984	\$ 113,030	\$ 30,046

City of Hermosa Beach

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

Fire Protection

For the year ended June 30, 2008

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2007	\$ 153,109	\$ 153,109	\$ -
Resources (inflows):			
Miscellaneous	102,775	95,260	(7,515)
Interest earned on investments	9,957	6,547	(3,410)
Amount available for appropriation	265,841	254,916	(10,925)
Charges to appropriations (outflows):			
Capital outlay	103,840	28,219	75,621
Transfers out	162,000	162,000	-
Total charges to appropriations	265,840	190,219	75,621
Fund balance, June 30, 2008	\$ 1	\$ 64,697	\$ 64,696

City of Hermosa Beach

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

Retirement Stabilization

For the year ended June 30, 2008

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2007	\$ 930,820	\$ 930,820	\$ -
Resources (inflows):			
Interest earned on investments	65,390	52,327	(13,063)
Amount available for appropriation	996,210	983,147	(13,063)
Charges to appropriations (outflows):			
Transfers out	234,790	234,790	-
Total charges to appropriations	234,790	234,790	-
Fund balance, June 30, 2008	\$ 761,420	\$ 748,357	\$ (13,063)

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, 2008

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2007	\$ 18,463	\$ 18,463	\$ -
Resources (inflows):			
Interest earned on investments	3,591	1,854	(1,737)
Amount available for appropriation	22,054	20,317	(1,737)
Charges to appropriations (outflows):			
Public works	4,271	4,271	-
Capital outlay	17,783		17,783
Total charges to appropriations	22,054	4,271	17,783
Fund balance, June 30, 2008	\$ -	\$ 16,046	\$ 16,046

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, 2008

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2007	\$ (65,520)	\$ (65,520)	\$ -
Amount available for appropriation	(65,520)	(65,520)	-
Fund balance, June 30, 2008	\$ (65,520)	\$ (65,520)	\$ -

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, 2008

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2007	\$ 9,062	\$ 9,062	\$ -
Resources (inflows):			
Interest earned on investments	654	597	(57)
Amount available for appropriation	9,716	9,659	(57)
Fund balance, June 30, 2008	<u>\$ 9,716</u>	<u>\$ 9,659</u>	<u>\$ (57)</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, 2008

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2007	\$ 211,004	\$ 211,004	\$ -
Resources (inflows):			
Interest earned on investments	15,069	12,757	(2,312)
Amount available for appropriation	226,073	223,761	(2,312)
Charges to appropriations (outflows):			
Capital outlay	180,531	23,444	157,087
Total charges to appropriations	180,531	23,444	157,087
Fund balance, June 30, 2008	\$ 45,542	\$ 200,317	\$ 154,775

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, 2008

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2007	\$ 84,180	\$ 84,180	\$ -
Resources (inflows):			
Interest earned on investments	6,229	5,485	(744)
Amount available for appropriation	90,409	89,665	(744)
Fund balance, June 30, 2008	\$ 90,409	\$ 89,665	\$ (744)

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, 2008

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2007	\$ (200,000)	\$ (200,000)	\$ -
Amount available for appropriation	(200,000)	(200,000)	-
Fund balance, June 30, 2008	\$ (200,000)	\$ (200,000)	\$ -

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, 2008

	Insurance Fund	Equipment Replacement Fund	Total
ASSETS			
Current assets:			
Cash and investments	\$ 4,631,581	\$ 2,922,315	\$ 7,553,896
Other accounts receivables		450	450
Deposits	140,000		140,000
Advances to other funds	618,326	618,327	1,236,653
Other assets	1,959	10,337	12,296
Total current assets	5,391,866	3,551,429	8,943,295
Capital assets, net of accumulated depreciation		2,447,422	2,447,422
Total assets	5,391,866	5,998,851	11,390,717
LIABILITIES			
Current liabilities:			
Current portion of long-term liabilities	1,338,538		1,338,538
Accounts payable	159,167	76,644	235,811
Accrued wages and compensated absences	24,189	20,167	44,356
Total current liabilities	1,521,894	96,811	1,618,705
Long-term liabilities:			
Workers' compensation claims payable	3,611,218		3,611,218
General liability claims payable	1,545,212		1,545,212
Less current portion above	(1,338,538)		(1,338,538)
Total long-term liabilities	3,817,892	-	3,817,892
Total liabilities	5,339,786	96,811	5,436,597
NET ASSETS			
Invested in capital assets		2,447,422	2,447,422
Reserved:			
Re-appropriations		251,116	251,116
Unrestricted	52,080	3,203,502	3,255,582
Total net assets	\$ 52,080	\$ 5,902,040	\$ 5,954,120

