NOTES TO THE BASIC FINANCIAL STATEMENTS

This page intentionally left blank.

City of Hermosa Beach
Index to the Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

City of Hermosa Beach
Index to Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2022

Page

Note 1 – Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

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

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

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

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

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

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

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

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

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

The above component units do not issue separate financial statements.

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.

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 assets) 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 assets) 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. Sales tax is received on a monthly basis. Business license fees are recorded as received, except at year-end when they are accrued pursuant to the modified accrual basis of accounting. The City recognizes business license revenue collected within 60 days as revenue at June 30. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

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

The City reports the following major governmental funds:

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.

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

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

RTI Undersea Cable Special Revenue Fund – This fund is used to account for funds received from an easement granted for construction of a transpacific, submarine fiber optic cable system with a landing in Hermosa Beach. The project will provide additional capacity for global voice and data transmission and global access to planned and existing land-based communication networks in the project area.

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

Proprietary Fund Financial Statements

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

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)

Proprietary Fund Financial Statements (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 custodial funds, which are custodial in nature (assets equal liabilities) and use the economic resources measurement focus. 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.

D. Fair Value Measurement

Investments, unless otherwise specified, recorded at fair value in the financial statements, are categorized based upon the level of judgment associated with the inputs used to measure their fair value.

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

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

E. Property Taxes Receivable

Property taxes attach as an enforceable lien on property as of January 1 each year. The property tax year runs from July 1 to June 30. Property is taxed as of January 1 for payment in the following fiscal year. Taxes are payable in two installments: December 10 and April 10 of each year. The County of Los Angeles, California (the "County") bills and collects the property taxes and remits them to the City according to a payment schedule established by the County. City property tax revenues are recognized, net of estimated refunds and uncollectible amounts, in the period for which the taxes are levied. The City recognizes available taxes, or those collected within 60 days, as revenue at June 30.

Note 1 – Summary of Significant Accounting Policies (Continued)

E. Property Taxes Receivable (Continued)

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

F. Interfund Transactions

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

G. Capital Assets

In the government-wide financial statements, capital assets, which include land, buildings, improvements, equipment, furniture, and infrastructure assets (e.g., roads, sidewalks, and similar items), are recorded at historical cost or estimated historical if purchased or constructed (except for intangible right-to-use lease assets, the measurement of which is disclosed thereafter). Donated capital assets, donated works of art or similar items, and capital assets received in a service concession arrangement are reported at acquisition value on the date donated rather than fair value. City policy has set the capitalization threshold for reporting capital assets at $5,000 and infrastructure at $100,000.

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

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

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

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

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

H. Unearned and Unavailable Revenue

In the government-wide and fund financial statements, unearned revenue is reported 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, facility rentals paid in advance, quarterly encroachment fees, and advance registration for recreation classes.

In the governmental fund financial statements, unavailable revenue is reported when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. The City reports an unavailable revenue when an asset is reported in governmental fund financial statements but the revenue is not available.

Note 1 – Summary of Significant Accounting Policies (Continued)

I. Claims Payable

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

J. Compensated Absences Payable

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

K. Pensions

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

The following timeframes are used for pension reporting:

CalPERS	
Valuation Date	June 30, 2020
Measurement Date	June 30, 2021
Measurement Period	July 1, 2020 to June 30, 2021

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

L. Other Postemployment Benefits ("OPEB")

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the plans and additions to/deductions from OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the plan (Note 10). For this purpose, the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 1 – Summary of Significant Accounting Policies (Continued)

L. Other Postemployment Benefits ("OPEB") (Continued)

The following timeframes are used for OPEB reporting:

OPEB	
Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Measurement Period	July 1, 2021 to June 30, 2022

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

M. 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.

N. 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.

Note 1 – Summary of Significant Accounting Policies (Continued)

N. Fund Balances (Continued)

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.

O. 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. The City Council makes changes as necessary to the year-end transfer, depending on the equity in the funds or based on other needs.

P. 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)

Q. Leases Receivable

Lessor: The City is a lessor for noncancellable leases of a portion of real property, as well as, building and roof space. The City recognizes a lease receivable and a deferred inflow of resources in the government-wide and governmental fund financial statements.

At the commencement of a lease, the City initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of the lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key elements and judgement include how the City determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts. The City uses it estimated incremental borrowing rate as the discount rate for leases. The lease term includes the noncancellable period of the lease. Lease receipts included In the measurement of the lease receivable is composed of fixed payments from the lessee.

The City monitors changes that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

R. Leases Payable and Subscription Agreements Payable

Lessee: The City is a lessee for noncancellable leases of software subscriptions. The City recognizes a lease or subscription agreement liability and an intangible right-to-use lease or subscription agreement asset (lease asset) in the government-wide financial statements. The City recognizes lease liabilities with an initial, individual value of $5,000 or more.

At the commencement of a lease or subscription agreement, the City initially measures the lease liability at the present value of payments expected to be made during the lease or subscription agreement term. Subsequently, the liability is reduced by the principal portion of payments made. The lease or subscription agreement asset is initially measured as the initial amount of the liability, adjusted for payments made at or before the commencement date, plus certain initial direct costs. Subsequently, the asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the City determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) payments. The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for leases. The term includes the noncancellable period of the lease. Lease payments included in the measurement of the liability are composed of fixed payments and purchase option price that the City is reasonably certain to exercise.

