



**City of Hermosa Beach,
California**

Comprehensive Annual Financial Report

For the year ended June 30, 2007

City of Hermosa Beach
Basic Financial Statements
For the year ended June 30, 2007

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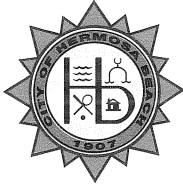
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City of Hermosa Beach

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

November 2007

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, 2007. 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 fifth 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.

Last year the City complied with a new reporting requirement effective for 2005-06, GASB Statement No. 44 Economics Condition Reporting: The Statistical Section. This section was revamped to better show the City's economic condition, which is defined in the statement as "a composite of its financial health and its ability and willingness to meet its financial obligations and commitments to provide services." Where possible, ten years of data is shown.

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, 2007, 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, 2007, 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 19,474, 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 2006-07 fiscal year, beach attendance ranged from a low of 60,600 in December 2006 to a high of 527,000 in July 2006, 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 81-86. 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 twelfth highest percentage change in assessed valuation (12.3%) of the 88 cities in Los Angeles County for 2006-07. Since 2000, the assessed valuation (including exemptions) has risen steadily, averaging 9.5% 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 2007 were \$1,205,000, compared to \$550,000 for Los Angeles County. The average median home price for Hermosa Beach for fiscal year 2006-07 was \$1,115,772.

Hermosa Beach's three highest employment industries are food services, administrative and support and retail trade, 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 2.0%, compared with 4.9% for Los Angeles County, and 5.2% for California.

Secured property taxes have increased, 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.

In the past six year period, transient occupancy taxes (the "hotel tax") increased 68%, with two new hotels (Holiday Inn Express and Hampton Inn) and one hotel expansion (Beach House) during that time. Average occupancy for 2006-07 was 75.9%.

Utility user taxes (UUT), grew a scant 2% for the second year in a row. 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.

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.

California Public Employees Retirement System (CalPERS). City retirement rates increased by only 5% overall from 2005-06. The previous steep climb in rates which began in 2003-04, reflecting investment losses sustained by CalPERS beginning in 2001, seems to be finally leveling off. CalPERS return on investments was 19.10% for 2006-07, the fourth year of double digit earnings. Employer rate smoothing policies implemented by CalPERS and the higher investment returns are finally starting to pay off. Rates for 2007-08 declined slightly with the same prediction from CalPERS for 2008-09.

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, particularly since recent estimates put the State's deficit for 2008-09 at \$10 billion.

Long-term financial planning. The City Council's adopted the financial policies related 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.

Another of the City's financial policies is to set aside funds unspent in the General Fund at year-end for specific purposes. For 2006-07, funds in the amount of \$1,110,660 were transferred to the Contingency Fund, Capital Improvement Fund, Insurance Fund and Equipment Replacement Fund. Capital Improvement Funds are primarily spent for street improvements. Sewer and storm drain improvements are funded by a portion of the utility user tax revenue transferred to the Sewer Fund for that purpose.

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 Fire Station, 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 30 months, with an average yield on investments of 4.83%. 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/Personnel 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 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.

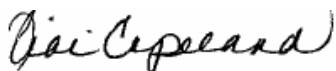
Awards and Acknowledgements

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, 2006. This was the seventeenth 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,



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, 2006

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



President

Executive Director

CITY OF HERMOSA BEACH ORGANIZATIONAL CHART

ELECTORATE

CITY CLERK

CITY COUNCIL

CITY TREASURER

**PLANNING
COMMISSION**

**PUBLIC
WORKS
COMMISSION**

**CIVIL SERVICE
BOARD**

**BOARD OF
APPEALS**

**PARKS &
RECREATION
ADVISORY
COMMISSION**

CITY PROSECUTOR

CITY MANAGER

CITY ATTORNEY

**COMMUNITY
RESOURCES**

PUBLIC WORKS

POLICE

FIRE

**PERSONNEL/
RISK
MANAGEMENT**

FINANCE

**COMMUNITY
DEVELOPMENT**

Parks &
Recreation/
Facilities
Management
Cultural/
Recreational
Athletic
Programming
Special Events
Cable T.V.
Liaison

ENGINEERING
Plan Checks
Field Inspection
Code Enforcement
Encroachments
Capital
Improvement
TRANSPORTATION
Traffic Eng.
Traffic Signals
Traffic Signage
Speed Survey
MAINTENANCE
Landscaping
Irrigation
Streets
Sewer
Storm Drain
Building Maint.
Vehicle Maint.

Enforcement
Investigation
Detention
Emergency
Dispatch
Reserves
Special
Investigations
Record Bureau
Crossing Guard

**COMMUNITY
SERVICES**
Parking
Enforcement
Animal Control
Meter
Maintenance

Fire Suppression
Fire Prevention
Rescue
Public Education
Paramedics
Disaster
Preparedness
Reserves
Plan Checking
Ambulance
Transportation

PERSONNEL
Recruitment
Training
Labor Relations
RISK MGT
Workers' Comp
Claims
Liability Claims
City Insurance
Secretarial
Support

Budget
Accounting
Payroll
Citation
Processing
Animal Licenses
Parking Permits
Business License
Bus Passes

**BUILDING AND
SAFETY**
Plan Checking
Field Inspection
Code
Enforcement
PLANNING
Current Planning
Advanced
Planning
Environmental
Assessment
Conditional Use
Permit (C.U.P.)
Enforcement

PRINCIPAL OFFICIALS OF THE CITY OF HERMOSA BEACH, CALIFORNIA

June 30, 2007

Elected and Administrative Officials

City Council

Michael Keegan
J. R. Reviczky
Patrick “Kit” Bobko
Sam Y. Edgerton
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
Jerry Gomez

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

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, 2007, 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.

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, 2007, 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.

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 it.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Supplementary Information is presented for purpose of additional analysis and is not a required part of the basic financial statements. The Supplementary Information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Capricci & Carson

Irvine, California
November 21, 2007

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, 2007. 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 - ix 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 \$83,099,000 (*net assets*). Of this amount, \$10,726,000 (*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 (\$916,000). The decrease is mainly attributable to increased revenues for property taxes which were offset by increased costs for salaries and benefits due to changes in employee memoranda of understanding, the filling of employee vacancies, increased litigation costs for the MacPherson Oil Company lawsuit and the addition of a Beach Cities Transit Line 109 to replace a county bus line that was discontinued in May 2006.
- As of June 30, 2007, the City of Hermosa Beach's governmental funds reported combined ending fund balances of \$13,051,000, a decrease of (\$2,065,000) in comparison with the prior year. Approximately 31% 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 1% is designated for specific uses, with the remainder available for a variety of purposes.
- As of June 30, 2007, 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 2006-07. The balance in the Contingency Fund (or "rainy day fund") is \$4.1 million or 16% of General Fund appropriations and serves as the City's cushion against economic uncertainties. Since the City's financial policy is to retain a fund balance of 15% of General Fund appropriations, the balance will be addressed as a part of the Midyear Budget Review process for 2007-08. 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 17 - 21 of this report.

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

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

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

The City of Hermosa Beach maintains thirty-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 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-four 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 25-31 of this report.

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

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

The basic proprietary fund financial statements can be found on pages 33-38 of this report.

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

The basic fiduciary fund financial statements can be found on pages 39-43 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 47-80 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 progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 81 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 92-136 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, 2007, assets exceeded liabilities by \$83,099,000.

By far the largest portion of the City of Hermosa Beach's net assets, \$68,560,000, (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, 2007 (dollars in thousands)</p>						
	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and Other Assets	\$26,058	\$28,490	\$(1,228)	\$(1,544)	\$24,830	\$26,946
Capital Assets	58,249	56,668	10,311	10,443	68,560	67,111
Total Assets	84,307	85,158	9,083	8,899	93,390	94,057
Long-term Liabilities						
Outstanding	3,436	3,057	--	--	3,436	3,057
Other Liabilities	6,479	6,622	376	363	6,856	6,985
Total Liabilities	9,915	9,679	376	363	10,291	10,042
 Net Assets:	 74,392	 75,479	 8,707	 8,536	 83,099	 84,015
Invested in Capital Assets	58,249	56,668	10,311	8,298	68,560	64,966
Restricted	3,813	3,590	--	--	3,813	3,590
Unrestricted	12,330	15,221	(1,604)	238	10,726	15,459
Total Net Assets	\$74,392	\$75,479	\$8,707	\$8,536	\$83,099	\$84,015

A portion of the City of Hermosa Beach's net assets (5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$10,726,000) 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.

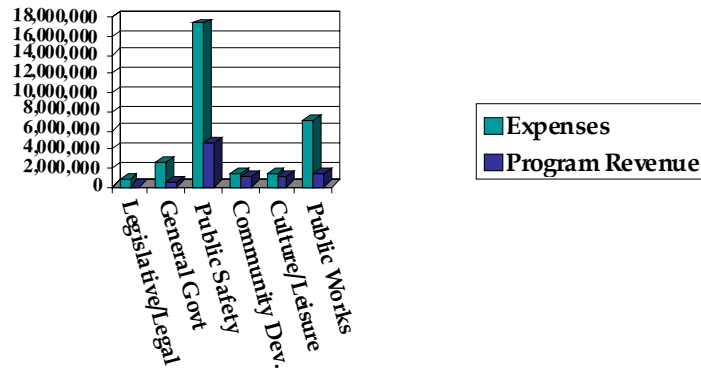
The government's net assets decreased by (\$916,000) during the current fiscal year. As mentioned earlier, this decrease is attributable to increased revenues for taxes that were offset by increased costs for salaries and benefits due to changes in employee memoranda of understanding, the filling of employee vacant positions, increased litigation costs for the MacPherson Oil Company lawsuit and the addition of a Beach Cities Transit Line 109 to replace a county bus line that was discontinued in May 2006. 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 (\$1,087,000). Key elements of this decrease are as follows:

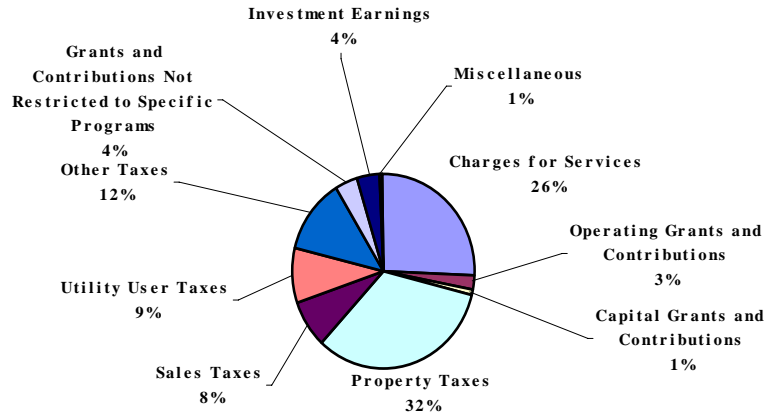
Changes in Net Assets June 30, 2007 (dollars in thousands)						
	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program Revenues:						
Charges For Services	\$7,536	\$7,538	\$1,144	\$1,187	\$8,680	\$8,725
Operating Grants and Contributions	756	725	--	--	756	725
Capital Grants and Contributions	287	1,043	--	--	287	1,043
General Revenues:						
Property Taxes	9,384	8,362	--	--	9,384	7,056
Other Taxes	8,810	8,698	--	--	8,810	8,698
Grants and Contributions Not Restricted to Specific Programs	1,274	1,537	--	--	1,274	2,843
Other	1,267	753	134	40	1,267	793
Total Revenues	29,314	28,656	1,278	1,227	30,592	29,883
Expenses:						
Legislative and Legal	867	962			867	962
General Government	2,523	1,999			2,520	1,999
Public Safety	17,237	15,168			17,170	15,168
Community Development	1,425	1,350			1,422	1,350
Culture and Recreation	1,254	1,149			1,252	1,149
Public Works	7,106	7,981			7,087	7,981
Downtown Enhancement			1,096	1,130	1,096	1,130
Parking			--	--	--	--
Total Expenses	30,412	28,609	1,096	1,130	31,414	29,739
Increase (Decrease) in Net Assets Before Transfers	(1,098)	47	182	97	(822)	144
Transfers	11	145	(11)	(145)	--	--
Increase (Decrease) in Net Assets	(1,087)	192	171	(48)	(916)	144
Net Assets - 7/1/06	75,479	75,287	8,536	8,584	84,015	83,871
Net Assets - 6/30/07	\$74,392	\$75,479	\$8,707	\$8,536	\$83,099	\$84,015

- Capital Grants and Contributions decreased due to reductions in County Proposition A Open Space grant funds and other State grants for the Pier Renovation which was completed in 2005-06.
- Property Taxes overall increased by \$1,022,000 or approximately 12%. Assessed valuations increased 12.3% overall.
- Other Taxes increased 1% as a result of increased revenue from the transient occupancy tax (tax on hotel stays), franchise fees for electricity, gas and cable television and a new fiber optic cable franchise that began operating in 2006-07.
- Grants and Contributions Not Restricted to Specific Programs decreased for the following reasons: motor vehicle license fees decreased by (\$14,000); in 2005-06 the State repaid motor vehicle license fees in that were borrowed in 2003-04 resulting in a reduction to this category of (\$328,000); an increase of \$57,000 (compared to 2005-06) in traffic congestion relief funding was received; Proposition A and C Transit Funds decreased by (\$9,000); the State reimbursed claims in the amount of \$56,000 for mandated costs that had previously been put on hold for several years which is an increase of \$34,000 over the previous year.
- Other revenue increased primarily due to the increase in investment earnings over 2005-06.