City of Hermosa Beach

Combining Statement of Revenues, Expenses, and Changes in Net Assets

All Internal Service Funds

For the year ended June 30, 2008

	Insurance Fund	Equipment Replacement Fund	Total
OPERATING REVENUES:			
Charges for services	\$ 1,904,711	\$ 1,342,414	\$ 3,247,125
Miscellaneous	132,256	3,027	135,283
Total operating revenues	2,036,967	1,345,441	3,382,408
OPERATING EXPENSES:			
Salaries and wages	136,985	247,160	384,145
Contractor services	1,169,627	275,780	1,445,407
Supplies	255	269,816	270,071
Claims expense	3,355,596		3,355,596
Depreciation		438,258	438,258
Total operating expenses	4,662,463	1,231,014	5,893,477
OPERATING INCOME (LOSS)	(2,625,496)	114,427	(2,511,069)
NONOPERATING REVENUES (EXPENSES):			
Gain on disposal of capital assets		19,018	19,018
Total nonoperating revenues (expenses)	-	19,018	19,018
INCOME (LOSS) BEFORE TRANSFERS	(2,625,496)	133,445	(2,492,051)
Transfers in	1,837,775		1,837,775
CHANGE IN NET ASSETS	(787,721)	133,445	(654,276)
NET ASSETS			
Beginning of the year	839,801	5,768,595	6,608,396
End of the year	\$ 52,080	\$ 5,902,040	\$ 5,954,120

City of Hermosa Beach
Combining Statement of Cash Flows
All Internal Service Funds
For the year ended June 30, 2008

	Insurance Fund	Equipment Replacement Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 133,157	\$ 106,987	\$ 240,144
Cash received for services from other funds	1,904,711	1,342,414	3,247,125
Cash payments to suppliers of goods and services	(1,290,783)	(513,486)	(1,804,269)
Cash payments to employees for services	(135,955)	(248,714)	(384,669)
Insurance premiums and settlements	(2,097,331)		(2,097,331)
Net cash provided by (used for) operating activities	(1,486,201)	687,201	(799,000)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	1,837,775		1,837,775
Net cash provided by (used for) noncapital financing activities	1,837,775	-	1,837,775
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of capital assets		(440,743)	(440,743)
Net cash provided by (used for) capital and related financing activities	-	(440,743)	(440,743)
Net increase (decrease) in cash and cash equivalents	351,574	246,458	598,032
CASH AND CASH EQUIVALENTS:			
Beginning of year	4,280,007	2,675,857	6,955,864
End of year	<u>\$ 4,631,581</u>	<u>\$ 2,922,315</u>	<u>\$ 7,553,896</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:			
Operating income (loss)	\$ (2,625,496)	\$ 114,427	\$ (2,511,069)
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:			
Depreciation		438,258	438,258
Changes in current assets and liabilities:			
Other Accounts Receivables	509	3,136	3,645
Deposits	(60,000)		(60,000)
Advances to other funds	61,525	61,524	123,049
Other assets	(1,133)	39,300	38,167
Worker's compensation claims payable	822,787		822,787
General liability claims payable	435,478		435,478
Accounts payable	(120,901)	32,110	(88,791)
Accrued wages and compensated absences	1,030	(1,554)	(524)
Total adjustments	1,139,295	572,774	1,712,069
Net cash provided by (used for) operating activities	\$ (1,486,201)	\$ 687,201	\$ (799,000)
DISCLOSURE OF NON-CASH TRANSACTION:			
Gain on disposal of capital assets	\$ -	\$ 19,018	\$ 19,018

