

CITY OF PALOS VERDES ESTATES
Comprehensive Annual Financial Report
Year ended June 30, 2012



Prepared by Finance Department
Judy Smith, City Manager
CITY OF PALOS VERDES ESTATES, CALIFORNIA

CITY OF PALOS VERDES ESTATES
PALOS VERDES, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
JUNE 30, 2012

CITY OF PALOS VERDES ESTATES
COMPREHENSIVE ANNUAL FINANCIAL REPORT

JUNE 30, 2012

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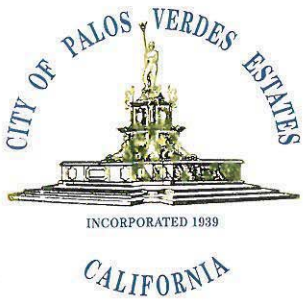
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CITY OF
Palos Verdes Estates

November 15, 2012

Honorable Mayor and Members of the City Council:

It is the policy of the City of Palos Verdes Estates to publish annually a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial statements of the City of Palos Verdes Estates (“the City”) for the fiscal year ended June 30, 2012.

This report consists of management’s representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making their representations, management of the City has established a comprehensive internal control framework that is designed both to protect the City’s assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City’s financial statement in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City’s comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that to the best of our knowledge, this financial report is complete and reliable in all material aspects.

The City’s financial statements have been audited by Lance Soll & Lunghard, LLP, a firm of certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City are free of material misstatement. The independent auditor rendered an unqualified opinion that the City’s financial statements for the fiscal year ended June 30, 2012, were fairly presented in conformity with GAAP. The independent auditor’s report is presented as the first component of the financial section of this report.

Management’s Discussion and Analysis (MD&A) immediately follows the independent auditor’s report and provides a narrative introduction, overview and analysis of the basic financial statements. This letter of transmittal should be read in conjunction with the MD&A.

Profile of the Government

The City of Palos Verdes Estates is dedicated to preserving and enhancing its special position on the Palos Verdes Peninsula in Los Angeles County overlooking the Pacific Ocean with views of Catalina Island and the Santa Monica Bay. The City plan, laid out by Frederick Olmsted, Jr. in 1910, includes large areas of parklands, which are maintained as permanent open space. The City was incorporated in 1939 and is the oldest of the four cities on the Palos Verdes Peninsula. The City's population is 13,516 within an area of 4.75 square miles. The City is a high-quality, residential community with almost no commercial tax base and is dependent upon property taxes, a special tax to finance contract fire services with Los Angeles County, and a sewer user fee to finance a program of sanitary sewer improvements.

The City has operated under the council-manager form of government since 1965. Policy-making and legislative authority are vested in a City Council consisting of the mayor and four council members. Council members are elected on a non-partisan basis at City-conducted elections held in March of odd-numbered years. Council members serve four-year staggered terms. The mayor's position rotates annually among the council members. The City Council is responsible for, among other things, passing ordinances, adopting the budget, appointing committees and hiring both the City Manager and City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and for appointing the heads of the various departments.

City employees provide the following services: police protection; clerical support for planning and building services; maintenance services, including City buildings, parkways, medians and streets; and general administrative services. The City contracts with the Los Angeles County Fire Department for fire protection and paramedic services. The City also contracts with a private firm for professional engineering, planning, building and safety services and public works administration. The City maintains an exclusive franchise for residential refuse collection and provides recreation services (golf, tennis, swimming and stables) through concession agreements with facilities located on City property.

Financial Policies

Budget Policy and Practice - For planning purposes, the City prepares a two-year budget document; however, the City Council continues to review and adopt the budget on an annual basis. The budget serves as the foundation for the City's financial planning and control. The City Manager presents the recommended budget to the City Council in mid-May, after an internal process of department budget requests and review, which begins in late-January. A public hearing on the proposed budget is held at the first Council meeting of June and the final budget is adopted prior to June 30. The budget is controlled at the fund level. The City Manager is authorized to make transfers between departments up to \$10,000. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted.

Fund Balance Policy and Practice – In accordance with GASB Statement No. 54, the City Council has formally adopted a fund balance policy, which includes a committed general fund balance of \$7.2 million for emergency contingency, which may be used in the event of a declared federal, state or local emergency or in the event the City suffers a loss of a major general fund revenue source in the amount of \$500,000 or more, either through state actions to divert or change the City’s allocation or a local condition affecting a major source. Other fund balances, non-spendable; restricted; assigned and unassigned, are established in conformance with the adopted Council policy and GASB 54.

Investment Policy and Practice - The elected City Treasurer is responsible for the custody and investment of surplus City funds. The Treasurer’s activities are guided by the City’s adopted statement of investment policy, which defines the objectives and priorities of the investment program, stressing safety and liquidity of funds as the highest two priorities. The policy’s third priority is to achieve the maximum yield possible within the constraints of the two primary objectives. The City uses two main investment mechanisms for idle funds: the State Treasurer's Local Agency Investment Fund (LAIF) and U.S. Government securities.

Major Initiatives and Achievements

Each fiscal year, the City Manager’s Office and operating departments establish a “Major Projects List”, which is presented to the City Council with periodic status updates. The project listing is a complement to the financial plan as contained in the City’s adopted budget. Major projects accomplished during FY 2011-12 include: Preparation and adoption of comprehensive personnel regulations; review, approval and publication of re-codified Municipal Code; implementation of web-based agenda preparation process that includes availability of digital audio Council meeting recordings; approval of a personnel reorganization that reduced administrative staff by 1.5 employees. The Police Department projects included: conducting an emergency preparedness activation drill in March 2012 for two of the City’s six disaster districts; continued emergency preparedness planning efforts through the City’s Disaster District Plan (DDP) and through procurement of additional supplies for the district containers; held the annual Senior Health Fair as part of community programming through the PVE-CARES program which provides resources and assistance to the elderly. The City Council approved a new seven-year agreement for residential refuse collection to Athens Services, which included enhanced service levels at a low monthly cost. The City capital programs for street maintenance (~\$1.14 million) and sanitary sewer upgrades continued and were highlighted by the award of a construction contract in the amount of ~\$1.489 million for replacement of the Rocky Point Sewer Pump Station.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

Local Economy. As mentioned previously, the City is an overwhelmingly residential community of high-quality, predominately single family homes. The City is fully developed with few vacant parcels. Commercial activity in the City is dominated by real estate firms and other companies that support real estate activity, including mortgage and title companies. As such, the City is not subject to the consumer-driven, economic fluctuations to the extent that the real estate market is not affected by these fluctuations. Sales tax revenue accounts for less than 2% of total general fund revenue. Within the City's two small commercial centers at Malaga Cove and Lunada Bay Plazas, there are minor retail and small, locally owned restaurants and food markets. As part of the larger South-Bay region of Los Angeles County, consisting of 16 incorporated cities and 20 communities, the City is part of a well-diversified economy. The South Bay is home to many aerospace and defense-related industries, as well as manufacturing, software development, entertainment, travel and tourism. Located near Los Angeles International Airport and the ports of Los Angeles and Long Beach, the South Bay is an essential component in the Los Angeles County economy and the area is home to many firms dealing in international markets.

Long-term Financial Planning. Infrastructure maintenance is a critical component of the City's financial planning. Storm drain and sanitary sewer replacements, as well as street overlay and maintenance are conducted in accordance with adopted master plans for these infrastructure networks.

Awards and Acknowledgments

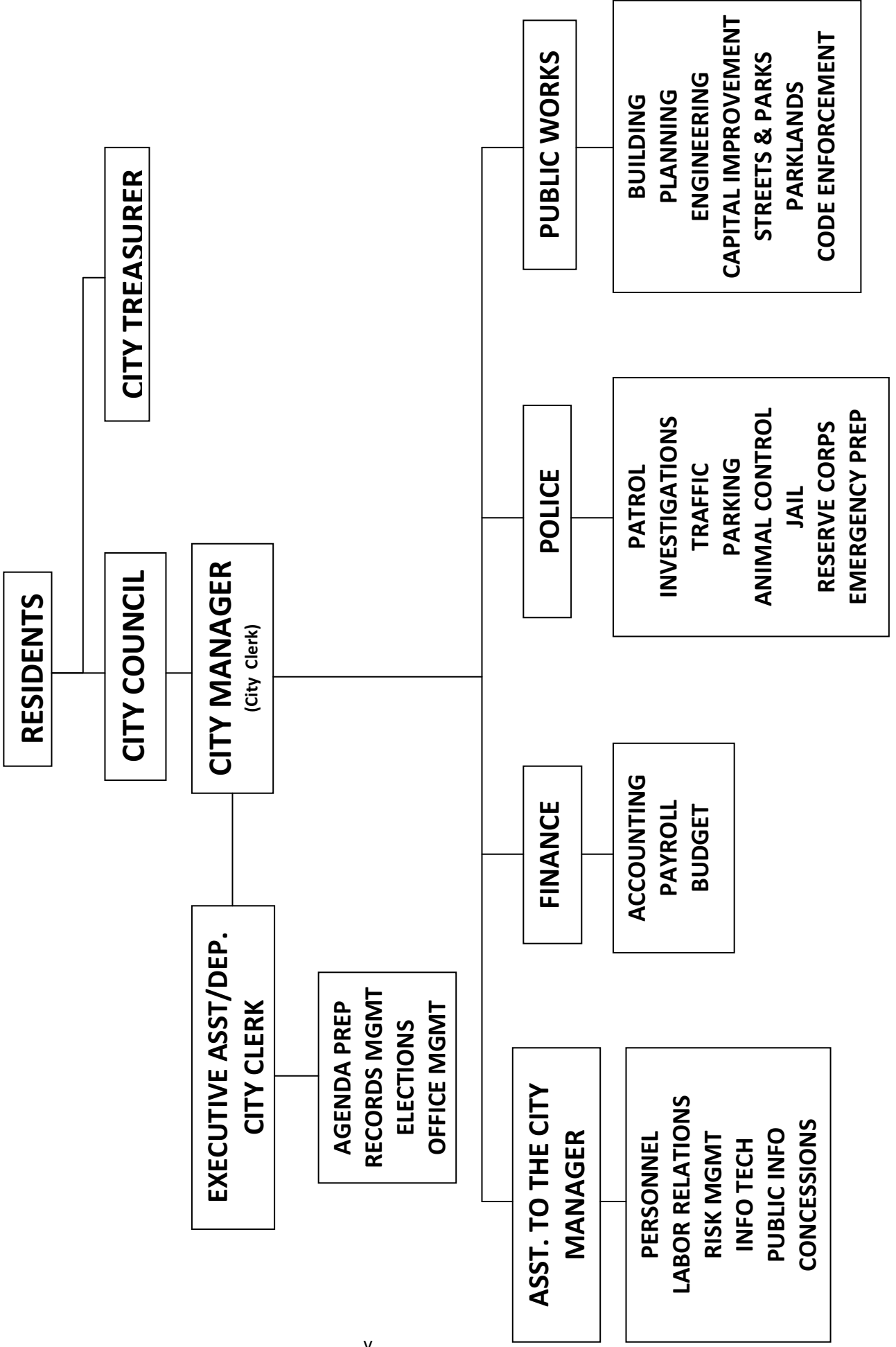
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report for the fiscal year ending June 30, 2011. In order to receive a Certificate of Achievement, the City published an easily readable and efficiently organized Comprehensive Annual Financial Report that satisfies both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe the City's current CAFR continues to meet the Certificate of Achievement program requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

I would like to thank Lori Yamasaka, Financial Services Manager, for her assistance with this report and oversight of the daily operations of the Finance Department. I also want to thank Karen Kato and Michelle Mello, Financial Services Technicians, for their dedication to the department and the City. I also want to thank the City Council for its support in maintaining the highest standards of professionalism in the management of the City's finances.


Judy Smith
City Manager

CITY OF PALOS VERDES ESTATES ORGANIZATION CHART



CITY OF PALOS VERDES ESTATES

Officials of the City of Palos Verdes Estates

June 30, 2012

CITY COUNCIL

George F. Bird, Jr., Mayor
James F. Goodhart, Mayor Pro Tem
Rosemary Humphrey
Ellen Perkins
John Rea

ADMINISTRATION AND DEPARTMENT HEADS

City Manager	Judy Smith
City Treasurer	Joseph C. Sherwood, Jr.
City Attorney	Christi Hogin
Police Chief (Interim)	Daniel Dreiling
Director of Public Works/Planning	Allan Rigg

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Palos Verdes Estates
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

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



Linda C. Davison

President

Jeffrey R. Egan

Executive Director

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CERTIFIED PUBLIC ACCOUNTANTS

- Brandon W. Burrows, CPA
- David E. Hale, CPA, CFP
A Professional Corporation
- Donald G. Slater, CPA
- Richard K. Kikuchi, CPA
- Susan F. Matz, CPA
- Shelly K. Jackley, CPA
- Bryan S. Gruber, CPA
- Deborah A. Harper, CPA

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of City Council
City of Palos Verdes Estates, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Palos Verdes Estates, California as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Palos Verdes Estates, California's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the City of Palos Verdes Estates, California for the year ended June 30 2011 and, in our report dated August 31, 2011, we expressed an unqualified opinion.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Palos Verdes Estates, California, as of June 30, 2012, and the respective changes in financial position, and cash flows, where applicable, and the respective budgetary comparisons for the General Fund, Special Projects and Special Fire Parcel Tax thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2012, on our consideration of the City of Palos Verdes Estates, California, internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents 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



Honorable Mayor and Members of City Council
City of Palos Verdes Estates

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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Palos Verdes Estates, California's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Brea, California
November 15, 2012

MANAGEMENT DISCUSSION AND ANALYSIS

This discussion and analysis of the City of Palos Verdes Estates' financial performance provides an overview of the financial activities of the City for the fiscal year ended June 30, 2012. It is suggested that this overview be read in conjunction with the letter of transmittal (**pages i-iv**) and the accompanying financial statements.

Financial Highlights

- The City's net assets at the end of fiscal year 2021-2012 totaled \$82,232,212. This is a decrease of \$4,436,654; the majority of which (\$2.449 million) is due to a restatement of beginning net assets (7-1-11) related to the City's pension side-fund liability prepayment (see Note 10 of the Notes to Financial Statements). Excluding the effects of the restatement, net assets represent a decrease of 2.3% compared to the prior year. The City's investment in capital assets at June 30, 2012 totaled \$53,240,232 and represented a decrease of \$1,436,612 mostly attributable to depreciation.
- Unrestricted net assets, which may be used to meet the government's ongoing obligations, totaled \$20,531,037. Of the unrestricted net assets, \$9,611,171 represent assets assigned for general capital project purposes and \$7,200,000 represent assets within the general fund committed for emergency contingencies.
- Net assets restricted for special purposes, including public works and public safety, totaled \$8,460,943. Of this total, \$6,102,284 represents assets restricted for sanitary sewer improvements as part of the sewer capital fund.
- During the year, the City's general governmental revenues totaled \$17,091,040, a minimal decrease of \$132,579 from the prior year. General governmental expenditures totaled \$17,908,727 for the fiscal year end, an increase of \$504,901 compared to the prior year. The increase is attributable to capital project spending for sewer and general capital projects (+\$957,047), which were offset by lower costs within public safety and general government. Overall governmental expenditures exceeded revenues by \$817,687, which is attributable to the nature and timing of capital project expenditures.
- As of June 30, 2012, the general fund balance was \$8,891,466, a decrease of \$441,201, which includes net operating transfers of -\$973,461. General fund revenues exceeded expenditures by \$532,260. This result was achieved even though 2012 expenditures include a final pre-payment of \$758,809 and elimination of the City's PERS safety side-fund pension liability. The City has consistently achieved general fund operating surpluses due to its stable revenue base, anchored by residential property values, and its focus on core municipal services. FY 2012 results include general fund revenue of \$10,775,050 and expenditures of \$10,242,790. General fund revenues available for appropriation were \$182,370 more than budgeted while actual expenditures were \$325,859 less than budget.
- The City's financial statements reflect provisions of GASB 54 regarding fund balance. The City Council's adopted fund balance policy provides for a committed general fund balance of \$7.2 million for emergency contingencies, which may be used in the event of a declared federal, state or local emergency affecting the City or in the event the City suffers a loss of a major general fund revenue source representing \$500,000 or greater. The committed fund balance equals approximately 50% of the City's total operating budget. Restricted balances include \$6,102,284 of sewer capital funds, which must be used for sanitary sewer upgrades.

Overview of the Financial Statements

The City of Palos Verdes Estates' basic financial statements comprise of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Palos Verdes Estates' finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Palos Verdes Estates' assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Palos Verdes Estates is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of when cash is received or disbursed.

The government-wide financial statements reflect functions of the City of Palos Verdes Estates that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The City does not maintain or report *business-type activities*, which are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the City of Palos Verdes Estates include general government, public safety, public works, parks and recreation. Capital projects are reported as governmental activities according to the nature of the project. The government-wide financial statements can be found on pages 11-13 of this report.

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

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

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

The City of Palos Verdes Estates maintains thirteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, drug intervention fund, the special fire parcel tax fund and the two capital improvement funds; general capital and sewer. Data from the other eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* on pages 54-57 of this report.

