

**CITY OF PALOS VERDES
ESTATES**



INCORPORATED 1939

CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT
year ended June 30, 2014

CITY OF PALOS VERDES ESTATES
COMPREHENSIVE ANNUAL FINANCIAL REPORT

JUNE 30, 2014

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December 9, 2014

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) that has been audited in accordance with generally accepted auditing standards by an independent firm of certified public accountants. Pursuant to the policy, we hereby issue the comprehensive annual financial statements of the City of Palos Verdes Estates (“the City”) for the fiscal year ended June 30, 2014.

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, the financial statement is complete and reliable in all material aspects.

The City’s financial statements have been audited by Lance Soll & Lunghard, LLP. , a public accountancy firm. 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, 2013, 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, as a planned community designed by Frederick Olmsted, Jr. in 1910, includes large areas of parklands that are maintained as permanent open space and residential lots with panoramic views overlooking the Pacific Ocean and Los Angeles metropolitan area. The City was incorporated in 1939 and is the oldest of the four cities on the Palos Verdes Peninsula. In this fiscal year of reporting, the City is celebrating its 75th year of incorporation. The City's population is 13,589 within an area of 4.75 square miles. The City is a residential community with almost no commercial tax base primarily 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 five City Council members. City Council members are elected on a non-partisan basis at City-conducted elections held in March of odd-numbered years. City Council members serve four-year staggered terms and receive no compensation. One member of the City Council is designated as mayor; the mayor's position rotates annually among the council members. The City Council is responsible for a variety of functions including passing ordinances, establishing policies, adopting the budget, appointing commission and committee members 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 City departments. Voters also elected every four years a City Treasurer who is responsible for the City's investment decisions.

City employees provide the following public services: police protection; planning and building services; public works, 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, building and safety services, forestry and public works administration, and a private firm for Information Technology services. The City maintains an exclusive franchise for residential refuse collection and has concession agreements for use of City property for public golf, tennis, swimming and stables.

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 and resource allocation plan for the City's financial planning and control and for the delivery of services. The City Manager presents the recommended budget to the City Council in mid-May after an internal process of reviewing department budget requests that 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 and the City Manager is authorized to make transfers between departments within policy defined levels. The budget has also been designed to present fiscal information at the department and program level to communicate just how key services are delivered. 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, that 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 that are 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

In FY 2013-14, the City Manager’s Office and operating departments established a “work plan” comprised of key goals and initiatives. The work plan, presented to the City Council, established priorities, allocated resources and projected time tables that were incorporated into the City’s adopted budget.

Several items of significance were initiated, continued and accomplished during FY 2013-14.

- Bluff Cove Deconstruction Project: A project manager was retained to oversee the bidding and deconstruction of the Bluff Cove structures. A project engineer was retained to prepare bid documents.
- Parklands Use Policy: A policy was developed and approved providing the legislative commitment to the public use and access to City parklands.
- 75th Anniversary Celebration events: Volunteer efforts with support of the City commenced to plan citywide events during FY 2014-15.
- Organization leadership and management: Following and in conjunction with implementing organizational restructuring, the City filled various new and vacant positions consisting of the Finance Director, Planning and Building Director, and Police Chief.
- Fiscal Plan: Finance and all department teams, building on the City’s well-established and successful foundation, created a refreshed, easy-to-read and collaboratively developed Operating and Capital Budget
- Investment Policy: The City’s Investment Policy was updated for consistency with current standards.
- Technology: Advances in technology were completed. The year included the full replacement of citywide desktops, updates of office product software, advancement of network servers, upgrade to the Policy Department Records Management System, and contract approval for updating the City’s 911 system.

- **Public Safety:** In the Police Department, accomplishments included continued emergency preparedness planning efforts through the City's Disaster District Plan (DDP) and through procurement of additional supplies for the district containers; sponsoring the annual Senior Health Fair as part of community programming through the PVE-CARES program which provides resources and assistance to the elderly.
- **Capital Improvements:** Construction projects included street maintenance and reconstruction, curb and gutter improvements, purchase of safety equipment and vehicle replacements and completion of the force-main project related to 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 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. With this understood, Property Tax is a key driver in the City's revenue stream. In this respect, although not diversified in its mix of revenue sources, the City is not subject to consumer-driven, economic fluctuations except to the extent that the real estate market is affected by property sales and valuations. This is because sales tax revenue accounts for less than 2% of total general fund revenue. Within the City's two small commercial areas at Malaga Cove and Lunada Bay Plazas, there are minor retail and small, locally owned restaurants and food markets. Given this condition, continuing to maintain operating efficiency while adhering to staunch fiscal prudence and long-term planning serves the City well.

In a larger regional point-of-view, the City of Palos Verdes Estates exists among the larger South-Bay region of Los Angeles County, consisting of 16 incorporated cities and 20 communities. 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 of the Los Angeles County economy and the area is home to many firms dealing in international markets. The City's residents work in these fields and professions.

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. In this regard, developing time-secured strategies to effect necessary infrastructure maintenance and replacement is a challenge for both our City and those that surround us. Similarly, the continuance of the Fire Parcel Tax, a voter-supported funding source that expires in 2017, is a matter of key financial significance for an operating income source that approximates 50% of the City's core operations. Also, in 2014, the City's direct assessment of the Sewer User Fee revenue expired.

