City of Hermosa Beach
Index to Notes to the Basic Financial Statements
For the Year Ended June 30, 2015

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Note 1 – Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

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

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

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

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

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

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

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

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

The above component units do not issue separate financial statements.

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus

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

In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, the statement of net position reports separate sections for Deferred Outflows of Resources and Deferred Inflows of Resources, when applicable.

Deferred Outflows of Resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.

Deferred Inflows of Resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as revenue until that time.

Government-Wide Financial Statements

The government-wide financial statements are presented on an "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying statement of net position. The statement of activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. Fiduciary activities of the City are not included in these statements.

Certain types of transactions are reported as program revenues for the City in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Certain eliminations have been made in regards to interfund activities, payables and receivables. All internal balances in the statement of net position have been eliminated. In the statement of activities, internal service fund transactions have been included in the governmental activities. The following interfund activities have been eliminated:

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

Governmental Fund Financial Statements

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

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

Governmental Fund Financial Statements (Continued)

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

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

The City reports the following major governmental fund:

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

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

Capital Improvement Capital Projects Fund – The Capital Improvement Capital Projects Fund is funds set aside for capital improvement projects.

Proprietary Fund Financial Statements

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

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

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

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

Fiduciary Fund Financial Statements

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

C. Cash and Investments

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

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

D. Property Taxes Receivable

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

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

E. Interfund Transactions

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

Note 1 – Summary of Significant Accounting Policies (Continued)

F. Capital Assets

In the government-wide financial statements, capital assets, which include land, buildings, improvements, equipment, furniture, and infrastructure assets (e.g., roads, sidewalks, and similar items), are recorded at historical cost or estimated historical if purchased or constructed. Donated capital assets are valued at their estimated fair market value on the date donated. City policy has set the capitalization threshold for reporting capital assets at $5,000 and infrastructure at $100,000.

The City defines infrastructure as the basic physical assets that allow the City to function. The assets include streets, sewers and storm drains, parking meters and monuments. Each major infrastructure system can be divided into subsystems. For example, the street system can be subdivided into pavement, curb and gutters, sidewalks, medians, streetlights and landscaping. These subsystems were not delineated in the basic financial statements. The Finance Department, with the assistance of the appropriate operating department, maintains information regarding the subsystems.

Interest incurred during capital assets construction, if any, is capitalized for the proprietary funds as part of the asset cost.

For all infrastructure systems, the City elected to use the “Basic Approach” and depreciate over its estimated useful life.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method. The lives used for depreciation purposes are as follows:

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

G. Unearned and unavailable revenue

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

In the fund financial statements, unearned revenue is recorded when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. The City records unearned revenue for transactions for which revenues have not been earned, or for which funds are not available to meet current financial obligations in accordance with GASB Statement No. 65. Typical transactions for which unearned revenue is recorded are lease payments, quarterly encroachment fees and advance registration for recreation classes which were not yet earned.

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.

Note 1 – Summary of Significant Accounting Policies (Continued)

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. The City's goal is to accumulate 25% of the funding for the accrued liability for compensated absences in the assigned fund balance for compensated absences.

J. Pension

GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. These pronouncements affected pension related items. See Note 1 O.

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

The following timeframes are used for pension reporting:

CalPERS	
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Measurement Period	July 1, 2013 to June 30, 2014

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

Note 1 – Summary of Significant Accounting Policies (Continued)

K. Net Position

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

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

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

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

L. Fund Balances

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

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

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

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

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

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

Note 1 – Summary of Significant Accounting Policies (Continued)

M. Spending Policy

Government – Wide Financial Statements and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

Long-term financial planning

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

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

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

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

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

The City also has a financial policy of transferring funds unspent in the General Fund at year-end to the Insurance Fund, Equipment Replacement Fund, and Capital Improvement Capital Projects Fund and to add to Contingency funds. For 2014-15, the City Council determined that all unspent funds in the General Fund $2,610,442 would be transferred to the Capital Improvement Capital Projects Fund. The City Council makes changes as necessary to the year end transfer, depending on the equity in the funds or based on other needs.

N. Use of Estimates

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

Note 1 – Summary of Significant Accounting Policies (Continued)

O. Accounting Changes

GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27.* This Statement establishes standards for measuring and recognizing liabilities, deferred outflow of resources, deferred inflows of resources, and expense/expenditures for pension plans. This Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This Statement became effective for periods beginning after June 15, 2014. See Note 16 for prior period adjustment as a result of implementation.

GASB has issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This Statement became effective for periods beginning after December 15, 2013 and did not have a significant impact on the City's financial statements for the year ended June 30, 2015.

GASB has issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. This Statement establishes standards related to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement became effective for periods beginning after June 15, 2014. See Note 16 for prior period adjustment as a result of implementation.

Note 2 – Cash and Investments

The City maintains a cash and investment pool, which includes cash balances and authorized investments of all funds.

The City had the following cash and investments at June 30, 2015:

	Government-Wide Statement of Net Position		
	Governmental Activities	Statement of Fiduciary Net Position	Total
Cash and investments	$ 40,229,962	$ 555,724	$ 40,785,686

Note 2 – Cash and Investments (Continued)

The City's cash and investments at June 30, 2015 in more detail:

Cash and cash equivalents:		
Demand deposits	$	5,644,245
Petty cash		2,000
Total cash and cash equivalents		5,646,245
Investments:		
Local Agency Investment Fund		2,232,088
Los Angeles County Pooled Investments Funds		28,719,506
Negotiable certificates of deposit		3,191,747
Corporate medium-term notes		501,410
U.S. Government Sponsored Enterprise Securities		494,690
Total investments		35,139,441
Total cash and investments	$	40,785,686

A. Deposits

The carrying amounts of the City's demand deposits were $5,644,245 at June 30, 2015. Bank balances at that date were $6,013,158, the total amount of which was collateralized or insured with accounts held by the pledging financial institutions in the City's name as discussed below.