The City monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease or subscription agreement assets are reported with other capital assets and lease or subscription agreement liabilities are reported with long-term debt on the Statement of Net Position.

Note 1 – Summary of Significant Accounting Policies (Continued)

S. Accounting Changes

The City adopted Statement on Governmental Accounting Standards (GASB Statements) No. 91-*Conduit Debt Obligations*; No. 94- Public-Private and Public Public Partnerships; and No. 96-*Subscription-Based Information Technology Arrangements*. The City implemented GASB No. 96 during fiscal year June 30, 2023. The adoption of the GASB Nos. 91 and 94 did not significantly impact the City.

The primary objective of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* is to enhance the relevance and consistency of information about governments' subscription activities. This statement establishes a single model for subscription accounting based on the principle that subscriptions are financings of the right to use an underlying asset. Under this Statement, an organization is required to recognize a subscription liability and an intangible right-to-use subscription asset as described in note 1(R) above.

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, 2023:

	Government-Wide Statement of Net Position	Statement of Fiduciary Net Position	Total
	Governmental Activities		
Cash and investments	$ 63,829,561	$ 302,575	$ 64,132,136

The City's cash and investments at June 30, 2023 in more detail:

Cash and cash equivalents:	
Demand deposits	$ 14,225,534
Petty cash	2,000
Total cash and cash equivalents	14,227,534
Investments:	
Local Agency Investment Fund	10,436,692
Los Angeles County Pooled Investments Funds	30,857,798
US Government Treasuries	454,875
US Government Bonds	2,452,860
Negotiable Certificates of Deposit	5,702,377
Total investments	49,904,602
Total cash and investments	$ 64,132,136

A. Deposits

The carrying amounts of the City's demand deposits were $14,225,534 at June 30, 2023. Bank balances at that date were $14,533,718, 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.

Note 2 – Cash and Investments (Continued)

The fair 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 Angeles County Pooled Investment Fund ("LACPIF")
- Negotiable Certificates of Deposit shall not exceed 30 percent of the City's surplus money and mature in 5 years or less.
- Medium-term corporate notes shall have a Moody or Standard & Poor's rating of at least AA and mature in 5 years or less

The City is a participant in LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City's investments with LAIF at June 30, 2023 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, 2023, the City had $10,436,692 invested in LAIF, which had invested 20.91% of the pool investment funds in Structured Notes and Asset-Backed Securities. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio).

C. Investment in Los Angeles County Investment Pool

The City is a voluntary participant in the Los Angeles County Investment Pool pursuant to Government Code Section 53684. The cash flow needs of participants are monitored daily to ensure that sufficient liquidity is maintained to meet the needs of those participants. At the time deposits are made, the Los Angeles County Investment Pool's Treasurer may require the depositing entity to provide annual cash flow projections or an anticipated withdrawal schedule for deposits in excess of $1 million. Projections are to be performed no less than semi-annually. In accordance with Government Code Section 27136, all requests for withdrawal of funds for the purpose of investing or depositing the funds elsewhere shall be evaluated to ensure the proposed withdrawal will not adversely affect the principal deposits of the other participants. As of June 30, 2023, the City had $30,857,798 invested in the Los Angeles County Investment Pool.

Note 2 – Cash and Investments (Continued)

D. Fair Value Measurement

At June 30, 2023, investments are reported at fair value. The following table presents the fair value measurement of investments on a recurring basis and the levels within fair value hierarchy in which the fair value measurements fall at June 30, 2023:

Investment Type	Value	Level 1	Level 2	Uncategorized
Local Agency Investment Fund	$ 10,436,692	$ -	$ -	$ 10,436,692
Los Angeles County Pooled Investments Fund	30,857,798	-	-	30,857,798
US Government Treasuries	454,875	454,875	-	-
US Government Bonds	2,452,860	2,452,860	-	-
Negotiable Certificates of Deposit	5,702,377	-	-	5,702,377
Total	$ 49,904,602	$ 2,907,735	$ -	$ 46,996,867

E. Risk Disclosures

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

At June 30, 2023, the City had the following investment maturities:

		Investment Maturities (in Years)				
Investment Type	Fair value	Less than 1	1 to 2	2 to 3	3 to 4	4 to 5
Local Agency Investment Fund	$ 10,436,692	$ 10,436,692	$ -	$ -	$ -	$ -
Los Angeles County Pooled Investments Fund	30,857,798	30,857,798	-	-	-	-
US Government Treasuries	454,875	-	-	454,875	-	-
US Government Bonds	2,452,860	-	-	1,352,050	1,100,810	-
Negotiable Certificates of Deposit	5,702,377	2,166,339	1,173,375	222,017	2,140,646	-
Total	$ 49,904,602	$ 43,460,829	$ 1,173,375	$ 2,028,942	$ 3,241,456	$ -

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, 2023, 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	20.91%
Los Angeles County Pooled Investments Fund	Not Rated	Not Rated	61.83%
US Government Treasuries	Aaa	AA+	0.91%
US Government Bonds	Aaa	AA+	4.92%
Negotiable Certificates of Deposits	Not Rated	Not Rated	11.43%
Total			100.00%

Note 2 – Cash and Investments (Continued)

E. Risk Disclosures (Continued)

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

Concentration of credit risk – The City's investment policy does not allow for investments in any one institution that is in excess of 5% of the City's total portfolio, except for LAIF and LACIPIF, where there is no limit. The City is in compliance with the investment policy related to the concentration of credit risk for the year ended June 30, 2023.