The City of Palos Verdes Estates adopts an annual appropriated budget for each of its governmental funds. A budgetary comparison statement has been provided for each governmental fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 14-20 of this report.

Proprietary funds. The City of Palos Verdes Estates maintains one type of proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Palos Verdes Estates' various governmental functions. The City of Palos Verdes Estates uses internal service funds to account for equipment replacement (vehicles, computer systems and furniture) and insurance activities. Because these services benefit governmental functions, they have been included within *governmental activities* in the government-wide financial statements. The two internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data is provided in the form of combining statements elsewhere in this report. The basic proprietary fund financial statements can be found on pages 24-26 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Palos Verdes Estates' own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on page 27 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes can be found on pages 29-52 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 54-75.

Government-wide Financial Analysis

The City presents its financial statements using the reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), Basic Financial Statements – and Management's Discussion and Analysis (MD & A) – for State and Local Government.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's net assets for fiscal year 2011-2012 are shown in Table 1. In the case of the City of Palos Verdes Estates, assets exceeded liabilities by \$82,232,212 at June 30, 2012.

Table 1
City of Palos Verdes Estates Net Assets

	<u>2012</u>	<u>2011</u>	<u>Change</u> <u>(in dollars)</u>
Current and other assets	\$30,861,762	\$33,744,096	(\$2,882,334)
Capital assets	<u>53,240,232</u>	<u>54,676,844</u>	<u>(1,436,612)</u>
Total Assets	<u>84,101,994</u>	<u>88,420,940</u>	<u>(4,318,946)</u>
Long-term liabilities	(1,166,809)	(1,033,135)	(133,674)
Other Liabilities	<u>(702,973)</u>	<u>(718,939)</u>	<u>15,966</u>
Total liabilities	<u>(1,869,782)</u>	<u>(1,752,074)</u>	<u>(117,708)</u>
Invested in capital assets	53,240,232	54,676,844	(1,436,612)
Restricted	8,460,943	8,254,036	206,907
Unrestricted	<u>20,531,037</u>	<u>23,737,986</u>	<u>(3,206,949)</u>
Total net assets	<u>\$82,232,212</u>	<u>\$86,668,866</u>	<u>(\$4,436,654)</u>

By far the largest portion of the City of Palos Verdes Estates' net assets (65%) reflects its investment in capital assets (land, buildings, infrastructure, machinery and equipment). These assets are not available for future spending.

An additional portion of the City of Palos Verdes Estates' net assets (10%) represent resources that are subject to legal restrictions on how they may be used. The remaining balance of unrestricted net assets (25%) may be used to meet the government's ongoing obligations. Included as part of the unrestricted net assets is the general capital project fund balance, which totals \$9,611,171 or 47% of the unrestricted net assets.

Governmental activities. During 2012, the City's net assets decreased \$1,987,642 due to governmental activity, which is attributable to expenses in excess of program and general revenues.

Table 2
City of Palos Verdes Estates
Changes in Net Assets

	<u>2012</u>	<u>2011</u>	<u>Change</u> <u>(in dollars)</u>
Program revenues:			
Charges for services	\$6,511,447	\$6,825,645	(\$314,198)
Operating grants and contributions	1,076,845	1,021,362	55,483
Capital grants and contributions	1,211,873	1,376,703	(164,830)
General revenues:			
Property taxes	5,841,802	5,742,916	98,886
Other taxes	2,311,636	2,407,564	(95,928)
Other	<u>329,144</u>	<u>286,378</u>	<u>42,766</u>
Total revenues	<u>17,282,747</u>	<u>17,660,568</u>	<u>(377,821)</u>

Table 2 (continued)
 City of Palos Verdes Estates
 Changes in Net Assets

	<u>2012</u>	<u>2011</u>	<u>Change</u> (in dollars)
Expenses:			
General government	\$1,573,677	\$1,699,155	\$125,478
Public safety	10,280,881	9,769,524	511,357
Public works	3,165,639	4,299,456	(1,133,817)
Parks and recreation	<u>4,250,192</u>	<u>2,892,022</u>	<u>1,358,170</u>
Total expenses	<u>19,270,398</u>	<u>18,660,157</u>	<u>610,232</u>
Increase in net assets	(1,987,642)	(999,589)	(988,053)
Net Assets July 1, 2011* restated	<u>84,219,854</u>	<u>87,668,455</u>	<u>(3,448,601)</u>
Net Assets June 30, 2012	<u>\$82,232,212</u>	<u>\$86,668,866</u>	<u>(\$4,436,654)</u>

Figure 1 – Revenues - Governmental Activities FY 2011-2012

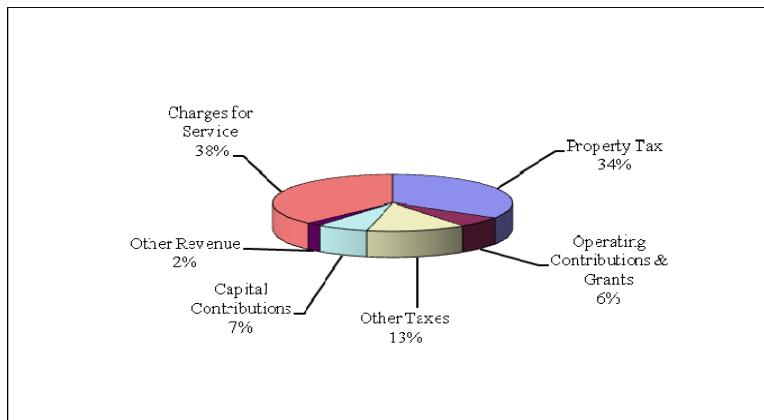
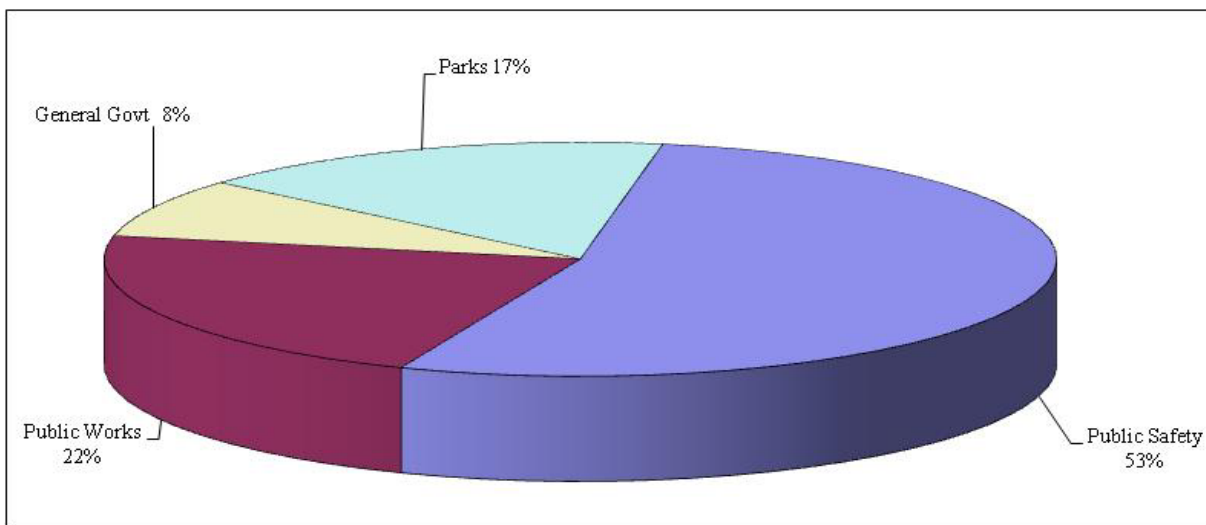


Figure 2 – Expenses – Governmental Activities FY 2011-12



Fund Financial Statements

Governmental Funds.

The City of Palos Verdes Estates' governmental funds ending fund balances totaled \$26,813,580 a decrease of \$817,687 (-2.96%) compared to the prior year. For the fiscal year ending June 30, 2012, the governmental funds restricted fund balances totaled \$8,308,377, including \$6,102,284 (73%) for sanitary sewer capital improvements. The committed fund balance (general fund) totaled \$7,200,000. The assigned fund balance for the governmental funds totaled \$9,611,171 and consists exclusively of the general capital fund balance. The unassigned fund balance of the governmental funds (general fund) totaled \$1,605,774, while the non-spendable fund balances total \$88,258, representing inventory and prepaid costs.

Five funds qualify as major funds under the GASB 34 reporting criteria: the general fund, special projects fund, special fire parcel tax fund and sewer fund and general capital improvements funds. The general fund is the chief operating fund of the City of Palos Verdes Estates. The general fund balance totaled \$8,891,466, a decrease of \$441,201 compared to the prior year, which includes the net effect of operating transfers (\$973,461). The general fund balance is comprised of the following: non-spendable balance of \$85,692; committed balance of \$7,200,000 for emergency contingencies; and unassigned fund balance totaling \$1,605,774. The City Council will review the amount of the unassigned fund balance and determine whether to modify the fund balance policy to increase the committed fund balance or transfer funds to the general capital projects fund to assist in future capital project financing. The general fund balance, excluding non-spendable, represents 86% of FY 2012 total general fund expenditures.

The special projects fund accounts for receipt of funds from several sources, many of which are grants that have restrictions on their use. Receipts deposited to the special projects fund generally are transferred to reimburse other funds, mainly the general fund and general capital projects fund, for eligible expenditure activity. During FY 11-12, the City applied for a \$150,000 grant of L.A. County Proposition A Parks funds. The grant is available on a reimbursement basis following expenditures, which were incurred by the capital project fund during the fiscal year for various pathway improvements and other projects. As a result, the pending receipt of the grant is shown as deferred revenue.

The special fire parcel tax fund balance increased \$33,856. Fire contract services through Los Angeles County totaled \$3,974,238 in 2012, an increase of \$47,566 compared to the prior year. Revenue from the special fire tax totaled \$3,998,589. Other revenues revenue totaled \$9,505.

The sewer capital projects fund balance totals \$6,102,284. During FY 2012, sewer fees and other revenue totaled \$1,077,915, while expenditures totaled \$1,258,824. The final sewer pump station will be constructed during FY 2012-13 at a cost of approximately \$1.45 million. Authorization for the property-owner approved sewer user fee expires in FY 2012-13. The City is in the process of designing a sewer force main project to provide redundant capacity at the two city-owned pump stations.

The general capital improvement fund balance decreased \$433,393 and totals \$9,611,171. Capital project expenditures totaled \$1,642,527 and operating revenue, mainly interest earnings, totaled \$73,846. Operating transfers in totaled \$1,135,288, including \$1 million from the general fund. The primary source of general capital funds is an annual transfer of general fund operating surplus. The actual amount of the transfer, if any, is determined each year by the City Council after review of the annual audit report. The City's capital improvement program includes the annual street maintenance program, which is being completed in accordance with an adopted multi-year, master pavement management plan. The vast majority of capital expenditures are for street-related projects.

Proprietary funds. The only proprietary funds of the City of Palos Verdes Estates are two internal service funds for equipment replacement and insurance activities. At year-end, net assets invested in capital assets of the funds amounted to \$602,807, a decrease of \$5,966 from the prior year.

General Fund Budgetary Highlights

The difference between the original general fund budget and the final amended budget was an increase of \$26,539 in transfers in. The final amended budget reflects an increase of \$1,796,809 in expenditures, including and transfers out (\$1,000,000).

General fund expenditures were \$325,859 less than budget with most of the savings (69%) occurring within the general government function due to position vacancies and associated salary and benefit savings. Other areas of savings within the general fund included: Public safety services realized savings of \$18,092 mainly within supplies and services, and nominal savings of approximately \$107,453 within the public works budget.

Capital Asset and Debt Administration

Capital Assets. The City of Palos Verdes Estates' investment in capital assets for its governmental activities as of June 30, 2012, totals \$53,240,232 (net of accumulated depreciation). This is a decrease of \$1,436,612 compared to the prior year. This investment in capital assets includes land, buildings, improvements, machinery/equipment, vehicles, furniture, streets, sewers and storm drains. During Fiscal Year 2012, governmental fund capital expenditures totaled \$2,934,840 including the following:

- Street improvement projects totaling ~\$1.14 million;
- Sanitary sewer projects in accordance with the sewer master plan totaling \$1,097,985, including completion of the Via Barri sewer pump station project and initiation of construction on the Rocky Point pump station , and
- Replacement of various vehicles within the Police and Streets/Parks department in accordance with established depreciation/replacement schedules at a cost of \$160,850.

Table 3
City of Palos Verdes Estates Capital Assets
(Net of Depreciation)

	<u>2012</u>	<u>2011</u>	<u>Change</u> (in dollars)
Land	\$4,487,892	\$4,487,892	\$ ---
Construction in progress	19,988	843,032	(823,044)
Building and improvements	12,823,316	14,354,812	(1,531,496)
Machinery and equipment	1,128,719	1,278,548	(149,829)
Furniture and fixtures	125,944	65,346	60,598
Vehicles	84,065	16,362	67,703
Infrastructure	<u>34,570,308</u>	<u>33,630,852</u>	<u>939,456</u>
Total	<u>\$53,240,232</u>	<u>\$54,676,844</u>	<u>(\$1,436,612)</u>

Additional information on the City's capital assets can be found in note 4 beginning on page 41 of this report.

Long-term debt. The City avoids debt financing. At the end of the current fiscal year, the City of Palos Verdes Estates' outstanding debt is \$1,197,837 composed of \$719,190 for vested or accumulated employee compensated absences; \$303,076 for the special retirement income plan; and a retrospective insurance deposit payable to the California Joint Powers Insurance Authority (CJPIA) of \$175,571. Additional information on long-term debt can be found in note 6 of the notes to the basic financial statements on page 42 of the report.

Economic Factors and Next Year's Budget

The City prepares a two-year budget document for planning purposes, but continues to adopt the budget on an annual basis. FY 2012-13 represents the first year of the two-year budget cycle. The City Council adopted the FY 2012-2013 budget on June 26, 2012 and the following factors were considered in preparing the budget:

- The City faces another two-year period of limited revenue growth as evidenced by residential real estate activity. The budget assumed a 1% increase in assessed values; some modest growth in development activity and limited expenditure growth. The FY 12-13 total operating budget reflects a 1.36 decrease compared to the FY 11-12 adjusted budget.
- A 3.5% increase in the contract cost for fire and paramedic services through Los Angeles County Fire totaling \$4.090 million and associated 3.5% increase in the voter approved special parcel tax rate;
- General capital improvements projects totaling \$1.667 million, including \$1.537 million in various street improvement projects, as well as \$100,000 provided each of the next two years for parkland and median improvement projects. This is the first significant resources devoted to such projects in several years.
- Sanitary sewer capital budget of \$1.45 million, including reconstruction of the final sewer pump station.

Requests for Information

This financial report is designed to provide a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, 340 Palos Verdes Drive West, Palos Verdes Estates, California 90274.