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, 2008

	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	\$ 51,983	\$ 38,652	\$ 25,661	\$ 3,708	\$ 92,352	\$ 91,615	\$ 12,170	\$ 316,141
Interest receivable	514	383	254	37	917	909	120	3,134
Other accounts receivable	5,526	3,027			2,435	6,085		17,073
Total assets	\$ 58,023	\$ 42,062	\$ 25,915	\$ 3,745	\$ 95,704	\$ 98,609	\$ 12,290	\$ 336,348
LIABILITIES								
Assessment:								
Installment account	\$ 58,023	\$ 42,062	\$ 25,915		\$ 95,704	\$ 98,609		\$ 320,313
Reserve requirement				\$ 3,745			\$ 12,290	16,035
Total liabilities	\$ 58,023	\$ 42,062	\$ 25,915	\$ 3,745	\$ 95,704	\$ 98,609	\$ 12,290	\$ 336,348

City of Hermosa Beach
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
For the year ended June 30, 2008

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
ASSETS				
Bayview Drive Redemption Fund:				
Cash and investments	\$ 67,781	\$ 184,479	\$ (200,277)	\$ 51,983
Interest receivable	1,184	607	(1,277)	514
Other accounts receivable	2,189	5,525	(2,188)	5,526
Lower Pier District Redemption Fund:				
Cash and investments	39,175	45,884	(46,407)	38,652
Interest receivable	685	420	(722)	383
Other accounts receivable	1,533	3,027	(1,533)	3,027
Beach Drive Assessment District Redemption Fund:				
Cash and investments	22,905	38,344	(35,588)	25,661
Interest receivable	401	891	(1,038)	254
Other accounts receivable	1,547		(1,547)	-
Beach Drive Assessment District Reserve Fund:				
Cash and investments	3,461	350	(103)	3,708
Interest receivable	61	41	(65)	37
Myrtle Avenue Assessment Fund:				
Cash and investments	83,367	113,918	(104,933)	92,352
Interest receivable	1,461	1,002	(1,546)	917
Other accounts receivable	5,631	2,436	(5,632)	2,435
Loma Drive Assessment Fund:				
Cash and investments	88,868	138,134	(135,387)	91,615
Interest receivable	1,555	1,014	(1,660)	909
Other accounts receivable	5,133	6,736	(5,784)	6,085
Bayview Drive Reserve Fund				
Cash and investments	11,357	1,165	(352)	12,170
Interest receivable	198	150	(228)	120
Total assets	<u>\$ 338,492</u>	<u>\$ 544,123</u>	<u>\$ (546,267)</u>	<u>\$ 336,348</u>
LIABILITIES				
Bayview Drive Redemption Fund:				
Assessment installment account	\$ 71,154	\$ 190,611	\$ (203,742)	\$ 58,023
Lower Pier District Redemption Fund:				
Assessment installment account	41,393	49,331	(48,662)	42,062
Beach Drive Assessment District Redemption Fund:				
Assessment installment account	24,853	39,235	(38,173)	25,915
Beach Drive Assessment District Reserve Fund:				
Reserve requirement	3,522	391	(168)	3,745
Myrtle Avenue Assessment Funds:				
Assessment installment account	90,459	117,356	(112,111)	95,704
Loma Drive Assessment Fund:				
Assessment installment account	95,556	145,884	(142,831)	98,609
Bayview Drive Reserve Fund				
Reserve requirement	11,555	1,315	(580)	12,290
Total liabilities	<u>\$ 338,492</u>	<u>\$ 544,123</u>	<u>\$ (546,267)</u>	<u>\$ 336,348</u>

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**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, 2008

GOVERNMENTAL FUNDS CAPITAL ASSETS:

Land	\$ 17,448,235
Buildings and improvements	4,504,563
Improvements other than buildings	13,227,866
Machinery and equipment	1,865,577
Vehicles	25,996
Construction in progress	41,334,029
Infrastructure	1,321,521
Total governmental funds capital assets	79,727,787
Accumulated depreciation	(25,057,677)
Total governmental funds capital assets, net	\$ 54,670,110

INVESTMENTS IN GOVERNMENTAL FUNDS CAPITAL ASSETS BY SOURCE:

State grants	\$ 62,880
General fund revenues	32,383,483
Special revenue funds revenues	46,946,706
Donated assets	334,718
Total governmental funds capital assets	79,727,787
Accumulated depreciation	(25,057,677)
Total governmental funds capital assets, net	\$ 54,670,110

* 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, 2008

	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	\$ 2,006,824	\$ 97,728	\$ 307,431				\$ 2,719,332
Public safety		534,812	751,295	1,228,938	\$ 25,996			2,541,041
Community development			99,858	12,755				112,613
Culture and recreation	650,000	1,017,601	203,154	118,848				1,989,603
Public works	16,490,886	945,326	12,075,831	197,605		\$ 41,334,029	\$ 1,321,521	72,365,198
Total governmental funds capital assets	17,448,235	4,504,563	13,227,866	1,865,577	25,996	41,334,029	1,321,521	79,727,787
Accumulated depreciation		(1,704,709)	(5,454,528)	(1,069,632)	(15,157)	(16,813,651)		(25,057,677)
Total governmental funds capital assets	\$ 17,448,235	\$ 2,799,854	\$ 7,773,338	\$ 795,945	\$ 10,839	\$ 24,520,378	\$ 1,321,521	\$ 54,670,110

* 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, 2008

	Capital Assets July 1, 2007	Additions	Deletions	Capital Assets June 30, 2008
Function and Activity:				
General government	\$ 2,719,332			\$ 2,719,332
Public safety	2,430,916	\$ 110,125		2,541,041
Community development	112,613			112,613
Culture and recreation	1,989,604			1,989,604
Public works	71,079,102	1,557,766	\$ (271,671)	72,365,197
Total governmental funds capital assets	78,331,567	1,667,891	(271,671)	79,727,787
Accumulated depreciation	(22,508,274)	(2,549,403)		(25,057,677)
Total governmental funds capital assets, net	\$ 55,823,293	\$ (881,512)	\$ (271,671)	\$ 54,670,110

* 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	151
These schedules contain trend information to help the reader understand how the government's financial performance and well being have changed over time.	
Revenue Capacity	154
These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.	
Debt Capacity	163
These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future. ¹	
Demographic and Economic Information	166
These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.	
Operating Information	168
These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.	

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

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

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

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
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
Restricted	524,561	2,217,823	3,305,478	3,590,623	3,813,004	5,171,642
Unrestricted	15,165,745	15,218,039	14,932,486	15,221,233	12,424,195	10,619,806
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>
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
Restricted	864,024					
Unrestricted	780,346	827,781	502,758	237,824	(1,604,154)	(1,443,914)
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>
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
Restricted	1,388,585	2,217,823	3,305,478	3,590,623	3,813,004	5,171,642
Unrestricted	15,946,091	16,045,820	15,435,244	15,459,057	10,820,041	9,175,892
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>

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

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

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Expenses:						
Governmental activities:						
Legislative and legal	\$ 810,589	\$ 755,591	\$ 737,903	\$ 962,682	\$ 867,481	\$ 990,342
General government	1,415,000	1,816,801	1,727,484	1,999,234	2,523,060	2,544,004
Public safety	10,415,111	11,219,997	12,855,036	15,167,715	17,237,156	19,569,031
Community development	968,000	1,115,600	1,355,888	1,349,891	1,424,766	1,358,051
Culture and recreation	1,045,567	965,440	996,021	1,149,070	1,253,882	1,343,223
Public works	4,136,564	4,592,460	6,687,811	7,980,811	7,106,083	6,942,530
Total governmental activities expenses	18,790,831	20,465,889	24,360,143	28,609,403	30,412,428	32,747,181
Business-type activities:						
Downtown Enhancement	909,137	939,576	166,732	1,130,499	1,096,039	1,133,746
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	1,096,039	1,133,746
Total primary government expenses	21,631,337	23,395,790	26,228,650	29,739,902	31,508,467	33,880,927
Program revenues:						
Governmental activities:						
Charges for services:						
General government	89,037	84,745	88,375	458,900	497,423	563,583
Public safety	833,755	914,655	1,063,594	3,891,881	4,078,709	4,423,335
Community development	768,241	929,695	1,245,622	1,393,212	1,179,786	1,262,109
Culture and recreation	708,296	793,748	874,111	986,137	944,229	1,092,512
Public works	203,533	689,457	2,368,076	808,091	835,845	877,367
Operating grants and contributions	642,214	674,451	721,198	725,136	755,716	731,097
Capital grants and contributions	475,933	665,806	2,465,698	1,042,854	286,930	68,862
Total governmental activities program revenues:	3,721,009	4,752,557	8,826,674	9,306,211	8,578,638	9,018,865
Business-type activities:						
Charges for services:						
Downtown Enhancement	774,865	879,495	906,857	1,187,249	1,144,666	1,088,298
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	1,144,666	1,088,298
Total primary government program revenues:	7,013,585	8,541,579	12,981,009	10,493,460	9,723,304	10,107,163