Note 3 - Receivables

A. Government-Wide Financial Statements

At June 30, 2023, 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	
	Governmental Activities	Fiduciary Net Position	Total
Accounts receivable	$ 5,840,200	$ -	$ 5,840,200
Property taxes receivable, net	970,362	-	970,362
Reimbursable grants receivable	435,607	-	435,607
Leases receivable	9,449,711	-	9,449,711
Interest receivable on investments	27,789	100	27,889
Other receivables	-	5,384	5,384
Total	$ 16,723,669	$ 5,484	$ 16,729,153

B. Fund Financial Statements Receivables

Receivables consisted of amounts accrued in the ordinary course of operations. The total amount of accounts receivables for each major and nonmajor funds in the aggregate as of June 30, 2023, were as follows:

Governmental funds:	
General Fund	$ 3,251,706
Grants	1,779,707
Capital Improvements	269,740
Nonmajor Funds	539,021
Total governmental funds	5,840,174
Total accounts receivable	$ 5,840,174

Note 3 – Receivables (Continued)

B. Fund Financial Statements (Continued)

Taxes Receivable

At June 30, 2023, 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	$ 1,430,977	$ (496,562)	$ 934,415
Nonmajor funds	65,740	(29,793)	35,947
Total	$ 1,496,717	$ (526,355)	$ 970,362

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, 2023 was as follows:

Governmental funds:	
Grants	$ 420,433
Nonmajor Funds	15,174
Total governmental funds	435,607
Total grant receivables	$ 435,607

Note 4 – Lease Receivable and Revenues

In March 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 an amendment equal to the greater of the consumer price index or 12.5% of the gross effective sublease rent for the previous 60 month period. In February 2016, the lease was increased to $3,235. During the year ended June 30, 2023, the City recognized $30,296 in lease revenue and $26,103 in interest revenue during the current fiscal year related to the lease. As of June 30, 2023, the City's receivable for lease payments was $646,579. Also, the City has a deferred inflow of resources associated with the lease that will be recognized as revenue over the lease term. As of June 30, 2023, the balance of the deferred inflow of resources was $646,579.

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. In February 2016, the lease was extended through January 31, 2020. In February 2020, the lease was extended through January 31, 2025. During the year ended June 30, 2023, the City recognized $28,696 in lease revenue and $177,088 in interest revenue during the current fiscal year related to the lease. As of June 30, 2023, the City's receivable for lease payments was $415,632. Also, the City has a deferred inflow of resources associated with the lease that will be recognized as revenue over the lease term. As of June 30, 2023, the balance of the deferred inflow of resources was $415,632.

Note 4 – Lease Receivable and Revenues (Continued)

In June 2005, the City purchased property adjacent to City Hall that is used as a self - storage facility with Thielscher. 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 extend the term to April 30, 2020. In May 2020, the lease was extended through June 2025 and that lease can be terminated without cause at any time after July 2021 with one year of written notice to the City. The City receives a monthly lease payment in the amount of $20,600. During the year ended June 30, 2023, the City recognized $229,912 in lease revenue and $24,307 in interest revenue during the current fiscal year related to the lease. As of June 30, 2023, the City's receivable for lease payments was $510,615. Also, the City has a deferred inflow of resources associated with the lease that will be recognized as revenue over the lease term. As of June 30, 2022, the balance of the deferred inflow of resources was $510,615.

In February 2014, the City entered into a 20-year lease agreement with Verizon wireless, a cellular telephone company. The annual lease rate is expected to increase at a rate of 3% with base monthly payment amount of $5,000. During the year ended June 30, 2022, the City recognized $9,162 in lease revenue and $27,686 in interest revenue during the current fiscal year related to the lease. As of June 30, 2023, the City's receivable for lease payments was $687,449. Also, the City has a deferred inflow of resources associated with the lease that will be recognized as revenue over the lease term. As of June 30, 2023, the balance of the deferred inflow of resources was $687,449.

In 2016, three 25-year lease agreements with MC Global were initiated. The City receives quarterly lease payments that range from $17,250 to $22,500. During the year ended June 30, 2023, the City recognized $251,663 in lease revenue and $147,883 in interest revenue during the current fiscal year related to the leases. As of June 30, 2023, the City's receivable for lease payments was $3,894,617. Also, the City has a deferred inflow of resources associated with the lease that will be recognized as revenue over the lease term. As of June 30, 2023, the balance of the deferred inflow of resources was $3,894,617.

In 2002, a 25-year lease agreements with Tycom was initiated. The City receives quarterly lease payments of $75,000. During the year ended June 30, 2023, the City recognized $161,268 in lease revenue and $134,369 in interest revenue during the current fiscal year related to the lease. As of June 30, 2023, the City's receivable for lease payments was $3,284,818. Also, the City has a deferred inflow of resources associated with the lease that will be recognized as revenue over the lease term. As of June 30, 2023, the balance of the deferred inflow of resources was $3,284,818.