Expenses and Program Revenues Governmental Activities



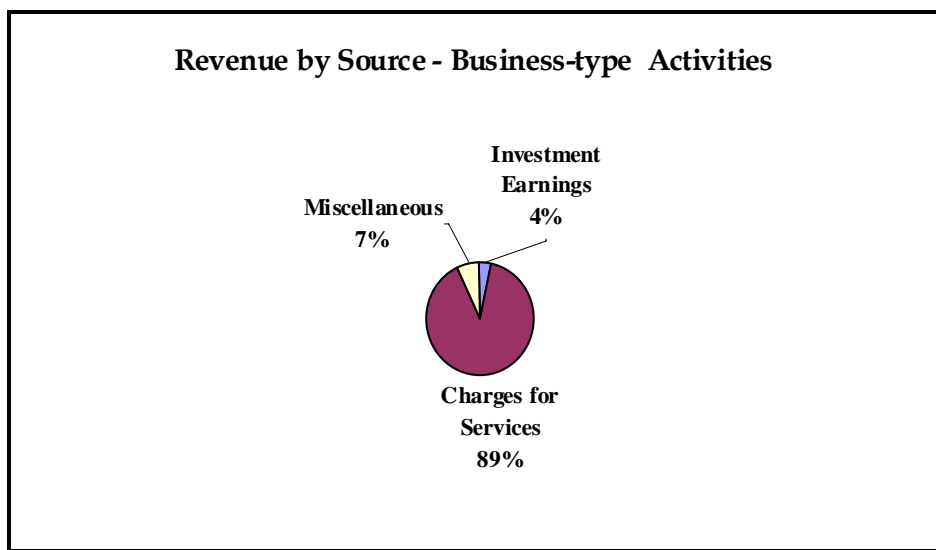
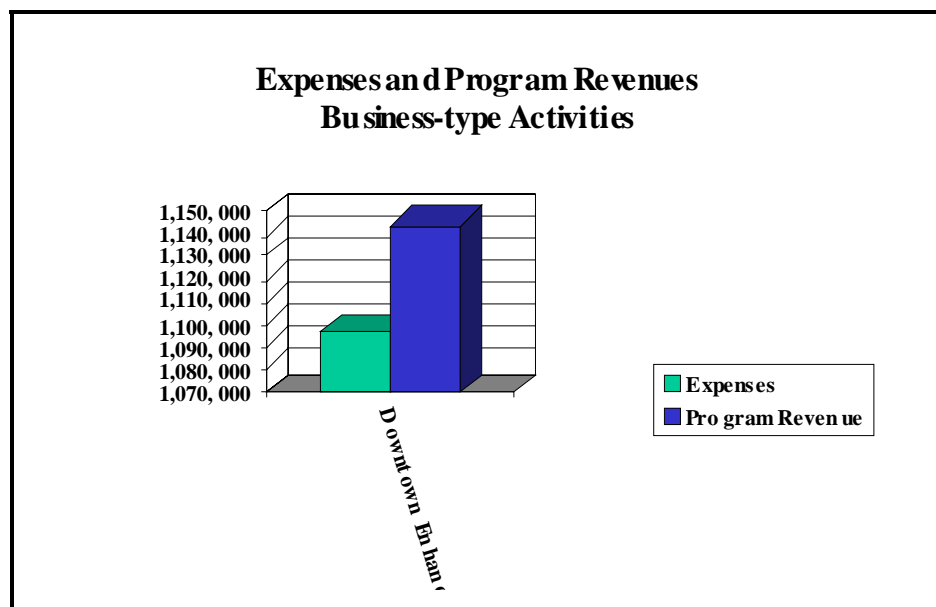
Revenue by Source - Governmental Activities



On the expense side, the Legislative and Legal function decreased by approximately 10% because there were no election costs in 2006-07. Employee salary and benefit increases of approximately 8% affect all governmental functions. An additional 2% increase to the Public Safety function and 5% increase to the Community Development function salaries and benefits can be attributed to the filling of approved employee positions that were vacant in 2005-06. The General Government function increased due to the addition of a Beach Cities Transit Line 109 to replace a County bus line that was discontinued in the area in May 2006 and the addition of a portion of the salary and benefits of the Code Enforcement Officer for recycling compliance inspections in the AB939 Fund. 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 2006-07 was \$294,000.

Business-type activities. Business-type activities increased the net assets by \$171,000. The primary contributing factors to this increase were:

- Charges for Services decreased 3% due to a decrease in parking lot revenue received in 2006-07.
- Other revenue increased due to the increase in investment earnings over 2005-06 and increased donations received for the City's Centennial celebrations being held throughout the year.
- The Downtown Enhancement operation shows decreased expenses primarily due to completion of a beach maintenance contract commitment in 2005-06 and a reduction in the amount due to the County for their share of the parking structure net income.



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 \$13,051,000, a decrease of \$2,064,000 (14%), in comparison with the prior year. Approximately 69% of this total amount \$9,032,000 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 (\$3,283,000), 2) fund transportation development act projects (\$20,000), 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 (\$427,000) and 5) to fund future parking facility projects (\$10,000).

Three funds qualify as major funds under the GASB Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*, reporting criteria: the General Fund, 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 \$311,000, with \$133,000 reserved for re-appropriations, \$10,000 reserved for future parking facility projects and \$168,000 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 2006-07, the City Council redirected that funds left unspent in the General Fund at year end transfer equally to the Contingency Fund, the Capital Improvement Fund, the Insurance Fund and the Equipment Replacement Fund. The transfer to each fund was \$277,665. 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 12%.
- Other tax revenue increased 1% primarily due to increases in transient occupancy tax, franchise fees (electricity, gas and cable television) and a new fiber optic cable franchise that began in 2006-07.
- Other revenue increased primarily due to an increase in investment earnings over 2005-06.
- Expenditures were 3% less than budgeted, namely due to a number of vacant positions that remain unfilled and salary savings due to injured Public Safety employees.

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 \$4.1 million represents 16% of appropriations. Since the fund balance currently exceeds 15%, the overage will be addressed during the Midyear Budget Review process for 2007-08 as explained earlier.

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

Unrestricted net assets of the Downtown Enhancement operation at the end of the year were (\$1,604,000). 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 2% for estimated revenue and 2% for appropriations. Actual revenue was higher than the final budget by 1% due to the aforementioned revenue increases. Transfers In increased by \$117,000 which was an increase to the Compensated Absences Fund transfer to cover unanticipated retiree cashouts in the amount of \$110,000 and a transfer from the Downtown Enhancement Proprietary Fund to cover special event fees for the St. Patrick's Day Parade event.

Differences between original and final appropriations other than Transfers Out equaled \$487,000 or about 2%. They are briefly summarized as follows:

- \$54,000 in increases in the Legislative/Legal category to provide funding for a Centennial Dinner to be held in September 2007.
- \$221,000 increase in the General Government function represents funding provided for an increase to Personnel legal costs and recruiting services for Fire Chief and Community Development Director.
- \$127,000 in Public Safety increases for supplies and safety equipment that was reappropriated from 2005-06 and unanticipated retiree cashouts.
- \$28,000 in Public Works increases for additional contract services for City parks and street cleaning and donations received for memorial benches to be located at various parks.
- \$57,000 in increases for capital outlay for the City's share of a federal fire equipment grant, parks improvement projects and an upgrade to the Police Department heating and air conditioning system.

Differences between the final appropriations and actual expenditures totaled \$833,381. The largest variances can be summarized as follows:

- Public Safety expenditures were less than budget by \$233,940 primarily due to vacancies in the Assistant Fire Chief and paramedic positions for a portion of 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 2007-08.
- Vacancies in the Senior Building Inspector and Senior Planner positions were the main factors for Community Development expenditures being under budget by \$128,345.
- Expenditures in the Public Works category were less than budgeted by \$270,140 due to vacancies in a Public Works Inspector position, hiring 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 funding provided to the Lighting/Landscaping District Fund to cover the deficit for operating costs and to the Compensated Absences Fund to assist in reaching the goal established by City policy of 25% of accrued liabilities for vacation, sick and compensatory time. The transfer amount also includes 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, 2007, amounts to \$68,560,000 (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 increase in the City of Hermosa Beach's investment in capital assets for the 2006-07 fiscal year was 2% (a 3% increase 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 \$265,000 at the end of the fiscal year.
- Construction in progress on the Clark Building refurbishment was \$22,000 at the end of the fiscal year.
- Construction in progress on the City Yard Renovation was \$60,000 at the end of the fiscal year.
- Construction in progress on Beach Restroom Rehabilitation was \$30,000 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	
	2007	2006	2007	2006	2007	2006
Land	\$17,552	\$17,552	\$5,188	\$5,188	\$22,740	\$22,740
Buildings and Structures	3,326	2,732	5,072	5,202	8,398	7,934
Improvements Other Than Buildings	8,780	9,336	5	5	8,785	9,341
Machinery and Equipment	1,329	1,195	9	11	1,338	1,206
Vehicles	1,517	1,566	--	--	1,517	1,566
Infrastructure	24,550	22,811	--	--	24,550	22,811
Construction in Progress	1,195	1,476	37	37	1,232	1,513
Total	\$58,249	\$56,668	\$10,311	\$10,443	\$68,560	\$67,111

Additional information on the City of Hermosa Beach's capital assets can be found in note 6 on pages 65-67 of this report.

Economic Factors and Next Year's Budgets and Rates

- Housing sales and prices remain strong in Hermosa Beach as do the accompanying increases in assessed value and property tax revenue. The assessed valuation in Hermosa Beach has risen approximately 9.5% on average for the last five years, and rose 12.3% for 2006-07. The national concern over sub-prime mortgages is not expected to be a major concern specifically with respect to mortgages but home values will likely decline as a result of slowing sales and assessment appeals.
- Sales tax revenue declined 5% from 2005-06 and is 11% lower than the highest year of 2000-01. There are several large properties with sales tax or transient occupancy tax potential that may change hands in the near future which could have a positive long term impact.
- The supplemental Lighting/Landscaping Assessment District was not approved by voters, therefore the General Fund must continue to pay any costs in excess of the annual assessment. This amount for 2006-07 was \$97,512.

- Retirement contribution rates from the state retirement system, CalPERS, increased 5% overall for 2006-07. This was a welcome respite from rate increases of 56%, 53% and 41% for the three previous years. 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. Rates for 2007-08 declined 2% with a decrease of 3% expected for 2008-09. 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%.
- 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 7/1/2009 for our size government. In June 2007, the City Council approved a resolution placing these accumulated funds in a trust solely for this purpose with a third party. In this manner a high rate of investment return may be achieved to assist with funding of the costs.
- The City was successful in obtaining voter approval of 72% for adoption of a modern utility user tax (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. Since UUT revenue is the second highest source of revenue for the City, this issue was of the utmost importance.
- 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. The latest deficit projection for the State is an alarming \$10 billion for 2008-09.

All of these factors were considered in preparing the City of Hermosa Beach's budget for the 2007-2008 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.

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, 2007

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 21,441,427	\$ 479,848	\$ 21,921,275
Reimbursable grants receivable	52,931		52,931
Interest receivable on investments	269,069	11,610	280,679
Other accounts receivable	1,363,534	18,919	1,382,453
Property taxes receivable	936,405		936,405
Internal Balance	1,786,553	(1,786,553)	-
Deposits	80,000		80,000
Other assets	127,395	48,789	176,184
Total current assets	26,057,314	(1,227,387)	24,829,927
Noncurrent assets:			
Capital assets:			
Non-depreciable	18,746,795	5,224,729	23,971,524
Depreciable, net	39,502,417	5,086,636	44,589,053
Total capital assets	58,249,212	10,311,365	68,560,577
Total noncurrent assets	58,249,212	10,311,365	68,560,577
Total assets	84,306,526	9,083,978	93,390,504
LIABILITIES			
Current liabilities:			
Workers' compensation claims payable - due within one year	538,526		538,526
General liability claims payable - due within one year	455,520		455,520
Compensated absences - due within one year	558,943		558,943
Accounts payable and accrued liabilities	1,164,297	288,613	1,452,910
Accrued wages and compensated absences	2,027,185	12,740	2,039,925
Refundable deposits	511,587	27,012	538,599
Unearned revenue	1,116,908	48,402	1,165,310
Other liabilities	105,987		105,987
Total current liabilities	6,478,953	376,767	6,855,720
Noncurrent liabilities:			
Workers' compensation claims payable	2,249,905		2,249,905
General liability claims payable	654,214		654,214
Compensated absences	531,677		531,677
Total noncurrent liabilities	3,435,796	-	3,435,796
Total liabilities	9,914,749	376,767	10,291,516
NET ASSETS			
Invested in capital assets	58,249,212	10,311,365	68,560,577
Restricted for:			
Capital projects	114,246		114,246
Specific projects	3,698,758		3,698,758
Total restricted assets	3,813,004	-	3,813,004
Unrestricted net assets	12,329,561	(1,604,154)	10,725,407
Total net assets	\$ 74,391,777	\$ 8,707,211	\$ 83,098,988

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, 2007

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	\$ 867,481				
General government	2,523,060	\$ 497,423	\$ 28,324		\$ 525,747
Public safety	17,237,156	4,078,709	288,622	\$ 291,334	4,658,665
Community development	1,424,766	1,179,786	9,796		1,189,582
Culture and recreation	1,253,882	944,229			944,229
Public works	7,106,083	835,845	428,974	(4,404)	1,260,415
Total governmental activities	30,412,428	7,535,992	755,716	286,930	8,578,638
Business-type activities:					
Downtown Enhancement	1,096,039	1,144,666			1,144,666
Total business-type activities	1,096,039	1,144,666	-	-	1,144,666
Total primary government	\$ 31,508,467	\$ 8,680,658	\$ 755,716	\$ 286,930	\$ 9,723,304

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
\$ (867,481)		\$ (867,481)
(1,997,313)		(1,997,313)
(12,578,491)		(12,578,491)
(235,184)		(235,184)
(309,653)		(309,653)
(5,845,668)		(5,845,668)
(21,833,790)	\$ -	(21,833,790)
	48,627	48,627
-	48,627	48,627
(21,833,790)	48,627	(21,785,163)
9,383,544		9,383,544
2,395,390		2,395,390
279,219		279,219
606,572		606,572
1,769,015		1,769,015
800,763		800,763
2,769,113		2,769,113
189,852		189,852
18,193,468	-	18,193,468
1,273,625	-	1,273,625
1,097,128	48,113	1,145,241
170,325	86,112	256,437
11,255	(11,255)	-
20,745,801	122,970	20,868,771
(1,087,989)	171,597	(916,392)
75,479,766	8,535,614	84,015,380
\$ 74,391,777	\$ 8,707,211	\$ 83,098,988

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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.