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

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Net revenues (expenses):						
Governmental activities	(15,069,822)	(15,713,332)	(15,533,469)	(19,303,192)	(21,833,790)	(23,728,316)
Business-type activities	452,070	859,121	2,285,828	56,750	48,627	(45,448)
Total net revenues (expenses)	(14,617,752)	(14,854,211)	(13,247,641)	(19,246,442)	(21,785,163)	(23,773,764)
General revenues and other changes in net assets:						
Governmental activities:						
Taxes:						
Property taxes	5,282,147	5,885,480	6,221,535	8,361,888	9,383,544	10,458,034
Sales tax	2,508,346	2,596,135	2,584,015	2,511,004	2,395,390	2,500,659
Other taxes	5,166,212	5,559,070	5,897,908	6,186,641	6,414,534	6,456,786
Grants and contributions not restricted to specific programs	3,111,569	1,229,911	2,318,501	1,537,667	1,273,625	1,472,191
Investment income	439,050	177,757	467,923	753,746	1,097,128	850,176
Other general revenues	400,658	615,309	272,664	113	170,325	503,414
Transfers	990,593	2,356,585	1,507,304	144,451	11,255	4,259
Total governmental activities	17,898,575	18,420,247	19,269,850	19,495,510	20,745,801	22,245,519
Business-type activities:						
Investment income	96,117	73,519	96,365	33,154	48,113	28,320
Other general revenues	498,276	530,773	¹			
Miscellaneous	10,812	12,966	243	6,323	86,112	57,840
Transfers	(990,593)	(2,356,585)	(1,507,304)	(144,451)	(11,255)	(4,259)
Total business-type activities	(385,388)	(1,739,327)	(1,410,696)	(104,974)	122,970	81,901
Total primary government	17,513,187	16,680,920	17,859,154	19,390,536	20,868,771	22,327,420
Changes in net assets						
Governmental activities:	2,828,753	2,706,915	3,736,381	192,318	(1,087,989)	(1,482,797)
Business-type activities:	66,682	(880,206)	875,132	(48,224)	171,597	36,453
Total primary government	\$ 2,895,435	\$ 1,826,709	\$ 4,611,513	\$ 144,094	\$ (916,392)	\$ (1,446,344)

The City of Hermosa Beach has elected to show only six 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 Six 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

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

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

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
General Fund:						
Reserved	\$ 231,701	\$ 230,527	\$ 103,014	\$ 158,854	\$ 142,604	\$ 241,142
Unreserved	461,115	403,455	373,817	211,191	168,089	257,599
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>
All other governmental funds:						
Reserved	909,806	1,459,679	4,107,762	3,845,091	3,875,682	1,734,658
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>
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>

The City of Hermosa Beach has elected to show only six 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 Six Fiscal Years
(modified accrual basis of accounting)

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

The City of Hermosa Beach has elected to show only six 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 Six 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

The City of Hermosa Beach has elected to show only six 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
1999	\$ 1,604,556	\$ 142,533	\$ 6,653	\$ 95,797	\$ (31,151)	\$ 1,818,388	1.00	\$ 1,849,539	
2000	1,785,340	145,703	6,735	101,038	(29,734)	2,009,081	1.00	2,038,816	10.49%
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%