Note 5 – Interfund Transactions

Due From/To Other Funds – At June 30, 2023, the City had the following due from/to other funds:

	Due From Other Funds	
Due To Other Funds	General Fund	Total
Grants	$ 697,858	$ 697,858
Nonmajor Governmental funds	1,096,354	1,096,354
Total	$ 1,794,212	$ 1,794,212

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, 2023, the City had the following transfers:

	Transfers in				
Transfers out	General Fund	Capital Improvements Capital Projects Funds	Nonmajor Governmental Funds	Internal Service Funds	Total
General Fund	$ -	$ 4,614,380	$ 716,598	$ 2,133,365	$7,464,343
Tyco Special Revenue Fund	-	-	21,090	-	21,090
RTI Undersea Cable Special Rev Fund	-	-	239,245	-	239,245
Nonmajor Governmental Funds	1,687,526	-	-	-	1,687,526
Total	$ 1,687,526	$ 4,614,380	$ 976,933	$ 2,133,365	$9,412,204

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

General Fund transferred $716,598 to the 2015 Lease Revenue Bond Fund for debt service payment.

General Fund transferred $2,133,365 to the Insurance Internal Service Fund to fund liability claims.

RTI Undersea Cable Special Revenue Fund transferred $239,245 to Lighting /Landscaping Fund to cover deficit.

Note 6 – Capital Assets

The following is a summary of changes in capital assets for the governmental activities for the year ended June 30, 2023:

	Balance July 1, 2022	Additions	Deletions	Balance June 30, 2023
Capital assets not being depreciated:				
Land	$ 22,740,168	$ -	$ -	$ 22,740,168
Construction in progress	8,011,741	4,103,447	(345,754)	11,769,434
Total capital assets not being depreciated	30,751,909	4,103,447	(345,754)	34,509,602
Capital assets being depreciated:				
Buildings and structures	13,619,166	-	-	13,619,166
Improvements other than buildings	15,362,907	-	-	15,362,907
Machinery and equipment	7,203,067	560,895	-	7,763,962
Vehicles	4,393,211	40,942	(60,829)	4,373,324
Right-to-use - Subscriptions	-	153,338	-	153,338
Infrastructure	56,751,239	112,414	-	56,863,653
Total capital assets being depreciated	97,329,590	867,589	(60,829)	98,136,350
Less accumulated depreciation for:				
Buildings and structures	(6,492,643)	(259,600)	-	(6,752,243)
Improvements other than buildings	(13,678,520)	(220,898)	-	(13,899,418)
Machinery and equipment	(5,513,586)	(504,744)	-	(6,018,330)
Vehicles	(2,962,405)	(349,808)	50,018	(3,262,195)
Right-to-use - Subscriptions	-	(64,518)	-	(64,518)
Infrastructure	(32,889,218)	(1,512,053)	-	(34,401,271)
Total accumulated depreciation	(61,536,372)	(2,911,621)	50,018	(64,397,975)
Total capital assets being depreciated, net	35,793,218	(2,044,032)	(10,811)	33,738,375
Total governmental activities	$ 66,545,127	$ 2,059,415	$ (356,565)	$ 68,247,977

Depreciation expense was charged to functions/programs of governmental activities for the year ended June 30, 2023 as follows:

Legislative and legal	$ 94,162
General government	358,521
Public safety	1,559,447
Community development	127,423
Culture and recreation	121,952
Public works	650,116
Total depreciation expense	$ 2,911,621

Note 7 – Long-Term Liabilities

Summary of changes in long-term liabilities for governmental activities for the year ended June 30, 2023 is as follows:

					Classification	
	Balance July 1, 2022	Additions	Deletions	Balance June 30, 2023	Due within One Year	Due in more than One Year
2020 Lease revenue bond	$ 7,755,000	$ -	$ (415,000)	$ 7,340,000	$ 435,000	$ 6,905,000
Bonds Premium	1,413,953	-	(157,105)	1,256,848	157,105	1,099,743
Subscription agreements	-	148,396	(56,427)	91,969	70,728	21,241
Compensated absences	1,970,263	1,886,972	(1,392,162)	2,465,073	848,232	1,616,841
	$ 11,139,216	$ 2,035,368	$ (2,020,694)	$ 11,153,890	$ 1,511,065	$ 9,642,825

Note 7 – Long-Term Liabilities (Continued)

2020 Lease Revenue Bonds

In October 2020, the PFA issued $8,150,000 Hermosa Beach Public Financing Authority 2020 Lease Revenue Bonds to (i) refund and defease the 2015 Lease revenue bonds and (ii) pay the costs of issuing the 2020 Bonds. Interest rate is 1.92% and is payable semiannually on May 1 and November 1 of each year, commencing May 1, 2021. Principal payments range from $395,000 to $715,000 commencing November 2021 through November 2035. The 2020 bonds are secured solely by the pledge revenues and certain funds held under the indenture. The 202 bonds are not secured by a pledge of the taxing power of the City. Upon default, the payment in default will continue as an obligation of the City until the amount in default has been fully paid, and the City agrees to pay the same with interest thereon, from the date of default to the date of payment at the highest rate of interest on any Outstanding 2020 Bond. The outstanding balance at June 30, 2023 was $7,340,000.