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, 2007

	Major Funds				
	General	Contingency Special Revenue	Capital Improvement Special Revenue	Other Governmental Funds	Total
ASSETS					
Cash and investments	\$ 2,081,947	\$ 4,025,665	\$ 2,008,801	\$ 6,369,150	\$ 14,485,563
Reimbursable grants receivable				52,931	52,931
Interest receivable on investments	66,262	64,811	30,284	107,712	269,069
Other accounts receivable	1,215,448			143,991	1,359,439
Property taxes receivable	921,889			14,516	936,405
Due from other funds				73,779	73,779
Advances to other funds		492,371	200,000		692,371
Other assets	76,932				76,932
Total assets	\$ 4,362,478	\$ 4,582,847	\$ 2,239,085	\$ 6,762,079	\$ 17,946,489
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ 418,771		\$ 85,981	\$ 334,943	\$ 839,695
Wages and compensated absences payable	1,922,277		(82)	60,110	1,982,305
Refundable deposits	511,587				511,587
Deferred revenue	1,093,163			23,745	1,116,908
Due to other funds				73,779	73,779
Advances from other funds				265,520	265,520
Other liabilities	105,987				105,987
Total liabilities	4,051,785	\$ -	85,899	758,097	4,895,781
Fund Balances:					
Reserved for:					
Re-appropriations	133,012		552,532	2,596,641	3,282,185
Capital Outlay/Parking Facilities	9,592				9,592
Bike paths				19,881	19,881
Traffic congestion relief				12,592	12,592
Used oil grant				1,665	1,665
Advances to other funds		65,520	200,000		265,520
Storage lot purchase loan		426,851			426,851
Unreserved, designated for:					
Sales tax in-lieu	56,258				56,258
Affordable housing	111,831				111,831
Justice and treasury department				17,452	17,452
Unreserved, undesignated:					
Special revenue		4,090,476	1,400,654	3,355,751	8,846,881
Total fund balances	310,693	4,582,847	2,153,186	6,003,982	13,050,708
Total liabilities and fund balances	\$ 4,362,478	\$ 4,582,847	\$ 2,239,085	\$ 6,762,079	\$ 17,946,489

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, 2007

Total Fund Balances - Total Governmental Funds	\$ 13,050,708
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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	\$ 18,746,795	\$ (127,829)	18,618,966
Depreciable, net	39,502,417	(2,298,090)	37,204,327
Total capital assets	<u>\$ 58,249,212</u>	<u>\$ (2,425,919)</u>	<u>55,823,293</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	839,801
Equipment Replacement Fund	<u>5,768,595</u>
Total internal service funds	<u>6,608,396</u>

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

(1,090,620)

Net Assets of Governmental Activities	\$ 74,391,777
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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, 2007

	Major Funds				
		Contingency	Capital	Other	
	General	Special	Improvement	Governmental	
		Revenue	Special	Funds	Total
			Revenue		
REVENUES:					
Property taxes	\$ 9,383,544			\$ 450,856	\$ 9,834,400
Other taxes	8,809,924			678,523	9,488,447
Licenses and permits	772,832				772,832
Fines and forfeitures	1,596,025			19,752	1,615,777
Use of money and property	356,966			300,000	656,966
Intergovernmental	259,922			1,039,504	1,299,426
Charges for services	4,016,375			109,579	4,125,954
Miscellaneous	145,833			204,023	349,856
Interest earned on investments	122,533	\$ 286,251	\$ 197,928	490,416	1,097,128
Total revenues	25,463,954	286,251	197,928	3,292,653	29,240,786
EXPENDITURES:					
Current:					
Legislative and legal	858,017				858,017
General government	2,223,589			202,590	2,426,179
Public safety	16,005,983			230,097	16,236,080
Community development	1,398,378			19,218	1,417,596
Culture and recreation	1,168,342			37,311	1,205,653
Public works	2,680,646			1,214,645	3,895,291
Capital outlay	46,977		2,875,234	1,800,201	4,722,412
Total expenditures	24,381,932	-	2,875,234	3,504,062	30,761,228
REVENUES OVER					
(UNDER) EXPENDITURES	1,082,022	286,251	(2,677,306)	(211,409)	(1,520,442)
OTHER FINANCING SOURCES (USES):					
Transfers in	836,820	277,665	452,665	983,220	2,550,370
Transfers out	(1,978,194)	(115,997)		(1,000,565)	(3,094,756)
Total other financing sources (uses)	(1,141,374)	161,668	452,665	(17,345)	(544,386)
Net change in fund balances	(59,352)	447,919	(2,224,641)	(228,754)	(2,064,828)
FUND BALANCES:					
Beginning of year	370,045	4,134,928	4,377,827	6,232,736	15,115,536
End of year	\$ 310,693	\$ 4,582,847	\$ 2,153,186	\$ 6,003,982	\$ 13,050,708

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, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ (2,064,828)
--	----------------

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	4,722,412
Less repair and maintenance expenditures reported in public works	(868,209)
Total	3,854,203

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 \$353,701 which are reported below.

Total depreciation reported in Government-Wide Statement of Activities	(2,702,887)
Less depreciation reported in Internal Service Funds	401,621
Total	(2,301,266)

Loss on disposal of capital assets was reported on the Government-wide Statement of Activities and Changes in Net Assets, but they did not require the use of current financial resources.	(16,967)
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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.	141,239
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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.	(700,370)
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Change in Net Assets of Governmental Activities	\$ (1,087,989)
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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, 2007

	Major Enterprise Fund Downtown Enhancement	Governmental Activities Internal Service Funds
ASSETS		
Current assets:		
Cash and investments	\$ 479,848	\$ 6,955,864
Interest receivable on investments	11,610	
Other accounts receivable	18,919	4,095
Advances to other funds		1,359,702
Deposits		80,000
Other assets	48,789	50,463
Total current assets	559,166	8,450,124
Noncurrent assets:		
Capital assets, net of accumulated depreciation	10,311,365	2,425,919
Total noncurrent assets	10,311,365	2,425,919
Total assets	10,870,531	10,876,043
LIABILITIES		
Current liabilities:		
Current portion of long-term liabilities		994,046
Accounts payable	288,613	324,602
Accrued wages and compensated absences	12,740	44,880
Refundable deposit	27,012	
Advances from other funds	1,786,553	
Unearned revenue	48,402	
Total current liabilities	2,163,320	1,363,528
Long-term liabilities:		
Workers' compensation claims payable		2,788,431
General liability claims payable		1,109,734
Less current portion above		(994,046)
Total long-term liabilities	-	2,904,119
Total liabilities	2,163,320	4,267,647
NET ASSETS		
Investment in capital assets	10,311,365	2,425,919
Unrestricted	(1,604,154)	4,182,477
Total net assets	\$ 8,707,211	\$ 6,608,396

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, 2007

	Major Enterprise Fund Downtown Enhancement	Governmental Activities Internal Service Funds
OPERATING REVENUES:		
Lease revenues	\$ 234,227	
Charges for services	910,439	\$ 2,959,274
Miscellaneous revenue	86,112	72,398
Total operating revenues	1,230,778	3,031,672
OPERATING EXPENSES:		
Salaries and wages	59,833	323,574
Contractor services	823,267	1,226,597
Supplies	81,566	137,417
Claims expense		2,198,248
Depreciation	131,373	401,621
Total operating expenses	1,096,039	4,287,457
OPERATING INCOME (LOSS)	134,739	(1,255,785)
NONOPERATING REVENUES (EXPENSES):		
Interest earned on investments	48,113	
Loss on disposal of capital assets		(226)
Total nonoperating revenues (expenses)	48,113	(226)
INCOME (LOSS) BEFORE TRANSFERS	182,852	(1,256,011)
Transfers in		555,641
Transfers out	(11,255)	
Total transfers	(11,255)	555,641
Change in net assets	171,597	(700,370)
NET ASSETS:		
Beginning of the year	8,535,614	7,308,766
End of the year	<u>\$ 8,707,211</u>	<u>\$ 6,608,396</u>

See accompanying Notes to Basic Financial Statements.

City of Hermosa Beach
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2007

	Major Enterprise Fund Downtown Enhancement	Governmental Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 1,205,533	\$ 321,754
Cash received for services from other funds		2,959,274
Cash payments to other funds for services	(358,395)	
Cash payments to suppliers for goods and services	(918,377)	(1,238,900)
Cash payments to employees for services	(58,847)	(320,001)
Insurance premiums and settlements		(2,155,932)
Net cash provided by (used for) operating activities	(130,086)	(433,805)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers in		555,641
Transfers out	(11,255)	
Net cash provided by (used for) noncapital financing activities	(11,255)	555,641
CASH FLOWS CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets		(447,179)
Net cash provided by (used for) capital and related financing activities	-	(447,179)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest receivable on investments	47,413	
Net cash provided by (used for) investing activities	47,413	-
Net increase (decrease) in cash and cash equivalents	(93,928)	(325,343)
CASH AND CASH EQUIVALENTS:		
Beginning of year	573,776	7,281,207
Ending of year	<u>\$ 479,848</u>	<u>\$ 6,955,864</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Operating income (loss)	\$ 134,739	\$ (1,255,785)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	131,373	401,621
Changes in operating assets and liabilities:		
Other accounts receivable	(3,678)	(509)
Other assets	(47,789)	10,935
Worker's compensation claims payable		(212,816)
General liability claims payable		255,132
Accounts payable	(13,544)	125,114
Accrued wages and compensated absences	986	3,573
Advances from (to) other fund	(358,395)	238,930
Unearned revenue	26,222	
Total adjustments	(264,825)	821,980
Net cash provided by (used for) operating activities	\$ (130,086)	\$ (433,805)
DISCLOSURE OF NON-CASH TRANSACTION:		
Loss on disposal of capital assets	\$ -	\$ (226)

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.

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, 2007

	Other Post Employment Benefits Trust Fund	Agency Funds
ASSETS		
Cash and investments	\$ 1,400,967	\$ 316,914
Interest receivable		5,545
Other accounts receivable		16,033
Total assets	<u>\$ 1,400,967</u>	<u>\$ 338,492</u>
LIABILITIES		
Assessment:		
Installment account		\$ 323,415
Reserve requirement		15,077
Total liabilities	<u>-</u>	<u>\$ 338,492</u>
NET ASSETS		
Held in trust for OPEB	<u>\$ 1,400,967</u>	

City of Hermosa Beach
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the year ended June 30, 2007

	Other Post Employment Benefits Trust Fund
ADDITIONS:	
Contributions	\$ 636,277
Total additions	636,277
DEDUCTIONS:	
Benefits	12,873
Total deductions	12,873
Change in net assets	623,404
NET ASSETS:	
Beginning of year	777,563
End of year	\$ 1,400,967

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, 2007

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City of Hermosa Beach
Notes to Basic Financial Statements
For the year ended June 30, 2007

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, 2007

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, 2007

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.

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 2008. 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, 2007

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, 2007

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. In addition, a temporary agency fund was established in 2003-2004 to account for contributions and expenditures related to other post employment benefits for the Police Department. In 2005-06, benefits were added to this fund for all city employees. The City intends to establish an agreement with an outside party for the administration of these funds.

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, 2007

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 .204 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, 2007

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, 2007

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, 2007

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.

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, 2007:

	Government-Wide Statement of Net Assets			Funds Financial Fiduciary Funds Statement of	
	Governmental activities	Business-type activities	Total	Net Assets	Total
Cash and investments	\$ 21,441,427	\$ 479,848	\$ 21,921,275	\$ 1,717,881	\$ 23,639,156

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

2. CASH AND INVESTMENTS, Continued

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

	<u>Fair value</u>
City Treasury:	
<i>Cash deposits:</i>	
Demand accounts	\$ 685,967
Less items in transit	(322,205)
Total cash deposits	<u>363,762</u>
<i>Investments:</i>	
Local Agency Investment Fund	20,303,894
U.S. government notes	2,971,500
Total investments	<u>23,275,394</u>
Total cash and investments	<u><u>\$ 23,639,156</u></u>

A. Cash Deposits

The carrying amounts of the City's cash deposits were \$363,762 at June 30, 2007. Bank balances at June 30, 2007, were \$685,967 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.

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.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

2. CASH AND INVESTMENTS, Continued

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 market 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, 2007, amounted to an unrealized increase of \$51,608.

The City's investments with the Local Agency Investment Fund (LAIF), the State of California's investment pool, at June 30, 2007, 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, 2007, the City had \$20,303,894 invested in LAIF. 3.466% of pool investment funds were invested in Structured Notes and Asset-Backed Securities.

The City valued its investments in LAIF as of June 30, 2007 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 .999545022.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

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, 2007, the City had the following investment maturities:

Investment Type	Fair value	Investment maturities (in years)	
		Less than 1	1 to 2
Federal Home Loan Bank	\$ 1,980,935	\$ 1,980,935	
Federal Home Loan Mortgage Corporation	495,250		\$ 495,250
Federal National Mortgage Association	495,315	495,315	
Local Agency Investment Fund	20,303,894	20,303,894	
Total	\$ 23,275,394	\$ 22,780,144	\$ 495,250

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 Bank	Aaa	AAA
Federal Home Loan Mortgage Corporation	Aaa	AAA
Federal National Mortgage Association	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, 2007

3. RECEIVABLES

Government-Wide Financial Statements

At June 30, 2007, 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	\$ 1,363,534	\$ 18,919	\$ 16,033	\$ 1,398,486
Taxes	936,405			936,405
Interest	269,069	11,610	5,545	286,224
Grants	52,931			52,931
Total	\$ 2,621,939	\$ 30,529	\$ 21,578	\$ 2,674,046

Fund Financial Statements

At June 30, 2007, 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, 2007, were as follows:

<i>Governmental funds:</i>	
General Fund	\$ 1,215,448
Non-major funds	143,991
Total governmental funds	1,359,439
<i>Enterprise fund:</i>	
Downtown Enhancement Fund	18,919
Total Enterprise fund	18,919
<i>Internal Service funds</i>	4,095
<i>Agency funds</i>	16,033
Total	\$ 1,398,486

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

3. RECEIVABLES, Continued

B. Taxes Receivable

At June 30, 2007, 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	\$ 921,889
Non-major funds	14,516
Total	\$ 936,405

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, 2007, was as follows:

	City pooled investments
<i>Governmental funds:</i>	
General Fund	\$ 66,262
Contingency Fund	64,811
Capital Improvement Fund	30,284
Non-major Funds	107,712
Total governmental funds	269,069
<i>Enterprise fund:</i>	
Downtown Enhancement Fund	11,610
Total Enterprise fund	11,610
Total	280,679
<i>Agency funds</i>	5,545
Total interest receivable	\$ 286,224

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

3. RECEIVABLES, Continued

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, 2007 were as follows:

<i>Governmental Funds:</i>	
Non-major funds	\$ 52,931
Total governmental funds	\$ 52,931

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 2006-2007 is \$176,550.

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 \$2,252.

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 \$15,191.

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

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

4. LEASE REVENUES, Continued

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,		
2008	\$	240,104
2009		153,804
2010		28,512
2011		28,512
2012		28,512
2013-2017		142,560
2018-2022		142,560
2023-2027		142,560
2028-2032		142,560
2033-2037		142,560
2038-2042		142,560
2043-2047		142,560
2048-2051		99,792
Total	\$	1,577,156

Lease revenue for fiscal year 2007 was \$307,532 with \$73,305 reflected in the General Fund and \$234,227 in the Downtown Enhancement Fund, an enterprise fund.