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

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

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

B. Investments

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

- There is no maximum amount or maximum maturity period of the City's idle funds that may be invested with the Local Agency Investment Fund ("LAIF") or the Los Angles County Pooled Investment Fund ("LACPIF")
- Negotiable Certificates of Deposit shall not exceed 30 percent of the City's surplus money and mature in 5 years or less.

Note 2 – Cash and Investments (Continued)

B. Investments (Continued)

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

The City is a participant in LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City's investments with LAIF at June 30, 2015 included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities, which included the following:

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

Asset-Backed Securities: generally mortgage-backed securities that entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (for example, collateralized mortgage obligations), or credit card receivables.

As of June 30, 2015, the City had $2,232,088 invested in LAIF, which had invested 2.08% of the pool investment funds in Structured Notes and Asset-Backed Securities.

Investment in Los Angeles County Investment Pool

The City is a voluntary participant in the Los Angeles County Investment Pool pursuant to Government Code Section 53684. The cash flow needs of participants are monitored daily to ensure that sufficient liquidity is maintained to meet the needs of those participants. At the time deposits are made, the Los Angeles County Investment Pool's Treasurer may require the depositing entity to provide annual cash flow projections or an anticipated withdrawal schedule for deposits in excess of $1 million. Projections are to be performed no less than semi-annually. In accordance with Government Code Section 27136, all requests for withdrawal of funds for the purpose of investing or depositing the funds elsewhere shall be evaluated to ensure the proposed withdrawal will not adversely affect the principal deposits of the other participants. As of June 30, 2015, the City had $28,719,506 invested in the Los Angeles County Investment Pool.

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, 2015, the City had the following investment maturities:

		Investment Maturities (in Years)			
Investment Type	Fair value	Less than 1	1 to 2	2 to 3	4 to 5
Local Agency Investment Fund	$ 2,232,088	$ 2,232,088	$ -	$ -	$ -
Los Angeles County Pooled					
Investments Fund	28,719,506	28,719,506	-	-	-
Certificates of deposit	3,191,747	690,760	748,924	248,308	1,503,755
Corporate medium-term notes	501,410	501,410	-	-	-
U.S. Government Sponsored Enterprise Securities	494,690	-	-	-	494,690
Total	$ 35,139,441	$ 32,143,764	$ 748,924	$ 248,308	$ 1,998,445

Note 2 – Cash and Investments (Continued)

C. Risk Disclosures (Continued)

Credit Risk – State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. It is the City's policy to limit its investments in these investment types to the top rating issued by Standard & Poor's and Moody's Investor Service. At June 30, 2015, the City's credit risks, expressed on a percentage basis, were as follows:

Credit Quality Distribution for Securities
with Credit Exposure as a Percentage of Total Investments

Investment Type	Moody's Credit Rating	S&P's Credit Rating	% of Investments with Interest Rate Risk
Local Agency Investment Fund (LAIF)	Not Rated	Not Rated	6.35%
Los Angeles County Pooled Investments Fund	Not Rated	Not Rated	81.73%
Certificates of Deposits	Not Rated	Not Rated	9.08%
Corporate medium-term notes:			
General Electric Capital Corp.	A1	AA+	1.43%
U.S. Government Sponsored Enterprise Securities:			
Federal Home Loan Bank	Aaa	AA+	1.41%
Total			100.00%

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

Concentration of credit risk – The City's investment policy does not allow for investments in any one institution that is in excess of 5% of the City's total portfolio, except for LAIF and LACIPIF, where there is no limit. The City is in compliance with the investment policy related to the concentration of credit risk for the year ended June 30, 2015.

Note 3 - Receivables

A. Government-Wide Financial Statements

At June 30, 2015, the government-wide financial statements show the following receivables, net of allowances for uncollectible amounts, if any:

	Government-Wide Statement of Net Position		Statement of Fiduciary Net Position		Total	
	Governmental Activities					
Accounts receivable	$	1,548,436	$	-	$	1,548,436
Property taxes receivable, net		204,334		-		204,334
Reimbursable grants receivable		496,149		-		496,149
Interest receivable on investments		51,135		1,225		52,360
Other receivables		233,154		7,318		240,472
Total	$	2,533,208	$	8,543	$	2,541,751

B. Fund Financial Statements

Accounts Receivable

Accounts receivable consisted of amounts accrued in the ordinary course of operations. The total amount of accounts receivable for each major and nonmajor funds in the aggregate as of June 30, 2015, were as follows:

General Fund	$	1,736,187
Sewer Special Revenue Fund		37,390
Capital Improvements Capital Projects Fund		2,752
Nonmajor Funds		756,879
Total governmental funds		2,533,208
Total accounts receivable	$	2,533,208

Taxes Receivable

At June 30, 2015, the City had property taxes receivable, net of allowance for delinquent property taxes receivables, in the following major fund and nonmajor funds in the aggregate:

	Property taxes		Allowance for delinquent tax receivables		Property taxes, net of allowance	
Governmental Funds:						
General Fund	$	793,416	$	(595,839)	$	197,577
Nonmajor funds		15,248		(8,491)		6,757
Total	$	808,664	$	(604,330)	$	204,334

Note 3 – Receivables (Continued)

B. Fund Financial Statements (Continued)

Reimbursable Grants Receivable

Grants receivable consists of a variety of reimbursable grants from other agencies. The total amount of reimbursable grants receivable as of June 30, 2015 was as follows:

Governmental Funds:		
Safe Drinking Water Grant	$	18,233
California Coastal Commission		20,275
West Basin		1,375
General Coastal Plan Update		88,410
Surf Memorial Trust		176,243
Coastal Conservancy - Sea Level Rise		31,095
Other		160,518
Total reimbursable grants receivable	$	496,149

Note 4 – Lease Revenues

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

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

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

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

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

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

Note 4 – Lease Revenues (Continued)

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

Year ending June 30,		
2016	$	266,059
2017		246,675
2018		247,601
2019		237,426
2020		185,816
2021-2025		179,080
2026-2030		179,080
2031-2035		179,080
2036-2040		179,080
2041-2045		179,080
2046-2050		161,172
Total	$	2,240,149

Lease revenue for the year ended June 30, 2015 was $322,966.