Awards and Acknowledgments

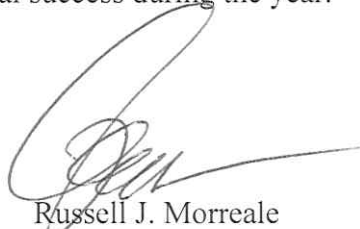
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report for the fiscal year ending June 30, 2013. In order to receive a Certificate of Achievement, the City published an easily 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. We believe the City's current CAFR continues to meet the Certificate of Achievement program requirements, and it is being submitted to the GFOA to determine its eligibility for another certificate.

We thank the City Council and City Treasurer for support of and insisting on the highest standards of professionalism, professional ethics, and conservative financial posture in the management of the City's finances. We also thank the Finance Department consisting of Russ Morreale, Lori Yamasaka, Karen Kato and Michelle Mello for their vision, management, diligence, assistance, and service in achieving the City's financial success during the year.

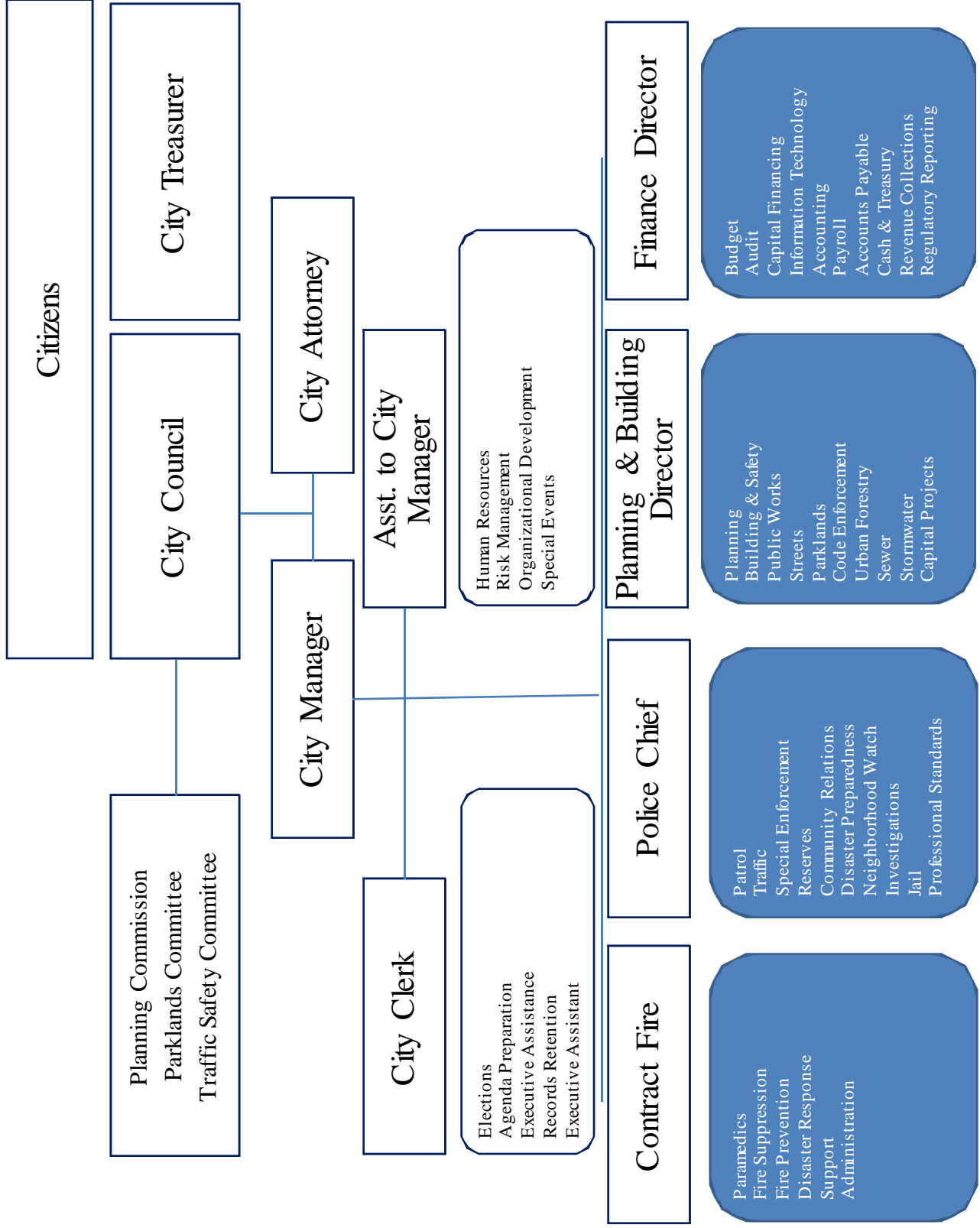


Anton Dahlerbruch
City Manager



Russell J. Morreale
Finance Director

**CITY OF PALOS VERDES ESTATES
ORGANIZATION CHART**



Elected Officials & Executive Team

ELECTED OFFICIALS

Mayor

Mayor Pro Tem

Council Members

Ellen Perkins

Rosemary Humphrey

George F. Bird, Jr.

James F. Goodhart

W. John Rea

City Treasurer

Joseph C. Sherwood, Jr.