5. INTERFUND TRANSACTIONS

A. Government-Wide Financial Statements

Transfers

At June 30, 2007, the City had the following transfers:

Transfers in	Governmental activities	Transfers out
		Business-type activities
		\$ 11,255

In the year ended June 30, 2007, the following one-time transfers were made:

- The Downtown Enhancement Fund made a transfer of \$7,283 to the General Fund to reimburse for special event fees for the Saint Patrick's Day Parade.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

5. INTERFUND TRANSACTIONS, Continued

B. Fund Financial Statements

Due To/From Other Funds

The composition of due to/from other funds at June 30, 2007 is as follows:

		Due to other funds
		Non-major Governmental Funds
Due from other funds	Non-major Governmental Funds	\$ 73,779

The balance of \$73,779 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, 2007, the composition of advances to other funds is as follows:

Advances to other funds	Advances from other funds		
	Downtown Enhancement	Non-major Governmental	
	Fund	Funds	Total
Contingency Fund	\$ 426,851	\$ 65,520	\$ 492,371
Capital Improvement Fund		200,000	200,000
Internal Service Funds	1,359,702		1,359,702
Total	\$ 1,786,553	\$ 265,520	\$ 2,052,073

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 \$1,786,553 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.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

5. INTERFUND TRANSACTIONS, Continued

B. Fund Financial Statements, Continued

Transfers

At June 30, 2007, the City had the following transfers:

Transfers in	Transfers out				
	Non-major			Downtown	
	Contingency		Governmental Enhancement		
	General	Fund	Funds	Fund	Total
General Fund			\$ 825,565	\$ 11,255	\$ 836,820
Contingency Fund	\$ 277,665				277,665
Capital					
Improvement Fund	277,665		175,000		452,665
Non-major					
Governmental funds	867,223	\$ 115,997			983,220
Internal Service funds	555,641				555,641
Total	\$ 1,978,194	\$ 115,997	\$ 1,000,565	\$ 11,255	\$ 3,106,011

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, 2007, the following one-time transfers were made:

- The General Fund made a transfer of \$97,512 to Non-major governmental funds to cover an estimated deficit for operating costs in the Lighting/Landscaping Fund.
- Excess funds in the Contingency Fund in the amount of \$115,997 were transferred to the Compensated Absences Fund to assist in reaching the goal established by the City's financial policies of a fund balance equal to 25% of accrued liabilities for employee vacation, sick and compensatory time;
- The General Fund made a transfer in the amount of \$69,711 to the Compensated Absences Fund to assist in reaching the goal established by the City's financial policies of a fund balance equal to 25% of accrued liabilities for employee vacation, sick and compensatory time.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

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, 2007, 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	1,194,718	36,637	1,231,355
Total non-depreciable assets	18,746,795	5,224,729	23,971,524
<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	2,810,659	19,267	2,829,926
Vehicles	3,100,196		3,100,196
Infrastructure	40,212,301		40,212,301
Total depreciable assets	64,131,984	5,903,976	70,035,960
Less accumulated depreciation for:			
Buildings and structures	(1,450,361)	(806,623)	(2,256,984)
Improvements other than buildings	(4,452,381)	(562)	(4,452,943)
Machinery and equipment	(1,482,032)	(10,155)	(1,492,187)
Vehicles	(1,582,691)		(1,582,691)
Infrastructure	(15,662,102)		(15,662,102)
Total accumulated depreciation	(24,629,567)	(817,340)	(25,446,907)
Total depreciable assets, net	39,502,417	5,086,636	44,589,053
Total capital assets	\$ 58,249,212	\$ 10,311,365	\$ 68,560,577

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

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, 2007:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
<i>Capital assets not being depreciated:</i>				
Land	\$ 17,552,077			\$ 17,552,077
Construction in progress	1,476,118	\$ 241,422	\$ (522,822)	1,194,718
Total capital assets not being depreciated	19,028,195	241,422	(522,822)	18,746,795
<i>Capital assets being depreciated:</i>				
Buildings and structures	4,095,361	681,056		4,776,417
Improvements other than buildings	12,816,470	415,941		13,232,411
Machinery and equipment	2,493,898	381,075	(64,314)	2,810,659
Vehicles	2,925,101	238,768	(63,673)	3,100,196
Infrastructure	37,383,985	2,880,896	(52,580)	40,212,301
Total capital assets being depreciated	59,714,815	4,597,736	(180,567)	64,131,984
Less accumulated depreciation for:				
Buildings and structures	(1,363,774)	(86,587)		(1,450,361)
Improvements other than buildings	(3,480,484)	(971,897)		(4,452,381)
Machinery and equipment	(1,298,442)	(247,680)	64,090	(1,482,032)
Vehicles	(1,359,212)	(272,198)	48,719	(1,582,691)
Infrastructure	(14,573,188)	(1,124,525)	35,611	(15,662,102)
Total accumulated depreciation	(22,075,100)	(2,702,887)	148,420	(24,629,567)
Total capital assets being depreciated, net	37,639,715	1,894,849	(32,147)	39,502,417
Total governmental activities	\$ 56,667,910	\$ 2,136,271	\$ (554,969)	\$ 58,249,212

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

General government	\$ 60,830
Public safety	127,887
Community development	7,511
Culture and recreation	19,580
Public works	960,933
Infrastructure	1,124,525
Capital assets held by the governments internal service funds are charged to the various functions based on their usage of the assets	401,621
Total depreciation expenses	\$ 2,702,887

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

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, 2006	Additions	Deletions	Balance June 30, 2007
<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	\$ -	\$ -	5,224,729
<i>Capital assets being depreciated:</i>				
Buildings and structures	5,978,998		(99,899)	5,879,099
Improvements other than buildings	5,610			5,610
Machinery and equipment	19,267			19,267
Infrastructure	-			-
Total capital assets, being depreciated	6,003,875	-	(99,899)	5,903,976
Less accumulated depreciation for:				
Buildings and structures	(776,748)	(129,774)	99,899	(806,623)
Improvements other than buildings	(281)	(281)		(562)
Machinery and equipment	(8,837)	(1,318)		(10,155)
Infrastructure	-			-
Total accumulated depreciation	(785,866)	(131,373)	99,899	(817,340)
Total capital assets being depreciated, net	5,218,009	(131,373)	-	5,086,636
Total business-type activities	\$ 10,442,738	\$ (131,373)	\$ -	\$ 10,311,365

Business-type activities depreciation expenses for capital assets for the year ended June 30, 2007 are as follows:

Downtown Enhancement	\$ 131,373
Total depreciation expense	\$ 131,373

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, 2007

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, 2007:

	Balance July 1, 2006	Additions	Retirements	Balance June 30, 2007	Classification	
					Due in one year	Due in more than one year
<i>Governmental activities:</i>						
Compensated absences	\$ 1,231,859	\$ 1,338,679	\$ (1,479,918)	\$ 1,090,620	\$ 558,943	\$ 531,677

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, 2007, was \$1,090,620.

B. Long-Term Debt without City Commitment

At June 30, 2007, 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
2008	\$ 20,000	\$ 17,875	\$ 37,875
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
2013-2017	145,000	36,563	181,563
2018	35,000	1,138	36,138
Total	\$ 285,000	\$ 113,913	\$ 398,913

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

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
2008	\$ 45,000	\$ 43,105	\$ 88,105
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
2013-2017	325,000	116,300	441,300
2018-2020	235,000	20,556	255,556
Total	\$ 805,000	\$ 328,363	\$ 1,133,363

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
2008	\$ 50,000	\$ 47,910	\$ 97,910
2009	50,000	45,162	95,162
2010	55,000	42,510	97,510
2011	60,000	39,548	99,548
2012	60,000	36,397	96,397
2013-2017	350,000	128,453	478,453
2018-2020	265,000	23,719	288,719
Total	\$ 890,000	\$ 363,699	\$ 1,253,699

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

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
2008	\$ 13,752	\$ 17,897	\$ 31,649
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
2013-2017	95,678	61,919	157,597
2018-2022	120,952	36,037	156,989
2023-2025	87,413	6,425	93,838
	<u>\$ 379,727</u>	<u>\$ 186,774</u>	<u>\$ 566,501</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
2008	\$ 32,462	\$ 36,414	\$ 68,876
2009	33,841	34,686	68,527
2010	35,280	33,217	68,497
2011	36,779	31,686	68,465
2012	38,342	30,090	68,432
2013-2017	207,584	124,451	332,035
2018-2022	242,921	77,400	320,321
2023-2026	238,320	20,828	259,148
Total	<u>\$ 865,529</u>	<u>\$ 388,772</u>	<u>\$ 1,254,301</u>

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

8. OTHER REQUIRED FUND DISCLOSURES

A. Deficit Fund Balances

At June 30, 2007, the following funds had a deficit fund balance:

4% Utility Users Tax	\$ (809)
Beach Drive 2 Underground District	\$ (65,520)
Prospect Utility Underground District	\$ (200,000)

The deficits in the 4% Utility Users Tax fund represent the change to the fair value of investments recorded in the fund and as such are not true deficits since the City intends to hold all investments to maturity. 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, 2007, the following fund had deficit unrestricted net assets:

Downtown Enhancement	<u>\$ (1,604,154)</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.

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, 2007

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 \$431,139 for the fiscal year 2006-2007 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 \$3,898,165 reported at June 30, 2007, 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>					
2003-2004	\$ 1,769,131	\$ 2,337,918	\$ (1,543,083)	\$ 2,563,966	\$ 453,000
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
<i>General Liability</i>					
2003-2004	573,502	(110,046)	(92,781)	370,675	184,000
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

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, 2007

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 \$868,933 for the year ended June 30, 2007. The City, as the employer, is required to contribute for fiscal year 2006-2007 at actuarially determined rates which are applied to annual covered payroll. The 2006-2007 rate is 15.073% for miscellaneous employees, 52.782% for police employees and 37.150% 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 2006-2007, the City's annual pension cost of \$3,416,421 for CalPERS was equal to the City's required and actual contributions, of which \$813,702 is for the miscellaneous plan, \$1,847,429 for the police plan and \$755,290 for the fire plan. The required contribution was determined as part of the June 30, 2004, 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) 2% 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, 2004 was 14 years for prior and current service unfunded liability.

THREE-YEAR TREND INFORMATION FOR PERS

Miscellaneous Plan

<u>Fiscal Year</u>	<u>Pension Cost (APC)</u>	<u>APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2005	\$ 174,915	100%	-
6/30/2006	686,428	100%	-
6/30/2007	813,702	100%	-

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

10. RETIREMENT PLANS, Continued

A. Public Employee Retirement System, Continued

Annual Pension Cost, Continued

Police Plan

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2005	\$ 1,123,987	100%	-
6/30/2006	1,583,411	100%	-
6/30/2007	1,847,429	100%	-

Fire Plan

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2005	\$ 585,337	100%	-
6/30/2006	708,865	100%	-
6/30/2007	755,290	100%	-

B. Other Post-Employment Benefits

In addition to the pension benefits described above, the City provides to retired City employees post-employment health care benefits, in accordance with negotiated Memoranda of Understanding. Prior to July 1, 2000 these benefits were available to employees represented by the Management Association, General and Supervisory Bargaining Unit represented by the California Teamsters Public, Professional and Medical Employees' Union and the Professional and Administrative Employee Association. Eligible employees were service retirees, age 55 or over, with a minimum of ten years continuous service with the City.

Employees who retired from September 1, 1988 through August 31, 1991 were provided:

- 1) \$60 per month (or cost of policy, whichever is less) for a minimum of ten years continuous service with the City, or
- 2) \$80 (or the cost of policy, whichever is less) for a minimum of twenty years continuous service, payable to the medical insurance provider.

Employees who retired from September 1, 1991 to June 30, 2000 were provided:

- 1) \$40 per month (or cost of policy, whichever is less) for a minimum of ten years continuous service with the City, or
- 2) \$60 respectively (or the cost of policy, whichever is less) for a minimum of twenty years continuous service, payable to the medical insurance provider.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

10. RETIREMENT PLANS, Continued

B. Other Post-Employment Benefits, Continued

For employees retiring on or after July 1, 2002, post employment benefits are as follows for each bargaining group:

General and Supervisory Bargaining Unit

For service retirement at age 55 or over employee will receive a medical insurance supplement in the amount of:

- 1) \$80 per month (or the cost of policy, whichever is less) with a minimum of ten years of continuous service with the City, or
- 2) \$140 per month (or cost of policy, whichever is less) with a minimum of 20 years of service.

For service retirement after July 1, 2005, the above amounts changed to \$150.00 and \$250.00 respectively.

Professional and Administrative Employees Association

For service retirement at age 55 or over employee will receive a medical insurance supplement in the amount of:

- 1) \$80 per month (or the cost of policy, whichever is less) with a minimum of ten years of continuous service with the City, or
- 2) \$140 per month (or cost of policy, whichever is less) with a minimum of 20 years of service.

For service retirement after July 1, 2005, employees age 55 with a minimum of ten years of service receive 3% of the health insurance premium for each year of service up to a maximum of \$250.00 per month.

Hermosa Beach Management Association

For service retirement at age 55 or over employee will receive a medical insurance supplement in the amount of:

- 1) \$60 per month (or the cost of policy, whichever is less) with a minimum of ten years of continuous service with the City, or
- 2) Cost of policy for employee only with a minimum of 20 years of service.

Police Management Association

For service retirement:

- 1) At age 55 or over employee will receive a medical insurance supplement in the amount of \$200 per month (or cost of policy, whichever is less) with a minimum of fifteen years of continuous service with the City, or
- 2) At age 50 employee will receive a medical insurance supplement in the amount of \$200 per month (or cost of policy, whichever is less) with a minimum of 20 years of continuous service.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

10. RETIREMENT PLANS, Continued

B. Other Post-Employment Benefits, Continued

For service retirement July 1, 2005 or later:

- 1) At age 50, or for disability retirement (no age restriction), employee will receive an amount up to the employee only HMO premium available through the City's medical insurance provider with a minimum of twenty years total full-time sworn police service with the City, or
- 2) At age 55, or for disability retirement (no age restriction), employee will receive an amount up to the employee only HMO premium available through the City's medical insurance provider with a minimum of fifteen years total full-time service with the City.

Police Officers Association

For service retirement prior to July 1, 2003:

- 1) At age 55 or over employee will receive a medical insurance supplement in the amount of \$200 per month (or cost of policy, whichever is less) with a minimum of fifteen years of total full-time service with the City, or
- 2) At age 50 employee will receive a medical insurance supplement in the amount of \$200 per month (or cost of policy, whichever is less) with a minimum of 20 years of total full-time service.

For service retirement July 1, 2003 or later:

- 1) At age 50, or for disability retirement (no age restriction), employee will receive an amount up to the employee only HMO premium available through the City's medical insurance provider with a minimum of twenty years total full-time sworn police service with the City, or
- 2) At age 55, or for disability retirement (no age restriction), employee will receive an amount up to the employee only HMO premium available through the City's medical insurance provider with a minimum of fifteen years total full-time service with the City.

Firefighters Association

For service retirement at age 50 or disability retirement (no age restriction) employee will receive a medical insurance supplement in the amount of:

- 1) \$150 per month with a minimum of ten years of service with the City, or
- 2) \$250 per month with a minimum of 20 years of service.

