

**CITY OF CULVER CITY, CALIFORNIA**  
**OTHER POSTEMPLOYMENT BENEFIT PLAN**  
**BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

CITY OF CULVER CITY, CALIFORNIA

Other Postemployment Benefit Plan

June 30, 2015

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## INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Culver City, California

### **Report on the Financial Statements**

We have audited the accompanying statements of plan net position of the City of Culver City Other Postemployment Benefits Plan (the "Plan") as of June 30, 2015, and the related statements of changes in plan net position for the fiscal year then ended, and the related notes to the financial statements, which collectively comprise the Plan's financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the Plan net position as of June 30, 2015, and the respective changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1, the financial statements present only the Plan and do not purport to, and do not present fairly the financial position of the City of Culver City, as of June 30, 2015, or the changes in its net position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Other Matters**

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Changes in the Net OPEB Liability and Related Ratios, the Schedule of City Contributions, and the Schedule of Investment Returns on pages 9 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Report on Summarized Comparative Information**

We have previously audited the Plan's June 30, 2014 financial statements and our audit report dated January 25, 2016 expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Moss, Levy & Hartzheim*

Moss, Levy & Hartzheim LLP  
Culver City, California  
March 31, 2016

CITY OF CULVER CITY, CALIFORNIA  
 Other Postemployment Benefit Plan  
 Statement of Plan Net Position  
 June 30, 2015  
 (With Comparative Statement as of June 30, 2014)

	June 30, 2015	June 30, 2014
<b>ASSETS</b>		
Cash and cash equivalents	\$ 43,474	\$ 27,754
Investments, at fair value		
Mutual Funds - Equity	12,557,259	9,278,451
Mutual Funds - Fixed Income	4,894,767	3,479,063
<b>TOTAL ASSETS</b>	<b>17,495,500</b>	<b>12,785,268</b>
<b>NET POSITION</b>		
Held in trust for other postemployment benefits	17,495,500	12,785,268
<b>TOTAL NET POSITION</b>	<b>\$ 17,495,500</b>	<b>\$ 12,785,268</b>

See accompanying notes to basic financial statements

CITY OF CULVER CITY, CALIFORNIA  
Other Postemployment Benefit Plan  
Statement of Changes in Plan Net Position  
For the Fiscal Year Ended June 30, 2015  
(With Comparative Totals for the Fiscal Year Ended June 30, 2014)

	June 30, 2015	June 30, 2014
Additions		
Contributions		
Employer	\$ 8,869,959	\$ 9,086,154
Total contributions	8,869,959	9,086,154
Investment income		
Net appreciation (depreciation) in fair value of investments	(46,485)	1,038,848
Dividends	335,177	255,029
Gross investment income	288,692	1,293,877
Less investment expense	(50,295)	(32,073)
Net investment income	238,397	1,261,804
Total additions	9,108,356	10,347,958
Deductions		
Benefits	4,392,458	4,271,505
Administrative expenses	5,666	6,603
Total deductions	4,398,124	4,278,108
Net increase	4,710,232	6,069,850
Change in net position	4,710,232	6,069,850
Total Net Position held in trust for other postemployment benefits		
Beginning of Fiscal Year	12,785,268	6,715,418
End of Fiscal Year	\$ 17,495,500	\$ 12,785,268

See accompanying notes to basic financial statements

CITY OF CULVER CITY, CALIFORNIA  
 Other Postemployment Benefit Plan  
 Notes to Basic Financial Statements  
 June 30, 2015

Note 1 Plan Description

*Plan administration.*

The California Public Employment Retirement System (CalPERS) administers the City of Culver City’s Other Postemployment Benefit Plan (the “Plan”) – a single-employer defined benefit plan that is used to provide retiree healthcare benefits for eligible City employees and their spouses who retire with CalPERS pension benefits immediately upon termination of employment from the City. Benefit provisions are established and may be amended by the City Council.