EXECUTIVE TEAM

City Manager

Anton Dahlerbruch

City Attorney

Christi Hogin

Assistant to the City Manager

Alexa Davis

Chief of Police

Jeff Kepley

City Clerk

Vickie Kroneberger

Planning & Building Director

Sheri Repp-Loadsman

Finance Director

Russell J. Morreale



Government Finance Officers Association

**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, 2013

Executive Director/CEO

INDEPENDENT AUDITORS' REPORT

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

Report on Financial Statements

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, (the City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



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

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information on pages 54-57, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Prior Year Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2013, from which such partial information was derived.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



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

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2014, on our consideration of the City's 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* in considering the City's internal control over financial reporting and compliance.

Lance, Solt & Lughard, LLP

Brea, California
October 27, 2014

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MANAGEMENT'S 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, 2014. It is suggested that this overview be read in conjunction with the letter of transmittal (**pages i-v**) and the accompanying financial statements.

Financial Highlights

- The City's net position at the end of fiscal year 2013-2014 totaled \$77,458,567. This is a decrease of \$2,509,332 or 3.1% lower compared to the prior year. The City's net investment in capital assets at June 30, 2014 totaled \$48,675,362 and represented a decrease of \$3,052,413 mostly attributable to depreciation net of additions and dispositions.
- Unrestricted net position, which may be used to meet the government's ongoing obligations, totaled \$20,812,891. Of the unrestricted net position, \$8,375,281 represent assets assigned for general capital project purposes, \$7,200,000 represent assets within the general fund committed for emergency contingencies
- Net position restricted for special purposes, including public works and public safety, totaled \$7,970,314. Of this total, \$5,329,378 represents assets restricted for sanitary sewer improvements as part of the sewer capital fund.
- During the year, the City's general governmental fund revenues totaled \$17,515,023, a small increase of \$55,486 from the prior year. General governmental fund expenditures totaled \$17,076,317 for the fiscal year end, a sizable decrease in expenditures of \$326,425 compared to the prior year. The decrease is attributable to significantly lower expenditures within sewer component of public works. Consequently, overall governmental fund revenues exceeded expenditures by \$438,706.
- As of June 30, 2014, the General Fund balance was \$9,822,486, an increase of \$427,433 (or 4.55%), after net operating transfers of (\$1,063,000). General Fund revenues exceeded expenditures by \$1,490,433, a decrease compared to the prior year. The City achieved these operating surpluses due to its stable revenue base, anchored by residential property values, cost consciousness and its focus on core municipal services. FY 2014 results include General Fund revenue of \$11,829,091 and expenditures of \$10,338,658. Revenues available for appropriation were \$858,846 more than budgeted while actual expenditures were \$607,077 below 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 \$5,329,378 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 are comprised 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 position* presents information on all of the City of Palos Verdes Estates' assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 15-16 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 twelve 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, special projects fund, the special fire parcel tax fund and the two capital improvement funds; general capital and sewer. Data from the other seven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* on pages 60-63 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 18-24 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 26-28 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 29 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 31-53 of this report.

Other information. The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 60-79.

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 position may, over time, serve as a useful indicator of a government's financial position as presented on a full-accrual basis. The City's net position for fiscal year 2013-2014 are shown in Table 1. In the case of the City of Palos Verdes Estates, assets exceeded liabilities by \$77,458,567 at June 30, 2014.

Table 1
Net Position

| Net Position | 2014 | 2013 | Change (in dollars) |
|--------------------------------|----------------------------|----------------------------|-----------------------------|
| Current and other assets | \$31,413,434 | \$30,969,359 | \$ 444,075 |
| Capital assets | <u>48,675,362</u> | <u>51,727,775</u> | <u>(3,052,413)</u> |
| Total Assets | <u>80,088,796</u> | <u>82,697,134</u> | <u>(2,608,338)</u> |
| Long-term liabilities | (1,384,718) | (1,585,766) | 201,048 |
| Other liabilities | <u>(1,245,511)</u> | <u>(1,143,469)</u> | <u>(102,042)</u> |
| Total liabilities | <u>(2,630,229)</u> | <u>(2,729,235)</u> | <u>99,006</u> |
| Net Invested in capital assets | 48,675,362 | 51,727,775 | (3,052,413) |
| Restricted | 7,970,314 | 7,995,660 | (25,346) |
| Unrestricted | <u>20,812,891</u> | <u>20,244,464</u> | <u>568,427</u> |
| Total Net Position | <u>\$77,458,567</u> | <u>\$79,967,899</u> | <u>(\$2,509,332)</u> |

The largest portion of the City of Palos Verdes Estates' net position (63%) reflects its net investment in capital assets (land, buildings, infrastructure, machinery and equipment). It is important to note that, given their infrastructure nature, these assets are not available for future spending.

An additional portion of the City of Palos Verdes Estates' net position (10%) represent resources that are subject to legal restrictions on how they may be used. The remaining balance of unrestricted net position (27%) may be used to meet the government's ongoing obligations. Included as part of the unrestricted net position is the general capital project fund balance, which totals \$8,375,281 or 40% of the unrestricted net position.

Governmental activities. During 2014, the City's net position, including depreciation and capital spending, decreased \$2,509,332 considering all governmental activity, which is attributable to expenses in excess of program and general revenues.