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, 2007, the City Council adopted a resolution authorizing participation in a post retirement health care plan trust to be administered by Public Agency Retirement Services (PARS) and Union Bank of California (See Note 12 - Subsequent Events for details). Therefore, the City reclassified the Agency Fund to an OPEB trust fund at June 30, 2007. Estimated retiree benefits payable are budgeted each fiscal year. For fiscal year 2006-2007, twenty-five retirees received benefits at a total cost of \$49,715.

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

11. COMMITMENTS AND CONTINGENCIES

A. Commitments

The City had several outstanding or planned construction projects as of June 30, 2007. These projects are evidenced by contractual commitments with contractors and include:

Project	Spent to Date	Commitment
		Remaining
Infrastructure	\$ 265,269	\$ 2,298,056
Clark Building Refurbishment	21,563	153,652
City Yard Renovation	60,164	1,203,236
Beach Restroom Rehabilitation	30,249	765,749
Total	\$ 377,245	\$ 4,420,693

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. The Clark Building Refurbishment project is funded by the Parks/Rec Facility Tax fund, the Building Improvement 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.

B. Contingencies

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

12. SUBSEQUENT EVENTS

MacPherson Oil Project

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

City of Hermosa Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

12. SUBSEQUENT EVENTS, Continued

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. Since then, the parties have been actively engaged in pretrial discovery, including production of documents, exchanges of interrogatories, and depositions of witnesses.

A trial date has been set for February, 2008. Cross-motions for summary judgment will be filed and heard on December 18, 2007. It is possible that the legal issues can be resolved by way of summary judgment. If not, the liability case will be tried in order to determine the issue of whether MacPherson bore the risk of a change in the law such as Proposition E. If the trial court determines as a factual matter that it did, then the City will prevail, and it will not be necessary to try damages. If the trial court determines that MacPherson did not bear that risk, then it will be necessary to try the case for damages. At that point, the court will be asked to determine whether MacPherson is entitled only to restitution or whether it may seek lost profits, and this determination will be based on whether an assessment of lost profits is too speculative.

The City continues to vigorously defend the case. Settlement by way of mediation is not likely. 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, 2007

12. SUBSEQUENT EVENTS, Continued

Other Post Employments Benefits Fund

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 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 will be forwarded on a monthly basis.

The City is required to implement GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* in fiscal year 2009. However, the City expects to complete the GASB Statement No. 45 actuarial and financial reporting in fiscal year 2008.

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**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

City of Hermosa Beach
Required Supplementary Information (Unaudited)
For the year ended June 30, 2007

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.

City of Hermosa Beach
Required Supplementary Information (Unaudited), Continued
For the year ended June 30, 2007

BUDGETS AND BUDGETARY ACCOUNTING, Continued

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.

Budgetary Comparison Schedule - General Fund

	Budgeted Amounts		Actual	Positive (Negative) Variance with Final Budget
	Original	Final	Amounts	
Fund Balance, July 1, 2006	\$ 248,165	\$ 370,045	\$ 370,045	\$ -
Resources (inflows):				
Property taxes	9,674,825	9,619,132	9,383,544	(235,588)
Other taxes	8,189,935	8,528,529	8,809,924	281,395
Licenses and permits	768,405	771,272	772,832	1,560
Fines and forfeitures	1,606,164	1,569,000	1,596,025	27,025
Use of money and property	290,375	289,775	356,966	67,191
Intergovernmental	186,548	250,819	259,922	9,103
Charges for services	3,796,720	3,832,804	4,016,375	183,571
Miscellaneous	67,100	178,583	145,833	(32,750)
Interest earned on investments	132,063	103,697	122,533	18,836
Transfers in	719,652	836,820	836,820	-
Amount available for appropriation	25,679,952	26,350,476	26,670,819	320,343
Charges to appropriations (outflows):				
Legislative and legal	869,399	923,411	858,017	65,394
General government	2,085,771	2,306,579	2,223,589	82,990
Public safety	16,112,938	16,239,923	16,005,983	233,940
Community development	1,541,520	1,526,723	1,398,378	128,345
Culture and recreation	1,198,549	1,203,275	1,168,342	34,933
Public works	2,912,678	2,950,786	2,680,646	270,140
Capital outlay	7,900	64,616	46,977	17,639
Transfers out	700,000	1,978,194	1,978,194	-
Total charges to appropriations	25,428,755	27,193,507	26,360,126	833,381
Fund Balance, June 30, 2007	\$ 251,197	\$ (843,031)	\$ 310,693	\$ 1,153,724

City of Hermosa Beach
Required Supplementary Information, Continued
For the year ended June 30, 2007

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, 2006	\$ 3,607,298	\$ 4,134,928	\$ 4,134,928	\$ -
Resources (inflows):				
Interest earned on investments	103,381	243,800	286,251	42,451
Transfers In	-	277,665	277,665	-
Amount available for appropriation	3,710,679	4,656,393	4,698,844	42,451
Charges to appropriations (outflows):				
Transfers out	-	115,997	115,997	-
Total charges to appropriations	-	115,997	115,997	-
Fund Balance, June 30, 2007	\$ 3,710,679	\$ 4,540,396	\$ 4,582,847	\$ 42,451

City of Hermosa Beach
Required Supplementary Information, Continued
For the year ended June 30, 2006

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, 2006	\$ 1,770,240	\$ 4,377,827	\$ 4,377,827	\$ -
Resources (inflows):				
Interest earned on investments	201,715	249,246	197,928	(51,318)
Transfers in	175,000	452,665	452,665	-
Amount available for appropriation	2,146,955	5,079,738	5,028,420	(51,318)
Charges to appropriations (outflows):				
Capital outlay	1,783,492	3,758,952	2,875,234	883,718
Total charges to appropriations	1,783,492	3,758,952	2,875,234	883,718
Fund Balance, June 30, 2007	\$ 363,463	\$ 1,320,786	\$ 2,153,186	\$ 832,400

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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 is 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. Remaining funds must be spent for open space purposes.

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

Bayview Drive Administrative Expense Fund - This fund temporarily holds funds for payment of administrative expenses for the assessment district. These funds are invested but interest is not allocated to this fund because it is not required by the bond documents.

Lower Pier Administrative Expense Fund - This fund temporarily holds funds for payment of administrative expenses for the assessment 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.

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.

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

Office of Traffic Safety Grant Fund - This fund is used to account for a grant from the State of California that addresses decreasing alcohol and hit and run collisions and increasing seat belt, child safety seat and bicycle helmet use through education and enforcement.

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.

NON-MAJOR GOVERNMENTAL FUNDS, Continued

Special Revenue Funds, Continued:

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

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

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

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, 2007

Special Revenue Funds							
	Lighting and Landscaping District	State Gas Tax	AB 939	Compensated Absences	Prop A Open Space	Tyco	Tyco Tidelands
ASSETS							
Cash and investments	\$ 141,907	\$ 61,806	\$ 301,343	\$ 307,965	\$ 3	\$ 202,185	\$ 278,562
Reimbursable grants receivable							
Interest receivable							
on investments	2,553	1,055	5,285			3,823	4,874
Other accounts receivable	7,208	35,915	4,875				
Property taxes receivable	14,516						
Due from other funds							
Total assets	<u>\$ 166,184</u>	<u>\$ 98,776</u>	<u>\$ 311,503</u>	<u>\$ 307,965</u>	<u>\$ 3</u>	<u>\$ 206,008</u>	<u>\$ 283,436</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 36,136	\$ 27,219	\$ 1,386				
Accrued wages and compensated absences	14,828		6,983				
Deferred revenue	14,516						
Due to other funds							
Advances to other funds							
Total liabilities	<u>65,480</u>	<u>27,219</u>	<u>8,369</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund Balances:							
Reserved:							
Re-appropriations						3,749	
Bike paths		19,881					
Traffic congestion relief		12,592					
Used oil grant							
Unreserved, designated							
Justice and treasury department							
Unreserved, undesignated							
Special revenue	100,704	39,084	303,134	307,965	3	202,259	283,436
Total fund balances	<u>100,704</u>	<u>71,557</u>	<u>303,134</u>	<u>307,965</u>	<u>3</u>	<u>206,008</u>	<u>283,436</u>
Total liabilities and fund balances	<u>\$ 166,184</u>	<u>\$ 98,776</u>	<u>\$ 311,503</u>	<u>\$ 307,965</u>	<u>\$ 3</u>	<u>\$ 206,008</u>	<u>\$ 283,436</u>

Special Revenue Funds								
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	Beach Drive Assessment Dist Admin Expense	Community Development Block Grant
\$ 149,028	\$ 5,305	\$ 4,674	\$ 480	\$ 2,202	\$ 9,681	\$ 12,949	\$ 571	\$ - 5,681
2,541	122	69	8		170	227	10	
<u>\$ 151,569</u>	<u>\$ 5,427</u>	<u>\$ 4,743</u>	<u>\$ 488</u>	<u>\$ 2,202</u>	<u>\$ 9,851</u>	<u>\$ 13,176</u>	<u>\$ 581</u>	<u>\$ 5,681</u>
\$ 21,509	\$ 6,236	\$ 1,084	\$ 407	\$ 346	\$ 506	\$ 632	\$ 384	\$ 723
								4,953
<u>21,509</u>	<u>6,236</u>	<u>1,084</u>	<u>407</u>	<u>346</u>	<u>506</u>	<u>632</u>	<u>384</u>	<u>5,676</u>
76,290		3,622						
53,770	(809)	37	81	1,856	9,345	12,544	197	5
130,060	(809)	3,659	81	1,856	9,345	12,544	197	5
<u>\$ 151,569</u>	<u>\$ 5,427</u>	<u>\$ 4,743</u>	<u>\$ 488</u>	<u>\$ 2,202</u>	<u>\$ 9,851</u>	<u>\$ 13,176</u>	<u>\$ 581</u>	<u>\$ 5,681</u>

(Continued)

City of Hermosa Beach
Combining Balance Sheet, Continued
Non-Major Governmental Funds, Continued
June 30, 2007

	Special Revenue Funds						
	Proposition "A" Transit	Proposition "C" Transit	Grants	Office of Traffic Safety Grant	Air Quality Management District	Supplemental Law Enforcement Services	California Law Enforcement Equipment Program (CLEEP)
ASSETS							
Cash and investments	\$ 696,604	\$ 1,762,859			\$ 94,691	\$ 220,563	\$ 1,568
Reimbursable grants receivable			\$ 47,250				
Interest receivable							
on investments	12,195	30,852			1,654	3,850	20
Other accounts receivable	1,746				6,067		
Property taxes receivable							
Due from other funds							
Total assets	\$ 710,545	\$ 1,793,711	\$ 47,250	\$ -	\$ 102,412	\$ 224,413	\$ 1,588
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 41,653	\$ 5,580	\$ 21,610			\$ 62,842	
Accrued wages and compensated absences	292	1	2,387		\$ (8)		
Deferred revenue			9,229				
Due to other funds			5,780				
Advances from other funds							
Total liabilities	41,945	5,581	39,006	-	(8)	\$ 62,842	-
Fund Balances:							
Reserved:							
Re-appropriations		1,663,616	7,874			17,709	
Bike paths							
Traffic Congestion Relief							
Used oil grant							
Unreserved, designated							
Justice and treasury department							
Unreserved, undesignated							
Special revenue	668,600	124,514	370		102,420	143,862	1,588
Total fund balances	668,600	1,788,130	8,244	-	102,420	161,571	1,588
Total liabilities and fund balances	\$ 710,545	\$ 1,793,711	\$ 47,250	\$ -	\$ 102,412	\$ 224,413	\$ 1,588

Special Revenue Funds								
Taskforce for Regional Auto Theft Prevention	Sewer	Asset Seizure and Forfeiture	Fire Protection	Retirement Stabilization	Artesia Blvd. Relinquish- ment	Beach Drive 2 Underground District	Myrtle Utility Underground Improvement	Bayview Underground District
	\$ 651,157	\$ 52,037	\$ 152,242	\$ 914,776	\$ 44,974		\$ 8,905	\$ 207,379
	12,644	957	2,658	16,044	873		157	3,625
\$ 69,310	6,935	11,935						
	73,779							
\$ 69,310	\$ 744,515	\$ 64,929	\$ 154,900	\$ 930,820	\$ 45,847	\$ -	\$ 9,062	\$ 211,004
	\$ 77,515		\$ 1,791		\$ 27,384			
\$ 6,264	29,363							
63,046						65,520		
69,310	106,878	\$ -	\$ 1,791	\$ -	27,384	65,520	\$ -	\$ -
	488,841		154,409					180,531
	1,665							
		17,452						
	147,131	47,477	(1,300)	930,820	18,463	(65,520)	9,062	30,473
-	637,637	64,929	153,109	930,820	18,463	(65,520)	9,062	211,004
\$ 69,310	\$ 744,515	\$ 64,929	\$ 154,900	\$ 930,820	\$ 45,847	\$ -	\$ 9,062	\$ 211,004

(Continued)

City of Hermosa Beach
Combining Balance Sheet, Continued
Non-Major Governmental Funds, Continued
June 30, 2007

	Special Revenue Funds		
	Beach Drive	Prospect	
	Underground	Utility	Total Other
	District	Underground	Governmental
	District	District	Funds
ASSETS			
Cash and investments	\$ 82,734		\$ 6,369,150
Reimbursable grants receivable			52,931
Interest receivable			
on investments	1,446		107,712
Other accounts receivable			143,991
Property taxes receivable			14,516
Due from other funds			73,779
Total assets	\$ 84,180	\$ -	\$ 6,762,079
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable			\$ 334,943
Accrued wages and			
compensated absences			60,110
Deferred revenue			23,745
			73,779
Advances from other funds		200,000	265,520
Total liabilities	\$ -	200,000	758,097
Fund Balances:			
Reserved:			
Re-appropriations			2,596,641
Bike paths			19,881
Strand walkways			12,592
Used oil grant			1,665
Unreserved, designated			
Justice and treasury department			17,452
Unreserved, undesignated			
Special revenue	84,180	(200,000)	3,355,751
Total fund balances	84,180	(200,000)	6,003,982
Total liabilities			
and fund balances	\$ 84,180	\$ -	\$ 6,762,079

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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, 2007