The annual debt service requirements by year are as follows:

Year ending June 30,	Principal	Interest	Total
2024	$ 435,000	$ 293,600	$ 728,600
2025	450,000	276,200	726,200
2026	470,000	258,200	728,200
2027	490,000	239,400	728,400
2028	510,000	219,800	729,800
2029-2033	2,920,000	773,400	3,693,400
2034-2036	2,065,000	167,200	2,232,200
	$ 7,340,000	$ 2,227,800	$ 9,567,800

Subscription Agreement Payable

In July 2019, the City entered into a 60 month subscription for the use of license and permit software. An initial subscription liability was recorded in the amount of $84,017. As of June 30, 2023, the value of the subscription liability is $43,430. The City is required to make annual fixed payments ranging from $26,548 to $40,588. The subscription has an interest rate of 4.0%. The value of the right to use asset as of June 30, 2023 was $84,017 with accumulated amortization of $47,538.

In May 2022, the City entered into a 66 month subscription for the use of budget software. An initial subscription liability was recorded in the amount of $64,378. As of June 30, 2023, the value of the subscription liability is $48,538. The City is required to make annual fixed payments ranging from $10,261 to $26,435. The subscription has an interest rate of 4.0%. The value of the right to use asset as of June 30, 2023 was $69,320 with accumulated amortization of $16,980.

The following future principal and interest payments on the leases payable and subscription agreements payable for June 30 are as follows:

Year ending June 30,	Principal	Interest	Total
2024	$ 70,928	$ 3,248	$ 74,176
2025	10,261	424	10,685
2026	10,780	439	11,219
	$ 91,969	$ 4,111	$ 96,080

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 of coverage up to statutory limits.

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 $1,553,527 for the fiscal year 2022-2023 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 $7,466,547 reported at June 30, 2023 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.

Detailed financial information may be obtained from the ICRMA Program Administrator located at 18201 Von Karman, Suite 200, Irvine, CA 92612.

Note 9 – Defined Benefit Pension Plans

The following is a summary of net pension liabilities, related deferred outflows and inflows of resources as of June 30, 2023 and pension expenses for the year then ended June 30, 2023:

	Miscellaneous	Safety	Total
Deferred outflows of resources:			
Pension contribution after measurement date	$ 2,025,370	$ 3,982,811	$ 6,008,181
Difference between expected and actual experience	363,390	1,707,736	2,071,126
Change in assumptions	1,854,246	4,160,584	6,014,830
Change in employer's proportion	13,576	1,654,568	1,668,144
Differences between projected and actual investment earnings	3,314,587	6,516,042	9,830,628
Total deferred outflows of resources	$ 7,571,169	$ 18,021,740	$ 25,592,909
Aggregate Net pension liabilities:			
Aggregate Net pension liabilities	$ 18,095,347	$ 41,263,238	$ 59,358,585
Total net pension liabilities (1)	$ 18,095,347	$ 41,263,238	$ 59,358,585
Deferred inflows of Resources:			
Difference between projected and actual experience	$ 243,383	$ 448,086	$ 691,469
Change in employer's proportions	382,654	114,292	496,946
Difference between City contributions and proportionate share of contributions	744,852	3,211,386	3,956,238
Total deferred inflows of Resources	$ 1,370,889	$ 3,773,764	$ 5,144,653
Pension expenses (credits):	$ (739,758)	$ (444,538)	$ (1,184,296)

(1) Pension plan have typically been liquidated by the General Fund.

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.

The City contracted with Los Angeles County for Fire Services (Fire District) on 12/30/2017. The City will continue to be responsible for paying the retirement costs for fire employees related to the value of past service benefits, referred to as the unfunded actuarial liability.

Note 9 – Defined Benefit Pension Plans (Continued)

General Information about the Pension Plan (Continued)

Employees Covered by Benefit Terms

At June 30, 2023, the following employees were covered by the benefit terms:

	Plans					
	Fire Tier 1	Fire Tier 2	Fire PEPRA	Police Tier 1	Police Tier 2	Police PEPRA
Active employees	-	-	-	21	2	9
Transferred and terminated employees	12	1	3	4	2	5
Separated	4	1	1	4	2	3
Retired Employees and Beneficiaries	60	-	-	93	2	1
Total	76	2	4	122	8	18

	Plans		
	Misc. Tier 1	Misc. Tier 2	Misc. PEPRA
Active employees	31	16	63
Transferred and terminated employees	42	11	28
Separated	47	5	25
Retired Employees and Beneficiaries	146	1	-
Total	266	33	116

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.

Following are the benefit provisions for each plan:

- Fire Tier 1: 3% (at age 55) of the average final 12 months compensation (effective prior to 7/1/11)
- Fire Tier 2: 2% (at age 50) of the average final 12 months compensation (effective 7/1/11)
- Fire PEPRA: 2.7% (at age 57) of the average final 36 months compensation (effective 1/1/13)
- Police Tier 1: 3% (at age 50) of the average final 12 months compensation (effective prior to 7/1/11)
- Police Tier 2: 2% (at age 50) of the average final 12 months compensation (effective 7/1/11)
- Police Tier PEPRA: 2.7% (at age 57) of the average final 36 months compensation (effective 1/1/13)
- Miscellaneous Tier 1: 2% (at age 55) of the average final 12 months compensation (effective prior to 7/1/11)
- Miscellaneous Tier 2: 2% (at age 60) of the average final 12 months compensation (effective 7/1/11)
- PEPRA Miscellaneous: 2% (at age 62) of the average final 36 months compensation (effective 1/1/13)

Note 9 – Defined Benefit Pension Plans (Continued)

General Information about the Pension Plan (Continued)

Benefit Provided (Continued)

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.