Table 2
Changes in Net Position

| Activities | 2014 | 2013 | Change (in dollars) |
|------------------------------------|--------------------------|--------------------------|------------------------|
| Program Revenues: | | | |
| Charges for services | \$6,745,151 | \$6,763,030 | \$(17,879) |
| Operating grants and contributions | 1,177,069 | 1,036,495 | 140,574 |
| Capital grants and contributions | 48,302 | 1,069,864 | (1,021,562) |
| General Revenues: | | | |
| Property taxes | 6,494,061 | 6,098,959 | 395,102 |
| Other taxes | 2,552,658 | 2,400,774 | 151,884 |
| Other | <u>541,386</u> | <u>165,351</u> | <u>376,035</u> |
| Total Revenues | <u>17,558,627</u> | <u>17,534,473</u> | <u>24,154</u> |

Expenses:

| | | | |
|-----------------------------------|----------------------------|----------------------------|-----------------------------|
| General government | 1,541,817 | 2,156,709 | (614,892) |
| Public safety | 10,299,579 | 9,969,583 | 329,996 |
| Public works | 5,256,869 | 4,692,185 | 564,684 |
| Parks and recreation | <u>2,969,694</u> | <u>2,980,309</u> | <u>(10,615)</u> |
| Total expenses | <u>20,067,959</u> | <u>19,798,786</u> | <u>269,173</u> |
| Increase in net position | (2,509,332) | (2,264,313) | (245,019) |
| Net position July 1, 2013 | <u>79,967,899</u> | <u>82,232,212</u> | <u>(2,264,313)</u> |
| Net position June 30, 2014 | <u>\$77,458,567</u> | <u>\$79,967,899</u> | <u>(\$2,509,332)</u> |

Figure 1 – Revenues - Governmental Activities FY 2013-2014

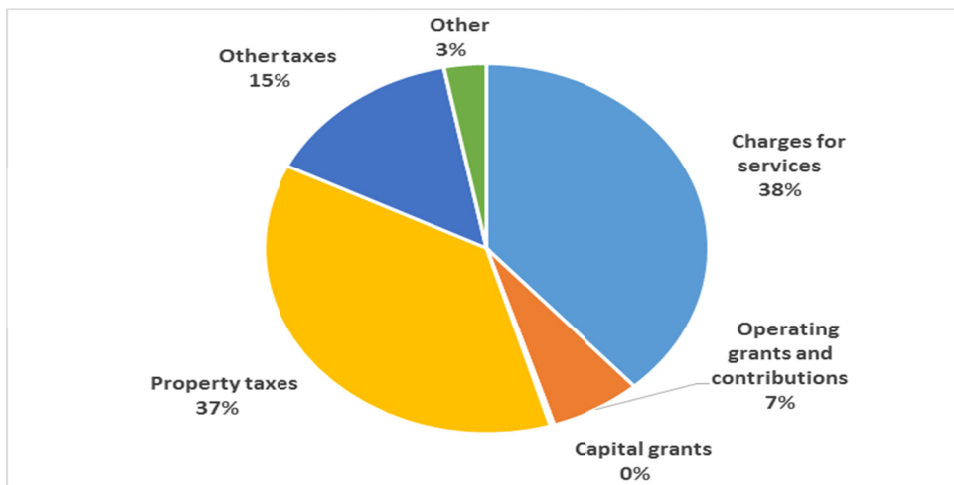
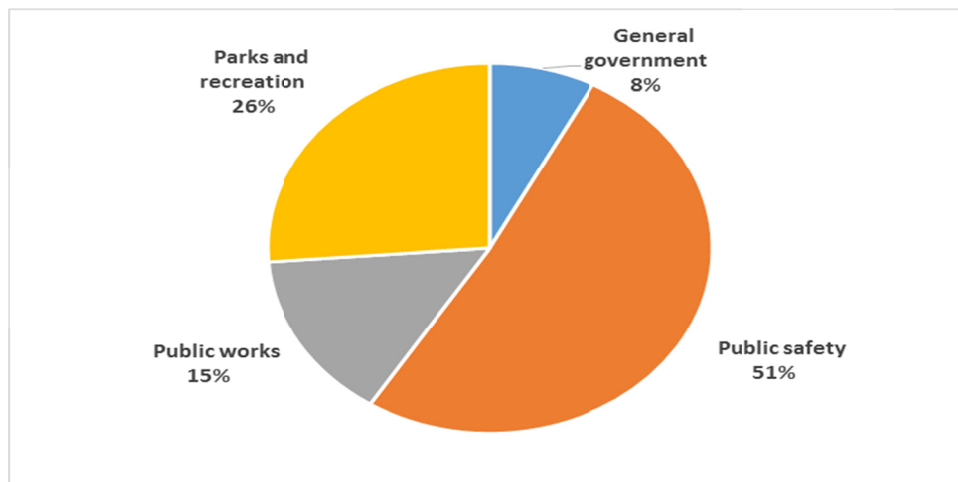


Figure 2 – Expenses – Governmental Activities FY 2013-14



Fund Financial Statements

Governmental Funds.

The City of Palos Verdes Estates' governmental funds ending fund balances totaled \$26,168,081 a slight decrease of \$124,294 or less than 1% compared to the prior year. For the fiscal year ending June 30, 2014, the governmental funds restricted fund balances totaled \$7,597,670, including \$5,329,378 (70%) for sanitary sewer capital improvements. The committed fund balance (general fund) totaled \$7,200,000. The assigned fund balance for the governmental funds totaled \$8,375,281 and consists exclusively of the general capital fund balance. The unassigned fund balance of the governmental funds (General Fund) totaled \$2,523,018, while the non-spendable fund balances total \$472,112, representing inventory and prepaid costs.