CITY OF PALOS VERDES ESTATES

STATEMENT OF NET ASSETS
 JUNE 30, 2012

	Governmental Activities	
	2012	2011
Assets:		
Cash and investments	\$ 29,125,710	\$ 29,577,380
Accounts receivables	693,373	518,233
Interest receivable	43,578	71,586
Prepaid items	564,388	3,280,564
Due from other governments	407,048	294,381
Inventories	27,665	1,952
Capital assets not being depreciated	4,507,880	5,330,924
Capital assets, net of depreciation	48,732,352	49,345,920
	84,101,994	88,420,940
Liabilities:		
Accounts payable	469,853	442,510
Accrued salaries and benefits	186,640	170,164
Deposits payable	15,452	833
Noncurrent liabilities:		
Due within one year	31,028	105,432
Due in more than one year	1,166,809	1,033,135
	1,869,782	1,752,074
Net Assets:		
Invested in capital assets	53,240,232	54,676,844
Restricted for:		
Public safety	627,125	508,902
Public works	7,833,818	7,745,134
Unrestricted	20,531,037	23,737,986
	\$ 82,232,212	\$ 86,668,866

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CITY OF PALOS VERDES ESTATES

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

	Program Revenues				Net Governmental Activities	
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	2012	2011
Functions/Programs						
Primary Government:						
Governmental Activities:						
General government	\$ 1,573,677	\$ 56,590	\$ 5,975	\$ -	\$ (1,511,112)	\$ (1,618,437)
Public safety	10,280,881	4,259,802	130,090	16,210	(5,874,779)	(5,328,542)
Parks and recreation	3,165,639	1,066,227	38,427	-	(2,060,985)	(1,860,442)
Public works	4,250,192	1,128,828	902,353	1,195,663	(1,023,348)	(629,026)
Total Governmental Activities	\$ 19,270,389	\$ 6,511,447	\$ 1,076,845	\$ 1,211,873	(10,470,224)	(9,436,447)
General Revenues:						
Taxes:						
Property taxes					5,841,802	5,742,916
Sales and use taxes					317,694	319,346
Franchise taxes					537,274	573,203
Business licenses taxes					208,612	199,139
Other taxes					150,679	189,306
Motor vehicle in lieu - unrestricted					1,097,377	1,126,570
Use of money and property					186,260	207,580
Miscellaneous					142,884	78,798
Total General Revenues					8,482,582	8,436,858
Change in Net Assets					(1,987,642)	(999,589)
Net Assets at Beginning of Year					86,668,866	87,668,455
Restatement of Net Assets					(2,449,012)	-
Net Assets at End of Year					\$ 82,232,212	\$ 86,668,866

CITY OF PALOS VERDES ESTATES

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	Special Revenue Funds			Capital Projects Fund
	General	Special Projects	Special Fire Parcel Tax	General Capital Improvements
Assets:				
Cash and investments	\$ 8,491,413	\$ 648,528	\$ 293,721	\$ 9,643,259
Accounts receivable	693,373	-	-	-
Interest receivable	13,454	424	270	14,877
Prepaid items	58,027	-	-	-
Due from other governments	-	155,195	154,082	-
Due from other funds	-	-	-	35,288
Inventory - materials	27,665	-	-	-
Total Assets	\$ 9,283,932	\$ 804,147	\$ 448,073	\$ 9,693,424
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 196,129	\$ 3,797	\$ -	\$ 82,253
Accrued salaries and benefits	180,885	-	-	-
Deferred revenues	-	150,000	-	-
Deposits payable	15,452	-	-	-
Due to other funds	-	35,288	-	-
Total Liabilities	392,466	189,085	-	82,253
Fund Balances:				
Nonspendable:				
Inventory	27,665	-	-	-
Prepaid costs	58,027	-	-	-
Restricted for:				
Public safety	-	-	448,073	-
Public works	-	615,062	-	-
Committed to:				
Committed for emergency contingencies	7,200,000	-	-	-
Assigned to:				
Public safety	-	-	-	-
Capital Projects	-	-	-	9,611,171
Unassigned	1,605,774	-	-	-
Total Fund Balances	8,891,466	615,062	448,073	9,611,171
Total Liabilities and Fund Balances	\$ 9,283,932	\$ 804,147	\$ 448,073	\$ 9,693,424

CITY OF PALOS VERDES ESTATES

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	Capital Projects Fund		Totals	
	Sewer	Other Governmental Funds	Totals	
			2012	2011
Assets:				
Cash and investments	\$ 6,228,163	\$ 1,101,370	\$ 26,406,454	\$ 26,931,391
Accounts receivable	-	-	693,373	518,227
Interest receivable	9,673	690	39,388	65,388
Prepaid items	-	2,566	60,593	393,408
Due from other governments	43,928	53,843	407,048	294,381
Due from other funds	-	-	35,288	26,005
Inventory - materials	-	-	27,665	1,952
Total Assets	\$ 6,281,764	\$ 1,158,469	\$ 27,669,809	\$ 28,230,752
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 179,480	\$ 7,190	\$ 468,849	\$ 393,995
Accrued salaries and benefits	-	5,755	186,640	170,164
Deferred revenues	-	-	150,000	8,488
Deposits payable	-	-	15,452	833
Due to other funds	-	-	35,288	26,005
Total Liabilities	179,480	12,945	856,229	599,485
Fund Balances:				
Nonspendable:				
Inventory	-	-	27,665	1,952
Prepaid costs	-	2,566	60,593	393,408
Restricted for:				
Public safety	-	179,052	627,125	180,868
Public works	6,102,284	963,906	7,681,252	7,742,462
Committed to:				
Committed for emergency contingencies	-	-	7,200,000	7,200,000
Assigned to:				
Public safety	-	-	-	957,000
Capital Projects	-	-	9,611,171	10,044,564
Unassigned	-	-	1,605,774	1,111,013
Total Fund Balances	6,102,284	1,145,524	26,813,580	27,631,267
Total Liabilities and Fund Balances	\$ 6,281,764	\$ 1,158,469	\$ 27,669,809	\$ 28,230,752

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CITY OF PALOS VERDES ESTATES

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012

Fund balances of governmental funds.	\$ 26,813,580
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets net of depreciation have not been included as financial resources in governmental fund activity.	
Capital Assets	105,436,239
Less accumulated depreciation	(52,798,814)
Long-term debt and compensated absences that have not been included in the governmental fund activity:	
Special Retirement Income Plan	(303,076)
Compensated Absences	(719,190)
Retrospective Deposit Payable	(175,571)
Revenues reported as deferred revenue in the governmental funds and recognized in the Statement of Activities. These are included in the intergovernmental revenues in the governmental fund activity.	
	150,000
Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The assets and liabilities of the internal service funds must be added to the statement of net assets.	
	<u>3,829,044</u>
Net assets of governmental activities	<u><u>\$ 82,232,212</u></u>

CITY OF PALOS VERDES ESTATES

STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012

	General	Special Revenue Funds		Capital Projects Fund General Capital Improvements
		Special Projects	Special Fire Parcel Tax	
Revenues:				
Property taxes	\$ 5,841,802	\$ -	\$ -	\$ -
Special assessments	-	-	3,998,589	-
Other taxes	1,214,259	-	-	-
Licenses and permits	675,493	-	-	-
Revenues from other agencies	1,114,514	124,425	8,867	8,488
Charges for services	454,193	-	-	-
Use of money and property	1,119,433	4,065	638	65,358
Fines and forfeitures	211,517	-	-	-
Miscellaneous	143,839	-	-	-
Total Revenues	10,775,050	128,490	4,008,094	73,846
Expenditures:				
Current:				
General government	1,431,376	-	-	-
Public safety	6,358,412	-	3,974,238	-
Parks and recreation	1,165,880	-	-	-
Public works	1,287,122	21,625	-	1,642,527
Total Expenditures	10,242,790	21,625	3,974,238	1,642,527
Excess (Deficiency) of Revenues Over (Under) Expenditures	532,260	106,865	33,856	(1,568,681)
Other Financing Sources (Uses):				
Transfers in	26,539	-	-	1,135,288
Transfers out	(1,000,000)	(61,827)	-	-
Total Other Financing Sources (Uses)	(973,461)	(61,827)	-	1,135,288
Net Change in Fund Balances	(441,201)	45,038	33,856	(433,393)
Fund Balances, Beginning of Year	9,332,667	570,024	414,217	10,044,564
Fund Balances, End of Year	\$ 8,891,466	\$ 615,062	\$ 448,073	\$ 9,611,171

CITY OF PALOS VERDES ESTATES

STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012

	Capital Projects Fund		Totals	
	Sewer	Other Governmental Funds	2012	2011
Revenues:				
Property taxes	\$ -	\$ -	\$ 5,841,802	\$ 5,742,916
Special assessments	1,045,663	-	5,044,252	5,316,349
Other taxes	-	-	1,214,259	1,280,994
Licenses and permits	-	-	675,493	625,147
Revenues from other agencies	-	1,021,281	2,277,575	2,293,945
Charges for services	-	-	454,193	501,153
Use of money and property	32,252	6,364	1,228,110	1,174,469
Fines and forfeitures	-	-	211,517	209,848
Miscellaneous	-	-	143,839	78,798
Total Revenues	1,077,915	1,027,645	17,091,040	17,223,619
Expenditures:				
Current:				
General government	-	5,309	1,436,685	1,594,845
Public safety	-	35,622	10,368,272	10,804,913
Parks and recreation	-	-	1,165,880	1,090,781
Public works	1,258,824	727,792	4,937,890	3,913,287
Total Expenditures	1,258,824	768,723	17,908,727	17,403,826
Excess (Deficiency) of Revenues Over (Under) Expenditures	(180,909)	258,922	(817,687)	(180,207)
Other Financing Sources (Uses):				
Transfers in	-	-	1,161,827	5,357,317
Transfers out	-	(100,000)	(1,161,827)	(5,515,427)
Total Other Financing Sources (Uses)	-	(100,000)	-	(158,110)
Net Change in Fund Balances	(180,909)	158,922	(817,687)	(338,317)
Fund Balances, Beginning of Year	6,283,193	986,602	27,631,267	27,969,584
Fund Balances, End of Year	\$ 6,102,284	\$ 1,145,524	\$ 26,813,580	\$ 27,631,267

CITY OF PALOS VERDES ESTATES

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012**

Net change in fund balances - total governmental funds. \$ (817,687)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense.

Depreciation	(3,963,926)
Capital outlay	2,563,841

Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	129,499
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To record an expense to the net change in pension obligation.	(13,198)
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To record an expense for the retrospective deposit payable.	(175,571)
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Revenues reported as deferred revenue in the governmental funds and recognized in the Statement of Activities. These are included in the intergovernmental revenues in the governmental fund activity.	141,512
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Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The net revenues (expenses) of the internal service funds is reported with governmental activities

Change in net assets of the internal service funds	178,449
Less: Capital contributions	(30,561)

Change in net assets of governmental activities	\$ (1,987,642)
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CITY OF PALOS VERDES ESTATES

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
YEAR ENDED JUNE 30, 2012**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 9,332,667	\$ 9,332,667	\$ 9,332,667	\$ -
Resources (Inflows):				
Property taxes	5,778,230	5,778,230	5,841,802	63,572
Other taxes	1,140,000	1,140,000	1,214,259	74,259
Licenses and permits	576,000	576,000	675,493	99,493
Revenues from other agencies	1,131,700	1,131,700	1,114,514	(17,186)
Charges for services	504,750	504,750	454,193	(50,557)
Use of money and property	1,137,000	1,137,000	1,119,433	(17,567)
Fines and forfeitures	185,000	185,000	211,517	26,517
Miscellaneous	140,000	140,000	143,839	3,839
Transfers in	-	26,539	26,539	-
Amounts Available for Appropriation	19,925,347	19,951,886	20,134,256	182,370
Charges to Appropriation (Outflow):				
General government	1,655,855	1,655,855	1,431,376	224,479
Public safety	5,617,695	6,376,504	6,358,412	18,092
Parks and recreation	1,103,715	1,141,715	1,165,880	(24,165)
Public works	1,394,575	1,394,575	1,287,122	107,453
Transfers out	-	1,000,000	1,000,000	-
Total Charges to Appropriations	9,771,840	11,568,649	11,242,790	325,859
Budgetary Fund Balance, June 30	\$ 10,153,507	\$ 8,383,237	\$ 8,891,466	\$ 508,229

CITY OF PALOS VERDES ESTATES

BUDGETARY COMPARISON STATEMENT
 SPECIAL PROJECTS
 YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 570,024	\$ 570,024	\$ 570,024	\$ -
Resources (Inflows):				
Revenues from other agencies	73,000	258,300	124,425	(133,875)
Use of money and property	-	-	4,065	4,065
Amounts Available for Appropriation	643,024	828,324	698,514	(129,810)
Charges to Appropriation (Outflow):				
Public works	23,720	23,720	21,625	2,095
Transfers out	-	61,827	61,827	-
Total Charges to Appropriations	23,720	85,547	83,452	2,095
Budgetary Fund Balance, June 30	\$ 619,304	\$ 742,777	\$ 615,062	\$ (127,715)

CITY OF PALOS VERDES ESTATES

**BUDGETARY COMPARISON STATEMENT
SPECIAL FIRE PARCEL TAX
YEAR ENDED JUNE 30, 2012**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 414,217	\$ 414,217	\$ 414,217	\$ -
Resources (Inflows):				
Special assessments	3,982,500	3,982,500	3,998,589	16,089
Revenues from other agencies	9,000	9,000	8,867	(133)
Use of money and property	-	-	638	638
Amounts Available for Appropriation	4,405,717	4,405,717	4,422,311	16,594
Charges to Appropriation (Outflow):				
Public safety	3,978,995	3,993,995	3,974,238	19,757
Total Charges to Appropriations	3,978,995	3,993,995	3,974,238	19,757
Budgetary Fund Balance, June 30	\$ 426,722	\$ 411,722	\$ 448,073	\$ 36,351

CITY OF PALOS VERDES ESTATES

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 JUNE 30, 2012

	Governmental Activities - Internal Service Funds Totals	
	<u>2012</u>	<u>2011</u>
Assets:		
Current assets:		
Cash and investments	\$ 2,719,256	\$ 2,645,989
Accounts receivable	-	6
Interest receivable	4,190	6,198
Prepaid items	503,795	438,144
Total Current Assets	<u>3,227,241</u>	<u>3,090,337</u>
Capital assets:		
Machinery and equipment	2,961,562	2,910,758
Furniture and fixtures	235,662	189,163
Vehicles	904,134	836,141
Less accumulated depreciation	(3,498,551)	(3,327,289)
Net Capital Assets	<u>602,807</u>	<u>608,773</u>
Total Assets	<u>\$ 3,830,048</u>	<u>\$ 3,699,110</u>
Liabilities:		
Current liabilities:		
Accounts payable	\$ 1,004	\$ 48,515
Total Current Liabilities	<u>1,004</u>	<u>48,515</u>
Total Liabilities	<u>1,004</u>	<u>48,515</u>
Net Assets:		
Invested in capital assets, net of related debt	602,807	608,773
Unrestricted	3,226,237	3,041,822
Total Net Assets	<u>3,829,044</u>	<u>3,650,595</u>
Total Liabilities and Net Assets	<u>\$ 3,830,048</u>	<u>\$ 3,699,110</u>

CITY OF PALOS VERDES ESTATES

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012

	Governmental Activities - Internal Service Funds Totals	
	2012	2011
Operating revenues:		
Charges for services	\$ 744,210	\$ 685,155
Other	5,000	43,446
Total operating revenues	749,210	728,601
Operating expenses:		
Materials and supplies	14,411	11,753
General liability insurance	335,798	483,527
Property and vehicle insurance	17,386	15,898
Depreciation	264,019	319,042
Total operating expenses	631,614	830,220
Operating Income (Loss)	117,596	(101,619)
Nonoperating revenues (expenses):		
Interest revenue	19,634	20,011
Contributions	30,561	423,232
Gain (loss) on disposal of capital assets	10,658	4,882
Total Nonoperating Revenues (Expenses)	60,853	448,125
Net income (loss) before transfers	178,449	346,506
Transfers in	-	158,110
Change in net assets	178,449	504,616
Net Assets:		
Beginning of Year	3,650,595	3,145,979
End of Fiscal Year	\$ 3,829,044	\$ 3,650,595

CITY OF PALOS VERDES ESTATES

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2012

	Governmental Activities - Internal Service Funds Totals	
	2012	2011
Cash Flows from Operating Activities:		
Cash received from user departments	\$ 749,216	\$ 698,682
Cash paid to suppliers for goods or services	(480,757)	(487,598)
Net Cash Provided (Used) by Operating Activities	268,459	211,084
Cash Flows from Non-Capital Financing Activities:		
Cash transfers in	-	158,110
Net Cash Provided (Used) by Non-Capital Financing Activities	-	158,110
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(227,492)	(132,971)
Proceeds from sales of capital assets	10,658	4,882
Net Cash Provided (Used) by Capital and Related Financing Activities	(216,834)	(128,089)
Cash Flows from Investing Activities:		
Interest received	21,642	20,068
Net Cash Provided (Used) by Investing Activities	21,642	20,068
Net Increase (Decrease) in Cash and Cash Equivalents	73,267	261,173
Cash and Cash Equivalents at Beginning of Year	2,645,989	2,384,816
Cash and Cash Equivalents at End of Year	\$ 2,719,256	\$ 2,645,989
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating income (loss)	\$ 117,596	\$ (101,619)
Adjustments to reconcile operating income (loss) net cash provided (used) by operating activities:		
Depreciation	264,019	319,042
(Increase) decrease in accounts receivable	6	81
(Increase) decrease in prepaid expense	(65,651)	1,225
Increase (decrease) in accounts payable	(47,511)	22,355
Increase (decrease) in claims and judgments	-	(30,000)
Total Adjustments	150,863	312,703
Net Cash Provided (Used) by Operating Activities	\$ 268,459	\$ 211,084
Non-Cash Capital Activity:		
Equipment acquisitions funded by governmental funds	\$ 30,561	\$ 423,232

CITY OF PALOS VERDES ESTATES

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012

	<u>2012</u>	<u>2011</u>
Assets:		
Cash and investments	\$ 160,269	\$ 156,091
Accrued interest	105	-
Total Assets	<u>\$ 160,374</u>	<u>\$ 156,091</u>
Liabilities:		
Accounts payable	\$ 295	\$ -
Deposits	160,079	156,091
Total Liabilities	<u>\$ 160,374</u>	<u>\$ 156,091</u>
Total Liabilities and Net Assets	<u>\$ 160,374</u>	<u>\$ 156,091</u>

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CITY OF PALOS VERDES ESTATES

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Note 1: Summary of Significant Accounting Policies

a. Reporting Entity

The City of Palos Verdes Estates (City), California was incorporated on December 20, 1939 under the General Laws of the State of California. The City operates under a Council - City Manager form of government. The financial statements of the City of Palos Verdes Estates include the financial activities of the City.

Joint Ventures

Palos Verdes Peninsula Transit Joint Powers Authority

The City is a member of the Palos Verdes Peninsula Transit Joint Powers Authority. The Transit Authority is comprised of three member cities and is organized under a Joint Powers Agreement pursuant to the California Government Code. Each member City provides an annually determined contribution towards the ongoing operation. The City does not have a specified equity interest; however, in the event of dissolution of the Authority, available assets shall be distributed to the member agencies in proportion to the aggregate contribution made by each member agency during the entire term of the agreement. The purpose of the Authority is to study, implement, and provide a public transit system within and around the Palos Verdes Peninsula. These transit services include Palos Verdes Transit, Dial-A-Ride and a fixed route shuttle service.