Membership of the Plan consisted of the following at June 30, 2013, the date of the latest actuarial valuation:

Inactive plan members or beneficiaries currently receiving benefit payments	516
Inactive plan members entitled to but not yet receiving benefit payments	56
Active Plan members	590
	1,162

*Benefit Provisions and Eligibility*

Under the Plan, the City pays a portion of the premiums for retiree medical coverage as follows:

- Participants who retired before January 1, 2007 are eligible for a City contribution up to 100% of the average of Kaiser and PERS Care Premiums.
- Participants who retired between January 1, 2007 and December 31, 2011 are eligible for a City contribution up to 70% of the PERS Care premium or 95% of the premium for all other plans. Additionally, participants meeting the following additional criteria are also eligible for this benefit level (excluding members of the Culver City Police Officers Association):
  - Employed with the City as of July 1, 2011.
  - Earned a minimum of twenty years of CalPERS service credit (excluding additional retirement service credit purchased under California Government Code Section 20909, i.e., “Air-Time”) as of December 31, 2011.
  - Earn twenty-five years of service with Culver City and retire from the City prior to January 1, 2022.
- Participants employed by the City as of July 1, 2011 and retired after December 31, 2011 earning a minimum of five years of City service are eligible for the following benefit:
  - A monthly premium reimbursement of up to \$500.65 for single coverage, increasing by up to 4% per year.
  - An additional monthly reimbursement of up to \$437.00 for his or her enrolled spouse/domestic partner/dependent based on a vesting schedule. This additional reimbursement ends when a spouse or domestic partner becomes Medicare eligible, or when a dependent ages out. This amount is subject to an annual increase of up to 4%.
  - Participants with at least twenty years of City service that were members of the Culver City Police Officers Association with more than one enrolled dependent are eligible for an additional \$300 per month reimbursement.

CITY OF CULVER CITY, CALIFORNIA  
 Other Postemployment Benefit Plan  
 Notes to Basic Financial Statements  
 June 30, 2015

Note 1 Plan Description (Continued)

*Benefit Provisions and Eligibility (Continued)*

- Employees hired after July 1, 2011 are not considered participants, and are only eligible for the legally required Public Employees' Medical and Hospital Care Act minimum, as stipulated by CalPERS.

*Contributions*

The obligation of the City to contribute to the Plan is established and may be amended by the City Council. Employees are not required to contribute to the Plan. The annual required contribution (ARC) of the employer is an amount actuarially determined in accordance with the parameters of GASB Statements 43 and 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The ARC for fiscal year 2014-15 was \$9,945,000 or 20.6% of estimated covered payroll. Administrative costs are financed through investment earnings.

Note 2 Investments

*Investment Policy*

The Plan's policy in regard to the allocation of invested assets is established and may be amended by the City Council by a majority vote of its members. It is the policy of the City Council to enhance the economic status of the Plan while protecting funds under management. The following was the Council's adopted asset allocation policy as of June 30, 2015:

<u>Asset Class</u>	<u>Target Allocation</u>
US Stocks	3.0%
Foreign Stocks	19.0%
Fixed Income	45.0%
Real Estate and TIPS	2.5%
Hedge Funds	2.5%
Cash	0.0%

*Rate of Return*

For the fiscal year ended June 30, 2015, the annual money-weighted rate of return on investments, net of investment expense, was 2.2 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 3 Net OPEB Liability of the City

The components of the net OPEB liability of the City at June 30, 2015, were as follows: (in thousands)

Total OPEB liability	\$129,921
Plan fiduciary net position	<u>(17,496)</u>
City's net OPEB liability	<u><u>\$112,425</u></u>
 Plan fiduciary net position as a percentage of the total OPEB liability	  13.47%



CITY OF CULVER CITY, CALIFORNIA  
 Other Postemployment Benefit Plan  
 Notes to Basic Financial Statements  
 June 30, 2015

Note 3 Net OPEB Liability of the City (Continued)

*Actuarial assumptions*

The total OPEB liability was determined by an actuarial valuation as of June 30, 2013, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.0%
Salary increases	3.25%
Investment rate of return	6.50%
Healthcare cost trend rates	8.3% initial, decreasing 0.5 percent per year to an ultimate rate of 5.0%

Mortality rates were based on the CalPERS 1997-2007 Healthy Annuitant Mortality Table for Males or Females as appropriate, with adjustments for mortality improvements based on projection Scale AA.