	Special Revenue Funds						
	Lighting and Landscaping District	State Gas Tax	AB 939	Compensated Absences	Prop A Open Space	Tyco	Tyco Tidelands
REVENUES:							
Property taxes	\$ 450,856						
Other taxes							
Fines and forfeitures							
Use of money and property						\$ 300,000	
Intergovernmental		\$ 546,633			\$ 20,557		
Charges for services			\$ 57,596				
Miscellaneous		(3,820)					
Interest earned on investments	5,980	15,018	23,910			15,334	\$ 21,362
Total revenues	456,836	557,831	81,506	\$ -	20,557	315,334	21,362
EXPENDITURES:							
Current:							
General government			89,032				
Public safety							
Community development							
Culture & recreation							
Public works	520,258						
Capital outlay		233,987				11,669	
Total expenditures	520,258	233,987	89,032	-	-	11,669	-
REVENUES OVER (UNDER) EXPENDITURES	(63,422)	323,844	(7,526)	-	20,557	303,665	21,362
OTHER FINANCING SOURCES (USES):							
Transfers in	97,512			185,708			
Transfers out	(10,176)	(355,307)		(146,224)	(20,557)	(175,000)	
Total other financing sources (uses)	87,336	(355,307)	-	39,484	(20,557)	(175,000)	-
NET CHANGE IN FUND BALANCES	23,914	(31,463)	(7,526)	39,484	-	128,665	21,362
FUND BALANCES:							
Beginning of year	76,790	103,020	310,660	268,481	3	77,343	262,074
End of year	\$ 100,704	\$ 71,557	\$ 303,134	\$ 307,965	\$ 3	\$ 206,008	\$ 283,436

Special Revenue Funds								
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	Beach Drive Assessment Dist Admin Expense	Community Development Block Grant
\$ 3,500								
								\$ 5,392
75,752			\$ 4,211	\$ 3,040	\$ 8,990	\$ 9,990	\$ 2,795	
15,303	\$ 970	\$ 300	44		799	1,053	71	
94,555	970	300	4,255	3,040	9,789	11,043	2,866	5,392
			1,600	1,327	5,461	5,880	1,505	
								9,795
11,525								
35,671								
197,853	29,438	1,198						(4,403)
245,049	29,438	1,198	1,600	1,327	5,461	5,880	1,505	5,392
(150,494)	(28,468)	(898)	2,655	1,713	4,328	5,163	1,361	-
			(2,564)	(1,078)	(3,123)	(3,569)	(1,089)	
-	-	-	(2,564)	(1,078)	(3,123)	(3,569)	(1,089)	-
(150,494)	(28,468)	(898)	91	635	1,205	1,594	272	-
280,554	27,659	4,557	(10)	1,221	8,140	10,950	(75)	5
\$ 130,060	\$ (809)	\$ 3,659	\$ 81	\$ 1,856	\$ 9,345	\$ 12,544	\$ 197	\$ 5

(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, 2007

	Special Revenue Funds						California Law
	Proposition "A"	Proposition "C"		Office of	Air	Supplemental	Enforcement
	Transit	Transit	Grants	Traffic	Quality	Law	Equipment
				Safety	Management	Enforcement	Program
				Grant	District		(CLEEP)
REVENUES:							
Property taxes							
Other taxes	\$ 313,868	\$ 261,155				\$ 100,000	
Fines and forfeitures							
Use of money and property							
Intergovernmental			\$ 166,728	\$ 128,072	\$ 23,324		
Charges for services	5675						
Miscellaneous	-14						
Interest earned on investments	49,266	129,856			6,589	15,798	\$ 172
Total revenues	368,795	391,011	166,728	128,072	29,913	115,798	172
EXPENDITURES:							
Current:							
General government	97,632				153		
Public safety	41,782		4,826			29,530	4,155
Community development	9,423						
Culture & recreation	25,786						
Public works		18,400	5,929				
Capital outlay		67,587	156,641	128,072		60,031	
Total expenditures	174,623	85,987	167,396	128,072	153	89,561	4,155
REVENUES OVER							
(UNDER) EXPENDITURES	194,172	305,024	(668)	-	29,760	26,237	(3,983)
OTHER FINANCING							
SOURCES (USES):							
Transfers in							
Transfers out							
Total other financing							
sources (uses)	-	-	-	-	-	-	-
NET CHANGE IN							
FUND BALANCES	194,172	305,024	(668)	-	29,760	26,237	(3,983)
FUND BALANCES:							
Beginning of year	474,428	1,483,106	8,912	-	72,660	135,334	5,571
End of year	\$ 668,600	\$ 1,788,130	\$ 8,244	\$ -	\$ 102,420	\$ 161,571	\$ 1,588

Special Revenue Funds								
Taskforce for Regional Auto Theft Prevention	Sewer	Asset Seizure and Forfeiture	Fire Protection	Retirement Stabilization	Artesia Blvd. Relinquish- ment	Beach Drive 2 Underground District	Myrtle Utility Underground Improvement	Bayview Underground District
		\$ 19,752						
\$ 137,078	\$ 11,720							
	46,308							
	5,380		\$ 97,699					
	58,560	5,082	12,942	\$ 75,506	\$ 13,206		\$ 689	\$ 16,127
137,078	121,968	24,834	110,641	75,506	13,206	\$ -	689	16,127
137,078		12,726						
	631,472				2,915			
	480,796	13,432	55,884		365,689			
137,078	1,112,268	26,158	55,884	-	368,604	-	-	-
-	(990,300)	(1,324)	54,757	75,506	(355,398)	-	689	16,127
	700,000							
			(95,021)	(186,857)				
-	700,000	-	(95,021)	(186,857)	-	-	-	-
-	(290,300)	(1,324)	(40,264)	(111,351)	(355,398)	-	689	16,127
-	927,937	66,253	193,373	1,042,171	373,861	(65,520)	8,373	194,877
\$ -	\$ 637,637	\$ 64,929	\$ 153,109	\$ 930,820	\$ 18,463	\$ (65,520)	\$ 9,062	\$ 211,004

(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, 2007

	Special Revenue Funds		
	Beach Drive Underground District	Prospect Utility Underground District	Total Other Governmental Funds
REVENUES:			
Property taxes			\$ 450,856
Other taxes			678,523
Fines and forfeitures			19,752
Use of money and property			300,000
Intergovernmental			1,039,504
Charges for services			109,579
Miscellaneous			204,023
Interest earned on investments	\$ 6,479		490,416
Total revenues	6,479	\$ -	3,292,653
EXPENDITURES:			
Current:			
General government			202,590
Public safety			230,097
Community development			19,218
Culture & recreation			37,311
Public works			1,214,645
Capital outlay	2,327		1,800,201
Total expenditures	2,327	-	3,504,062
REVENUES OVER (UNDER) EXPENDITURES	4,152	-	(211,409)
OTHER FINANCING SOURCES (USES):			
Transfers in			983,220
Transfers out			(1,000,565)
Total other financing sources (uses)	-	-	(17,345)
NET CHANGE IN FUND BALANCES	4,152	-	(228,754)
FUND BALANCES:			
Beginning of year	80,028	(200,000)	6,232,736
End of year	\$ 84,180	\$ (200,000)	\$ 6,003,982

(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, 2007

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2006	\$ 76,790	\$ 76,790	\$ -
Resources (inflows):			
Property taxes	449,040	450,856	1,816
Interest earned on investments	3,344	5,980	2,636
Transfers in	97,512	97,512	-
Amount available for appropriation	626,686	631,138	4,452
Charges to appropriations (outflows):			
Public works	616,510	520,258	96,252
Transfers out	10,176	10,176	-
Total charges to appropriations	626,686	530,434	96,252
Fund balance, June 30, 2007	\$ -	\$ 100,704	\$ 100,704

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, 2007

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2006	\$ 103,020	\$ 103,020	\$ -
Resources (inflows):			
Intergovernmental	512,164	546,633	34,469
Miscellaneous		(3,820)	(3,820)
Interest earned on investments	14,226	15,018	792
Amount available for appropriation	629,410	660,851	31,441
Charges to appropriations (outflows):			
Capital outlay	274,103	233,987	40,116
Transfers out	355,307	355,307	-
Total charges to appropriations	629,410	589,294	40,116
Fund balance, June 30, 2007	\$ -	\$ 71,557	\$ 71,557

City of Hermosa Beach

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

AB 939

For the year ended June 30, 2007

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2006	\$ 310,660	\$ 310,660	\$ -
Resources (inflows):			
Charges for services	57,160	57,596	436
Interest earned on investments	23,065	23,910	845
Amount available for appropriation	390,885	392,166	1,281
Charges to appropriations (outflows):			
General government	89,032	89,032	-
Total charges to appropriations	89,032	89,032	-
Fund balance, June 30, 2007	\$ 301,853	\$ 303,134	\$ 1,281

City of Hermosa Beach

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

Compensated Absences

For the year ended June 30, 2007

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2006	\$ 268,481	\$ 268,481	\$ -
Resources (inflows):			
Transfers in	185,708	185,708	-
Amount available for appropriation	454,189	454,189	-
Charges to appropriations (outflows):			
Transfers out	146,224	146,224	-
Total charges to appropriations	146,224	146,224	-
Fund balance, June 30, 2007	\$ 307,965	\$ 307,965	\$ -

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, 2007

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2006	\$ 3	\$ 3	\$ -
Resources (inflows):			
Intergovernmental	20,557	20,557	-
Amount available for appropriation	20,560	20,560	-
Charges to appropriations (outflows):			
Transfers out	20,557	20,557	-
Total charges to appropriations	20,557	20,557	-
Fund balance, June 30, 2007	\$ 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, 2007

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2006	\$ 77,343	\$ 77,343	\$ -
Resources (inflows):			
Use of money and property	300,000	300,000	-
Interest earned on investments	11,877	15,334	3,457
Amount available for appropriation	389,220	392,677	3,457
Charges to appropriations (outflows):			
Capital outlay	15,420	11,669	3,751
Transfers out	175,000	175,000	-
Total charges to appropriations	190,420	186,669	3,751
Fund balance, June 30, 2007	\$ 198,800	\$ 206,008	\$ 7,208

City of Hermosa Beach

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

Tyco Tidelands

For the year ended June 30, 2007

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2006	\$ 262,074	\$ 262,074	\$ -
Resources (inflows):			
Interest earned on investment	20,074	21,362	1,288
Amount available for appropriation	282,148	283,436	1,288
Fund balance, June 30, 2007	<u>\$ 282,148</u>	<u>\$ 283,436</u>	<u>\$ 1,288</u>

City of Hermosa Beach

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

Parks/Recreation Facility Tax

For the year ended June 30, 2007

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2006	\$ 280,554	\$ 280,554	\$ -
Resources (inflows):			
Other taxes	7,000	3,500	(3,500)
Miscellaneous	85,940	75,752	(10,188)
Interest earned on investments	18,546	15,303	(3,243)
Amount available for appropriation	392,040	375,109	(16,931)
Charges to appropriations (outflows):			
Culture and recreation	12,247	11,525	722
Public works	56,079	35,671	20,408
Capital outlay	235,854	197,853	38,001
Total charges to appropriations	304,180	245,049	59,131
Fund balance, June 30, 2007	\$ 87,860	\$ 130,060	\$ 42,200

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, 2007

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2006	\$ 27,659	\$ 27,659	\$ -
Resources (inflows):			
Interest earned on investments	1,780	970	(810)
Amount available for appropriation	29,439	28,629	(810)
Charges to appropriations (outflows):			
Capital outlay	29,439	29,438	1
Total charges to appropriations	29,439	29,438	1
Fund balance, June 30, 2007	\$ -	\$ (809)	\$ (809)

City of Hermosa Beach

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

Building Improvement

For the year ended June 30, 2007

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2006	\$ 4,557	\$ 4,557	\$ -
Resources (inflows):			
Interest earned on investments	265	300	35
Amount available for appropriation	4,822	4,857	35
Charges to appropriations (outflows):			
Capital outlay	4,822	1,198	3,624
Total charges to appropriations	4,822	1,198	3,624
Fund balance, June 30, 2007	\$ -	\$ 3,659	\$ 3,659

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, 2007

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2006	\$ (10)	\$ (10)	\$ -
Resources (inflows):			
Miscellaneous	4,211	4,211	-
Interest earned on investments	46	44	(2)
Amount available for appropriation	4,247	4,245	(2)
Charges to appropriations (outflows):			
General government	1,634	1,600	34
Transfers out	2,564	2,564	-
Total charges to appropriations	4,198	4,164	34
Fund balance, June 30, 2007	\$ 49	\$ 81	\$ 32

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, 2007

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2006	\$ 1,221	\$ 1,221	\$ -
Resources (inflows):			
Miscellaneous	3,039	3,040	1
Amount available for appropriation	4,260	4,261	1
Charges to appropriations (outflows):			
General government	1,962	1,327	635
Transfers out	1,078	1,078	-
Total charges to appropriations	3,040	2,405	635
Fund balance, June 30, 2007	\$ 1,220	\$ 1,856	\$ 636

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, 2007

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2006	\$ 8,140	\$ 8,140	\$ -
Resources (inflows):			
Miscellaneous	8,990	8,990	-
Interest earned on investments	737	799	62
Amount available for appropriation	17,867	17,929	62
Charges to appropriations (outflows):			
General government	6,000	5,461	539
Transfers out	3,123	3,123	-
Total charges to appropriations	9,123	8,584	539
Fund balance, June 30, 2007	\$ 8,744	\$ 9,345	\$ 601

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, 2007

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2006	\$ 10,950	\$ 10,950	\$ -
Resources (inflows):			
Miscellaneous	9,990	9,990	-
Interest earned on investments	957	1,053	96
Amount available for appropriation	21,897	21,993	96
Charges to appropriations (outflows):			
General government	6,422	5,880	542
Transfers out	3,569	3,569	-
Total charges to appropriations	9,991	9,449	542
Fund balance, June 30, 2007	\$ 11,906	\$ 12,544	\$ 638

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, 2007

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2006	\$ (75)	\$ (75)	\$ -
Resources (inflows):			
Miscellaneous	2,795	2,795	-
Interest earned on investments	23	71	48
Amount available for appropriation	2,743	2,791	48
Charges to appropriations (outflows):			
General government	1,654	1,505	149
Transfers out	1,089	1,089	-
Total charges to appropriations	2,743	2,594	149
Fund balance, June 30, 2007	\$ -	\$ 197	\$ 197

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, 2007

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2006	\$ 5	\$ 5	\$ -
Resources (inflows):			
Intergovernmental	229,710	5,392	(224,318)
Amount available for appropriation	229,715	5,397	(224,318)
Charges to appropriations (outflows):			
Community development	9,900	9,795	105
Capital outlay	219,810	(4,403)	224,213
Total charges to appropriations	229,710	5,392	224,318
Fund balance, June 30, 2007	\$ 5	\$ 5	\$ -

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, 2007

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2006	\$ 474,428	\$ 474,428	\$ -
Resources (inflows):			
Other taxes	303,376	313,868	10,492
Charges for services	6,100	5,675	(425)
Miscellaneous	(14)	(14)	-
Interest earned on investments	39,515	49,266	9,751
Amount available for appropriation	823,405	843,223	19,818
Charges to appropriations (outflows):			
General government	99,145	97,632	1,513
Public safety	41,783	41,782	1
Community development	9,460	9,423	37
Culture and recreation	27,591	25,786	1,805
Total charges to appropriations	177,979	174,623	3,356
Fund balance, June 30, 2007	\$ 645,426	\$ 668,600	\$ 23,174