The Palos Verdes Peninsula Transit Authority's fiscal year ends on June 30. As of June 30, 2011 (the most recent information available), audited financial statements indicated the following:

Total assets	\$	2,270,922
Total liabilities		155,019
Total equity (Net Assets)		2,115,903
Revenues		2,295,317
Expenditures		2,269,835
Net increase in fund balance		25,482

Separate financial statements are available from the Authority office at 38 Crest Road, West, Rolling Hills, California 90274-7400.

b. Basis of Accounting and Measurement Focus

The *basic financial statements* of the City are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Note 1: Summary of Significant Accounting Policies (Continued)

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. Government-wide financial statements include separate columns for the governmental and business-type activities of the primary government (including its blended component units). The City of Palos Verdes Estates has no business-type activities. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by function to which they were allocated). However, general governmental expenses have not been allocated as indirect expenses to the various functions of the City.

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

Program revenues include charges for services and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

Fund Financial Statements

The underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental 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.

Fund financial statements for the primary government's governmental, proprietary, and fiduciary funds are presented after the government-wide financial statements. These statements display information about major funds individually and nonmajor funds in the aggregate for governmental and enterprise funds. Fiduciary statements include financial information for fiduciary funds and similar component units. Fiduciary funds of the City primarily represent assets held by the City in a custodial capacity for other individuals or organizations.

Note 1: Summary of Significant Accounting Policies (Continued)

Governmental Funds

In the fund financial statements, governmental funds are presented using the *modified-accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The City uses a sixty day availability period.

Revenue recognition is subject to the *measurable* and *availability* criteria for the governmental funds in the fund financial statements. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction on which they are based takes place. *Imposed non-exchange* transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated and voluntary non-exchange transactions* are recognized as revenues when all applicable eligibility requirements have been met.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as an *other financing sources* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

Proprietary Funds

The City's internal service funds are proprietary funds. In the fund financial statements, proprietary funds are presented using the *accrual basis of accounting*. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, proprietary funds are

Note 1: Summary of Significant Accounting Policies (Continued)

presented using the *economic resources measurement focus*. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net assets.

Amounts paid to acquire capital assets are capitalized as assets in the internal service fund financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the internal service fund financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the internal service fund are reported as a reduction of the related liability, rather than as an expenditure.

Fiduciary Funds

The City's fiduciary funds are agency funds. Agency funds are custodial in nature. Assets equal liabilities. Agency funds use the accrual basis of accounting.

c. Major Funds, Internal Service Funds and Fiduciary Fund Types

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The Special Projects Fund is used to account for funds received from other governmental agencies that are earmarked for specific projects.

The Special Fire Parcel Tax Revenue Fund is used to account for funds received from a direct assessment levied by the City for the purpose of funding contract fire suppression services through Los Angeles County.

The General Capital Improvements Capital Projects Fund is used to account for funds received from the General Fund and other governments for purposes of funding major capital projects.

The Sewer Capital Projects Fund is used to account for funds received from a direct assessment levied by the City for the purpose of funding major sewer projects.

Additionally, the City reports the following fund types:

Nonmajor Governmental Funds – The special revenue funds are used to account for specific revenues that are legally restricted for particular purposes.

Internal Service Funds–The internal service funds are used to account for the financing of equipment and insurance services of the City on a cost reimbursement basis.

Agency Funds - The agency funds are used to account for the resources held by the City in a fiduciary capacity to record special deposits and assessment district repayments.

Note 1: Summary of Significant Accounting Policies (Continued)

d. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash equivalents also represent the proprietary funds' share in the cash and investment pool of the City of Palos Verdes Estates. Cash equivalents have an original maturity date of three months or less from the date of purchase. For purposes of the statement of cash flows, the entire balance of cash and investments on the combined balance sheet for the internal service fund is considered cash and cash equivalents.

e. Investments

For financial reporting purposes, investments are adjusted to their fair value whenever the difference between fair market value and the carrying amount is material.

Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

The City pools cash and investments of all funds, except for assets held by fiscal agents. Each fund's share in this pool is displayed in the accompanying financial statements as *cash and investments*. Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance.

f. Prepaid Items and Inventory

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The inventory is valued at cost using first in/first-out (FIFO) method. Inventory of governmental funds is recorded as expenditures when consumed rather than when purchased.

g. Property Taxes

Property tax revenue is recognized in the fiscal year for which the taxes have been levied providing they become available. Available means due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter (not to exceed 60 days) to be used to pay liabilities of the current period.

Under California law, property taxes are assessed and collected by the counties at up to 1% of assessed value, plus other increases approved by the voters. The property taxes go into a pool, and are then allocated to the cities based on complex formulas. The County of Los Angeles collects property taxes for the City. Tax liens attach annually as of 12:01 a.m. on the first day of January proceeding the fiscal year for which the taxes are levied. Taxes are levied on July 1 and cover the fiscal period July 1 to June 30. All secured personal property taxes and one-half of the taxes on real property are due November 1; the second installment is due February 1.

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Note 1: Summary of Significant Accounting Policies (Continued)

All taxes are delinquent, if unpaid, on December 10 and April 10, respectively. Unsecured personal property taxes become due on March 1 each year, and are delinquent, if unpaid, on August 31. At June 30, 2012, there were no material delinquent, unsecured property taxes. Property taxes receivable are included with due from other Governments on the balance sheet. At June 30, 2012, the total property taxes receivable is \$462,432.

h. Capital Assets

Capital assets, which include all infrastructure assets acquired prior to the implementation of GASB No.34 are reported in the government-wide financial statements. Capital assets are valued at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are valued at their estimated fair value on the date donated.

Depreciation of all exhaustible capital assets used by the governmental activities is charged as an expense against their operations. Accumulated depreciation is reported on the statement of net assets. Depreciation has been provided over the estimated useful lives using the straight-line method over the following estimated useful lives:

Building and improvements, including park improvements	7 to 35 years
Machinery, vehicles and equipment	2 to 18 years
Furniture and fixtures	3 to 13 years
Infrastructure	15 to 100 years

The following represent the minimum threshold in which assets are capitalized:

Buildings and improvements, including park improvements	\$	5,000
Machinery, vehicles and equipment		5,000
Furniture and fixtures		5,000
Infrastructure:		
Sewer:		
Pipes		20,000
Streets:		
Pavement		50,000
Sidewalks		10,000
Storm drains:		
Pipes		50,000
Outlet structures		10,000

i. Compensated Absences

City employees receive from 12 to 20 days vacation each year, depending upon length of service. An employee may not accumulate earned vacation time beyond the year following the year in which it is earned. Upon termination, employees with more than one year of service are paid the full value of their unused vacation time.

Note 1: Summary of Significant Accounting Policies (Continued)

City employees also receive 12 personal necessity/sick leave days each year. An employee may accumulate earned personal necessity/sick leave time until termination. Upon termination, employees are entitled to receive 75% of their unused accumulated personal necessity/sick leave time above 650 hours for safety employees and above 960 hours for miscellaneous employees.

Vested or accumulated compensated absences that are expected to be liquidated currently are reported as expenditures and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated compensated absences that are not expected to be currently liquidated are reported only in the Statement of Net Assets. No expenditure has been reported for these long-term amounts. Compensated absences are reported in governmental funds only if they have matured.

j. Fund Equity

The City Council adopted resolution R11-09 in conformity with Governmental Accounting Auditing Standards Board (GASB) Statement 54. In the fund financial statements, government funds report the following fund balance classifications:

- Nonspendable include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- Restricted include amounts that are constrained on the use of resources by either (a) external creditors, grantors, contributors, or laws or regulations of other governments or (b) by law through constitutional provisions or enabling legislation.
- Committed include amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest authority, City Council. The formal action that is required to be taken to establish, modify or rescind a fund balance commitment is a resolution.
- Assigned include amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The City Manager or Finance Director is authorized to assign amounts to a specific purpose, which was established by the governing body through resolution.
- Unassigned include the residual amounts that have not been restricted, committed, or assigned to specific purposes.

An individual governmental fund could include nonspendable resources and amounts that are restricted or unrestricted (committed, assigned, or unassigned) or any combination of those classifications. Restricted or unrestricted amounts are to be considered spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available and committed, assigned, then unassigned amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Note 1: Summary of Significant Accounting Policies (Continued)

Stabilization Arrangements

A stabilization arrangement has been established through resolution R11-09. The City's general fund balance committed for emergency contingencies is established at \$7.2 million. The specific permitted uses of the committed fund balance are:

- Declaration of a state or federal state of emergency or declaration of a local emergency as provided in the Palos Verdes Estates Municipal Code Section 2.28.060;
- Loss of general fund revenue in the amount of \$500,000 or more either through state action to divert or change general fund allocations or local conditions affecting a major revenue source.

k. Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's prior year financial statements, from which this selected financial data was derived.

l. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

m. Other Post-employment Benefits

The City does not provide post-employment benefit beyond those benefits provided by CalPERS and the City's Special Retirement Income Plan.

Note 2: Stewardship, Compliance and Accountability

a. Budgetary Data:

Budgets are reported on the same basis as the funds and are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the General, Special Revenue and Capital Projects Funds.

Budgets are monitored at varying levels of classification detail. However, expenditures cannot legally exceed total appropriations at the fund level. The City Manager is authorized to transfer amounts within individual fund budgets. Budgetary revisions that alter the total appropriations of a fund must be approved by the City Council. Unexpended budgetary appropriations lapse at year-end. Budgeted amounts, as shown, include the originally adopted budget, reappropriated prior year encumbrances as well as any amendments authorized by the City Council.

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2012

Note 2: Stewardship, Compliance and Accountability (Continued)

b. Excess of expenditures over appropriations in individual funds at the department level are as follows:

For the year ended June 30, 2012, the following General Fund functions had expenditures in excess of the final budget:

<u>Fund</u>	<u>Expenditures</u>	<u>Appropriations</u>	<u>Excess</u>
General Fund:			
Parks and recreation	\$ 1,165,880	\$ 1,141,715	\$ 24,165

c. The following funds contained deficit fund balances or net assets:

There were no funds with deficit fund balance or net assets at June 30, 2012.

Note 3: Cash Investments

Cash investments as of June 30, 2012 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 29,125,710
Fiduciary funds:	
Cash and investments	160,269
Total cash and investments	<u>\$ 29,285,979</u>

Cash and investments as of June 30, 2012 consist of the following:

Cash on hand	\$ 1,500
Deposits with financial institutions	693,002
Investments	28,591,477
Total cash and investment	<u>\$ 29,285,979</u>

Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized for the City by the California Government Code and the City's investment policy. The table also identifies certain provisions of the California Government Code (or the City's investment policy, if more restrictive) that address interest rate risk, and concentration of credit risk.

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2012

Note 3: Cash Investments (Continued)

Investment Types Authorized by State Law	Authorized By Investment Policy	*Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds	No	N/A	N/A	N/A
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	30%	30%
Banker's Acceptances	Yes	180 days	15%	15%
Commercial Paper	Yes	270 days	15%	15%
Negotiable Certificates of Deposit	Yes	N/A	N/A	N/A
Repurchase Agreements	No	N/A	N/A	N/A
Reverse Repurchase Agreements	No	N/A	N/A	N/A
Medium-Term Notes (AA/Aa2)	Yes	3 years	15%	15%
Medium-Term Notes (A-1/A+)	Yes	2 years	15%	15%
Mutual Funds	No	N/A	N/A	N/A
Money Market Mutual Funds	Yes	N/A	10%	10%
Mortgage Pass-Through Securities	No	N/A	N/A	N/A
County Pooled Investment Funds	Yes	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	None	None
JPA Pools (other investment pools)	Yes	N/A	None	None
Guaranteed Investment Contracts (GICs)	Yes	N/A	N/A	N/A

*Based on state law requirements or investment policy requirements, whichever is more restrictive.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates might affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

Investment Type	Total	Remaining Maturity (in months)		
		12 Months Or Less	13 to 24 Months	25 to 60 Months
Federal Home Loan Mortgage Corp.	\$ 2,002,580	\$ -	\$ -	\$ 2,002,580
Federal National Mortgage Association	3,008,510	-	-	3,008,510
Federal Farm Credit Bank LAIF	2,004,240	-	-	2,004,240
	21,576,147	21,576,147	-	-
Total	<u>\$ 28,591,477</u>	<u>\$ 21,576,147</u>	<u>\$ -</u>	<u>\$ 7,015,330</u>

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2012

Note 3: Cash Investments (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment might not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, and the actual rating as of year-end for each investment type.

Investment Type	Total	Minimum Legal Rating	Rating as of Year End	
			AA+	Not Rated
Federal Home Loan Mortgage Corp.	\$ 2,002,580	N/A	\$ 2,002,580	\$ -
Federal National Mortgage Association	3,008,510	N/A	3,008,510	-
Federal Farm Credit Bank	2,004,240	N/A	2,004,240	-
LAIF	21,576,147	N/A	-	21,576,147
Total	\$ 28,591,477		\$ 7,015,330	\$ 21,576,147

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represent 5% or more of the total City's investments are as follows:

Issuer	Amount Invested
Federal Home Loan Mortgage Corporation	\$ 2,002,580
Federal National Mortgage Association	3,008,510
Federal Farm Credit Bank	2,004,240

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to Custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Note 3: Cash Investments (Continued)

A provision of the Dodd-Frank Wall Street Reform and Consumer Protection Act provides temporary unlimited deposit insurance coverage for noninterest-bearing transaction account at all FDIC-insured institutions. This provision was effective from December 31, 2010 and will remain effective until December 31, 2012. Noninterest-bearing transaction accounts is defined as an account (1) with respect to which interest is neither accrued nor paid; (2) on which the depositor or account holder is permitted to make withdrawals by negotiable or transferable instrument, payment orders of withdrawal, telephone or other electronic media transfers, or other similar items for the purpose of making payments or transfers to third parties or others; and (3) on which the FDIC-insured depository institutions does not reserve the right to require advance notice of an intended withdrawal. As of June 30, 2012, the City maintains cash deposits that are temporarily covered by this provision.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. 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). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

GASB Statement No. 31

The City adopted GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as of July 1, 1997. GASB Statement No. 31 establishes fair value standards (e.g. mark to market) for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values. Accordingly, the City reports its investments at fair value in the balance sheet. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement.

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Note 4: Capital Assets

A summary of changes in capital asset activity for the year ended June 30, 2012 is as follows:

	Balance at July 1, 2011	Transfers	Additions	Deletions	Balance at June 30, 2012
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 4,487,892	\$ -	\$ -	\$ -	\$ 4,487,892
Construction in progress	843,032	(843,032)	19,988	-	19,988
Total assets not being depreciated	<u>5,330,924</u>	<u>(843,032)</u>	<u>19,988</u>	<u>-</u>	<u>4,507,880</u>
Capital assets being depreciated:					
Building and improvements	27,296,863	-	196,522	-	27,493,385
Machinery	3,914,358	-	225,925	10,000	4,130,283
Furniture and fixtures	508,831	-	88,119	-	596,950
Vehicles	836,141	-	160,748	92,757	904,132
Infrastructure	68,961,904	843,032	2,100,031	-	71,904,967
Total assets being depreciated	<u>101,518,097</u>	<u>843,032</u>	<u>2,771,345</u>	<u>102,757</u>	<u>105,029,717</u>
Less accumulated depreciation for:					
Buildings and improvements	12,942,051	-	1,728,018	-	14,670,069
Machinery	2,635,810	-	375,754	10,000	3,001,564
Furniture and fixtures	443,485	-	27,521	-	471,006
Vehicles	819,779	-	93,045	92,757	820,067
Infrastructure	35,331,052	-	2,003,607	-	37,334,659
Total accumulated depreciation	<u>52,172,177</u>	<u>-</u>	<u>4,227,945</u>	<u>102,757</u>	<u>56,297,365</u>
Net capital assets being depreciated	<u>49,345,920</u>	<u>843,032</u>	<u>(1,456,600)</u>	<u>-</u>	<u>48,732,352</u>
Total capital assets	<u>\$ 54,676,844</u>	<u>\$ -</u>	<u>\$ (1,436,612)</u>	<u>\$ -</u>	<u>\$ 53,240,232</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 97,878
Public safety	1,851
Public works	2,004,091
Parks and recreation	1,860,106
Internal service funds	264,019
Total depreciation expense-governmental activities	<u>\$ 4,227,945</u>

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Note 5: Interfund Receivables, Payables and Transfers

The following summarizes the total transfers in and out as of June 30, 2012:

	Transfers Out			Total
	General Fund	Special Projects Fund	Other Governmental Funds	
Transfers In				
General Fund	\$ -	\$ -	\$ 26,539	\$ 26,539
General Capital Improvements Fund	1,000,000	61,827	73,461	1,135,288
	<u>\$ 1,000,000</u>	<u>\$ 61,827</u>	<u>\$ 100,000</u>	<u>\$ 1,161,827</u>

The majority of transfers were made from the General Fund to subsidize various capital improvement projects.

Current interfund receivables and payables as of June 30, 2012 are as follows:

	Due To Other Funds
Due From Other Funds:	
General Capital Improvements Fund	<u>\$ 35,288</u>

These receivables represent short-term borrowings to fund capital projects.