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 fiscal year ended June 30, 2022, the contributions recognized as part of pension expense(credit) for the plan totaled $(1,184,296). For the measurement period ended June 30, 2022 (the measurement date), the average contribution rate were as follows:

Plans	Active Employee Contribution Rate	Employer Contribution Rate
Fire Tier 1	0.000%	$1,079,692
Fire Tier 2	0.000%	$ 0
Fire PEPRA	0.000%	$ 3,967
Police Tier 1	9.000%	25.64%
Police Tier 2	9.000%	20.97%
Police PEPRA	13.750%	13.66%
Misc. Tier 1	7.000%	10.87%
Misc. Tier 2	7.000%	9.12%
Misc. PEPRA	6.750%	7.47%

Note 9 – Defined Benefit Pension Plans (Continued)

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

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The June 30, 2021 valuation was rolled forward to determine June 30, 2021 total pension liability based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.50%
Salary Increases	Varies by Entry Age and Service
Investment rate of return	7.15% net of pension plan investment expenses, includes inflation
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds.
Post Retirement Benefit Increase	Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter

All other actuarial assumptions used in the June 30, 2017 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 6.90 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 6.90 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 6.90 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

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

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

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)

Discount Rate (Continued)

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2020.

Asset Class	New Strategic Allocation-%	Real Return Years 1-10[1,2] -%
Global Equity – cap-weighted	30.00	4.45
Global Equity – non-cap-weighted	12.00	3.84
Private Equity	13.00	7.28
Treasury	5.00	0.27
Mortgage-backed Securities	5.00	0.50
Investment Grade Corporates	10.00	1.56
High Yield	5.00	2.27
Emerging Market Debt	5.00	2.48
Private Debt	5.00	3.57
Real Assets	15.00	3.21
Leverage	(5.00)	(0.59)

[1] An expected inflation of 2.3% used for this period

[2] Figures are based on the 2021-22 Asset Liability Management study.

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 6.90%, 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 (5.90%) or 1 percentage-point higher (7.90%) than the current rate:

	Plan's Net Pension Liability/(Asset)		
	Discount Rate - 1% (5.90%)	**Current Discount Rate (6.90%)**	**Discount Rate + 1% (7.90%)**
Miscellaneous	$ 27,038,718	$ 18,095,347	$ 10,737,173
Safety	$ 59,957,458	$ 41,263,238	$ 25,984,936

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)

Pension Plan Fiduciary Net Position

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

Proportionate Share of Net Pension Liability and Pension Expense

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

	Increase (Decrease)		
	Plan Total Pension Liability	**Plan Fiduciary Net Position**	**Net Pension Liability/(Asset)**
Miscellaneous			
Balance at: 6/30/21 (Valuation date)	$ 62,393,349	$ 53,447,644	$ 8,945,705
Balance at: 6/30/22 (Measurement date)	$ 63,601,884	$ 51,930,450	$ 11,671,434
Net Changes during 2021-2022	$ 1,208,535	$ (1,517,194)	$ 2,725,729
Safety			
Balance at: 6/30/21 (Valuation date)	$ 127,785,931	$ 104,828,042	$ 22,957,889
Balance at: 6/30/22 (Measurement date)	$ 132,099,626	$ 103,411,575	$ 28,688,051
Net Changes during 2021-2022	$ 4,313,695	$ (1,416,467)	$ 5,730,162

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)

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

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

(1) In determining a cost-sharing plan's proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2019). 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, 2020). 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, 2020 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2018-2019).

(3) The individual plan's TPL, FNP and NPL are also calculated at the valuation date. TPL is allocated based on the rate plan's share of the actuarial accrued liability. FNP is allocated based on the rate plan's share of the fair value assets.

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

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

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

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

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

	Miscellaneous	Safety
June 30, 2023	0.47112%	0.65417%
June 30, 2022	0.38672%	0.60049%
Change - Increase (Decrease)	(0.08441)%	(0.05368)%

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)

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

For the year ended June 30, 2023, the City recognized pension expense(credit) as follows:

Miscellaneous	$	(739,758)
Safety		(444,538)
	$	(1,184,286)

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 2021-2022 measurement period is 3.7 years, which was obtained by dividing the total service years of 574,665 (the sum of remaining service lifetimes of the active employees) by 153,587 (the total number of participants: active, inactive, and retired).

At June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Miscellaneous	
	Deferred outflows of Resources	**Deferred inflows of Resources**
Pension contribution after measurement date	$ 2,025,370	$ -
Difference between expected and actual experience	363,390	(243,383)
Changes of assumptions	1,854,246	-
Difference between projected and actual earning on pension plan investments	3,314,587	-
Adjustment due to differences in proportions	13,576	(382,654)
Difference between City contributions and proportionate share of contributions	-	(744,852)
Total	$ 7,571,169	$ (1,370,889)

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)

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

At June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Safety	
		Deferred outflows
Pension contribution after measurement date	$ 3,982,811	$ -
Difference between expected and actual experience	1,707,736	(448,086)
Changes of assumptions	4,160,584	-
Difference between projected and actual earning on pension plan investments	6,516,041	-
Adjustment due to differences in proportions	1,654,568	(114,292)
Difference between City contributions and proportionate share of contributions	-	(3,211,386)
Total	$ 18,021,740	$ (3,773,764)

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, 2023. Deferred inflows of resources represent an acquisition of net assets that applies to future periods. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Period	Deferred Outflows/ (Inflows) of Resources	
Ended June 30,	Miscellaneous	Safety
2024	$ 875,738	$ 2,544,862
2025	783,029	2,372,313
2026	488,828	1,373,122
2027	2,027,315	3,974,868
2028	-	-
Thereafter	-	-
	$ 4,174,910	$ 10,265,165

Note 10 – Other Postemployment Benefit Plan

General Information about the 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, which is a single-employer defined benefit plan. 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 $1,059 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.