As was the case last year, five funds qualify as major funds under the GASB 34 reporting criteria: the general fund, special projects fund, special fire parcel tax fund, 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 \$9,822,486, an increase of \$427,433 (4.55%) compared to the prior year, which includes the net effect of operating transfers (\$1,063,000). The General Fund balance is comprised of the following: non-spendable balance of \$99,468; committed balance of \$7,200,000 (73% of the General Fund) for emergency contingencies; and unassigned fund balance totaling \$2,523,018. 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, end the year with 99% of FY 2014 total general fund expenditures.

The Special Project 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 unavailable revenue.

The Special Fire Parcel Tax Fund balance increased \$49,439. Fire contract services through Los Angeles County totaled \$4,260,342 in 2014, an increase of \$137,949 (3.35%) compared to the prior year. Revenue from the special fire tax assessments totaled \$4,299,284. Other revenues totaled \$10,497.

The sewer capital projects fund balance totals \$5,329,378. During FY 2014, sewer fee assessment revenue streams ceased with the expiration of the assessment district. Other ancillary revenue totaled \$69,282 while expenditures totaled \$144,261. As authorization for the property-owner approved sewer user fee expired in FY 2012-13, these operations will become General Fund dependent once available resources are used towards capital and maintenance as outlined in prospective budget plans.

The General Capital Improvement Fund balance decreased \$676,381 and totals \$8,375,281. Capital project expenditures totaled \$1,472,273. Operating revenue is primarily made up of interest earnings and other ancillary income which totaled (\$95,892). Operating transfers in totaled \$700,000 including \$500,000 from the General Fund and \$200,000 from the Measure R 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 position invested in capital assets of the funds amounted to \$682,134, an increase of \$123,959 from the prior year. Total Net Position in the Equipment Replacement and Insurance Funds at year end equaled \$3,376,722 and \$1,233,337 respectively for a total of \$4,610,059.

General Fund Budgetary Highlights

The difference between the original general fund budget and the final amended budget expenditures was an increase of \$566,100. The final amended General Fund budget totaled \$10,970,245 for revenue and \$10,945,735 for Expenditures. Transfers of \$1,228,000 were estimated in the 13-14 budget, mostly to fund capital.

At year end, budget results were favorable on both sides of the equation. General Fund revenues came in \$858,846 (7.83%) higher than estimated while General fund expenditures were \$607,077 (5.54%) less than budget. Most of the savings (47.5%) occurring within Public Works (47%) given cyclical trends and staffing levels the Police department (36%) mostly associated with salary and benefit savings. Other areas of savings within the General Fund included: General governmental services realized savings of \$373,167 mainly within supplies and services, administration and parks also came in under 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, 2014, totals \$48,675,362 (net of accumulated depreciation). This is a decrease of \$3,052,413 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 2014, governmental fund capital additions totaled \$1,373,726 and construction in progress expenditures of \$1,685,596 were brought to completion. Major capital expenditures include the following:

- Street improvement projects totaling \$348,341;
- Replacement of various vehicles within the Police and Streets/Parks department in accordance with established depreciation/replacement schedules at a cost of \$505,587.
- In process catch basin, parkland improvements and sewer force main projects \$210,656.

Figure 3 – Capital Assets (Net of Depreciation)

| Capital Assets | 2014 | 2013 | Change (in dollars) |
|---------------------------|---------------------|---------------------|------------------------|
| Land | \$4,487,892 | \$4,487,892 | \$-- |
| Construction in progress | 210,656 | 1,685,596 | (1,474,940) |
| Building and improvements | 9,527,009 | 11,192,746 | (1,665,737) |
| Machinery and equipment | 817,943 | 893,132 | (75,189) |
| Furniture and fixtures | 109,740 | 109,883 | (143) |
| Vehicles | 255,952 | 72,384 | 183,568 |
| Infrastructure | 33,266,170 | 33,286,142 | (19,972) |
| Total | <u>\$48,675,362</u> | <u>\$51,727,775</u> | <u>\$ (3,052,413)</u> |

Additional information on the City's capital assets can be found in note 3 beginning on page 43 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 \$1,463,701, a decrease of \$207,016 (12.4%) composed of \$836,371 for vested or accumulated employee compensated absences; \$323,836 for the special retirement income plan; and a retrospective insurance deposit payable to the California Joint Powers Authority (CJPIA) of \$303,494. Additional information on long-term debt can be found in note 5 of the notes to the basic financial statements on pages 44-45 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 2013-2014 represents the second year of the two-year budget cycle that commenced in June 2012. As we look forward, the City Council adopted the FY 2014-2016 biennial budget on June 24, 2014 and the following factors were considered in preparing the budget:

- In the biennial term, the City is projecting a moderate 2.3% growth in revenue streams over FY 13/14 projected results followed by a 3.01% growth for FY 15/16. In calculating FY 14/15 growth against the prior year biennial budget, trends have come much better than expected 6.98% and factored into favorable FY 13/14 year-end financial results.
- In the biennial term, the City is projecting an 8% growth in General fund expenditures over FY 13/14 projections given the inclusion of deferred equipment purchases, training and normal labor cost growth. FY14/15 is followed by much more level respective growth rates of 2.5% in the General Fund and less than 1% overall.
- When parsing out the major elements of the General Fund revenues, property tax remains as the major driver in the anticipated growth patterns when considering sheer incoming dollar revenue streams as displayed below. Property tax growth assumptions are conservatively projected at 2.46% for year one and similarly for 15-16 based upon near term trends.
- In terms of other key revenue streams, Planning and Building activity is staged for a moderate 3.87% growth in FY 2014-15 while concession rent and investment earnings are trending level with recent years.
- Given its importance to City operations, the Paramedic and Fire Tax Special Tax revenue is staged to increase by 4% commensurate with the new costing provided to the City for the FY 14/15 contract term. This fund is projected to bring in \$4,458,230 in FY 14-15. A similar level of increase was factored into FY 15/16.
- In terms of labor costs the budget includes a planned increase in Full Time Equivalent positions (full and part-time) 57 to 59 (positions added in mid-FY 13/14). Normal and sustainable salary and benefit growth assumptions were factored in including known, and estimated, Cal PERS Safety pension rate increases. Increases in regional healthcare and insurance costs have been allowed for.
- FY 14-15 General capital improvements projects totaling \$3.79 million, including \$1,085,000 in various street improvement projects, \$153,000 in public safety and traffic calming projects, \$1,050,000 in major infrastructure/facility projects, \$1,000,000 for Bluff Cove deconstruction costs and \$100,000 for enhanced fire/weed abatement work.

The second year of the biennial budget, FY 15-16 includes another \$2,116,500 in capital improvements as the City maintains and enhances its high quality aesthetic character.

- Sanitary sewer capital budget of \$200,000 for sewer upgrades on Via Coronel/Zurita are included in FY 2014-2015. Carryover projects in excess of \$2.4 million includes the Force Main project at Paseo Del Mar in support of the Rocky Point pump station completed in prior years.

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.

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CITY OF PALOS VERDES ESTATES

STATEMENT OF NET POSITION
JUNE 30, 2014

| | Governmental Activities | |
|--------------------------------------|--------------------------------|----------------------|
| | 2014 | 2013 |
| Assets: | | |
| Cash and investments | \$ 30,195,528 | \$ 29,188,719 |
| Receivables: | | |
| Accounts | 428,610 | 390,115 |
| Accrued interest | 49,590 | 29,386 |
| Prepaid costs | 439,697 | 1,060,388 |
| Due from other governments | 266,749 | 274,057 |
| Inventories | 33,260 | 26,694 |
| Capital assets not being depreciated | 4,698,548 | 6,173,488 |
| Capital assets, net of depreciation | 43,976,814 | 45,554,287 |
| Total Assets | 80,088,796 | 82,697,134 |
| Liabilities: | | |
| Accounts payable | 662,278 | 717,617 |
| Accrued liabilities | 257,455 | 214,521 |
| Unearned revenue | 246,795 | - |
| Deposits payable | - | 126,380 |
| Noncurrent liabilities: | | |
| Due within one year | 78,983 | 84,951 |
| Due in more than one year | 1,384,718 | 1,585,766 |
| Total Liabilities | 2,630,229 | 2,729,235 |
| Net Position: | | |
| Investment in capital assets | 48,675,362 | 51,727,775 |
| Restricted for: | | |
| Public safety | 753,033 | 709,539 |
| Public works | 7,217,281 | 7,286,121 |
| Unrestricted | 20,812,891 | 20,244,464 |
| Total Net Position | \$ 77,458,567 | \$ 79,967,899 |

CITY OF PALOS VERDES ESTATES

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

| | Program Revenues | | | | Net Governmental Activities | |
|--------------------------------------|----------------------|----------------------|------------------------------------|----------------------------------|-----------------------------|----------------------|
| | Expenses | Charges for Services | Operating Contributions and Grants | Capital Contributions and Grants | 2014 | 2013 |
| Functions/Programs | | | | | | |
| Primary Government: | | | | | | |
| Governmental Activities: | | | | | | |
| General government | \$ 1,541,817 | \$ 49,934 | \$ 7,313 | \$ - | \$ (1,484,570) | \$ (2,064,796) |
| Public safety | 10,299,579 | 4,548,336 | 120,206 | 16,813 | (5,614,224) | (5,410,866) |
| Parks and recreation | 2,969,694 | 1,190,228 | 38,583 | - | (1,740,883) | (1,826,877) |
| Public works | 5,256,869 | 956,653 | 1,010,967 | 31,489 | (3,257,760) | (1,626,858) |
| Total Governmental Activities | \$ 20,067,959 | \$ 6,745,151 | \$ 1,177,069 | \$ 48,302 | (12,097,437) | (10,929,397) |
| General Revenues: | | | | | | |
| Taxes: | | | | | | |
| Property taxes | | | | | 6,494,061 | 6,098,959 |
| Sales and use taxes | | | | | 383,800 | 348,654 |
| Franchise taxes | | | | | 575,288 | 535,545 |
| Business licenses taxes | | | | | 208,990 | 204,486 |
| Other taxes | | | | | 200,627 | 185,626 |
| Motor vehicle in lieu - unrestricted | | | | | 1,183,953 | 1,126,463 |
| Investment Income | | | | | 256,100 | (12,470) |
| Miscellaneous | | | | | 285,286 | 177,821 |
| Total General Revenues | | | | | 9,588,105 | 8,665,084 |
| Change in Net Position | | | | | (2,509,332) | (2,264,313) |
| Net Position at Beginning of Year | | | | | 79,967,899 | 82,232,212 |
| Net Position at End of Year | | | | | \$77,458,567 | \$ 79,967,899 |