Note 6: Long-Term Liabilities

A summary of changes in long-term liabilities for the fiscal year ended June 30, 2012 is as follows:

	Balance at July 1, 2011	Additions	Deletions	Balance at June 30, 2012	Due Within One Year	Due Beyond One Year
Governmental activities:						
Compensated absences	\$ 848,689	\$ 689,822	\$ 819,321	\$ 719,190	\$ 31,028	\$ 688,162
Plan benefits (note 9)	289,878	13,198	-	303,076	-	303,076
Retrospective deposit payable:						
General liability	-	173,018	-	173,018	-	173,018
Workers' compensation	-	2,553	-	2,553	-	2,553
Total	<u>\$ 1,138,567</u>	<u>\$ 878,591</u>	<u>\$ 819,321</u>	<u>\$ 1,197,837</u>	<u>\$ 31,028</u>	<u>\$ 1,166,809</u>

General fund has been used in prior years to liquidate the liability of compensated absences and plan benefits.

Note 6: Long-Term Liabilities (Continued)

CJPIA Retrospective Deposit Liability

Retrospective deposits and refunds are cost allocation adjustments to prior coverage periods. Some claims take many years to resolve and over time their estimated value changes. The retrospective adjustments are calculated annually and take into consideration all the changes in claim values that occurred during the most recent year. The formula is designed to adequately cover the cost of claims brought against members and to ensure the overall financial strength and security of the Authority. The formula was developed to be as equitable as possible by taking into consideration both risk exposure and claims experience of individual members. CJPIA has temporarily deferred the payment on retrospective deposits owed to the Authority by members. The payment deferral period extends until July 1, 2013 for the Liability program and July 1, 2015 for the Workers' Compensation program. Retrospective deposit payments are scheduled to resume on these dates. The October 2011 annual retrospective adjustment is included in these balances.

Optional Payment Plans

When retrospective deposit payments resume as indicated above, members will have the opportunity to select from a variety of optional payment plans. Discounts under the incentive plan are available to members choosing to voluntarily accelerate payment during the deferral period. The City has chosen not to voluntarily accelerate payment at this time.

After the deferral period, members choosing from among the optional payment plans will be subject to a moderate annual fee. The fee is intended to provide a means for the Authority to recover otherwise foregone investment earnings and to serve as a minor disincentive for the selection of longer financing terms.

Retrospective Balances will Change Annually

Retrospective balances will change with each annual computation during the payment deferral period. Member balances may increase or decrease as a result of the most recent year's claim development.

Accordingly, some members who chose to pay off their balance in full may be required to pay additional retrospective deposits in the future based on the outcome of actual claim development reflected in subsequent retrospective deposit computations. Conversely, if claim development is favorable then subsequent retrospective adjustments could potentially result in refunds to the member.

More information on the CJPIA retrospective balances can be found on the CJPIA website at CJPIA.org. At June 30, 2012 the retrospective amount due was \$175,571.

Note 7: Liability, Workers' Compensation, and Purchased Insurance

a. Description of Self-Insurance Pool Pursuant to Joint Powers Agreement

The City of Palos Verdes Estates is a member of the CALIFORNIA JOINT POWERS INSURANCE AUTHORITY (Authority). The Authority is composed of 123 California public entities and is organized under a joint powers agreement pursuant to California Government Code §6500 et seq. The purpose of the Authority is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group purchased insurance for property and other lines of coverage. The California JPIA began covering claims of its members in 1978. Each

Note 7: Liability, Workers' Compensation, and Purchased Insurance (Continued)

member government has an elected official as its representative on the Board of Directors. The Board operates through a nine-member Executive Committee.

b. Self-Insurance Programs of the Authority

Each member pays an annual contribution (formerly called the primary deposit) to cover estimated losses for the coverage period. This initial funding is paid at the beginning of the coverage period. After the close of the coverage period, outstanding claims are valued. A retrospective deposit computation is then conducted annually thereafter until all claims incurred during the coverage period are closed on a pool-wide basis. This subsequent cost re-allocation among members based on actual claim development can result in adjustments of either refunds or additional deposits required.

The total funding requirement for self-insurance programs is estimated using actuarial models and pre-funded through the annual contribution. Costs are allocated to individual agencies based on exposure (payroll) and experience (claims) relative to other members of the risk-sharing pool. Additional information regarding the cost allocation methodology is provided below.

Liability

In the liability program claims are pooled separately between police and non-police exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to \$30,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from \$30,000 to \$750,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs in excess of \$750,000 up to the reinsurance attachment point of \$5 million are distributed based on the outcome of cost allocation within the first and second loss layers. (5) Costs of covered claims from \$5 million to \$10 million are paid under a reinsurance contract subject to a \$2.5 million annual aggregate deductible. Costs of covered claims from \$10 million to \$15 million are paid under two reinsurance contracts subject to a combined \$3 million annual aggregate deductible. On a cumulative basis for all 2011-12 reinsurance contracts the annual aggregate deductible is \$5.5 million. (6) Costs of covered claims from \$15 million up to \$50 million are covered through excess insurance policies.

The overall coverage limit for each member including all layers of coverage is \$50 million per occurrence.

Costs of covered claims for subsidence losses are paid by reinsurance and excess insurance with a pooled sub-limit of \$35 million per occurrence. This \$35 million subsidence sub-limit is composed of (a) \$5 million retained within the pool's SIR, (b) \$10 million in reinsurance and (c) \$20 million in excess insurance. The excess insurance layer has a \$20 million annual aggregate.

Workers' Compensation

In the workers' compensation program claims are pooled separately between public safety (police and fire) and non-public safety exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined

Note 7: Liability, Workers' Compensation, and Purchased Insurance (Continued)

for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to \$50,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from \$50,000 to \$100,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs in excess of \$100,000 up to the reinsurance attachment point of \$2 million are distributed based on the outcome of cost allocation within the first and second loss layers. (5) Costs of covered claims from \$2 million up to statutory limits are paid under a reinsurance policy. Protection is provided per statutory liability under California Workers' Compensation Law.

Employer's Liability losses are pooled among members to \$2 million. Coverage from \$2 million to \$5 million is purchased as part of a reinsurance policy, and Employer's Liability losses from \$5 million to \$10 million are pooled among members.

c. Purchased Insurance

Pollution Legal Liability Insurance

The City of Palos Verdes Estates participates in the pollution legal liability insurance program (formerly called environmental insurance) which is available through the Authority. The policy covers sudden and gradual pollution of scheduled property, streets, and storm drains owned by the City of Palos Verdes Estates. Coverage is on a claims-made basis. There is a \$50,000 deductible. The Authority has a limit of \$50 million for the 3-year period from July 1, 2011 through July 1, 2014. Each member of the Authority has a \$10 million sub-limit during the 3-year term of the policy.

Property Insurance

The City of Palos Verdes Estates participates in the all-risk property protection program of the Authority. This insurance protection is underwritten by several insurance companies. City of Palos Verdes Estates property is currently insured according to a schedule of covered property submitted by the City of Palos Verdes Estates to the Authority. City of Palos Verdes Estates property currently has all-risk property insurance protection in the amount of \$43,655,831. There is a \$5,000 deductible per occurrence except for non-emergency vehicle insurance which has a \$1,000 deductible. Premiums for the coverage are paid annually and are not subject to retrospective adjustments.

Crime Insurance

The City of Palos Verdes Estates purchases crime insurance coverage in the amount of \$1,000,000 with a \$2,500 deductible. The fidelity coverage is provided through the Authority. Premiums are paid annually and are not subject to retrospective adjustments.

d. Adequacy of Protection

During the past three fiscal years, none of the above programs of protection experienced settlements or judgments that exceeded pooled or insured coverage. There were also no significant reductions in pooled or insured liability coverage in 2011-12.

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Note 8: Defined Benefits Pension Plan

California Public Employees' Retirement Plan (PERS)

City Miscellaneous Plan

Plan Description

The City of Palos Verdes Estates contributes to the California Public Employees Retirement System (PERS), a cost sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. PERS 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 PERS' annual financial report may be obtained from their Executive Office located at 400 P Street, Sacramento, California 95814.

Funding Policy

Active members are required by State statute to contribute 7% of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City's employer required annual contribution rate was 3.937% for miscellaneous employees for the fiscal year. The contribution requirements of the plan members and the City are established and may be amended by PERS.

Contributions

For the year ended June 30, 2012, the City's contribution of \$64,857 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2009, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) project salary increases range from 3.55% to 14.45% for miscellaneous employees depending on age, service, and type of employment. This includes an inflation component of 3%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three year period. PERS unfunded actuarial accrued liability (or surplus) is being amortized as a level percentage of projected payroll on a closed basis over fourteen years.

THREE-YEAR TREND INFORMATION FOR PERS – Miscellaneous Plan

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
6/30/2010	\$ 34,443	100%
6/30/2011	45,004	100%
6/30/2012	64,857	100%

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Note 8: Defined Benefits Pension Plan (Continued)

The City's miscellaneous plan became part of a CalPERS Risk Pool for employers with less than 100 active plan members. As part of a cost-sharing multiple-employer defined benefit plan, disclosure of the schedule of funding progress is not required.

Public Safety Plan

Plan Description

The City of Palos Verdes Estates contributes to the California Public Employees Retirement System (PERS), a cost sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. PERS 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 PERS' annual financial report may be obtained from their Executive Office located at 400 P Street, Sacramento, California 95814.

Funding Policy

Active members are required by State statute to contribute 9% of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City's employer required annual contribution rate was 30.545% for safety employees for the fiscal year. The contribution requirements of the plan members and the City are established and may be amended by PERS.

Contributions

For the year ended June 30, 2012, the City's contribution of \$624,391 was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2009, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) project salary increases range from 3.55% to 14.45% for safety employees depending on age, service, and type of employment. This includes an inflation component of 3%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three year period. PERS unfunded actuarial accrued liability (or surplus) is being amortized as a level percentage of projected payroll on a closed basis over fourteen years.

THREE-YEAR TREND INFORMATION FOR PERS – Public Safety Plan

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
6/30/2010	\$ 490,901	100%
6/30/2011	506,855	100%
6/30/2012	624,391	100%

CITY OF PALOS VERDES ESTATES

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

Note 8: Defined Benefits Pension Plan (Continued)

The City's public safety plan became part of a CalPERS Risk Pool for employers with less than 100 active plan members. As part of a cost-sharing multiple-employer defined benefit plan, disclosure of the schedule of funding progress is not required.

Note 9: Special Retirement Income Plan

Description of Plan

The City provides a Special Retirement Income Plan, a single employer defined benefit plan which covers eligible City employees. The plan was established and is administered by the City to provide a fixed monthly cash payment (\$275 per month for general, management and police employees) to qualifying retirees until they reach the age of 65 as required under various memoranda of understanding ("MOU") with the City's employee groups.

The following summarizes the primary characteristics of the benefit:

	<u>General Employees</u>	<u>Management</u>	<u>Police</u>
Benefit types provided	Retirement Income	Retirement Income	Retirement Income
Duration of Benefits	Until Medicare Eligible	Until Medicare Eligible	Until Medicare Eligible
Required Service	20 years	20 years	20 years
Minimum Age	50	50	50
Dependent Coverage	No	No	No
City Contribution %	100%	100%	100%
Benefit Amount	\$275 per month	\$275 per month	\$275 per month

The plan is included in the City's comprehensive annual financial report. A separate report is not available. The comprehensive annual financial report is available at the following address:

City of Palos Verdes Estates
340 Palos Verdes Drive West
Palos Verdes Estates, CA 90274

Funding Policy and Contribution Rates

The funding policy provides for employer contributions on a pay-as-you-go basis. Retirement income benefits cannot be increased unless new MOU are entered into. Plan assets have not been accumulated in a separately established trust fund.

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Note 9: Special Retirement Income Plan (Continued)

Annual Plan Cost and Net Plan Obligation

The City's annual plan cost and net plan obligation for the current year are as follows:

Annual required contribution	\$ 36,071
Interest on net plan obligation	5,798
Adjustment to annual required contribution	<u>(13,621)</u>
Annual plan cost	28,248
Contributions/benefits paid	<u>15,050</u>
Increase (decrease) in net plan obligation	13,198
Net plan obligation beginning of year	<u>289,878</u>
Net plan obligation end of year	<u><u>\$ 303,076</u></u>

The plan uses the "entry age normal" actuarial cost method to determine funding rates for active employees. It uses the normal cost method to amortize the unfunded liability over a period of 30 years at 5% interest. (Thirty years is the longest amortization period allowable under GASB 25 and 27).

The required contributions for the plan were determined as part of the July 1, 2010 actuarial valuation. The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about mortality, termination rates, vesting rates, retirement rates and discount rate. Projections of benefits for financial reporting purposes are based on the MOU, (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits does not explicitly incorporate the potential effects of legal or contractual funding limitations. The actuarial methods and assumptions used are designed to reduce short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations. Amounts determined for the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The significant actuarial assumptions used in the valuation of the plan are as follows:

1. Investment return of 5% per annum.
2. Average hire age for eligible employees is 30.
3. Average retirement age is 57.
4. Inflation rate of 3% per annum.

Assumptions regarding projected salary increases and benefit increases are not applicable because this benefit is a fixed monthly benefit with no anticipated increase in the amount of the monthly payment amount.

Actuarial Cost Method: Entry age normal. The allocation of retirement income cost is based on years of service. We used the level dollar method to allocate retirement income costs over years of service.

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2012

Note 9: Special Retirement Income Plan (Continued).

Entry age is based on the average age at hire for eligible employees. The attribution period is determined as the difference between the average retirement age and the average age at hire. The present value of future benefits and present value of future normal costs are determined on an employee-by-employee basis and then aggregated.

To the extent that different benefit formulas apply to different employees of the same class, the normal cost is based on the benefit plan applicable to the most recently hired employees (including future hires if a new benefit formula has been agreed to and communicated to employees).

Amortization Methods: We used the level dollar method to allocate amortization cost by year. We used a 30-year open amortization period.

Actuarial Accrued Liability as of July 1, 2010:

	Total	General Employees	Management	Police
Active: Pre-65	\$ 240,331	\$ 37,370	\$ 73,472	\$ 129,489
Post-65	-	-	-	-
Subtotal	240,331	37,370	73,472	129,489
Retiree: Pre-65	102,859	-	-	102,859
Post-65	-	-	-	-
Subtotal	102,859	-	-	102,859
Subtotal Pre-65	343,190	37,370	73,472	232,348
Subtotal Post-65	-	-	-	-
Grand Total	343,190	37,370	73,472	232,348
Funded at July 1, 2010	-	-	-	-
Unfunded AAL	\$ 343,190	\$ 37,370	\$ 73,472	\$ 232,348
1st Year UAAL Amortization at 5.0% over 30 years	\$ 22,325	\$ 2,431	\$ 4,779	\$ 15,115

Trend information is as follows:

Year ended June 30,	Annual Plan Cost (APC)	Contributions/ Benefits Paid	% of APC Contributed	Net Plan Obligation
2010	\$ 32,756	\$ 13,675	42%	\$ 273,148
2011	29,030	12,300	34%	289,878
2012	28,248	15,050	53%	303,076

CITY OF PALOS VERDES ESTATES

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

Note 9: Special Retirement Income Plan (Continued)

Funded Status

A schedule of funding progress as of the most recent actuarial valuation is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Liability as % of covered Payroll
7/1/2008	\$ -	\$ 314,187	\$ 314,187	\$ -	\$ 3,439,138	9.14%
7/1/2010	-	343,190	343,190	-	3,721,290	9.22%

Note 10: Net Asset Restatement

The City previously reported a pension asset for the funding of its PERS actuarially determined liability at transition to a cost-sharing plan. The City now reports the actuarially determined liability as pension-related debt defined by GASB 27 and have restated net assets by \$2,449,012 to remove the pension asset.

Note 11: Related Party Transaction

The City owns several Bluff Cove properties. Of the City-owned homes, four are currently vacant. Three of the homes are currently occupied by the City Manager, Police Captain and Public Works Director. The City Manager and the Public Works Director (contract employee) are required to remit \$25,000 a year to occupy the homes based on the terms of a license agreement. The Police Captain is responsible for maintenance on the property and for major landscape maintenance of \$400 per month based on the terms of a license agreement. If less is spent, the difference shall be paid to the City.

Note 12: Contingencies

There are several pending lawsuits in which the City is involved. Legal counsel estimates that the potential claims against the City not covered by insurance resulting from such litigation would not materially affect the basic financial statements of the City.

Note 13: Construction Commitments

The City has an active construction project as of June 30, 2012 relating to the Rocky Point Road Sewage Pump Station Project. At fiscal year-end, the City's encumbrances with the contractor were as follows:

Spent-to-date	Remaining Commitment
\$ 19,989	\$ 1,469,902

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Note 14: Subsequent Event

On May 1, 2012, a Four-Party Memorandum of Understanding among the City, the Palos Verdes Peninsula Unified School District (PVUSD), the Palos Verdes Homes Association, and the property owners of 900 Via Panorama was approved which enforces the deed restrictions on property owned by PVPUSD in the City; resolves certain encroachments in City parkland near 900 Via Panorama; and provides for the preservation of certain open space properties (Lots C & D) and of dark skies in the neighborhood around Palos Verdes High School. The MOU creates binding obligations for each of the parties and accomplishes disparate goals of the parties.