Post-Retirement Health Care Coverage for Fire Employees

The City contracted with Los Angeles County for Fire Services ("Fire District") on 12/30/2017. Fire District employees are provided post-retirement health coverage. The current vesting period is 10 years of Fire District service. Service with the City does not count towards coverage, only time actually worked in Fire District service counts towards the vesting period. Hermosa Beach Fire Association (HBFA) members who transfer to the Fire District and who take a service retirement before reaching 10 years of Fire District service are ineligible for the Fire District's retiree health benefit.

For those HBFA members who have 19 plus years of service with the City at the time of transfer to Fire District employment and who take a service retirement from the Fire District prior to vesting in the Fire District's retiree health plan, the City agrees to create a new Tier to the City's retiree health program as follow: the retired HBFA member will be eligible to receive from the City the $ 350 per month benefit set forth in Article 42(D) of the MOU. This benefit is limited to the first four HBFA members who qualify for the benefit.

Note 10 – Other Postemployment Benefit Plan (Continued)

General Information about the Plan (Continued) 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, 2023 were as follows:

Participants	Total
Active employees	125
Retirees	78
Retirees not receiving benefits	2
Total	205

Net OPEB Liability

The City's net OPEB liability was measured as of June 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2021.

Actuarial Assumptions

The total OPEB liability, measured as of June 30, 2022, was determined using the following actuarial assumptions:

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	5.50% Pre-funded in PARS Moderate Strategy
Inflation	2.50% per annum
Salary Increases	3.00% Aggregate
	Merit: 1997-2015 CalPERS Experience Study
Investment Rate of Return	6.00%
Healthcare Trend Rate	Non-Medicare: 7.5% in 2019, to 4.0% in 2076 and thereafter
	Medicare: 6.5% in 2019 to 4.0% in 2076 and thereafter
Mortality, Retirement, Disability, Termination	CalPERS 1997-2015 Experience Study
Service Requirement	100% at 20 Years of Service
Participation Rate	Currently covered: 100%

The actuarial assumptions used in the July 1, 2021 valuation were based on the results of an actuarial experience study for the period July 1, 2020 through June 30, 2021.

Note 10 – Other Postemployment Benefit Plan (Continued)

Net OPEB Liability (Continued)

Actuarial Assumptions (Continued)

The long-term expected rate of return on OPEB 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 OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation PARS-Moderate	Expected Real Rate of Return
Global Equity	50.00%	4.560%
Fixed Income	45.00%	0.780%
Cash	5.00%	(0.500)%
	100.00%	

Discount Rate

The discount rate used to measure the total OPEB liability was 5.50 percent. The actuarial assumptions used to determine the discount rate was based on the current funding practice and assumed the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for the measurement period ended June 30, 2022:

Plan's OPEB Liability/(Asset)		
Discount Rate - 1% **(4.50%)**	Current Discount **Rate (5.50%)**	Discount Rate + 1% **(6.50%)**
$ 1,443,520	$ (376,557)	$ (1,922,813)

Sensitivity of the Total OPEB Liability to Changes in Healthcare Cost Trend Rates

The following presents the total OPEB liability of the City, as well as what the total OPEB liability would be if it were calculated using a health care cost trend rates that are one percentage point lower or one percentage point higher than the current rates, for the measurement period ended June 30, 2022:

Plan's OPEB Liability/(Asset)		
-1.00%	**Healthcare Trend Rate**	**+1.00%**
$ (1,778,172)	$ (376,557)	$ 1,293,071

Note 10 – Other Postemployment Benefit Plan (Continued)

Change in Net OPEB Liability

	Total OPEB Liability (Asset)	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30, 2022 (Valuation Date)	$ 14,878,244	$ 17,758,290	$ (2,880,046)
Changes Recognized for the Measurement Period:			
Service Cost	328,880	-	328,880
Interest on the total OPEB liability	819,527	-	819,527
Changes of benefit terms	-	-	-
Difference between expected and actual experience	-	-	-
Changes of assumptions	-	-	-
Contributions from the employer	-	1,047,488	(1,047,488)
Contributions from employees	-	-	-
Net investment income, net of administrative expense	-	(2,363,706)	2,363,706
Benefit payments, including refunds of employee contributions	(613,220)	(613,220)	-
Administrative Expense	-	(38,864)	38,864
Net Changes during July 1, 2021 to June 30, 2022	535,187	(1,968,302)	2,503,489
Balance at June 30, 2023 (Measurement Date)	$ 15,413,431	$ 15,789,988	$ (376,557)

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2023, OPEB expense in the amount of $742,033 is included in the accompanying statement of activities.