NOTE:

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

Source: Los Angeles County Auditor-Controller

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

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

Fiscal Year	City direct rate	Overlapping rates					Total
	Basic rate	Hermosa Beach School District	El Camino Community College District	Los Angeles County	Flood Control District	Metropolitan Water District	
1999	1.000000			0.001422	0.001765	0.008900	1.012087
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

Source: Los Angeles County Auditor-Controller

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

Taxpayer	2008		1999	
	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)	\$ 70,204,000	1.61%		
EQR Gallery Apartments Limited Partnership (1)	64,609,100	1.48%		
Regency Centers Limited Partnership (7)	13,749,002	0.32%	\$ 15,823,327	0.87%
Barbara K. Robinson (3)	12,062,764	0.28%		
Beta Group (2)	11,872,994	0.27%	8,631,709	0.47%
Robert J. & Ranae R. Desantis Trust (1)	11,471,876	0.26%		
Delphi Properties 1722 Strand LLC (4)	11,139,356	0.26%		
CAC Exchange I LLC (3)	10,361,694	0.24%		
Sepulveda Boulevard Properties LLC (2)	9,425,000	0.22%		
Rolling Investment Holdings (1)	8,688,400	0.20%		
Playa Pacifica Limited (2)			10,697,400	0.59%
International Church of the Foursquare (7)			8,658,210	0.48%
California Water Service Company (4)			7,101,498	0.39%
Cheng Yi and Ying Yin Chang (1)			6,674,808	0.37%
Roger E. Bacon (5)			5,313,165	0.29%
Century Valley Cable Corporation (2)			4,776,089	0.26%
Shook Development Corporation (2)			4,388,407	0.24%
Aviation Suites LLC (2)			3,848,220	0.21%
	<u>\$ 88,771,086</u>	<u>5.14%</u>	<u>\$ 75,912,833</u>	<u>4.17%</u>

Source: HdL Coren & Cone, Los Angeles County Assessor Combined Tax Rolls
Numbers in parentheses represent the number of parcels owned by the tax payer.

City of Hermosa Beach
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal year ended June 30	Taxes levied for the fiscal year	Collected within the fiscal year of levy		Collections in subsequent years	Total collections to date	
		Percent			Percent	
		Amount	of levy		Amount	of levy
1999	\$ 3,623,653	\$ 3,442,675	95.01%	\$ 132,062	\$ 3,574,737	98.65%
2000	4,002,324	3,808,235	95.15%	119,930	3,928,165	98.15%
2001	4,370,463	4,239,808	97.01%	152,899	4,392,707	100.51%
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%		8,237,323	89.61%

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	
1999	594	\$ 37,648,012	55	\$ 6,857,053	\$ 1,849,539,164
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

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

City of Hermosa Beach

Direct and Overlapping Debt

June 30, 2008

City assessed valuation		\$ 4,358,356,873	
Redevelopment agency incremental valuation		-	
Total assessed valuation		<u>\$ 4,358,356,873</u>	
	Percentage applicable	Outstanding debt 6/30/08	Estimated share of overlapping debt
Overlapping debt repaid with property taxes:			
West Basin Water District debt service	0.055%	150,054,336	\$ 825,052
El Camino Community College District 2002 series 2003A	5.849%	9,625,000	563,013
El Camino Community College District 2005 refunding	5.849%	31,036,201	1,815,457
El Camino Community College District 2002 series 2006B	5.849%	<u>145,400,000</u>	<u>8,505,148</u>
Total overlapping debt repaid with property taxes		<u>\$ 336,115,537</u>	<u>11,708,670</u>
City direct debt			
Hermosa Beach City School District debt service 2002	100.000%	1,904,401	1,904,401
Hermosa Beach School District debt service 2005	100.000%	10,669,372	<u>10,669,372</u>
Total city direct debt			<u>12,573,773</u>
Total direct and overlapping debt			<u>\$ 24,282,443</u>