City of Hermosa Beach

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

Proposition "C" Transit

For the year ended June 30, 2007

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2006	\$ 1,483,106	\$ 1,483,106	\$ -
Resources (inflows):			
Other taxes	252,020	261,155	9,135
Interest earned on investments	113,132	129,856	16,724
Amount available for appropriation	1,848,258	1,874,117	25,859
Charges to appropriations (outflows):			
Community development	20,000	18,400	1,600
Capital outlay	1,729,604	67,587	1,662,017
Total charges to appropriations	1,749,604	85,987	1,663,617
Fund balance, June 30, 2007	\$ 98,654	\$ 1,788,130	\$ 1,689,476

City of Hermosa Beach

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

For the year ended June 30, 2007

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2006	\$ 8,912	\$ 8,912	\$ -
Resources (inflows):			
Intergovernmental	218,821	166,728	(52,093)
Amount available for appropriation	227,733	175,640	(52,093)
Charges to appropriations (outflows):			
Public safety	5,481	4,826	655
Public works	13,741	5,929	7,812
Capital outlay	208,140	156,641	51,499
Total charges to appropriations	227,362	167,396	59,966
Fund balance, June 30, 2007	\$ 371	\$ 8,244	\$ 7,873

City of Hermosa Beach

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

Office of Traffic Safety Grant

For the year ended June 30, 2007

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2006	\$ -	\$ -	\$ -
Resources (inflows):			
Intergovernmental	150,109	128,072	(22,037)
Amount available for appropriation	150,109	128,072	(22,037)
Charges to appropriations (outflows):			
Capital outlay	150,109	128,072	22,037
Total charges to appropriations	150,109	128,072	22,037
Fund balance, June 30, 2007	\$ -	\$ -	\$ -

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, 2007

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2006	\$ 72,660	\$ 72,660	\$ -
Resources (inflows):			
Intergovernmental	23,254	23,324	70
Interest earned on investments	5,307	6,589	1,282
Amount available for appropriation	101,221	102,573	1,352
Charges to appropriations (outflows):			
General government	1,000	153	847
Total charges to appropriations	1,000	153	847
Fund balance, June 30, 2007	\$ 100,221	\$ 102,420	\$ 2,199

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, 2007

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2006	\$ 135,334	\$ 135,334	\$ -
Resources (inflows):			
Other taxes	100,000	100,000	-
Interest earned on investments	13,243	15,798	2,555
Amount available for appropriation	248,577	251,132	2,555
Charges to appropriations (outflows):			
Public safety	107,168	29,530	77,638
Capital outlay	65,263	60,031	5,232
Total charges to appropriations	172,431	89,561	82,870
Fund balance, June 30, 2007	\$ 76,146	\$ 161,571	\$ 85,425

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, 2007

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2006	\$ 5,571	\$ 5,571	\$ -
Resources (inflows):			
Interest earned on investments	310	172	(138)
Amount available for appropriation	5,881	5,743	(138)
Charges to appropriations (outflows):			
Public safety	4,210	4,155	55
Total charges to appropriations	4,210	4,155	55
Fund balance, June 30, 2007	\$ 1,671	\$ 1,588	\$ (83)

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, 2007

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2006	\$ -	\$ -	\$ -
Resources (inflows):			
Intergovernmental	144,035	137,078	(6,957)
Amount available for appropriation	144,035	137,078	(6,957)
Charges to appropriations (outflows):			
Public safety	144,035	137,078	6,957
Total charges to appropriations	144,035	137,078	6,957
Fund balance, June 30, 2007	\$ -	\$ -	\$ -

City of Hermosa Beach

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

Sewer

For the year ended June 30, 2007

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2006	\$ 927,937	\$ 927,937	\$ -
Resources (inflows):			
Intergovernmental	13,310	11,720	(1,590)
Charges for services	51,558	46,308	(5,250)
Miscellaneous	6,290	5,380	(910)
Interest earned on investments	62,956	58,560	(4,396)
Transfers in	700,000	700,000	-
Amount available for appropriation	1,762,051	1,749,905	(12,146)
Charges to appropriations (outflows):			
Public works	766,024	631,472	134,552
Capital outlay	968,524	480,796	487,728
Total charges to appropriations	1,734,548	1,112,268	622,280
Fund balance, June 30, 2007	\$ 27,503	\$ 637,637	\$ 610,134

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, 2007

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2006	\$ 66,253	\$ 66,253	\$ -
Resources (inflows):			
Fines and forfeitures	8,550	19,752	11,202
Interest earned on investments	4,662	5,082	420
Amount available for appropriation	79,465	91,087	11,622
Charges to appropriations (outflows):			
Public safety	18,165	12,726	5,439
Capital outlay	13,438	13,432	6
Total charges to appropriations	31,603	26,158	5,445
Fund balance, June 30, 2007	\$ 47,862	\$ 64,929	\$ 17,067

City of Hermosa Beach

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

Fire Protection

For the year ended June 30, 2007

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2006	\$ 193,373	\$ 193,373	\$ -
Resources (inflows):			
Miscellaneous	125,580	97,699	(27,881)
Interest earned on investments	13,308	12,942	(366)
Amount available for appropriation	332,261	304,014	(28,247)
Charges to appropriations (outflows):			
Capital outlay	169,800	55,884	113,916
Transfers out	95,021	95,021	-
Total charges to appropriations	264,821	150,905	113,916
Fund balance, June 30, 2007	\$ 67,440	\$ 153,109	\$ 85,669

City of Hermosa Beach

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

Retirement Stabilization

For the year ended June 30, 2007

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2006	\$ 1,042,171	\$ 1,042,171	\$ -
Resources (inflows):			
Interest earned on investments	78,714	75,506	(3,208)
Amount available for appropriation	1,120,885	1,117,677	(3,208)
Charges to appropriations (outflows):			
Transfers out	186,857	186,857	-
Total charges to appropriations	186,857	186,857	-
Fund balance, June 30, 2007	\$ 934,028	\$ 930,820	\$ (3,208)

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, 2007

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2006	\$ 373,861	\$ 373,861	\$ -
Resources (inflows):			
Interest earned on investments	24,372	13,206	(11,166)
Amount available for appropriation	398,233	387,067	(11,166)
Charges to appropriations (outflows):			
Public works	16,000	2,915	13,085
Capital outlay	371,875	365,689	6,186
Total charges to appropriations	387,875	368,604	19,271
Fund balance, June 30, 2007	\$ 10,358	\$ 18,463	\$ 8,105

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, 2007

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2006	\$ (65,520)	\$ (65,520)	\$ -
Amount available for appropriation	(65,520)	(65,520)	-
Fund balance, June 30, 2007	\$ (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, 2007

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2006	\$ 8,373	\$ 8,373	\$ -
Resources (inflows):			
Interest earned on investments	611	689	78
Amount available for appropriation	8,984	9,062	78
Fund balance, June 30, 2007	\$ 8,984	\$ 9,062	\$ 78

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, 2007

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2006	\$ 194,877	\$ 194,877	\$ -
Resources (inflows):			
Interest earned on investments	14,742	16,127	1,385
Amount available for appropriation	209,619	211,004	1,385
Charges to appropriations (outflows):			
Capital outlay	180,531	-	180,531
Total charges to appropriations	180,531	-	180,531
Fund balance, June 30, 2007	\$ 29,088	\$ 211,004	\$ 181,916

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, 2007

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2006	\$ 80,028	\$ 80,028	\$ -
Resources (inflows):			
Interest earned on investments	5,954	6,479	525
Amount available for appropriation	85,982	86,507	525
Charges to appropriations (outflows):			
Capital outlay	4,000	2,327	1,673
Total charges to appropriations	4,000	2,327	1,673
Fund balance, June 30, 2007	\$ 81,982	\$ 84,180	\$ 2,198

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, 2007

	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance with Final Budget
Fund balance, July 1, 2006	\$ (200,000)	\$ (200,000)	\$ -
Amount available for appropriation	(200,000)	(200,000)	-
Fund balance, June 30, 2007	\$ (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, 2007

	Insurance Fund	Equipment Replacement Fund	Total
ASSETS			
Current assets:			
Cash and investments	\$ 4,280,007	\$ 2,675,857	\$ 6,955,864
Other Accounts Receivables	509	3,586	4,095
Deposits	80,000		80,000
Advances to Other Funds	679,851	679,851	1,359,702
Other assets	826	49,637	50,463
Total current assets	5,041,193	3,408,931	8,450,124
Capital assets, net of accumulated depreciation		2,425,919	2,425,919
Total assets	5,041,193	5,834,850	10,876,043
LIABILITIES			
Current liabilities:			
Current portion of long-term liabilities	994,046		994,046
Accounts payable	280,068	44,534	324,602
Accrued wages and compensated absences	23,159	21,721	44,880
Total current liabilities	1,297,273	66,255	1,363,528
Long-term liabilities:			
Workers' compensation claims payable	2,788,431		2,788,431
General liability claims payable	1,109,734		1,109,734
Less current portion above	(994,046)		(994,046)
Total long-term liabilities	2,904,119	-	2,904,119
Total liabilities	4,201,392	66,255	4,267,647
NET ASSETS			
Invested in capital assets		2,425,919	2,425,919
Unrestricted	839,801	3,342,676	4,182,477
Total net assets	\$ 839,801	\$ 5,768,595	\$ 6,608,396

City of Hermosa Beach
Combining Statement of Revenues, Expenses, and Changes in Net Assets
All Internal Service Funds
For the year ended June 30, 2007

	Insurance Fund	Equipment Replacement Fund	Total
OPERATING REVENUES:			
Charges for services	\$ 1,698,417	\$ 1,260,857	\$ 2,959,274
Miscellaneous	65,061	7,337	72,398
Total operating revenues	1,763,478	1,268,194	3,031,672
OPERATING EXPENSES:			
Salaries and wages	130,092	193,482	323,574
Contractor services	841,953	384,644	1,226,597
Supplies	1,369	136,048	137,417
Claims expense	2,198,248		2,198,248
Depreciation		401,621	401,621
Total operating expenses	3,171,662	1,115,795	4,287,457
OPERATING INCOME (LOSS)	(1,408,184)	152,399	(1,255,785)
NONOPERATING REVENUES (EXPENSES):			
Loss on disposal of capital assets		(226)	(226)
Total nonoperating revenues (expenses)	-	(226)	(226)
INCOME (LOSS) BEFORE TRANSFERS	(1,408,184)	152,173	(1,256,011)
Transfers in	277,665	277,976	555,641
CHANGE IN NET ASSETS	(1,130,519)	430,149	(700,370)
NET ASSETS			
Beginning of the year	1,970,320	5,338,446	7,308,766
End of the year	\$ 839,801	\$ 5,768,595	\$ 6,608,396

City of Hermosa Beach
Combining Statement of Cash Flows
All Internal Service Funds
For the year ended June 30, 2007

	Insurance Fund	Equipment Replacement Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 184,997	\$ 136,757	\$ 321,754
Cash received for services from other funds	1,698,417	1,260,857	2,959,274
Cash payments to suppliers of goods and services	(698,439)	(540,461)	(1,238,900)
Cash payments to employees for services	(129,375)	(190,626)	(320,001)
Insurance premiums and settlements	(2,155,932)		(2,155,932)
Net cash provided by (used for) operating activities	(1,100,332)	666,527	(433,805)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	277,665	277,976	555,641
Net cash provided by (used for) noncapital financing activities	277,665	277,976	555,641
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of capital assets		(447,179)	(447,179)
Net cash provided by (used for) capital and related financing activities	-	(447,179)	(447,179)
Net increase (decrease) in cash and cash equivalents	(822,667)	497,324	(325,343)
CASH AND CASH EQUIVALENTS:			
Beginning of year	5,102,674	2,178,533	7,281,207
End of year	<u>\$ 4,280,007</u>	<u>\$ 2,675,857</u>	<u>\$ 6,955,864</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:			
Operating income (loss)	\$ (1,408,184)	\$ 152,399	\$ (1,255,785)
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:			
Depreciation		401,621	401,621
Changes in current assets and liabilities:			
Other Accounts Receivables	(509)		(509)
Advances to other funds	119,465	119,465	238,930
Other assets	980	9,955	10,935
Worker's compensation claims payable	(212,816)		(212,816)
General liability claims payable	255,132		255,132
Accounts payable	144,883	(19,769)	125,114
Accrued wages and compensated absences	717	2,856	3,573
Total adjustments	307,852	514,128	821,980
Net cash provided by (used for) operating activities	\$ (1,100,332)	\$ 666,527	\$ (433,805)
DISCLOSURE OF NON-CASH TRANSACTION:			
Loss on disposal of capital assets	<u>\$ -</u>	<u>\$ (226)</u>	<u>\$ (226)</u>

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, 2007

	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	\$ 67,781	\$ 39,175	\$ 22,905	\$ 3,461	\$ 83,367	\$ 88,868	\$ 11,357	\$ 316,914
Interest receivable	1,184	685	401	61	1,461	1,555	198	5,545
Other accounts receivable	2,189	1,533	1,547		5,631	5,133		16,033
Total assets	\$ 71,154	\$ 41,393	\$ 24,853	\$ 3,522	\$ 90,459	\$ 95,556	\$ 11,555	\$ 338,492
LIABILITIES								
Assessment:								
Installment account	\$ 71,154	\$ 41,393	\$ 24,853		\$ 90,459	\$ 95,556		\$ 323,415
Reserve requirement				\$ 3,522			\$ 11,555	15,077
Total liabilities	\$ 71,154	\$ 41,393	\$ 24,853	\$ 3,522	\$ 90,459	\$ 95,556	\$ 11,555	\$ 338,492

City of Hermosa Beach
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
For the year ended June 30, 2007