Note 5 – Interfund Transactions

Due From/To Other Funds – At June 30, 2015, the City had the following due from/to other funds:

	Due From Other Funds	
Due To Other Funds	General Fund	
Nonmajor Governmental funds	$	283,126
Total	$	283,126

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

Note 5 – Interfund Transactions (Continued)

Transfers

During the year ended June 30, 2015, the City had the following transfers:

	Transfers in					
Transfers out	General Fund	Sewer Special Revenue Fund	Capital Improvements Capital Projects Fund	Nonmajor Governmental Funds	Internal Service Funds	Total
General Fund	$ -	$ 850,353	$ 2,610,442	$ 36,111	$ -	$ 3,496,906
Capital Improvements						
Capital Projects Fund	-	-	-	-	1,324,690	1,324,690
Nonmajor Governmental Funds	351,104	-	-	-	-	351,104
Internal Service funds	-	3,063,903	-	-	-	3,063,903
Total	$ 351,104	$ 3,914,256	$ 2,610,442	$ 36,111	$ 1,324,690	$ 8,236,603

In general, transfers are used to 1) use unrestricted revenues collected in one fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 2) to reimburse the General Fund for administration services provided to other funds. In addition, $3,063,903 was transferred from Insurance Internal Service Fund to Sewer Special Revenue Fund to help fund the upcoming sewer rehabilitation project, $2,610,442 was transferred from General Fund to Capital Improvements Capital Projects fund to fund capital projects, and $1,324,690 was transferred from Capital Improvements Capital Projects Fund to Equipment Replacement Internal Service Fund to meet equipment funding goals during the year ended June 30, 2015.

Note 6 – Capital Assets

The following is a summary of changes in capital assets for the governmental activities for the year ended June 30, 2015:

	Balance July 1, 2014	Additions	Deletions	Reclassifications	Balance June 30, 2015
Capital assets not being depreciated:					
Land	$ 22,740,168	$ -	$ -	$ -	$ 22,740,168
Construction in progress	1,175,057	1,786,816	(81,025)	(329,385)	2,551,463
Total capital assets not being depreciated	23,915,225	1,786,816	(81,025)	(329,385)	25,291,631
Capital assets being depreciated:					
Buildings and structures	12,945,808	-	-	-	12,945,808
Improvements other than buildings	14,459,688		-	-	14,459,688
Machinery and equipment	4,133,782	1,163,128	(66,975)	-	5,229,935
Vehicles	4,107,697	169,019	(113,908)	-	4,162,808
Infrastructure	49,522,531	1,141,336	-	329,385	50,993,252
Total capital assets being depreciated	85,169,506	2,473,483	(180,883)	329,385	87,791,491
Less accumulated depreciation for:					
Buildings and structures	(4,152,929)	(102,635)	-	-	(4,255,564)
Improvements other than buildings	(11,480,885)	(265,107)	-	-	(11,745,992)
Machinery and equipment	(2,989,759)	(273,313)	65,782	-	(3,197,290)
Vehicles	(2,468,861)	(217,319)	113,908	-	(2,572,272)
Infrastructure	(23,164,292)	(1,414,411)	-	-	(24,578,703)
Total accumulated depreciation	(44,256,726)	(2,272,785)	179,690	-	(46,349,821)
Total capital assets being depreciated, net	40,912,780	200,698	(1,193)	329,385	41,441,670
Total governmental activities	$ 64,828,005	$ 1,987,514	$ (82,218)	$ -	$ 66,733,301

Note 6 – Capital Assets (Continued)

Depreciation expense was charged to functions/programs of governmental activities for the year ended June 30, 2015 as follows:

General government	$	57,315
Public safety		124,812
Community development		18,916
Culture and recreation		47,617
Public works		268,535
Infrastructure		1,414,410
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets		341,180
Total depreciation expense	$	2,272,785

Note 7 – Compensated Absences

Summary of changes in compensated absences for governmental activities for the year ended June 30, 2015 is as follows:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015	Classification: Due within One Year	Classification: Due in more than One Year
Compensated absences	$ 2,270,972	$ 999,404	$ (970,195)	$ 2,300,181	$ 1,083,642	$ 1,216,539

The compensated absences payable has been accrued for the governmental activities on the government-wide financial statements. Typically, the General Fund (major fund), the Lighting and Landscaping District Fund, AB 939 Fund and the Sewer Fund (nonmajor funds) have been used to liquidate the liability for compensated absences. There is no fixed payment schedule to pay these liabilities.

Note 8 – Risk Management

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

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

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

Note 8 – Risk Management (Continued)

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

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

The City's premiums to ICRMA in the amount of $744,287 for the fiscal year 2014-2015 are in accordance with formulas established by ICRMA. The City is liable for possible additional assessments and withdrawal costs under terms of the membership agreement; however, there has never been an additional assessment since the pool was formed.