The City's goals of this MOU are to preserve the City's open space, including Lots C & D; to prevent light at the athletic field at Palos Verdes High School in order to promote dark skies, conservation and neighborhood compatibility; to resolve the parkland encroachments at 900 Via Panorama in a matter that maintains the open space and relieves the City of any liability or responsibility for the existing retaining walls; and to support the overall community benefits of the enforceability of the deed restrictions and funding for the School District.

The School District has determined that it cannot make effective use of Lots C & D for their restrictive purposes (public schools, parks, playgrounds, or recreation areas). The School Board has decided to pursue residential development of the property and initiate litigation against the Homes Association and the City. The proceeds from the sale would have created an opportunity to divert other funds to operations. A PVE property owner expressed interest in assisting the School District in meeting its financial goal without affecting the City's zoning or the challenging deed restrictions. To that end, by separate donation agreement, the PVE property owners will contribute \$1.5 million to the School District.

Under the MOU, Lots C & D (now currently owned by the District) would revert back to the Homes Association and Lots C & D would be transferred to the City. The transaction was recorded on September 5, 2012.

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds are used to account for specific revenues that are legally restricted for particular purposes. The City uses the following Nonmajor Special Revenue Funds:

Gas Tax - to account for state and county gas taxes, which funds may be used for street maintenance, right-of-way acquisition and street construction.

Drug Intervention Fund - to account for funds received from the L.A. IMPACT, an association of local governmental agencies, related to drug enforcement activities. The funds are earmarked for the City's drug intervention programs.

CLEEP – to account for funds received from the State of California for law enforcement technology equipment.

SLESF – to account for COPS funds received from the State of California.

Corrections – to account for funds receive from the State Department of Corrections.

Proposition A – to account for the City's share of funds collected and distributed by the County of Los Angeles under Proposition A to finance transit projects within the City.

Measure R – to account for the City's share of funds collected and distributed by the County of Los Angeles under Measure R for transportation purposes within the City.

Proposition C – to account for the City's share of funds collected and distributed by the County of Los Angeles under Proposition C to finance transit projects within the City.

CITY OF PALOS VERDES ESTATES

COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2012

	Special Revenue Funds				
	Gas Tax	Drug Intervention	CLEEP	SLESF	Corrections
Assets:					
Cash and investments	\$ 127,515	\$ 74,620	\$ -	\$ 99,789	\$ 4,606
Interest receivable	71	50	-	67	-
Prepaid items	2,566	-	-	-	-
Due from other governments	41,353	-	-	-	-
Total Assets	\$ 171,505	\$ 74,670	\$ -	\$ 99,856	\$ 4,606
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable	\$ 7,110	\$ -	\$ -	\$ -	\$ 80
Accrued salaries and benefits	5,755	-	-	-	-
Total Liabilities	12,865	-	-	-	80
Fund Balances:					
Nonspendable:					
Prepaid costs	2,566	-	-	-	-
Restricted for:					
Public safety	-	74,670	-	99,856	4,526
Public works	156,074	-	-	-	-
Total Fund Balances	158,640	74,670	-	99,856	4,526
Total Liabilities and Fund Balances	\$ 171,505	\$ 74,670	\$ -	\$ 99,856	\$ 4,606

CITY OF PALOS VERDES ESTATES

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012

	Special Revenue Funds			Total Governmental Funds
	Proposition A	Measure R	Proposition C	
Assets:				
Cash and investments	\$ 402,916	\$ 224,547	\$ 167,377	\$ 1,101,370
Interest receivable	257	144	101	690
Prepaid items	-	-	-	2,566
Due from other governments	-	12,490	-	53,843
Total Assets	\$ 403,173	\$ 237,181	\$ 167,478	\$ 1,158,469
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ 7,190
Accrued salaries and benefits	-	-	-	5,755
Total Liabilities	-	-	-	12,945
Fund Balances:				
Nonspendable:				
Prepaid costs	-	-	-	2,566
Restricted for:				
Public safety	-	-	-	179,052
Public works	403,173	237,181	167,478	963,906
Total Fund Balances	403,173	237,181	167,478	1,145,524
Total Liabilities and Fund Balances	\$ 403,173	\$ 237,181	\$ 167,478	\$ 1,158,469

CITY OF PALOS VERDES ESTATES

**COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012**

	Special Revenue Funds				
	Gas Tax	Drug Intervention	CLEEP	SLESF	Corrections
Revenues:					
Revenues from other agencies	\$ 398,158	\$ 12,624	\$ -	\$ 100,000	\$ 6,304
Use of money and property	524	607	4	450	-
Total Revenues	398,682	13,231	4	100,450	6,304
Expenditures:					
Current:					
General government	-	-	-	-	-
Public safety	-	-	621	30,833	4,168
Public works	347,242	-	-	-	-
Total Expenditures	347,242	-	621	30,833	4,168
Excess (Deficiency) of Revenues Over (Under) Expenditures	51,440	13,231	(617)	69,617	2,136
Other Financing Sources (Uses):					
Transfers out	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-	-
Net Change in Fund Balances	51,440	13,231	(617)	69,617	2,136
Fund Balances, Beginning of Year	107,200	61,439	617	30,239	2,390
Fund Balances, End of Year	\$ 158,640	\$ 74,670	\$ -	\$ 99,856	\$ 4,526

CITY OF PALOS VERDES ESTATES

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012

	Special Revenue Funds			Total Governmental Funds
	Proposition A	Measure R	Proposition C	
Revenues:				
Revenues from other agencies	\$ 205,824	\$ 127,216	\$ 171,155	\$ 1,021,281
Use of money and property	2,710	1,456	613	6,364
Total Revenues	208,534	128,672	171,768	1,027,645
Expenditures:				
Current:				
General government	5,309	-	-	5,309
Public safety	-	-	-	35,622
Public works	290,275	-	90,275	727,792
Total Expenditures	295,584	-	90,275	768,723
Excess (Deficiency) of Revenues Over (Under) Expenditures	(87,050)	128,672	81,493	258,922
Other Financing Sources (Uses):				
Transfers out	-	(100,000)	-	(100,000)
Total Other Financing Sources (Uses)	-	(100,000)	-	(100,000)
Net Change in Fund Balances	(87,050)	28,672	81,493	158,922
Fund Balances, Beginning of Year	490,223	208,509	85,985	986,602
Fund Balances, End of Year	\$ 403,173	\$ 237,181	\$ 167,478	\$ 1,145,524

CITY OF PALOS VERDES ESTATES

BUDGETARY COMPARISON SCHEDULE

GAS TAX

YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 107,200	\$ 107,200	\$ 107,200	\$ -
Resources (Inflows):				
Revenues from other agencies	369,000	369,000	398,158	29,158
Use of money and property	2,000	2,000	524	(1,476)
Amounts Available for Appropriation	478,200	478,200	505,882	27,682
Charges to Appropriation (Outflow):				
Public works	371,590	371,590	347,242	24,348
Total Charges to Appropriations	371,590	371,590	347,242	24,348
Budgetary Fund Balance, June 30	\$ 106,610	\$ 106,610	\$ 158,640	\$ 52,030

CITY OF PALOS VERDES ESTATES

BUDGETARY COMPARISON SCHEDULE
 DRUG INTERVENTION
 YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 61,439	\$ 61,439	\$ 61,439	\$ -
Resources (Inflows):				
Revenues from other agencies	10,000	10,000	12,624	2,624
Use of money and property	1,000	1,000	607	(393)
Amounts Available for Appropriation	72,439	72,439	74,670	2,231
Budgetary Fund Balance, June 30	\$ 72,439	\$ 72,439	\$ 74,670	\$ 2,231

CITY OF PALOS VERDES ESTATES

BUDGETARY COMPARISON SCHEDULE
 CLEEP
 YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 617	\$ 617	\$ 617	\$ -
Resources (Inflows):				
Use of money and property	-	-	4	4
Amounts Available for Appropriation	617	617	621	4
Charges to Appropriation (Outflow):				
Public safety	-	625	621	4
Total Charges to Appropriations	-	625	621	4
Budgetary Fund Balance, June 30	\$ 617	\$ (8)	\$ -	\$ 8

CITY OF PALOS VERDES ESTATES

BUDGETARY COMPARISON SCHEDULE
 SLESF
 YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 30,239	\$ 30,239	\$ 30,239	\$ -
Resources (Inflows):				
Revenues from other agencies	-	-	100,000	100,000
Use of money and property	-	-	450	450
Amounts Available for Appropriation	30,239	30,239	130,689	100,450
Charges to Appropriation (Outflow):				
Public safety	-	31,739	30,833	906
Total Charges to Appropriations	-	31,739	30,833	906
Budgetary Fund Balance, June 30	\$ 30,239	\$ (1,500)	\$ 99,856	\$ 101,356

CITY OF PALOS VERDES ESTATES

BUDGETARY COMPARISON SCHEDULE
CORRECTIONS
YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 2,390	\$ 2,390	\$ 2,390	\$ -
Resources (Inflows):				
Revenues from other agencies	3,500	6,500	6,304	(196)
Amounts Available for Appropriation	5,890	8,890	8,694	(196)
Charges to Appropriation (Outflow):				
Public safety	3,605	4,605	4,168	437
Total Charges to Appropriations	3,605	4,605	4,168	437
Budgetary Fund Balance, June 30	\$ 2,285	\$ 4,285	\$ 4,526	\$ 241

CITY OF PALOS VERDES ESTATES

BUDGETARY COMPARISON SCHEDULE
 PROPOSITION A
 YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 490,223	\$ 490,223	\$ 490,223	\$ -
Resources (Inflows):				
Revenues from other agencies	189,000	189,000	205,824	16,824
Use of money and property	3,000	3,000	2,710	(290)
Amounts Available for Appropriation	682,223	682,223	698,757	16,534
Charges to Appropriation (Outflow):				
General government	5,309	5,309	5,309	-
Public works	200,000	290,275	290,275	-
Total Charges to Appropriations	205,309	295,584	295,584	-
Budgetary Fund Balance, June 30	\$ 476,914	\$ 386,639	\$ 403,173	\$ 16,534

CITY OF PALOS VERDES ESTATES

BUDGETARY COMPARISON SCHEDULE
 MEASURE R
 YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 208,509	\$ 208,509	\$ 208,509	\$ -
Resources (Inflows):				
Revenues from other agencies	123,650	123,650	127,216	3,566
Use of money and property	1,000	1,000	1,456	456
Amounts Available for Appropriation	333,159	333,159	337,181	4,022
Charges to Appropriation (Outflow):				
Transfers out	-	100,000	100,000	-
Total Charges to Appropriations	-	100,000	100,000	-
Budgetary Fund Balance, June 30	\$ 333,159	\$ 233,159	\$ 237,181	\$ 4,022

CITY OF PALOS VERDES ESTATES

BUDGETARY COMPARISON SCHEDULE
 PROPOSITION C
 YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 85,985	\$ 85,985	\$ 85,985	\$ -
Resources (Inflows):				
Revenues from other agencies	157,000	157,000	171,155	14,155
Use of money and property	1,000	1,000	613	(387)
Amounts Available for Appropriation	243,985	243,985	257,753	13,768
Charges to Appropriation (Outflow):				
Public works	180,550	180,550	90,275	90,275
Total Charges to Appropriations	180,550	180,550	90,275	90,275
Budgetary Fund Balance, June 30	\$ 63,435	\$ 63,435	\$ 167,478	\$ 104,043

CITY OF PALOS VERDES ESTATES

BUDGETARY COMPARISON SCHEDULE
 GENERAL CAPITAL IMPROVEMENTS
 YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 10,044,564	\$ 10,044,564	\$ 10,044,564	\$ -
Resources (Inflows):				
Revenue from other agencies	-	-	8,488	8,488
Use of money and property	50,000	50,000	65,358	15,358
Transfers in	-	1,135,288	1,135,288	-
Amounts Available for Appropriation	10,094,564	11,229,852	11,253,698	23,846
Charges to Appropriation (Outflow):				
Public works	1,376,000	1,731,740	1,642,527	89,213
Total Charges to Appropriations	1,376,000	1,731,740	1,642,527	89,213
Budgetary Fund Balance, June 30	\$ 8,718,564	\$ 9,498,112	\$ 9,611,171	\$ 113,059

CITY OF PALOS VERDES ESTATES

BUDGETARY COMPARISON SCHEDULE
SEWER
YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 6,283,193	\$ 6,283,193	\$ 6,283,193	\$ -
Resources (Inflows):				
Special assessments	1,000,000	1,000,000	1,045,663	45,663
Use of money and property	30,000	30,000	32,252	2,252
Amounts Available for Appropriation	7,313,193	7,313,193	7,361,108	47,915
Charges to Appropriation (Outflow):				
Public works	2,960,000	2,960,000	1,258,824	1,701,176
Total Charges to Appropriations	2,960,000	2,960,000	1,258,824	1,701,176
Budgetary Fund Balance, June 30	\$ 4,353,193	\$ 4,353,193	\$ 6,102,284	\$ 1,749,091

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INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing of equipment and services of the City on a cost-reimbursement basis. The City uses the following Internal Service Funds:

Equipment Replacement – to account for the purchase and maintenance of vehicular equipment on behalf of all City departments.

Insurance – to account for the City's insurance activities.

CITY OF PALOS VERDES ESTATES

COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
JUNE 30, 2012

	<u>Governmental Activities - Internal Service Funds</u>		
	<u>Equipment Replacement</u>	<u>Insurance</u>	<u>Totals</u>
Assets:			
Current assets:			
Cash and investments	\$ 2,535,233	\$ 184,023	\$ 2,719,256
Interest receivable	3,865	325	4,190
Prepaid items	-	503,795	503,795
Total current assets	2,539,098	688,143	3,227,241
Capital assets			
Machinery and equipment	2,961,562	-	2,961,562
Furniture and fixtures	235,662	-	235,662
Vehicles	904,134	-	904,134
Less accumulated depreciation	(3,498,551)	-	(3,498,551)
Net capital assets	602,807	-	602,807
Total assets	\$ 3,141,905	\$ 688,143	\$ 3,830,048
Liabilities:			
Current liabilities:			
Accounts payable	\$ 1,004	\$ -	\$ 1,004
Total current liabilities	1,004	-	1,004
Total liabilities	1,004	-	1,004
Net assets:			
Invested in capital assets, net of related debt	602,807	-	602,807
Unrestricted	2,538,094	688,143	3,226,237
Total net assets	3,140,901	688,143	3,829,044
Total liabilities and net assets	\$ 3,141,905	\$ 688,143	\$ 3,830,048

CITY OF PALOS VERDES ESTATES

**COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2012**

	Governmental Activities - Internal Service Funds		
	Equipment Replacement	Insurance	Totals
Operating revenues:			
Charges for services	\$ 364,210	\$ 380,000	\$ 744,210
Other	5,000	-	5,000
Total Operating Revenues	369,210	380,000	749,210
Operating Expenses:			
Materials and supplies	14,411	-	14,411
General liability insurance	-	335,798	335,798
Property and vehicle insurance	-	17,386	17,386
Depreciation	264,019	-	264,019
Total Operating Expenses	278,430	353,184	631,614
Operating Income (Loss)	90,780	26,816	117,596
Nonoperating revenues (expenses):			
Interest revenue	16,572	3,062	19,634
Capital contributions from other funds	30,561	-	30,561
Gain (loss) on disposal of capital assets	10,658	-	10,658
Total Nonoperating Revenues (Expenses)	57,791	3,062	60,853
Net income before transfers	148,571	29,878	178,449
Change in net assets	148,571	29,878	178,449
Net Assets:			
Beginning of Year	2,992,330	658,265	3,650,595
End of Fiscal Year	\$ 3,140,901	\$ 688,143	\$ 3,829,044

CITY OF PALOS VERDES ESTATES

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2012

	Governmental Activities - Internal Service Funds		
	Equipment Replacement	Insurance	Totals
Cash Flows from Operating Activities:			
Cash received from user departments	\$ 369,216	\$ 380,000	\$ 749,216
Cash paid to suppliers for goods and services	(61,922)	(418,835)	(480,757)
Net Cash Provided (Used) by Operating Activities	307,294	(38,835)	268,459
Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of capital assets	(227,492)	-	(227,492)
Proceeds from sales of capital assets	10,658	-	10,658
Net Cash Provided (Used) by Capital and Related Financing Activities	(216,834)	-	(216,834)
Cash Flows from Investing Activities:			
Interest received	18,583	3,059	21,642
Net Cash Provided (Used) by Investing Activities	18,583	3,059	21,642
Net Increase (Decrease) in Cash and Cash Equivalents	109,043	(35,776)	73,267
Cash and Cash Equivalents at Beginning of Year	2,426,190	219,799	2,645,989
Cash and Cash Equivalents at End of Year	\$ 2,535,233	\$ 184,023	\$ 2,719,256
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$ 90,780	\$ 26,816	\$ 117,596
Adjustments to reconcile operating income (loss) net cash provided (used) by operating activities:			
Depreciation	264,019	-	264,019
(Increase) decrease in accounts receivable	6	-	6
(Increase) decrease in prepaid expense	-	(65,651)	(65,651)
Increase (decrease) in accounts payable	(47,511)	-	(47,511)
Total Adjustments	216,514	(65,651)	150,863
Net Cash Provided (Used) by Operating Activities	\$ 307,294	\$ (38,835)	\$ 268,459
Non-Cash Capital Activity:			
Equipment acquisitions funded by governmental funds	\$ 30,561	\$ -	\$ 30,561

AGENCY FUNDS

Agency Funds are used to account for assets held by the government as an agent for individuals, other governments and/or other funds. The City uses the following Agency Funds:

Special Deposits Fund – to account for monies held by the City for various special deposits.