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

City of Hermosa Beach

Legal Debt Margin Information

Last Ten Fiscal Years

	Fiscal Year				
	1999	2000	2001	2002	2003
Assessed valuation	\$ 1,849,539,164	\$ 2,038,815,726	\$ 2,219,952,219	\$ 2,425,823,846	\$ 2,626,125,947
Conversion percentage	25%	25%	25%	25%	25%
Adjusted assessed valuation	\$ 462,384,791	\$ 509,703,932	\$ 554,988,055	\$ 606,455,962	\$ 656,531,487
Debt limit percentage	15%	15%	15%	15%	15%
Debt limit	\$ 69,357,719	\$ 76,455,590	\$ 83,248,208	\$ 90,968,394	\$ 98,479,723
Total net debt applicable to limit	\$ -	\$ -	\$ -	\$ -	\$ -
Legal debt margin	<u>\$ 69,357,719</u>	<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%	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
\$ 2,874,383,847	\$ 3,141,870,060	\$ 3,497,977,443	\$ 3,930,224,784	\$ 4,382,493,918
25%	25%	25%	25%	25%
\$ 718,595,962	\$ 785,467,515	\$ 874,494,361	\$ 982,556,196	\$ 1,095,623,480
15%	15%	15%	15%	15%
\$ 107,789,394	\$ 117,820,127	\$ 131,174,154	\$ 147,383,429	\$ 164,343,522
\$ -	\$ -	\$ -	\$ -	\$ -
<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>
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)
1998	19,098	\$ 253,515,785	\$ 27,220	\$ 44,791	1.6%	1,346
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				2.0%	1,449
2008	19,527				2.9%	1,518

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 2007 or 2008.

(3) Personal Income figures for 1998, 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	2008		1999		¹
	Number of employees	Percent of total employment	Number of employees	Percent of total employment	
City of Hermosa Beach	184	4.63%	211	0.00%	
24 Hour Fitness	158	3.98%			
Von's Companies	142	3.58%	105	0.00%	
Shorewood Realtors, Incorporated	99	2.49%			
Hope Chapel	91	2.29%	130	0.00%	
Ralph's Grocery	77	1.94%	65	0.00%	
Hermosa Beach School District	67	1.69%	100	0.00%	
Patrick Molloy's	64	1.61%			
Comedy & Magic Club	54	1.36%			
Glen Ivy Hot Springs, Incorporated	52	1.31%			
Vasek Polak, Incorporated			122	0.00%	
Hennesey's Tavern			100	0.00%	
Lucky's Grocery			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 1999.

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									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General government	21	19	19	19	20	20	19	18	19	23
Public safety	117	105	105	109	114	106	115	112	103	96
Community development	11	9	10	9	11	11	11	11	10	8
Culture and recreation	38	38	42	26	29	32	37	40	36	33
Public works	24	22	22	22	23	21	23	22	21	24
Total	211	193	198	185	197	190	205	203	189	184

Source: City of Hermosa Beach Finance Department

City of Hermosa Beach

Operating Indicators by Function

Last Ten Fiscal Years

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Public safety										
Police:										
Physical arrests	692	629	873	1,027	1,343	1,413	1,064	887	896	933
Traffic citations issued	3,133	3,209	2,870	3,086	3,631	3,372	2,101	1,518	1,681	2,490
Parking citations issued	57,981	45,810	43,139	45,339	46,342	49,379	54,010	47,770	48,329	59,656
Fire:										
Number of emergency calls	498	538		527	605	598	899	866	929	1,199
Inspections	680	486			391	28	182	467	751	312
Community development:										
Building permits issued	648	530	594	636	691	676	696	762	597	637
Culture and recreation:										
Number of recreation classes	124	124	115	139	139	135	159	165	186	171
Total enrollment	4,807	5,131	4,039	5,112	4,778	4,616	5,969	5,228	5,128	4,272
Public works:										
Graffiti removal (hours)	382	289	422	285	410	456	217	414	474	461
Permits issued	504	538	1,335	528	567	529	706	875	821	1,071

Source: Various city departments.

Note:

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

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									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
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
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)	382	289	422	285	410	456	217	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	33	34	34	34	34	34
Streets (miles)	40	40	40	40	40	40	40	40	40	40
Streetlights	399	399	399	399	399	399	399	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	17	18

Source: City of Hermosa Beach Finance Department

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