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

The workers' compensation and general liability claims payable of $5,709,645 reported at June 30, 2015 includes the liability for claims in which it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

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

	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Year Liability	Amounts Due within One Year	Amounts Due in more than One Year
Workers' Compensation						
2012-2013	$ 6,956,550	$ 821,226	$ (842,530)	$ 6,935,246	$ 1,064,488	$ 5,870,758
2013-2014	6,935,246	(452,257)	(917,077)	5,565,912	791,596	4,774,316
2014-2015	5,565,912	(1,168,562)	423,995	4,821,345	686,562	4,134,783
General Liability						
2012-2013	$ 1,058,513	$ 381,993	$ (260,835)	$ 1,179,671	$ 417,109	$ 762,562
2013-2014	1,179,671	827,029	(620,366)	1,386,334	518,155	868,179
2014-2015	1,386,334	(325,127)	(172,907)	888,300	323,644	564,656

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

Note 9 – Defined Benefit Pension Plans

The following is a summary of changes in deferred outflows and inflows of resources, and net pension liability for the governmental activities for the year ended June 30, 2015:

	Balance July 1, 2014 (As Restated)	Additions	Deletions	Balance June 30, 2015
Deferred outflows of resources:				
Pension contribution made after measurement date:				
Fire Tier 1	$ 726,540	$ 759,620	$ (726,540)	$ 759,620
Fire Tier 2	981	-	(981)	-
Fire Tier PEPRA	-	11,264	-	11,264
Police Tier 1	1,776,475	1,977,042	(1,776,475)	1,977,042
Police Tier 2	44,685	42,151	(44,685)	42,151
Police PEPRA	24,711	52,343	(24,711)	52,343
Miscellaneous Tier 1	691,091	738,563	(691,091)	738,563
Miscellaneous Tier 2	76,510	90,048	(76,510)	90,048
Miscellaneous PEPRA	32,036	54,882	(32,036)	54,882
Total pension contribution after measurement date	3,373,029	3,725,913	(3,373,029)	3,725,913
Employer's actual contributions in excess of employer's proportionate share of contributions:				
Fire Tier 1	-	25,647	(6,749)	18,898
Fire Tier 2	-	658	(174)	484
Police Tier 1	-	346,609	(91,213)	255,396
Police Tier 2	-	42,665	(11,228)	31,437
Police PEPRA	-	24,709	(6,502)	18,207
Miscellaneous Tier 2	-	72,499	(19,079)	53,420
Miscellaneous PEPRA	-	31,997	(8,420)	23,577
Total employer's actual contributions in excess of employer's proportionate share of contributions	-	544,784	(143,365)	401,419
Adjustment due to difference in proportion pension investments:				
Fire Tier 1	-	99,662	(26,227)	73,435
Police Tier 1	-	148,909	(39,187)	109,722
Police PEPRA	-	8,780	(2,311)	6,469
Miscellaneous Tier 1	-	221,181	(58,206)	162,975
Total adjustment due to difference in proportion pension investments	-	478,532	(125,931)	352,601
Total deferred outflows of resources	$ 3,373,029	$ 4,749,229	$ (3,642,325)	$ 4,479,933

Note 9 – Defined Benefit Pension Plans (Continued)

	Balance July 1, 2014 (As Restated)	Additions	Deletions	Balance June 30, 2015
Net pension liabilities:				
Fire Tier 1	$ 9,492,358	$ 2,798,326	$ (4,532,301)	$ 7,758,383
Fire Tier 2	3,462	20,803	(21,650)	2,615
Police Tier 1	21,784,708	5,725,081	(9,145,112)	18,364,677
Police Tier 2	21,559	60,782	(66,060)	16,281
Police PEPRA	20	16,268	(16,273)	15
Miscellaneous Tier 1	12,722,372	3,925,441	(6,516,755)	10,131,058
Miscellaneous Tier 2	41,426	141,520	(152,627)	30,319
Miscellaneous PEPRA	398	32,819	(32,926)	291
Total net pension liabilities	$ 44,066,303	$ 12,721,040	$ (20,483,704)	$ 36,303,639
Deferred inflows of Resources:				
Difference in projected and actual earnings on pension investments:				
Fire Tier 1	$ -	$ 2,132,396	$ (426,479)	$ 1,705,917
Fire Tier 2	-	988	(198)	790
Police Tier 1	-	4,350,226	(870,045)	3,480,181
Police Tier 2	-	6,145	(1,229)	4,916
Police PEPRA	-	6	(1)	5
Miscellaneous Tier 1	-	3,141,881	(628,376)	2,513,505
Miscellaneous Tier 2	-	12,736	(2,547)	10,189
Miscellaneous PEPRA	-	122	(24)	98
Total difference in projected and actual earnings on pension investments	-	9,644,500	(1,928,899)	7,715,601
Employer's proportionate share of contribution in excess of employer's actual contribution:				
Miscellaneous Tier 1	-	298,437	(78,536)	219,901
Total employer's proportionate share of contribution in excess of employer's actual contribution	-	298,437	(78,536)	219,901
Total adjustment due to difference in proportions:				
Fire Tier 2	-	19,198	(5,052)	14,146
Police Tier 2	-	34,900	(9,184)	25,716
Miscellaneous Tier 2	-	62,779	(16,521)	46,258
Miscellaneous PEPRA	-	381	(100)	281
Total adjustment due to difference in proportions	-	117,258	(30,857)	86,401
Total deferred inflows of resources	$ -	$ 10,060,195	$ (2,038,292)	$ 8,021,903

Note 9 – Defined Benefit Pension Plans (Continued)

General Information about the Pension Plan

Plan Description

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

Employees Covered by Benefit Terms

At June 30, 2013, the following employees were covered by the benefit terms:

	Plans				
	Fire Tier 1	Fire Tier 2	Police Tier 1	Police Tier 2	Police PEPRA
Active employees	15	1	28	2	1
Transferred and terminated employees	10	-	14	1	-
Separated	5	-	5	2	-
Retired Employees and Beneficiaries	48	-	87	-	-
Total	78	1	134	5	1

	Plans		
	Misc. Tier 1	Misc. Tier 2	Misc. PEPRA
Active employees	67	14	7
Transferred and terminated employees	58	1	-
Separated	55	2	-
Retired Employees and Beneficiaries	116	-	-
Total	296	17	7

There were no employees covered by Fire PEPRA plan at June 30, 2013.