The actuarial assumption used in the June 30, 2013 valuation and were rolled forward to the June 30, 2015 measurement date.

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:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
US Stocks	5.35%
Foreign Stocks	5.35%
Fixed Income	1.55%
Real Estate and TIPS	4.03%
Hedge Funds	1.53%
Cash	0.0%

*Discount rate*

The discount rate used to measure the total OPEB liability was 6.5 percent. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for 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.

CITY OF CULVER CITY, CALIFORNIA  
 Other Postemployment Benefit Plan  
 Notes to Basic Financial Statements  
 June 30, 2015

Note 3 Net OPEB Liability of the City (Continued)

*Sensitivity of the net OPEB liability to changes in the discount rate and health-care cost trend rates*

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.5 percent) or 1-percentage-point higher (7.5 percent) than the current discount rate:

	1% Decrease (5.5%)	Discount Rate (6.5%)	1% Increase (7.5%)
Net OPEB Liability (Asset)	\$129,593,000	\$112,425,000	\$98,306,000

*Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates*

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (7.3 percent decreasing to 4.0 percent) or 1-percentage point higher (9.3 percent decreasing to 6.0 percent) than the current healthcare cost trend rates:

	1% Decrease (7.3% decreasing to 4.0%)	Healthcare Cost Trend Rates (8.3% decreasing to 5.0%)	1% Increase (9.3% decreasing to 6.0%)
Net OPEB Liability (Asset)	\$96,104,000	\$112,425,000	\$132,498,000

Note 4 Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF CHANGES IN THE  
CITY'S NET OPEB LIABILITY AND RELATED RATIOS**

Last 10 Fiscal Years\*  
(Dollar amounts in thousands)

	<b>2015</b>
<b>Total OPEB liability</b>	
Service Cost	\$ 3,094
Interest	7,905
Changes of benefit terms	(5,387)
Differences between expected and actual experience	
Changes of assumptions	
Benefit payments	
<b>Net change in total OPEB liability</b>	5,612
<b>Total OPEB liability-beginning</b>	124,309
<b>Total OPEB liability-ending (a)</b>	\$ 129,921
 <b>Plan fiduciary net position</b>	
Contributions - employer	\$ 9,865
Net investments income	289
Benefit payments	(5,387)
Administrative expense	(56)
<b>Net change in plan fiduciary net position</b>	4,711
<b>Plan fiduciary net position-beginning</b>	12,785
<b>Plan fiduciary net position-ending (b)</b>	\$ 17,496
 <b>City's net OPEB liability-ending (a) - (b)</b>	\$ 112,425
 <b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	13.47%
 <b>Covered-employee payroll</b>	\$ 47,105
 <b>City's net OPEB liability as a percentage of covered-employee payroll</b>	238.67%

**Notes to Schedule:**

\*Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

## SCHEDULE OF CITY CONTRIBUTIONS

Last 10 Fiscal Years\*  
(Dollar amounts in thousands)

	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Actuarially determined contribution	\$ 9,945	\$ 9,778	\$ 8,621	\$ 8,456
Contributions in relation to the actuarially determined contribution	9,865	10,028	7,631	7,635
Contribution deficiency (excess)	\$ 80	\$ (250)	\$ 990	\$ 821
Covered-employee payroll	\$ 47,105	N/A	\$ 46,399	N/A
Contributions as a percentage of covered-employee payroll	20.94%	N/A	16.45%	N/A

### Notes to Schedule

Valuation date: 6/30/2013  
 Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.  
 Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal Cost
Amortization method	Level percentage of payroll, closed
Amortization period	26 years
Asset valuation method	5-year rolling
Inflation	3.00%
Healthcare cost trend rates	8.3% initial, decreasing 0.5 percent per year to an ultimate rate of 5.0%
Salary increases	3.25%
Investment rate of return	6.50%
Retirement age	In the 2013 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience.
Mortality	Mortality rates were based on the CalPERS 1997-2007 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on projection Scale AA.

\* The plan was not funded with an OPEB trust prior to June 30, 2012.

## SCHEDULE OF INVESTMENT RETURNS

Last 10 Fiscal Years\*

	<u>2015</u>
Annual money-weighted rate of return, net of investment expense	2.2%

\*Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.