Police Property/Evidence Fund – to account for monies seized mostly from drug sales and from unclaimed property held by the City.

CITY OF PALOS VERDES ESTATES

COMBINING BALANCE SHEET
 ALL AGENCY FUNDS
 JUNE 30, 2012

	<u>Special Deposits</u>	<u>Police Property Evidence</u>	<u>Totals</u>
Assets:			
Cash and investments	\$ 148,005	\$ 12,264	\$ 160,269
Pooled cash and investments			
Accrued interest	98	7	105
Total Assets	<u>\$ 148,103</u>	<u>\$ 12,271</u>	<u>\$ 160,374</u>
Liabilities:			
Accounts payable	\$ 295	\$ -	\$ 295
Deposit	147,808	12,271	160,079
Total Liabilities	<u>\$ 148,103</u>	<u>\$ 12,271</u>	<u>\$ 160,374</u>

CITY OF PALOS VERDES ESTATES

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 ALL AGENCY FUNDS
 YEAR ENDED JUNE 30, 2012

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2012</u>
<u>Special Deposits</u>				
Assets:				
Cash and investments	\$ 145,093	\$ 7,512	\$ 4,600	\$ 148,005
Receivables:				
Accrued interest	-	98	-	98
Total Assets	<u>\$ 145,093</u>	<u>\$ 7,610</u>	<u>\$ 4,600</u>	<u>\$ 148,103</u>
Liabilities:				
Accounts payable	\$ -	\$ 295	\$ -	\$ 295
Deposits	145,093	7,610	4,895	147,808
Total Liabilities	<u>\$ 145,093</u>	<u>\$ 7,905</u>	<u>\$ 4,895</u>	<u>\$ 148,103</u>
<u>Police Property Evidence</u>				
Assets:				
Cash and investments	\$ 10,998	\$ 1,266	\$ -	\$ 12,264
Receivables:				
Accrued interest	-	7	-	7
Total Assets	<u>\$ 10,998</u>	<u>\$ 1,273</u>	<u>\$ -</u>	<u>\$ 12,271</u>
Liabilities:				
Deposits	\$ 10,998	\$ 1,273	\$ -	\$ 12,271
Total Liabilities	<u>\$ 10,998</u>	<u>\$ 1,273</u>	<u>\$ -</u>	<u>\$ 12,271</u>
<u>Totals - All Agency Funds</u>				
Assets:				
Cash and investments	\$ 156,091	\$ 8,778	\$ 4,600	\$ 160,269
Receivables:				
Accrued interest	-	105	-	105
Total Assets	<u>\$ 156,091</u>	<u>\$ 8,883</u>	<u>\$ 4,600</u>	<u>\$ 160,374</u>
Liabilities:				
Accounts payable	\$ -	\$ 295	\$ -	\$ 295
Deposits	156,091	8,883	4,895	160,079
Total Liabilities	<u>\$ 156,091</u>	<u>\$ 9,178</u>	<u>\$ 4,895</u>	<u>\$ 160,374</u>

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STATISTICAL SECTION

This part of the City of Palos Verdes Estates' comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Contents	Page
Financial Trends	
These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.	78-81
Revenue Capacity	
These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.	82-90
Debt Capacity	
These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's financial activities take place.	91-92
Demographic and Economic Information	
These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.	93-94
Operating Information	
These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.	95-97

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

CITY OF PALOS VERDES ESTATES
Net Assets by Component
Last Ten Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities										
Invested in capital assets, net of related debt	\$ 47,896	\$ 47,431	\$ 50,376	\$ 55,508	\$ 61,847	\$ 60,831	\$ 59,719	\$ 56,687	\$ 54,677	\$ 53,240
Restricted	2,912	2,067	1,959	1,979	1,593	1,324	1,720	2,050	8,254	8,461
Unrestricted	<u>22,335</u>	<u>23,898</u>	<u>23,315</u>	<u>23,794</u>	<u>24,773</u>	<u>26,189</u>	<u>27,067</u>	<u>28,931</u>	<u>23,738</u>	<u>20,531</u>
Total governmental activities net assets	<u>\$ 73,143</u>	<u>\$ 73,396</u>	<u>\$ 75,650</u>	<u>\$ 81,281</u>	<u>\$ 88,213</u>	<u>\$ 88,344</u>	<u>\$ 88,506</u>	<u>\$ 87,668</u>	<u>\$ 86,669</u>	<u>\$ 82,232</u>
Primary government										
Invested in capital assets, net of related debt	\$ 47,896	\$ 47,431	\$ 50,376	\$ 55,508	\$ 61,847	\$ 60,831	\$ 59,719	\$ 56,687	\$ 54,677	\$ 53,240
Restricted	2,912	2,067	1,959	1,979	1,593	1,324	1,720	2,050	8,254	8,461
Unrestricted	<u>22,335</u>	<u>23,898</u>	<u>23,315</u>	<u>23,794</u>	<u>24,773</u>	<u>26,189</u>	<u>27,067</u>	<u>28,931</u>	<u>23,738</u>	<u>20,531</u>
Total primary government net asset	<u>\$ 73,143</u>	<u>\$ 73,396</u>	<u>\$ 75,650</u>	<u>\$ 81,281</u>	<u>\$ 88,213</u>	<u>\$ 88,344</u>	<u>\$ 88,506</u>	<u>\$ 87,668</u>	<u>\$ 86,669</u>	<u>\$ 82,232</u>

Note: The City of Palos Verdes Estates implemented GASB 34 for the fiscal year ended June 30, 2003.

CITY OF PALOS VERDES ESTATES
Changes in Net Assets
Last Ten Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses:										
Governmental activities:										
General government	\$ 1,619	\$ 1,485	\$ 1,361	\$ 1,385	\$ 1,458	\$ 1,504	\$ 1,693	\$ 1,592	\$ 1,699	\$ 1,573
Public safety	6,499	7,182	7,488	8,284	8,443	8,899	9,554	9,536	9,770	10,281
Public works	3,717	4,511	3,199	4,846	5,851	4,588	4,327	4,887	4,299	4,250
Parks and recreation	1,449	1,287	1,091	1,336	1,370	2,721	2,808	2,821	2,892	3,166
Total governmental activities expenses	<u>\$ 13,284</u>	<u>\$ 14,465</u>	<u>\$ 13,139</u>	<u>\$ 15,851</u>	<u>\$ 17,122</u>	<u>\$ 17,712</u>	<u>\$ 18,382</u>	<u>\$ 18,836</u>	<u>\$ 18,660</u>	<u>\$ 19,270</u>
Program revenues:										
Governmental activities:										
Charges for services:										
General government	\$ 65	\$ 55	\$ 57	\$ 54	\$ 68	\$ 56	\$ 63	\$ 68	\$ 66	\$ 56
Public safety	3,031	3,114	3,290	3,403	3,565	3,714	3,902	4,071	4,291	4,260
Public works	1,315	1,387	1,188	1,242	1,539	1,265	852	978	1,477	1,129
Parks and recreation	769	803	776	727	833	989	1,008	987	992	1,066
Operating grants and contributions	838	834	927	1,053	1,188	907	1,113	1,291	1,021	1,077
Capital grants and contributions	689	1,824	2,167	7,571	8,703	2,522	3,656	2,012	1,377	1,212
Total governmental activities program revenues	<u>6,707</u>	<u>8,017</u>	<u>8,405</u>	<u>14,050</u>	<u>15,896</u>	<u>9,453</u>	<u>10,594</u>	<u>9,407</u>	<u>9,224</u>	<u>8,800</u>
Net (expense)/revenue	<u>\$ (6,577)</u>	<u>\$ (6,448)</u>	<u>\$ (4,734)</u>	<u>\$ (1,801)</u>	<u>\$ (1,226)</u>	<u>\$ (8,259)</u>	<u>\$ (7,788)</u>	<u>\$ (9,429)</u>	<u>\$ (9,436)</u>	<u>\$ (10,470)</u>
General revenues and other changes in net assets:										
Governmental activities:										
Taxes:										
Property taxes	\$ 3,715	\$ 4,066	\$ 4,287	\$ 4,715	\$ 5,157	\$ 5,390	\$ 5,661	\$ 5,695	\$ 5,743	\$ 5,842
Utility users tax	2,879	18	2	-	-	-	-	-	-	-
Sales and use taxes	328	364	369	389	428	406	340	309	319	318
Franchise taxes and other taxes	772	839	828	850	891	886	850	813	961	897
Motor vehicle in lieu tax (unrestricted)	795	638	1,080	1,006	1,020	1,052	1,092	1,107	1,127	1,097
Investment income	192	63	191	335	544	456	241	97	208	186
Miscellaneous	116	149	230	136	118	200	80	491	79	143
Contribution from other entities	441	564	-	-	-	-	-	-	-	-
Extraordinary item- settlement of insurance litigation	4,989 *	-	-	-	-	-	-	-	-	-
Total General Revenue and Extraordinary Item	<u>14,227</u>	<u>6,701</u>	<u>6,987</u>	<u>7,431</u>	<u>8,158</u>	<u>8,390</u>	<u>8,264</u>	<u>8,512</u>	<u>8,437</u>	<u>8,483</u>
Change in Net Assets	<u>\$ 7,650</u>	<u>\$ 253</u>	<u>\$ 2,253</u>	<u>\$ 5,630</u>	<u>\$ 6,932</u>	<u>\$ 131</u>	<u>\$ 476</u>	<u>\$ (917)</u>	<u>\$ (999)</u>	<u>\$ (1,987)</u>

* Proceeds from Bluff Cove litigation were transferred from the general capital improvement fund to the sewer fund.

CITY OF PALOS VERDES ESTATES
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011*	2012*
General fund:										
Reserved	\$ 15	\$ 5	\$ 35	\$ 19	\$ 6	\$ 37	\$ 4	\$ 57		
Unreserved	5,884	6,667	6,595	7,012	7,256	7,468	8,472	8,472		
Total general fund	<u>\$ 5,899</u>	<u>\$ 6,672</u>	<u>\$ 6,630</u>	<u>\$ 7,031</u>	<u>\$ 7,262</u>	<u>\$ 7,505</u>	<u>\$ 8,476</u>	<u>\$ 8,529</u>		
All other governmental funds:										
Reserved	\$ 301	\$ 405	\$ 144	\$ 53	\$ 332	\$ 330	\$ 328	\$ 335		
Unreserved, reported in:										
Designated for capital projects	6,181	5,904	3,963	3,640	2,371	2,709	1,857	291		
Special revenue funds	2,611	2,172	2,337	2,493	1,717	1,436	2,064	1,716		
Capital projects funds	15,517	16,097	15,409	15,189	16,008	14,190	14,901	17,099		
Total all other governmental funds	<u>\$ 24,610</u>	<u>\$ 24,578</u>	<u>\$ 21,853</u>	<u>\$ 21,375</u>	<u>\$ 20,428</u>	<u>\$ 18,665</u>	<u>\$ 19,150</u>	<u>\$ 19,441</u>		
General fund:										
Nonspendable									\$ 65	\$ 86
Restricted									-	-
Committed									7,200	7,200
Assigned									957	-
Unassigned									1,111	1,605
Total general fund									<u>\$ 9,333</u>	<u>\$ 8,891</u>
All other governmental funds:										
Nonspendable									\$ 331	\$ 3
Restricted									7,861	8,308
Committed									-	-
Assigned									-	9,611
Unassigned									10,106	-
Total all other governmental funds									<u>\$18,298</u>	<u>\$17,922</u>

* GASB 54 has been implemented in fiscal year 2011

CITY OF PALOS VERDES ESTATES
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(amounts expressed in thousands)
CITY OF PALOS VERDES ESTATES

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues:										
Property Tax	\$ 3,715	\$ 4,066	\$ 4,288	\$ 4,715	\$ 5,157	\$ 5,390	\$ 5,661	\$ 5,695	\$ 5,743	\$ 5,842
Special assessment	2,799	4,223	4,390	4,617	4,594	4,924	5,140	5,098	5,316	5,044
Utility user tax	2,880	18	2	-	-	-	-	-	-	-
Other taxes	1,321	1,433	1,383	1,474	1,532	1,479	1,385	1,378	1,281	1,214
Licenses and permits	658	726	583	574	784	654	545	514	625	675
Fines and forfeitures	182	201	169	181	177	191	190	181	210	212
Use of money and agencies	1,219	1,099	1,310	1,588	2,093	2,058	1,639	1,300	1,175	1,228
Revenues from other agencies	1,781	1,519	1,882	1,895	2,027	1,771	3,088	2,155	2,294	2,278
Charges for services	765	734	708	756	860	678	410	549	501	454
Miscellaneous	124	173	254	383	135	323	89	975	79	144
Total revenues	15,444	14,192	14,969	16,183	17,359	17,468	18,147	17,845	17,224	17,091
Expenditures										
General government	1,388	1,377	1,307	1,317	1,475	1,437	1,561	1,536	1,595	1,437
Public safety	6,638	7,408	7,479	8,285	8,813	8,893	9,504	10,877	10,805	10,368
Public works	3,449	3,658	6,122	5,395	5,557	5,164	4,514	4,014	3,913	4,938
Parks and recreation	1,130	925	886	940	952	1,123	1,113	1,074	1,091	1,166
Total expenditures	12,605	13,368	15,794	15,937	16,797	16,617	16,692	17,501	17,404	17,909
Excess (deficiency) of revenues over (under) expenditures	2,839	824	(825)	246	562	851	1,455	344	(180)	(818)
Other financing sources (uses):										
Transfers in	8,521	824	1,762	891	2,326	1,709	541	563	5,357	1,162
Transfers out	(8,521)	(824)	(1,762)	(891)	(2,335)	(1,709)	(541)	(563)	(5,515)	(1,162)
Total other financing sources (uses)	-	-	-	-	(9)	-	-	-	(158)	-
Extraordinary item- settlement in insurance litigation	4,989	-	-	-	-	-	-	-	-	-
Net change in fund balances	\$ 7,828	\$ 824	\$ (825)	\$ 246	\$ 553	\$ 851	\$ 1,455	\$ 344	\$ (338)	\$ (818)

CITY OF PALOS VERDES ESTATES
 Selected Governmental Activities Tax Revenues by Source
 Last Ten Fiscal Years
 (accrual basis of accounting)
 CITY OF PALOS VERDES ESTATES

Fiscal Year	Property Tax	Utility Users Tax	Sales and Use Tax	Franchise and Other Taxes	Motor Vehicle in Lieu Tax	Total
2003	\$ 3,714,562	\$ 2,879,526	\$ 328,119	\$ 771,668	\$ 794,616	\$ 8,488,491
2004	4,066,440	17,885	363,931	838,457	638,145	5,924,858
2005	4,287,637	1,703	369,132	828,572	1,080,711	6,567,755
2006	4,715,003	-	388,514	850,227	1,005,877	6,959,621
2007	5,157,262	-	428,381	891,940	1,020,034	7,497,617
2008	5,389,989	-	406,517	886,129	1,051,782	7,734,417
2009	5,661,511	-	339,894	850,419	1,091,887	7,943,711
2010	5,694,990	-	309,252	813,086	1,107,133	7,924,461
2011	5,742,916	-	319,346	961,648	1,126,570	8,150,480
2012	5,841,800	-	317,694	896,566	1,097,377	8,153,437

Source: City Finance Department

CITY OF PALOS VERDES ESTATES
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
(in thousands of dollars)
CITY OF PALOS VERDES ESTATES

Fiscal Year Ended June 30	Real Property		Personal Property	Less: Tax Exempt Real Property	Total Taxable Assessed Value	Total Direct Tax Rate
	Residential Property	Commercial Property	Other			
2003	\$3,327,768	\$ 35,366	\$ 5,068	\$ 4,557	\$ 3,363,645	0.1135%
2004	3,597,540	35,340	5,040	7,425	3,630,495	0.1135%
2005	3,876,638	34,912	6,251	7,375	3,910,426	0.1135%
2006	4,190,644	36,770	4,576	7,614	4,224,376	0.1130%
2007	4,535,247	43,176	3,880	3,744	4,578,559	0.1130%
2008	4,790,155	40,470	5,049	7,269	4,828,405	0.1130%
2009	5,057,668	40,784	5,015	7,487	5,095,981	0.1130%
2010	5,159,361	44,987	5,492	7,136	5,202,704	0.1130%
2011	5,135,015	50,147	4,540	6,211	5,183,491	0.1130%
2012	5,279,303	47,759	4,732	7,560	5,324,234	0.1130%

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

Data Source: Los Angeles County Assessor Combined Tax Rolls

CITY OF PALOS VERDES ESTATES
Property Tax Rates
Direct and Overlapping Governments
Last Ten Fiscal Years
(Per \$100 of Assessed Value)

Fiscal Year	Direct Rates				Overlapping Rates					
	City Direct Rate	LA County ERAF/Palos Verdes Library District/Palos Verdes Unified School District	Total General Levy	Palos Verdes Peninsula Unified School District	LA County Flood Control District	Metropolitan Water District	Palos Verdes Library District	Los Angeles County	Comm. College	Total Direct Overlapping Rates
2003	0.1135	0.8865	1.00000	0.0155	0.0009	0.0067	0.0097	0.0001	0.0146	1.04800
2004	0.1135	0.8865	1.00000	0.0150	0.0002	0.0058	0.0085	0.0009	0.0181	1.04850
2005	0.1135	0.8865	1.00000	0.0150	0.0002	0.0058	0.0085	0.0009	0.0181	1.04850
2006	0.1130	0.8870	1.00000	0.0195	0.0001	0.0052	0.0078	0.0008	0.0143	1.04770
2007	0.1130	0.8870	1.00000	0.0141	0.0001	0.0047	0.0073	0.0006	0.0215	1.04830
2008	0.1130	0.8870	1.00000	0.0197	-	0.0045	0.0068	-	0.0088	1.03990
2009	0.1130	0.8870	1.00000	0.0201	-	0.0043	0.0068	-	0.0221	1.05330
2010	0.1130	0.8870	1.00000	0.0216	-	0.0043	0.0068	-	0.0231	1.05560
2011	0.1130	0.8870	1.00000	0.0225	-	0.0037	0.0067	-	0.0403	1.07320
2012	0.1130	0.8870	1.00000	0.0225	-	0.0037	0.0064	-	0.0353	1.06786

Source: Los Angeles County Auditor Controller's Office.