Benefit Provided

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

Note 9 – Defined Benefit Pension Plans (Continued)

General Information about the Pension Plan

Benefit Provided

Following are the benefit provisions for each plan:

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

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

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

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

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

Note 9 – Defined Benefit Pension Plans (Continued)

General Information about the Pension Plan (Continued)

Contributions

Section 20814(c) of the California Public Employees' Retirement Law ("PERL") requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The Public agency cost-sharing plans covered by either the Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2014 (the measurement date), the average contribution rate were as follows:

Plans	Active Employee Contribution Rate	Employer Contribution Rate
Fire Tier 1	8.980%	44.047%
Fire Tier 2	8.922%	22.145%
Police Tier 1	8.986%	61.738%
Police Tier 2	8.922%	22.145%
Police PEPRA	11.715%	12.250%
Misc. Tier 1	6.891%	18.203%
Misc. Tier 2	6.880%	8.486%
Misc. PEPRA	6.308%	6.250%

There were no employees covered by Fire PEPRA plan for the measurement period ended June 30, 2014.

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

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ended June 30, 2014 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2013 total pension liability. Both the June 30, 2013 and the June 30, 2014 total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirement of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds.
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

Note 9 – Defined Benefit Pension Plans (Continued)

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

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

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent, which is net of administrative expenses. An investment return excluding administrative expenses would have been 7.65 percent. Management has determined that using the lower discount rate has resulted in a slightly higher total pension liability and net pension liability and the difference was deemed immaterial to the financial statement. The long-term expected rate of return on pension plan investments was determined in which best-estimate ranges of expected future real rates are developed for each major asset class. In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were considered. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years.

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

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1-10[1]	Real Return Years 11+[2]
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00	0.99	2.43
Inflation Sensitive	6.00	0.45	3.36
Private Equity	12.00	6.83	6.95
Real Estate	11.00	4.50	5.13
Infrastructure and Forestland	3.00	4.50	5.09
Liquidity	2.00	-0.55	-1.05

[1]An expected inflation of 2.5% used for this period
[2]An expected inflation of 3.0% used for this period.

Note 9 – Defined Benefit Pension Plan (Continued)

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

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

The following presents the City's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.5%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50%) or 1 percentage-point higher (8.50%) than the current rate:

	Plan's Net Pension Liability/(Asset)		
	Discount Rate - 1% (6.50%)	Current Discount Rate (7.50%)	Discount Rate + 1% (8.50%)
Fire Tier 1	$ 12,113,704	$ 7,758,383	$ 4,169,787
Fire Tier 2	$ 4,500	$ 2,615	$ 1,062
Police Tier 1	$ 27,589,649	$ 18,364,677	$ 10,763,698
Police Tier 2	$ 28,018	$ 16,281	$ 6,611
Police PEPRA	$ 26	$ 15	$ 6
Misc. Tier 1	$ 16,329,566	$ 10,131,058	$ 4,986,886
Misc. Tier 2	$ 54,019	$ 30,319	$ 10,651
Misc. PEPRA	$ 519	$ 291	$ 102

Pension Plan Fiduciary Net Position

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

Note 9 – Defined Benefit Pension Plan (Continued)

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

Proportionate Share of Net Pension Liability and Pension Expense

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

	Increase (Decrease)		
	Plan Total Pension Liability	**Plan Fiduciary Net Position**	**Plan Net Pension Liability/(Asset)**
Fire Tier 1			
Balance at: 6/30/13 (Valuation date)	$ 31,010,666	$ 21,518,308	$ 9,492,358
Balance at: 6/30/14 (Measurement date)	$ 32,515,129	$ 24,756,746	$ 7,758,383
Net Changes during 2013-2014	$ 1,504,463	$ 3,238,438	$ (1,733,975)
Fire Tier 2			
Balance at: 6/30/13 (Valuation date)	$ 13,420	$ 9,958	$ 3,462
Balance at: 6/30/14 (Measurement date)	$ 14,071	$ 11,456	$ 2,615
Net Changes during 2013-2014	$ 651	$ 1,498	$ (847)
Police Tier 1			
Balance at: 6/30/13 (Valuation date)	$ 65,683,457	$ 43,898,749	$ 21,784,708
Balance at: 6/30/14 (Measurement date)	$ 68,870,050	$ 50,505,373	$ 18,364,677
Net Changes during 2013-2014	$ 3,186,593	$ 6,606,624	$ (3,420,031)
Police Tier 2			
Balance at: 6/30/13 (Valuation date)	$ 83,567	$ 62,008	$ 21,559
Balance at: 6/30/14 (Measurement date)	$ 87,621	$ 71,340	$ 16,281
Net Changes during 2013-2014	$ 4,054	$ 9,332	$ (5,278)
Police PEPRA			
Balance at: 6/30/13 (Valuation date)	$ 77	$ 57	$ 20
Balance at: 6/30/14 (Measurement date)	$ 81	$ 66	$ 15
Net Changes during 2013-2014	$ 4	$ 9	$ (5)

Note 9 – Defined Benefit Pension Plan (Continued)

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

<u>*Proportionate Share of Net Pension Liability and Pension Expense (Continued)*</u>

	Increase (Decrease)		
	Plan Total Pension Liability	**Plan Fiduciary Net Position**	**Plan Net Pension Liability/(Asset)**
Misc. Tier 1			
Balance at: 6/30/13 (Valuation date)	$ 44,099,460	$ 31,377,088	$ 12,722,372
Balance at: 6/30/14 (Measurement date)	$ 46,723,803	$ 36,592,745	$ 10,131,058
Net Changes during 2013-2014	$ 2,624,343	$ 5,215,657	$ (2,591,314)
Misc. Tier 2			
Balance at: 6/30/13 (Valuation date)	$ 168,613	$ 127,187	$ 41,426
Balance at: 6/30/14 (Measurement date)	$ 178,647	$ 148,328	$ 30,319
Net Changes during 2013-2014	$ 10,034	$ 21,141	$ (11,107)
Misc. PEPRA			
Balance at: 6/30/13 (Valuation date)	$ 1,619	$ 1,221	$ 398
Balance at: 6/30/14 (Measurement date)	$ 1,715	$ 1,424	$ 291
Net Changes during 2013-2014	$ 96	$ 203	$ (107)

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

(1) In determining a cost-sharing plan's proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2013). The risk pool's fiduciary net position ("FNP") subtracted from its total pension liability ("TPL") determines the net pension liability ("NPL") at the valuation date.