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CITY OF PALOS VERDES ESTATES

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

| | Special Revenue Funds | | | Capital Projects Funds |
|--|-----------------------|-------------------|-------------------------|------------------------------|
| | General | Special Projects | Special Fire Parcel Tax | General Capital Improvements |
| Assets: | | | | |
| Cash and investments | \$ 10,014,085 | \$ 823,479 | \$ 115,442 | \$ 8,469,301 |
| Accounts receivable | 428,610 | - | - | - |
| Interest receivable | 16,902 | 273 | 105 | 16,237 |
| Prepaid items | 66,208 | - | 369,403 | - |
| Due from other governments | - | 154,736 | 67,068 | - |
| Due from other funds | 28,331 | - | - | - |
| Inventory - materials | 33,260 | - | - | - |
| Total Assets | \$ 10,587,396 | \$ 978,488 | \$ 552,018 | \$ 8,485,538 |
| Liabilities, Deferred Inflows of Resources, and Fund Balances: | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 382,911 | \$ 370 | \$ - | \$ 110,257 |
| Accrued salaries and benefits | 249,990 | - | - | - |
| Unearned revenues | 131,109 | 115,686 | - | - |
| Deposits payable | - | - | - | - |
| Due to other funds | - | 28,331 | - | - |
| Total Liabilities | 764,010 | 144,387 | - | 110,257 |
| Deferred Inflows of Resources: | | | | |
| Unavailable revenues | 900 | 150,000 | - | - |
| Total Deferred Inflows of Resources | 900 | 150,000 | - | - |
| Fund Balances: | | | | |
| Nonspendable: | | | | |
| Inventory | 33,260 | - | - | - |
| Prepaid costs | 66,208 | - | 369,403 | - |
| Restricted for: | | | | |
| Public safety | - | - | 182,615 | - |
| Public works | - | 684,101 | - | - |
| Committed to: | | | | |
| Committed for emergency contingencies | 7,200,000 | - | - | - |
| Assigned to: | | | | |
| Capital Projects | - | - | - | 8,375,281 |
| Unassigned | 2,523,018 | - | - | - |
| Total Fund Balances | 9,822,486 | 684,101 | 552,018 | 8,375,281 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | \$ 10,587,396 | \$ 978,488 | \$ 552,018 | \$ 8,485,538 |

CITY OF PALOS VERDES ESTATES

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

| | Capital Projects Funds | | Totals | |
|--|------------------------|--------------------------|----------------------|----------------------|
| | Sewer | Other Governmental Funds | 2014 | 2013 |
| Assets: | | | | |
| Cash and investments | \$ 5,317,990 | \$ 1,403,103 | \$ 26,143,400 | \$ 26,334,325 |
| Accounts receivable | - | - | 428,610 | 390,115 |
| Interest receivable | 10,022 | 478 | 44,017 | 26,173 |
| Prepaid items | - | 3,241 | 438,852 | 430,178 |
| Due from other governments | 1,366 | 43,579 | 266,749 | 274,057 |
| Due from other funds | - | - | 28,331 | - |
| Inventory - materials | - | - | 33,260 | 26,694 |
| Total Assets | \$ 5,329,378 | \$ 1,450,401 | \$ 27,383,219 | \$ 27,481,542 |
| Liabilities, Deferred Inflows of Resources, and Fund Balances: | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ - | \$ 38,119 | \$ 531,657 | \$ 698,266 |
| Accrued salaries and benefits | - | 7,465 | 257,455 | 214,521 |
| Unearned revenues | - | - | 246,795 | - |
| Deposits payable | - | - | - | 126,380 |
| Due to other funds | - | - | 28,331 | - |
| Total Liabilities | - | 45,584 | 1,064,238 | 1,039,167 |
| Deferred Inflows of Resources: | | | | |
| Unavailable revenues | - | - | 150,900 | 150,000 |
| Total Deferred Inflows of Resources | - | - | 150,900 | 150,000 |
| Fund Balances: | | | | |
| Nonspendable: | | | | |
| Inventory | - | - | 33,260 | 26,694 |
| Prepaid costs | - | 3,241 | 438,852 | 430,178 |
| Restricted for: | | | | |
| Public safety | - | 201,015 | 383,630 | 354,458 |
| Public works | 5,329,378 | 1,200,561 | 7,214,040 | 7,132,811 |
| Committed to: | | | | |
| Committed for emergency contingencies | - | - | 7,200,000 | 7,200,000 |
| Assigned to: | | | | |
| Capital Projects | - | - | 8,375,281 | 9,051,662 |
| Unassigned | - | - | 2,523,018 | 2,096,572 |
| Total Fund Balances | 5,329,378 | 1,404,817 | 26,168,081 | 26,292,375 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | \$ 5,329,378 | \$ 1,450,401 | \$ 27,383,219 | \$ 27,481,542 |

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CITY OF PALOS VERDES ESTATES

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014**

Fund balances of governmental funds \$ 26,168,081

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

Capital assets net of depreciation have not been included as financial resources in governmental fund activity.

| | |
|-------------------------------|--------------|
| Capital Assets | 107,290,237 |
| Less accumulated depreciation | (59,297,009) |

Long-term debt and compensated absences that have not been included in the governmental fund activity:

| | |
|--------------------------------|-----------|
| Special Retirement Income Plan | (323,836) |
| Compensated Absences | (836,371) |
| Retrospective Deposits Payable | (303,494) |