At June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of resources	Deferred Inflows of resources
Employer contribution after measurement date	$ 1,081,220	$ -
Differences between expected and actual experience	290,705	(951,261)
Changes in assumptions	1,821,354	-
Difference between projected and actual earning on plan investments	1,422,178	-
	$ 4,615,457	$ (951,261)

The $1,081,220 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB asset in the year June 30, 2024. Other amounts reported as deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Year Ending June 30	Amount
2024	$ 541,937
2025	564,174
2026	502,331
2027	840,872
2028	95,475
Thereafter	38,190
Total	$ 2,582,976

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 11 – Classification of Fund Balances

At June 30, 2023, fund balances are classified in the governmental funds as follows:

	General Fund	Grants Special Revenue Fund	Tyco Special Revenue Fund	RTI Undersea Cable Special Revenue Fund	Capital Improve-ments Capital Projects	Nonmajor Govern-mental Funds	Total
Nonspendable							
Prepaid items	$ 622,095	$ -	$ -	$ -	$ -	$ 18,325	$ 640,420
Total nonspendable	622,095	-	-	-	-	18,325	640,420
Restricted							
Verizon PEG Grant	236,647	-	-	-	-	-	236,647
General Plan Maintenance Fees	168,279	-	-	-	-	-	168,279
Chamber Marquee Donation	50,000	-	-	-	-	-	50,000
CASP Fees	58,322	-	-	-	-	-	58,322
Lighting District	-	-	-	-	-	32,717	32,717
Gas Tax	-	-	-	-	-	785,560	785,560
Source Reduction/ Recycling	-	-	-	-	-	291,271	291,271
Greenwich Underground	-	-	-	-	-	120,898	120,898
Parks/Rec Facility Projects	-	-	-	-	-	343,880	343,880
Assessment Districts	-	-	-	-	-	9,219	9,219
Prop A, C and Measure R Transit Projects	-	-	-	-	-	2,646,058	2,646,058
Air Quality Improvement Projects	-	-	-	-	-	126,529	126,529
Supplemental Law Enforcement Services Funds	-	-	-	-	-	439,523	439,523
Asset Forfeiture – Drug Enforcement and Education	-	-	-	-	-	559,860	559,860
Fire Protection	-	-	-	-	-	874	874
Community Development Block Grant	-	-	-	-	-	3,192	3,192
American Rescue Plan Act And CARES Act	-	-	-	-	-	1,293,132	1,293,132
Measure M and W	-	-	-	-	-	1,591,822	1,591,822
RTI Undersea Cable Tidelands	-	-	-	-	-	555,643	555,643
Sewers	-	-	-	-	-	3,624,622	3,624,622
Lease Revenue Bond	-	-	-	-	-	95,223	95,223
Storm Drain	-	-	-	-	-	2,694,495	2,694,495
Total restricted	513,248	-	-	-	-	15,214,518	15,727,766
Committed							
In Lieu Fee- Parking Facilities	404,600	-	-	-	-	-	404,600
Tyco & RIT Tidelands	-	-	1,967,398	885,423	-	-	2,852,821
Retirement Trust	829,060	-	-	-	-	-	829,060
Retirement Rate Stabilization	1,021,575	-	-	-	-	-	1,021,575
Total committed	2,255,235	-	1,967,398	885,423	-	-	5,108,056
Assigned							
Capital Projects	300,000	-	-	-	11,063,508	-	11,363,508
Capital Facility Reserve	-	-	-	-	1,267,968	-	1,267,968
20-21 Year End Balance	18,460	-	-	-	-	-	18,460
20-21 Year End Balance	3,835,617	-	-	-	-	-	3,835,617
Reappropriations	704,334	-	-	-	-	-	704,334
Contingencies	6,966,689	-	-	-	-	-	6,966,689
Compensated absences	294,170	-	-	-	-	-	294,170
Prop A Exchange	940,098	-	-	-	-	-	940,098
Total assigned	13,059,368	-	-	-	12,331,476	-	25,390,844
Unassigned	2,700,989	(1,185,409)	-	-	-	(953,120)	562,460
	$19,150,935	$(1,185,409)	$1,967,398	$ 885,423	$12,331,476	$14,279,723	$47,429,546

Note 12 – Non-City Obligations

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
2024	$ 29,116	$ 2,163	$ 31,279
2025	30,514	732	31,246
	$ 59,630	$ 2,895	$ 62,525

2005 Bayview Drive Utility Underground Assessment District Improvement Bonds

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

The annual debt service requirements by year are as follows:

Year ending June 30,	Principal	Interest	Total
2024	$ 53,181	$ 5,998	$ 59,179
2025	55,867	3,680	59,547
2026	58,666	1,247	59,913
Total	$ 167,714	$ 10,925	$ 178,639

Note 13 – Commitments and Contingencies

A. Commitments

The City had several outstanding or planned construction and other projects as of June 30, 2023. These projects are evidenced by contractual commitments with contractors and include:

Project	Spent to Date	Commitment Remaining
Permit Software Upgrade and Integration Project	$ 626,854	$ 52,184
Fire Department Facility and Equipment Conversion	1,847,824	181,836
Total	$ 2,474,678	$ 234,020

Of the commitments listed above, $181,836 represents commitments in the Capital Projects Fund and $52,1840 represents commitments in internal service funds.

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 June 30, 2023 was $291,618.

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 – Subsequent Events

Management has evaluated subsequent events through January 30, 2024 which is the date the financial statements were available to be issued, and has determined that there are no transactions that will have a significant impact on the City.