(2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2014). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool's FNP at the measurement date denotes the aggregate risk pool's FNP at June 30, 2014 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2013-14).

Note 9 – Defined Benefit Pension Plan (Continued)

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

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

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

(3) The individual plan's TPL, FNP and NPL are also calculated at the valuation date.

(4) Two ratios are created by dividing the plan's individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool's total TPL and FNP, respectively.

(5) The plan's TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan's FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.

(6) The plan's NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5).

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

	Plans				
	Fire Tier 1	Fire Tier 2	Police Tier 1	Police Tier 2	Police PEPRA
June 30, 2013	0.19841%	0.00007%	0.45534%	0.00045%	0.00000%
June 30, 2014	0.20684%	0.00007%	0.48960%	0.00043%	0.00000%
Change - Increase (Decrease)	0.00843%	0.00000%	0.03426%	-0.00002%	0.00000%

	Plans		
	Misc. Tier 1	Misc. Tier 2	Misc. PEPRA
June 30, 2013	0.38827%	0.00126%	0.00001%
June 30, 2014	0.40992%	0.00123%	0.00001%
Change - Increase (Decrease)	0.02165%	-0.00003%	0.00000%

Note 9 – Defined Benefit Pension Plan (Continued)

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

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

For the year ended June 30, 2015, the City recognized pension expense as follows:

Fire Tier 1	$	606,149
Fire Tier 2		14,586
Police Tier 1		1,471,507
Police Tier 2		38,602
Police PEPRA		35
Miscellaneous Tier 1		670,208
Miscellaneous Tier 2		68,430
Miscellaneous PEPRA		8,731
	$	2,878,248

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

The expected average remaining service lifetime ("EARSL") is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired) in the risk pool. The EARSL for risk pool for the 2013-14 measurement period is 3.8 years, which was obtained by dividing the total service years of 460,700 (the sum of remaining service lifetimes of the active employees) by 122,789 (the total number of participants: active, inactive, and retired).

Note 9 – Defined Benefit Pension Plan (Continued)

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

At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Fire Tier 1

	Deferred outflows of Resources	Deferred inflows of Resources
Difference between projected and actual earning on pension plan investments	$ -	$ (1,705,917)
Adjustment due to differences in proportions	73,435	-
Difference between City contributions and proportionate share of contributions	18,898	-
Total	$ 92,333	$ -

Fire Tier 2

	Deferred outflows of Resources	Deferred inflows of Resources
Difference between projected and actual earning on pension plan investments	$ -	$ (790)
Adjustment due to differences in proportions	-	(14,146)
Difference between City contributions and proportionate share of contributions	484	-
Total	$ 484	$ (14,936)

Police Tier 1

	Deferred outflows of Resources	Deferred inflows of Resources
Difference between projected and actual earning on pension plan investments	$ -	$ (3,480,181)
Adjustment due to differences in proportions	109,722	-
Difference between City contributions and proportionate share of contributions	255,396	-
Total	$ 365,118	$ (3,480,181)

Note 9 – Defined Benefit Pension Plan (Continued)

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

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

Police Tier 2

	Deferred outflows of Resources	Deferred inflows of Resources
Difference between projected and actual earning on pension plan investments	$ -	$ (4,916)
Adjustment due to differences in proportions	-	(25,716)
Difference between City contributions and proportionate share of contributions	31,437	-
Total	$ 31,437	$ (30,632)

Police PEPRA

	Deferred outflows of Resources	Deferred inflows of Resources
Difference between projected and actual earning on pension plan investments	$ -	$ (5)
Adjustment due to differences in proportions	6,469	-
Difference between City contributions and proportionate share of contributions	18,207	-
Total	$ 24,676	$ (5)

Misc. Tier 1

	Deferred outflows of Resources	Deferred inflows of Resources
Difference between projected and actual earning on pension plan investments	$ -	$ (2,513,505)
Adjustment due to differences in proportions	162,975	-
Difference between City contributions and proportionate share of contributions	-	(219,901)
Total	$ 162,975	$ (2,733,406)

Note 9 – Defined Benefit Pension Plan (Continued)

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

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

Misc. Tier 2

	Deferred outflows of Resources	Deferred inflows of Resources
Difference between projected and actual earning on pension plan investments	$ -	$ (10,189)
Adjustment due to differences in proportions	-	(46,258)
Difference between City contributions and proportionate share of contributions	53,420	-
Total	$ 53,420	$ (56,447)

Misc. PEPRA

	Deferred outflows of Resources	Deferred inflows of Resources
Difference between projected and actual earning on pension plan investments	$ -	$ (98)
Adjustment due to differences in proportions	-	(281)
Difference between City contributions and proportionate share of contributions	23,577	-
Total	$ 23,577	$ (379)

Note 9 – Defined Benefit Pension Plan (Continued)

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

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

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

	Deferred Outflows/ (Inflows) of Resources			
Year Ended June 30,	**Fire Tier 1**	**Fire Tier 2**	**Police Tier 1**	**Police Tier 2**
2016	$ (393,503)	$ (5,076)	$ (739,645)	$ 815
2017	(393,503)	(5,076)	(739,645)	815
2018	(400,098)	(4,101)	(765,727)	404
2019	(426,480)	(199)	(870,046)	(1,229)
2020	-	-	-	-
Thereafter	-	-	-	-
	$ (1,613,584)	$ (14,452)	$ (3,115,063)	$ 805

	Deferred Outflows/ (Inflows) of Resources			
Year Ended June 30,	**Police PEPRA**	**Misc. Tier 1**	**Misc. Tier 2**	**Misc. PEPRA**
2016	$ 8,812	$ (648,706)	$ 11	$ 8,296
2017	8,812	(648,706)	11	8,296
2018	7,049	(644,642)	(501)	6,632
2019	(2)	(628,377)	(2,548)	(26)
2020	-	-	-	-
Thereafter	-	-	-	-
	$ 24,671	$ (2,570,431)	$ (3,027)	$ 23,198