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
ASSETS				
Bayview Drive Redemption Fund:				
Cash and investments	\$ 82,527	\$ 105,680	\$ (120,426)	\$ 67,781
Interest receivable	1,203	1,191	(1,210)	1,184
Other accounts receivable	12,516	2,189	(12,516)	2,189
Lower Pier District Redemption Fund:				
Cash and investments	34,041	54,293	(49,159)	39,175
Interest receivable	481	704	(500)	685
Other accounts receivable	4,394	1,533	(4,394)	1,533
Beach Drive Assessment District Redemption Fund:				
Cash and investments	19,519	50,722	(47,336)	22,905
Interest receivable	268	404	(271)	401
Other accounts receivable	3,604	1,547	(3,604)	1,547
Beach Drive Assessment District Reserve Fund:				
Cash and investments	3,206	347	(92)	3,461
Interest receivable	54	60	(53)	61
Myrtle Avenue Assessment Fund:				
Cash and investments	76,629	108,947	(102,209)	83,367
Interest receivable	1,096	1,517	(1,152)	1,461
Other accounts receivable	2,152	5,631	(2,152)	5,631
Loma Drive Assessment Fund:				
Cash and investments	94,387	136,399	(141,918)	88,868
Interest receivable	1,364	1,678	(1,487)	1,555
Other accounts receivable	3,612	5,133	(3,612)	5,133
Bayview Drive Reserve Fund				
Cash and investments	10,523	1,122	(288)	11,357
Interest receivable	160	198	(160)	198
Total assets	<u>\$ 351,736</u>	<u>\$ 479,295</u>	<u>\$ (492,539)</u>	<u>\$ 338,492</u>
LIABILITIES				
Bayview Drive Redemption Fund:				
Assessment installment account	\$ 96,246	\$ 109,060	\$ (134,152)	\$ 71,154
Lower Pier District Redemption Fund:				
Assessment installment account	38,916	56,530	(54,053)	41,393
Beach Drive Assessment District Redemption Fund:				
Assessment installment account	23,391	52,673	(51,211)	24,853
Beach Drive Assessment District Reserve Fund:				
Reserve requirement	3,260	407	(145)	3,522
Myrtle Avenue Assessment Funds:				
Assessment installment account	79,877	116,095	(105,513)	90,459
Loma Drive Assessment Fund:				
Assessment installment account	99,363	143,210	(147,017)	95,556
Bayview Drive Reserve Fund				
Reserve requirement	10,683	1,320	(448)	11,555
Total liabilities	<u>\$ 351,736</u>	<u>\$ 479,295</u>	<u>\$ (492,539)</u>	<u>\$ 338,492</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, 2007

GOVERNMENTAL FUNDS CAPITAL ASSETS:

Land	\$ 17,448,236
Buildings and improvements	4,504,564
Improvements other than buildings	13,227,866
Machinery and equipment	1,741,872
Vehicles	25,996
Construction in progress	1,170,730
Infrastructure	40,212,303
Total governmental funds capital assets	78,331,567
Accumulated depreciation	(22,508,274)
Total governmental funds capital assets, net	\$ 55,823,293

INVESTMENTS IN GOVERNMENTAL FUNDS CAPITAL ASSETS BY SOURCE:

State grants	\$ 62,880
General fund revenues	32,383,483
Special revenue funds revenues	45,564,066
Donated assets	321,138
Total governmental funds capital assets	78,331,567
Accumulated depreciation	(22,508,274)
Total governmental funds capital assets, net	\$ 55,823,293

* 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, 2007

	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	1,118,813	\$ 25,996			2,430,916
Community development			99,858	12,755				112,613
Culture and recreation	650,000	1,017,602	203,154	118,848				1,989,604
Public works	16,490,887	945,326	12,075,831	184,025		\$ 40,212,303	\$ 1,170,730	71,079,102
Total governmental funds capital assets	17,448,236	4,504,564	13,227,866	1,741,872	25,996	40,212,303	1,170,730	78,331,567
Accumulated depreciation		(1,444,924)	(4,451,131)	(938,676)	(11,439)	(15,662,104)		(22,508,274)
Total governmental funds capital assets	\$ 17,448,236	\$ 3,059,640	\$ 8,776,735	\$ 803,196	\$ 14,557	\$ 24,550,199	\$ 1,170,730	\$ 55,823,293

* 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, 2007

	Capital Assets July 1, 2006	Additions	Deletions	Capital Assets June 30, 2007
Function and Activity:				
General government	\$ 2,719,332			\$ 2,719,332
Public safety	2,047,696	383,220		2,430,916
Community development	112,613			112,613
Culture and recreation	1,538,761	450,843		1,989,604
Public works	68,111,541	2,967,561		71,079,102
Total governmental funds capital assets	74,529,943	3,801,624	-	78,331,567
Accumulated depreciation	(20,242,620)	(2,301,266)	35,612	(22,508,274)
Total governmental funds capital assets, net	\$ 54,287,323	\$ 1,500,358	\$ 35,612	\$ 55,823,293

* 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.

<u>Contents</u>	<u>Page</u>
Financial Trends	150
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	153
These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.	
Debt Capacity	162
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

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

	Fiscal Year				
	2003	2004	2005	2006	2007
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
Restricted	524,561	2,217,823	3,305,478	3,590,623	3,813,004
Unrestricted	15,165,745	15,218,039	14,932,486	15,221,233	12,329,561
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>74,391,777</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
Restricted	864,024	-	-	-	-
Unrestricted	780,346	827,781	502,758	237,824	(1,604,154)
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>
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
Restricted	1,388,585	2,217,823	3,305,478	3,590,623	3,813,004
Unrestricted	15,946,091	16,045,820	15,435,244	15,459,057	10,725,407
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>83,098,988</u>

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

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

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

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

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

The City of Hermosa Beach has elected to show only five 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 Five Fiscal 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

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

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

	Fiscal Year				
	2003	2004	2005	2006	2007
General Fund:					
Reserved	\$ 231,701	\$ 230,527	\$ 103,014	\$ 158,854	\$ 142,604
Unreserved	461,115	403,455	373,817	211,191	168,089
Total general fund	<u>692,816</u>	<u>633,982</u>	<u>476,831</u>	<u>370,045</u>	<u>310,693</u>
All other governmental funds:					
Reserved	909,806	1,459,679	4,107,762	3,845,091	3,875,682
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>
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>

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

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

The City of Hermosa Beach has elected to show only five 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 Five 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

The City of Hermosa Beach has elected to show only five 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
1998	\$ 1,523,254	\$ 140,020	\$ 7,198	\$ 86,796	\$ (31,169)	\$ 1,726,099	1.00	\$ 1,757,268	1.97%
1999	1,604,556	142,533	6,653	95,797	(31,151)	1,818,388	1.00	1,849,539	5.25%
2000	1,785,340	145,703	6,735	101,038	(29,734)	2,009,081	1.00	2,038,816	10.23%
2001	1,959,668	148,003	7,004	105,278	(30,692)	2,189,260	1.00	2,219,952	8.88%
2002	2,163,509	163,177	7,552	91,586	(26,278)	2,399,546	1.00	2,425,824	9.27%
2003	2,342,017	175,517	7,340	101,252	(29,039)	2,597,087	1.00	2,626,126	8.26%
2004	2,581,409	191,355	7,867	93,753	(27,925)	2,846,459	1.00	2,874,384	9.45%
2005	2,834,252	201,708	7,276	98,635	(31,158)	3,110,712	1.00	3,141,870	9.31%
2006	3,158,374	228,948	7,853	102,802	(29,415)	3,468,562	1.00	3,497,977	11.33%
2007	3,545,052	260,957	8,653	103,957	(23,719)	3,894,900	1.00	3,918,619	9.19%

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	
1998	1.000000			0.001584	0.002197	0.008900	1.012681
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

Source: Los Angeles County Auditor-Controller

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

Taxpayer	2007		1998	
	Taxable Assessed Value	Percent of Total City Taxable Assessed Value	Taxable Assessed Value	Percent of Total City Taxable Assessed Value
International Church of The Four Square (40)	\$ 17,193,887	0.44%	\$ 9,592,005	0.56%
Regency Centers Limited Partnership (7)	13,479,420	0.35%	-	0.00%
Beta Group (2)	11,640,658	0.30%	-	0.00%
Barbara K. Robinson (3)	11,583,921	0.30%	-	0.00%
Robert J. & Ranae R. Desantis Trust (1)	11,246,938	0.29%	-	0.00%
Delphi Properties 1722 Strand LLC (2)	9,081,920	0.23%	-	0.00%
Barks PCH (1)	8,364,000	0.21%	-	0.00%
Norma L. Navarro (6)	8,132,700	0.21%		0.00%
Cheng Yi and Ying Yin Chang (1)	7,799,140	0.20%	6,561,489	0.38%
Formosa Hotel Inc. (1)	7,795,804	0.20%	-	0.00%
Pacific Real Estate Trust (7)		0.00%	18,884,683	1.09%
Playa Pacifica Limited (2)		0.00%	10,489,136	0.61%
Allen H. Ginsburg Trust (2)	-	0.00%	8,602,143	0.49%
Rogert E. Bacon (4)	-	0.00%	4,925,698	0.28%
Vasek Polak Trust (15)		0.00%	4,832,355	0.28%
Century Valley Cable Corporation (3)		0.00%	4,366,788	0.25%
Shook Development Corporation (2)	-	0.00%	4,302,360	0.25%
Simon Mani (2)	-	0.00%	3,645,554	0.21%
	<u>\$ 106,318,388</u>	<u>2.73%</u>	<u>\$ 76,202,211</u>	<u>4.40%</u>

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

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

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
1998	\$ 3,434,310	\$ 3,252,801	94.71%	\$ 143,098	\$ 3,395,899	98.88%
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	8,522,751	7,778,209	91.26%	-	7,778,209	91.26%

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	
1998	612	\$ 29,728,509	73	\$ 3,977,221	\$ 1,757,267,759
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

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

City of Hermosa Beach
Direct and Overlapping Debt
June 30, 2007

City Assessed Valuation		\$ 3,894,900,286	
Redevelopment Agency Incremental Valuation		-	
Total Assessed Valuation		<u>\$ 3,894,900,286</u>	
	Percentage Applicable	Outstanding Debt 6/30/07	Estimated Share of Overlapping Debt
Overlapping Debt Repaid with Property Taxes:			
Los Angeles County Flood Control Storm Drain Debt Service	0.503%	\$ 370,000	\$ 1,862
West Basin Water District Debt Service	0.532%	165,681,509	880,813
El Camino Community College District 2002 Series 2003A	5.669%	11,030,000	625,238
El Camino Community College District 2005 Refunding	5.669%	32,002,525	1,814,069
El Camino Community College District 2002 Series 2006B	5.669%	<u>150,000,000</u>	<u>8,502,779</u>
Total overlapping debt repaid with property taxes		<u>\$ 359,084,034</u>	<u>11,824,761</u>
City Direct Debt			
Hermosa Beach City School District Debt Service 2002	100.000%	2,124,401	2,124,401
Hermosa Beach School Debt Service 2005	100.000%	10,949,372	10,949,372
Total city direct debt			<u>13,073,773</u>
Total direct and overlapping debt			<u>\$ 24,898,534</u>

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

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City of Hermosa Beach

Legal Debt Margin Information

Last Ten Fiscal Years

	Fiscal Year				
	1998	1999	2000	2001	2002
Assessed Valuation	\$ 1,757,267,759	\$ 1,849,539,164	\$ 2,038,815,726	\$ 2,219,952,219	\$ 2,425,823,846
Conversion percentage	25%	25%	25%	25%	25%
Adjusted assessed valuation	\$ 439,316,940	\$ 462,384,791	\$ 509,703,932	\$ 554,988,055	\$ 606,455,962
Debt limit percentage	15%	15%	15%	15%	15%
Debt limit	\$ 65,897,541	\$ 69,357,719	\$ 76,455,590	\$ 83,248,208	\$ 90,968,394
Total net debt applicable to limit	\$ -	\$ -	\$ -	\$ -	\$ -
Legal Debt margin	\$ 65,897,541	\$ 69,357,719	\$ 76,455,590	\$ 83,248,208	\$ 90,968,394
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				
2003	2004	2005	2006	2007
\$ 2,626,125,947	\$ 2,874,383,847	\$ 3,141,870,060	\$ 3,497,977,443	\$ 3,918,599,486
25%	25%	25%	25%	25%
\$ 656,531,487	\$ 718,595,962	\$ 785,467,515	\$ 874,494,361	\$ 979,649,872
15%	15%	15%	15%	15%
\$ 98,479,723	\$ 107,789,394	\$ 117,820,127	\$ 131,174,154	\$ 146,947,481
\$ -	\$ -	\$ -	\$ -	\$ -
\$ 98,479,723	\$ 107,789,394	\$ 117,820,127	\$ 131,174,154	\$ 146,947,481
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	-	-		1.9%	1,462
2007	19,474	-	-		2.0%	1,449

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 2006 or 2007.
- (3) Personal Income figures for 1998, 2001, 2002, 2004 and 2005 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	2007		1998		¹
	Number of Employees	Percent of Total Employment	Number of Employees	Percent of Total Employment	
City of Hermosa Beach	189	4.73%	191	0.00%	
24 Hour fitness	147	3.68%	-	0.00%	
Von's Companies	144	3.60%	105	0.00%	
Hope Chapel	62	1.55%	130	0.00%	
Vasek Polak, Incorporated			122	0.00%	
Hermosa Beach School District	103	2.58%	100	0.00%	
Shorewood Realtors	96	2.40%	-	0.00%	
Comedy and Magic Club	54	1.35%	-	0.00%	
Hennesey's Tavern	70	1.75%	100	0.00%	
Lucky's Grocery			65	0.00%	
Ralph's Grocery			65	0.00%	
Patrick Molloy's	64	1.60%	-	0.00%	
Union Cattle Company	53	1.33%	-	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 1998.

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									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General Government	20	21	19	19	19	20	20	19	18	19
Public Safety	107	117	105	105	109	114	106	115	112	103
Community Development	8	11	9	10	9	11	11	11	11	10
Culture and recreation	35	38	38	42	26	29	32	37	40	36
Public Works	21	24	22	22	22	23	21	23	22	21
Total	191	211	193	198	185	197	190	205	203	189

Source: City of Hermosa Beach Finance Department

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

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Public safety										
Police:										
Physical arrests	624	692	629	873	1,027	1,343	1,413	1,064	887	896
Traffic citations issued	3,241	3,133	3,209	2,870	3,086	3,631	3,372	2,101	1,518	1,681
Parking citations issued	50,766	57,981	45,810	43,139	45,339	46,342	49,379	54,010	47,770	48,329
Fire:										
Number of emergency calls	450	498	538	-	527	605	598	899	866	929
Inspections	535	680	486	-	-	391	28	182	467	751
Community development:										
Building permits issued	689	648	530	594	636	691	676	696	762	597
Culture and recreation:										
Number of recreation classes	106	124	124	115	139	139	135	159	165	186
Total enrollment	4,692	4,807	5,131	4,039	5,112	4,778	4,616	5,969	5,228	5,128
Public works:										
Graffiti removal (hours)	256	382	289	422	285	410	456	217	414	474
Permits issued	382	504	538	1,335	528	567	529	706	875	821

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					Fiscal Year				
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
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
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)	256	382	289	422	285	410	456	217	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	33	34	34	34	34
Streets (miles)	40	40	40	40	40	40	40	40	40	40
Streetlights	399	399	399	399	399	399	399	399	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	17

Source: City of Hermosa Beach Finance Department

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