CITY OF PALOS VERDES ESTATES
Principal Property Taxpayers
Current Year and Nine Years Ago

Taxpayer	2012			2003		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Tei Fu Chen Trust	\$ 30,896,291	1	0.58%	\$ 24,129,425	1	0.72%
Jose A. and Brigitte Collazo Trust	15,052,916	2	0.28%	7,951,136	7	0.24%
Masafumi Miyamoto	13,945,759	3	0.26%	12,094,303	2	0.36%
Jackson and Julie Yang	12,453,404	4	0.23%			
Jason and Wendy Moskowitz Trust	11,460,290	5	0.22%	9,862,461	4	0.29%
Richard C. Lundquist Trust	10,689,576	6	0.20%			
Yong G. Yan Trust	9,664,453	7	0.18%			
Shokeen Living Trust	9,600,000	8	0.18%			
Bernadette Chao Trust	9,271,769	9	0.17%	8,040,840	6	0.24%
Davis D. Moore Trust	9,168,387	10	0.17%			
Ianniti Trust				9,880,000	3	0.29%
Ta Hsiung & Chyi Chuen Kao				8,112,247	5	0.24%
Robert A. & Kathleen M. Eckert				7,522,500	8	0.22%
Toyota Motor Sales USA Inc.				7,232,072	9	0.22%
Mastumoto Dental College of America				7,055,926	10	0.21%
	<u>\$ 132,202,845</u>		<u>2.47%</u>	<u>\$ 101,880,910</u>		<u>3.03%</u>

Source: Los Angeles County Assessor

CITY OF PALOS VERDES ESTATES
Property Tax Levies and Collections
Last Ten Fiscal Years

Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years (1)	Total Collections to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
2003	\$ 3,436,256	\$ 3,347,066	97.40%	\$ -	\$ 3,347,066	97.40%
2004	3,709,834	3,628,027	97.79%	-	3,628,027	97.79%
2005	4,045,265	3,949,536	97.63%	-	3,949,536	97.63%
2006	4,392,166	4,278,192	97.41%	-	4,278,192	97.41%
2007	4,729,479	4,549,980	96.20%	-	4,549,980	96.20%
2008	5,065,255	4,810,980	94.98%	-	4,810,980	94.98%
2009	5,332,363	5,081,257	95.29%	-	5,081,257	95.29%
2010	5,430,923	5,243,610	96.55%	-	5,243,610	96.55%
2011	5,435,360	5,304,265	97.59%	-	5,304,265	97.59%
2012	5,611,918	5,494,212	97.90%	-	5,494,212	97.90%

Note: (1) The County of Los Angeles does not provide this information on collection of prior years taxes inclusion of amounts paid would result in reporting amounts above 100% in some years.

Source: Los Angeles County Auditor Controller's Office.

CITY OF PALOS VERDES ESTATES
Taxable Property Subject to Fire Tax
Last Five Fiscal Years

Fiscal Year Ended June 30	Total Assessable		Real Property Square Footage			Special Tax			Total Direct Tax Rate
	Parcels w/ Bldg. - Improvement	Vacant	Residential Property	Commercial Property	Total Square Footage	Residential Property	Commercial Property	Total	
2008	5,097		15,027,563	246,593	15,274,156	\$ 3,424,361	\$ 42,629	\$ 3,466,990	\$250.41/parcel plus \$0.143422/sq.ft
2008	0	89	0	0	0	22,286	0	22,286	\$250.41/parcel
2009	5,106		15,116,737	246,593	15,363,330	3,583,877	44,419	3,628,296	\$260.93/parcel plus \$0.149446/sq.ft
2009	0	83	0	0	0	21,657	0	21,657	\$260.93/parcel
2010	5,120		15,230,913	246,593	15,477,506	3,755,995	46,285	3,802,280	\$271.89/parcel plus \$0.155723/sq.ft
2010	0	72	0	0	0	19,576	0	19,576	\$271.89/parcel
2011	5,121		15,299,417	246,890	15,546,307	3,924,997	48,276	3,973,273	\$283.30/parcel plus \$0.16226/sq.ft
2011	0	71	0	0	0	20,114	0	20,114	
2012	5,124		15,361,156	242,466	15,603,622	3,936,148	47,275	3,983,423	\$283.30/parcel plus \$0.16226/sq.ft
2012	0	68	0	0	0	19,264	0	19,264	

Note: The City annually levies on each eligible property a "special fire tax" to finance the cost of fire and paramedic services provided under contract by Los Angeles County. There are two components of the tax 1.) a flat rate per parcel and 2.) a cost per square foot of building improvement

Source: Fire and Paramedic Services Special Tax Report prepared by NBS

CITY OF PALOS VERDES ESTATES
Fire Tax Rates
Direct Government
Last Five Fiscal Years

	<u>City Direct Tax Rate</u>
2008	0.22840
2009	0.23760
2010	0.24690
2011	0.25690
2012	0.25650

Note: Fire Tax Rate: The direct tax rate is computed by dividing the total tax levy by total square feet of building area subject to the tax. There are no overlapping rates applicable to this revenue.

CITY OF PALOS VERDES ESTATES
Principal Special Fire Taxpayers
June 30, 2012
Current Year and Prior Year

Property Owners	2012		
	Building Square Footage Value	Special Fire Tax Assessed	Percentage of Building Square Footage
Lunada Bay Investment Co.	36,478	\$ 6,202.22	0.23%
Chen Tei Fu Co. Trust	29,678	5,098.84	0.19%
Lunada Bay Apartments Ltd.	23,361	4,073.84	0.15%
Plaza Palos Verdes LLC	23,203	4,048.20	0.15%
38 parcels (special fire tax paid over \$2,000)	435,460	69,524.59	2.79%
584 parcels (special fire tax paid between \$1,000-\$1,999)	3,428,370	556,287.37	21.97%
4570 parcels (special fire tax paid less than \$1,000 each)	<u>11,627,072</u>	<u>1,886,608.65</u>	<u>74.52%</u>
Total	<u>15,603,622</u>	<u>\$ 2,531,843.71</u>	<u>100.00%</u>

CITY OF PALOS VERDES ESTATES
Principal Special Fire Taxpayers
June 30, 2011
Current Year and Prior Year

Property Owners	2011		
	Building Square Footage Value	Special Fire Tax Assessed	Percentage of Building Square Footage
Lunada Bay Investment Co.	36,478	\$ 6,202.22	0.23%
Chen Tei Fu Co. Trust	29,678	5,098.84	0.19%
Lunada Bay Apartments Ltd.	23,361	4,073.84	0.15%
Plaza Palos Verdes LLC	23,203	4,048.20	0.15%
38 parcels (special fire tax paid over \$2,000)	432,352	69,020.28	2.78%
575 parcels (special fire tax paid between \$1,000-\$1,999)	3,373,810	547,434.41	21.70%
4579 parcels (special fire tax paid less than \$1,000 each)	<u>11,627,425</u>	<u>1,886,665.98</u>	<u>74.79%</u>
Total	<u>15,546,307</u>	<u>\$ 2,522,543.77</u>	<u>100.00%</u>

CITY OF PALOS VERDES ESTATES
Direct and Overlapping Governmental Activities Debt
June 30, 2012

2011-2012 Assessed Valuation: \$5,324,234,363

Governmental Unit	Outstanding Debt 6/30/12	Estimated Percentage Applicable	Estimated Share of
Overlapping General Fund Debt (Note 1)			
Los Angeles County General Fund Obligations	\$ 1,474,122,758	0.574%	\$ 8,461,465
Los Angeles County Superintendent of Schools COP'S	11,269,678	0.574%	64,688
Los Angeles County Sanitation District-			
South Bay Authorities	8,501,885	16.598%	1,411,143
Los Angeles County Sanitation District #5	49,899,761	0.575%	286,924
Direct & Overlapping Tax & Assessment Debt (Note 2)			
Los Angeles Community College District	3,504,910,000	1.015%	35,574,837
Palos Verdes Peninsula Unified School District	79,376,639	29.728%	23,597,087
Los Angeles Regional Park & Open Space			
Assessment District	170,725,000	0.574%	979,962
Palos Verdes Library District	5,575,000	28.275%	1,576,331
Metropolitan Water District	196,545,000	0.295%	579,808
Los Angeles County Flood District	37,195,000	0.584%	<u>217,219</u>
Subtotal, overlapping debt			72,749,464
City direct debt			(0)
Less: Los Angeles County General Fund Obligations supported by landfill revenues			<u>95,847</u>
Net Total direct and overlapping debt			<u><u>\$ 72,653,617</u></u>

Source: California Municipal Statistics

Note (1): Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. The schedule estimates the portion of the outstanding debt of those overlapping governments, that is borne by the residents and businesses of the City of Palos Verdes Estates. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of the county's taxable assessed value that is within the government's boundaries and dividing it by the county's total taxable assessed value.

Note (2): Paid with voter-approved direct assessment.

CITY OF PALOS VERDES ESTATES
 Legal Debt Margin Information
 June 30, 2012
 (dollars in thousands)

Assessed value before homeowners exemption	<u>\$ 5,324,234</u>
Debt limit- 15% of assessed value	\$ 798,635
Amount of debt applicable to debt limit	<u>-</u>
Legal debt margin	<u>\$ 798,635</u>

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Debt Limit	\$ 504,546	\$ 544,574	\$ 586,564	\$ 633,657	\$ 686,784	\$ 724,261	\$ 764,297	\$ 780,406	\$ 777,524	\$ 798,635
Total net debt applicable to limit	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Legal debt margin	<u>\$ 504,546</u>	<u>\$ 544,574</u>	<u>\$ 586,564</u>	<u>\$ 633,657</u>	<u>\$ 686,784</u>	<u>\$ 724,261</u>	<u>\$ 764,297</u>	<u>\$ 780,406</u>	<u>\$ 777,524</u>	<u>\$ 798,635</u>
Total net debt applicable to the limit as a percentage of debt limit	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Note: The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 25% of market value. Effective with the 1981-82 fiscal year, each parcel is now assessed at 100% of market value (as of the most recent change in ownership for that parcel).

Source: City Finance Department

CITY OF PALOS VERDES ESTATES
Demographic and Economic Statistics
Last Ten Calendar Years

<u>Calendar Year</u>	<u>City Population</u>	<u>LA County Population (thousands) (2)</u>	<u>Personal Income (millions of dollars) (2)</u>	<u>Per Capital Personal Income (2)</u>	<u>Unemployment Rate (3)</u>
2003	13,928	12,817	427,041	33,318	1.4
2004	14,086	12,899	453,901	35,188	1.3
2005	14,208	12,933	475,262	36,746	1
2006	14,041	12,867	505,197	39,011	0.9
2007	14,085	12,785	540,510	42,278	1
2008	14,046	12,768	555,450	42,916	1.5
2009	14,046 (1)	12,874	550,832	39,878	1.6
2010	14,085 (1)	12,844	561,141	43,688	2.6
2011	13,480 (1)	*	*	*	3.1
2012	13,516 (1)	*	*	*	2.7

- Sources:
- (1) California Department of Finance
 - (2) Bureau of Economic Analysis (Los Angeles-Long Beach- Santa Ana - MSA) data; no City data available
 - (3) State of California Employment Development Department (City Data)
 - * No data available

CITY OF PALOS VERDES ESTATES
Principal Employers
Current Year

Type of Business (1)	Number of Employees	Rank	Percentage of Total City Employment
Unified School District	527	1	57.19%
Concession Clubs			
Palos Verdes Golf Club	100	2	13.24%
Palos Verdes Beach & Athletic Club	16		
Palos Verdes Tennis Club	6		
City Government			
City of Palos Verdes Estates	55.52	3	6.02%
Real Estate and Escrow Companies	24	4	2.60%
Restaurants	21	5	2.28%
Total	749.52		81.33%

Source: City Finance Department

Note (1): The City is a residential community with two small commercial areas - Malaga Cove Plaza and Lunada Bay Plaza. The school district's administrative offices, as well as four schools are located in Palos Verdes Estates. The district employs administrative staff, teachers and other school employees. The most common businesses registered with the City and reporting employees are real estate/escrow companies and restaurants. The City has classified employers by type of business.

(2) "Total Employment" as used above represents the total employment of all employers located within City limits, not just those businesses listed.

CITY OF PALOS VERDES ESTATES
 Full-time Equivalent City Government Employees by Function/Program
 Last Ten Fiscal Years

Function/Program	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General Government:										
Management services	8.88	8.88	8.88	8.88	9	9	9	9	9	8.5
Finance	2	2	2	2	2	2	2	2	2	2
Building and Planning	2	3	3	2.3	2.5	2.5	2.5	2.5	2.5	2
Other	4.78	4.78	4.77	4.77	4.57	4.64	4.64	4.09	5.27	4.52
Police:										
Sworn officers (2)	21	22	22	22	22	22	22	22	22	22
Service officers (3)	11	11	11	11	11	11	11	11	11	11
Streets and Parks	<u>6</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5.5</u>	<u>5.5</u>	<u>5.5</u>
Total	55.66	56.66	56.65	55.90	56.07	56.14	56.14	56.09	57.27	55.52

Source: City Finance Department

Notes:

- (1) The City contracts with the following:
 - a) Los Angeles County for fire and paramedic services
 - b) Charles Abbott Associates for building, planning and public works administrative services.
- (2) Chief of Police, 2 Captains and Executive Assistant to the Chief of Police/Custodian of Records are included in General Government - Management services
- (3) Includes 1 Community Relations Officer

CITY OF PALOS VERDES ESTATES
 Operating Indicators by Function/Program
 Last Ten Fiscal Years

Function/Program	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Police:										
Physical arrests	685	608	825	681	899	797	594	419	237	503
Parking violations	2,135	2,405	1,958	2,768	2,898	2,901	3,010	3,002	3,029	2,917
Moving violations	2,200	1,875	1,386	943	758	958	553	798	1,102	1,191
Building & Planning:										
Building permits issued	1,419	1,681	1,744	2,052	2,458	2,197	1,614	1,650	1,843	1,994
Total number of inspections	3,845	4,845	4,170	4,068	4,072	3,898	2,763	220	2,507	2,565
Grading applications	25	37	27	24	27	23	20	17	17.5	11.5
Neighborhood compatibility applications	79	58	71	64	57	49	35	32.5	33	23
Miscellaneous applications	30	20	22	23	30	34	44	53	38.50	57.00
Public Works:										
Public works permits	221	212	237	294	241	272	322	200	178	227
Street resurfacing (miles)	10.5	10.4	1.3	1.3	8.7	8.7	9.9	3.55	3.28	3.35

Source: City Departments

Note: Indicators are not available for the general government function.

CITY OF PALOS VERDES ESTATES
 Capital Asset Statistics by Function/Program
 Last Ten Fiscal Years

Function/Program (1)	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	4	4	4	4	4	4	4	4	4	4
Streets (miles)	78	78	78	78	78	78	78	78	78	78
Sanitary sewers (miles)	76	76	76	76	76	76	76	76	76	76
Storm drains (miles)	26	26	27	28.5	28.5	28.8	28.5	28.5	28.5	28.5
Recreation facilities: (2)										
Golf	1	1	1	1	1	1	1	1	1	1
Stables	1	1	1	1	1	1	1	1	1	1
Tennis club	1	1	1	1	1	1	1	1	1	1
Beach club	1	1	1	1	1	1	1	1	1	1

Source: City Departments

Notes

- (1) No capital asset indicators are available for the general government function.
- (2) Managed under individual concession agreements (property and equipment owned by City).

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