Note 10 – Other Postemployment Benefit Plan

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

Plan Description

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

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

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

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

Eligibility

All of the Plan's employees became participants in accordance with negotiated Memorandum of Understanding ("MOU") as negotiated by each group or bargaining unit. In order to receive benefits, eligible employees must meet the minimum requirements defined in their MOU. Participants of the Plan as of June 30, 2015 were as follows:

Participants	Total
Active employees	129
Retirees	59
Total	188

Funding Policy

The contribution requirements for Plan members and the City are established by a MOU as negotiated by each group or bargaining unit. The City is funding 100% of the annual required contribution as calculated based on the actuarial valuation. For the year ended June 30, 2015, the City contributed $919,944. Plan members receiving benefits contributed $218,299 of the total premiums, as their required contributions.

Note 10 – Other Postemployment Benefit Plan (Continued)

Annual OPEB Cost and Net OPEB Asset

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

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

	Total
Annual required contribution	$ 946,000
Interest on net OPEB obligation	(7,670)
Adjustment to annual required contribution	13,202
Annual OPEB cost (expense)	951,532
Contributions made	(919,944)
Increase in net OPEB asset	31,588
Net OPEB asset - beginning of year	(122,714)
Net OPEB asset - end of year	$ (91,126)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation for year ended June 30, 2015 and the preceding two years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions	% of Annual OPEB Cost Contributed	Net OPEB Asset
6/30/2013	$ 888,000	$ 1,007,872	102.33%	$ 119,872
6/30/2014	923,289	926,131	100.31%	122,714
6/30/2015	951,532	919,944	96.68%	91,126

Note 10 – Other Postemployment Benefit Plan (Continued)

Funded Status and Funding Progress

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

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

Actuarial Methods and Assumptions

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

In the June 30, 2011 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions include a 6.25% investment rate of return (net of administrative expenses), which is based on the expected return on funds invested, and an annual healthcare cost trend rate of 10% initially reduced by decrements to an ultimate rate of 5% thereafter. The actuarial assumption for inflation was 3%, and the aggregate payroll increases was 3.25% used in the actuarial valuation. The City’s Plan does not provide postretirement benefit increases. The UAAL is amortized as a level percentage of future payroll on a 20-year closed amortization period. The remaining amortization period at June 30, 2015 was 14 years.

Note 11 – Classification of Fund Balances

At June 30, 2015, fund balances are classified in the governmental funds as follows:

	General Fund	Sewer Special Revenue Fund	Capital Improvements Capital Projects Fund	Nonmajor Governmental Funds	Total
Nonspendable					
Prepaid items	$ 19,444	$ -	$ -	$ -	$ 19,444
Total nonspendable	19,444	-	-	-	19,444
Restricted					
General Plan Maintenance Fees	171,807	-	-	-	171,807
Verizon PEG Grant	74,758	-	-	-	74,758
Greenwald Theatre Donation	45,000	-	-	-	45,000
Chamber Sign Donation	50,000	-	-	-	50,000
CDBG Fund Exchange	118,739	-	-	-	118,739
Lighting District	-	-	-	34,264	34,264
Gas Tax	-	-	-	324,643	324,643
Source Reduction/Recycling	-	-	-	13,529	13,529
Prop A Open Space	-	-	-	3,404	3,404
Tyco Tidelands	-	-	-	3,653	3,653
Parks/Rec Facility Projects	-	-	-	462,738	462,738
Undergrounding Districts	-	-	-	36,958	36,958
Prop A, C and Measure R Transit Projects	-	-	-	2,270,235	2,270,235
Air Quality Improvement Projects	-	-	-	36,420	36,420
Supplemental Law Enforcement Services Funds	-	-	-	19,962	19,962
Asset Forfeiture - Drug Enforcement and Education	-	-	-	207,206	207,206
Fire Protection	-	-	-	51,533	51,533
Grants	-	-	-	263,555	263,555
Total restricted	460,304	-	-	3,728,100	4,188,404
Committed					
In Lieu Fee- Parking Facilities	28,900	-	-	-	28,900
Tyco	-	-	-	431,716	431,716
Total committed	28,900	-	-	431,716	460,616
Assigned					
Sales Tax- Lieu	131,259	-	-	-	131,259
Reappropriations- Non-CIP	619,977	-	-	-	619,977
Public works capital improvement projects	1,447,766	-	-	-	1,447,766
Sewers and Storm Drains	-	3,722,754	-	-	3,722,754
Contingencies	4,965,437	-	-	-	4,965,437
Retirement Rate Stabilization	1,000,000	-	-	-	1,000,000
Oil Debt Service	1,000,000	-	-	-	1,000,000
Unspecified Contingencies	500,000	-	-	-	500,000
Compensated Absences	304,135	-	-	-	304,135
Community Events	36,466	-	-	-	36,466
Capital projects	-	-	3,924,194	-	3,924,194
Total assigned	10,005,040	3,722,754	3,924,194	-	17,651,988
Total fund balances	$ 10,513,688	$ 3,722,754	$ 3,924,194	$ 4,159,816	$ 22,320,452

Note 12 – Non-City Obligations

At June 30, 2015, the following special assessment bonds are payable from the proceeds of the special assessment levied and collected on all real property within the special districts. The City is in no way obligated to repay the debt in the event of default and the debt is not recorded in the accompanying financial statements.

1998 Lower Pier Special Assessment Bonds

In November 1997, limited obligation improvement bonds in the amount of $400,000 were issued for the Lower Pier Avenue Assessment District for street and sidewalk improvements in the downtown area. The City is not financially obligated for payments of the bonds, which are secured by private property in the district. The bonds will be repaid from assessments to the property owners as part of their annual property tax bill.

The annual debt service requirements by year are as follows:

Year ending June 30,	Principal	Interest	Total
2016	$ 30,000	$ 5,525	$ 35,525
2017	35,000	3,413	38,413
2018	35,000	1,137	36,137
Total	$ 100,000	$ 10,075	$ 110,075

1999 Myrtle Utility Underground District Special Assessment Bonds

In October 1999, limited obligation improvement bonds in the amount of $1,159,114 were issued for the Myrtle Avenue Utility Underground Assessment District for the undergrounding of utilities within the district. The City is not financially obligated for payment of the bonds, which are secured by private property in the district. The bonds will be repaid from assessments to the property owners as part of their annual property tax bill.

The annual debt service requirements by year are as follows:

Year ending June 30,	Principal	Interest	Total
2016	$ 70,000	$ 18,923	$ 88,923
2017	70,000	14,933	84,933
2018	70,000	10,925	80,925
2019	75,000	6,756	81,756
2020	80,000	2,300	82,300
Total	$ 365,000	$ 53,837	$ 418,837

Note 12 – Non-City Obligations (Continued)

1999 Loma Utility Underground District Special Assessment Bonds

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

The annual debt service requirements by year are as follows:

Year ending June 30,	Principal	Interest	Total
2016	$ 75,000	$ 21,075	$ 96,075
2017	75,000	16,800	91,800
2018	80,000	12,362	92,362
2019	85,000	7,619	92,619
2020	90,000	2,587	92,587
Total	$ 405,000	$ 60,443	$ 465,443

2004 Beach Drive Utility Underground Assessment District Special Assessment Bonds

In July 2004, limited obligation improvement bonds in the amount of $404,341 were issued for the Beach Drive Utility Underground Assessment District for the undergrounding of utilities within the district. The City is not financially obligated for payment of the bonds, which are secured by private property in the district. The bonds will be repaid from assessments to the property owners as part of their annual property tax bill.

The annual debt service requirements by year are as follows:

Year ending June 30,	Principal	Interest	Total
2016	$ 20,010	$ 11,488	$ 31,498
2017	20,970	10,528	31,498
2018	21,977	9,474	31,451
2019	23,032	8,394	31,426
2020	24,137	7,262	31,399
2021-2025	139,219	17,331	156,550
	$ 249,345	$ 64,477	$ 313,822

2005 Bayview Drive Utility Underground Assessment District Improvement Bonds

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

Note 12 – Non-City Obligations (Continued)

The annual debt service requirements by year are as follows:

Year ending June 30,	Principal	Interest	Total
2016	$ 35,288	$ 20,972	$ 56,260
2017	37,213	19,431	56,644
2018	39,219	17,707	56,926
2019	41,311	15,996	57,307
2020	43,492	14,194	57,686
2020-2024	253,553	40,480	294,033
2025-2026	58,666	1,247	59,913
Total	$ 508,742	$ 130,027	$ 638,769

Note 13 – Commitments and Contingencies

A. Commitments

The City had several outstanding or planned construction and other projects as of June 30, 2015. These projects are evidenced by contractual commitments with contractors and include:

Project	Spent to Date	Commitment Remaining
Force Option Simulator/Shooting Range	$ 190,790	$ 190,790
Permit Software Upgrade and Integration Project	123,762	388,079
General Plan & Coastal Plan Update	563,425	454,228
Sewer Improvements Various Locations	331,599	132,599
South Park Playground Improvements	376,099	544,540
Surf Memorial Statue	124,419	244,606
Citywide Conservation Upgrades	131,494	507,961
Total	$ 1,841,588	$ 2,462,803

Of the commitments listed above, $565,528 represents commitments in the General Fund, $14,096 represents commitments in the Sewer fund, $198,399 represents commitments in the Capital Projects Fund, $788,740 represents commitments in nonmajor funds, and $896,040 represents commitments in internal service funds.

Note 13 – Commitments and Contingencies (Continued)

A. Commitments (Continued)

In January 2000, the North Pier Parking Structure was completed. The parking structure contains 400 parking spaces and was funded in part by a downtown developer in exchange for the use of 100 spaces in the structure. The remainder of the funding was provided by the City's former Downtown Enhancement Enterprise Fund and Prop A Open Space funding contributed by the Los Angeles County Department of Beaches and Harbors ("County"). In consideration of the County contribution, 50% of the annual net income derived from the parking structure must be shared with the County each year by September 1. The payment made to the County for fiscal year 2014-2015 is $323,533.

B. Contingencies

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

C. Grants

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

Note 14 – MacPherson Oil Project Litigation

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

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

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

Note 14 – MacPherson Oil Project Litigation (Continued)

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

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

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

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

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

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

Note 15 – Subsequent Events

A. Hermosa Beach Financing Authority

On July 14, 2015, the City formed the Hermosa Beach Financing Authority to establish the structure required for the lease revenue bond. See Notes 15B for issuance of the 2015 Lease Revenue Bonds.

B. Bond issuance

On July 23, 2015, the City issued Hermosa Beach Public Financing authority 2015 Lease Revenue Bonds (2015 Bonds) in the amount of $11,600,000. The 2015 Bonds were issued to make certain payments pursuant to a settlement agreement with E & B Natural Resources. See Note 14.

C. MOU

Memorandums of Understanding for all six bargaining units were approved on October 27, 2015 by the City Council. A resolution for unrepresented employees was also approved. A 5% increase was made to all positions retroactive to July 1, 2015. This is the first pay increase for employees since 2008-09.

Note 16 – Prior Period Adjustments

As a result of the implementation of GASB Statements No. 68 and 71, net position as of July 1, 2014 was restated as follows:

	Governmental Activities
Beginning Net Position, as previously reported	$ 92,292,790
Prior period adjustments:	
Report pension contributions made during the measurement period as deferred outflows of resources due to implementation of GASB 71	3,373,029
Report net pension liability due to the implementation of GASB 68	(44,066,303)
Beginning Net Position, as restated	$ 51,599,516