Revenues reported as unavailable revenue in the governmental funds and recognized in the statement of activities. These are included in the intergovernmental revenues in the governmental fund activity. 150,900

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 position. 4,610,059

Net Position of governmental activities \$ 77,458,567

CITY OF PALOS VERDES ESTATES

STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

| | General | Special Revenue Funds | | Capital Projects Funds |
|--|---------------------|-----------------------|-------------------------|------------------------------|
| | | Special Projects | Special Fire Parcel Tax | General Capital Improvements |
| Revenues: | | | | |
| Property taxes | \$ 6,494,061 | \$ - | \$ - | \$ - |
| Special assessments | - | - | 4,299,284 | - |
| Other taxes | 1,368,705 | - | - | - |
| Licenses and permits | 605,924 | - | - | - |
| Revenues from other agencies | 1,205,422 | 83,680 | 10,038 | - |
| Charges for services | 407,283 | - | - | - |
| Use of money and property | 1,267,550 | 3,881 | 459 | 80,892 |
| Fines and forfeitures | 206,877 | - | - | - |
| Miscellaneous | 273,269 | - | - | 15,000 |
| Total Revenues | 11,829,091 | 87,561 | 4,309,781 | 95,892 |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 1,845,803 | - | - | - |
| Public safety | 5,924,133 | - | 4,260,342 | - |
| Parks and recreation | 1,141,517 | - | - | - |
| Public works | 1,427,205 | 63,764 | - | 1,472,273 |
| Total Expenditures | 10,338,658 | 63,764 | 4,260,342 | 1,472,273 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 1,490,433 | 23,797 | 49,439 | (1,376,381) |
| Other Financing Sources (Uses): | | | | |
| Transfers in | - | - | - | 700,000 |
| Transfers out | (1,063,000) | - | - | - |
| Total Other Financing Sources (Uses) | (1,063,000) | - | - | 700,000 |
| Net Change in Fund Balances | 427,433 | 23,797 | 49,439 | (676,381) |
| Fund Balances, Beginning of Year | 9,395,053 | 660,304 | 502,579 | 9,051,662 |
| Fund Balances, End of Year | \$ 9,822,486 | \$ 684,101 | \$ 552,018 | \$ 8,375,281 |

CITY OF PALOS VERDES ESTATES

STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

| | Capital Projects Funds | | Totals | |
|--|------------------------|--------------------------|----------------------|----------------------|
| | Sewer | Other Governmental Funds | 2014 | 2013 |
| Revenues: | | | | |
| Property taxes | \$ - | \$ - | \$ 6,494,061 | \$ 6,098,959 |
| Special assessments | 16,489 | - | 4,315,773 | 5,220,930 |
| Other taxes | - | - | 1,368,705 | 1,274,311 |
| Licenses and permits | - | - | 605,924 | 700,807 |
| Revenues from other agencies | - | 1,117,017 | 2,416,157 | 2,218,262 |
| Charges for services | - | - | 407,283 | 475,387 |
| Use of money and property | 52,793 | 6,399 | 1,411,974 | 1,089,146 |
| Fines and forfeitures | - | - | 206,877 | 205,614 |
| Miscellaneous | - | - | 288,269 | 176,121 |
| Total Revenues | 69,282 | 1,123,416 | 17,515,023 | 17,459,537 |
| Expenditures: | | | | |
| Current: | | | | |
| General government | - | 5,309 | 1,851,112 | 1,502,786 |
| Public safety | - | 113,253 | 10,297,728 | 9,850,716 |
| Parks and recreation | - | - | 1,141,517 | 1,078,136 |
| Public works | 144,261 | 678,457 | 3,785,960 | 4,971,104 |
| Total Expenditures | 144,261 | 797,019 | 17,076,317 | 17,402,742 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (74,979) | 326,397 | 438,706 | 56,795 |
| Other Financing Sources (Uses): | | | | |
| Transfers in | - | - | 700,000 | 882,596 |
| Transfers out | - | (200,000) | (1,263,000) | (1,460,596) |
| Total Other Financing Sources (Uses) | - | (200,000) | (563,000) | (578,000) |
| Net Change in Fund Balances | (74,979) | 126,397 | (124,294) | (521,205) |
| Fund Balances, Beginning of Year | 5,404,357 | 1,278,420 | 26,292,375 | 26,813,580 |
| Fund Balances, End of Year | \$ 5,329,378 | \$ 1,404,817 | \$ 26,168,081 | \$ 26,292,375 |

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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, 2014**

Net change in fund balances - total governmental funds \$ (124,294)

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. This is the amount by which capital outlays exceeded depreciation in the current period.

| | |
|------------------------------------|-------------|
| Depreciation | (4,011,957) |
| Capital outlay | 1,027,702 |
| Loss on disposal of capital assets | (206,431) |

| | |
|---|---------|
| To record change in the retrospective deposit payable reported on the Statement of Net Position | 258,023 |
|---|---------|

| | |
|---|----------|
| 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. | (43,373) |
|---|----------|

| | |
|--|---------|
| Governmental funds report all contributions in relation to the annual required contribution (ARC) for OPEB as expenditures, however in the statement of activities only the ARC is an expense. | (7,634) |
|--|---------|

| | |
|---|-----|
| Revenues reported as unavailable revenue in the governmental funds and recognized in the statement of activities. These are included in the intergovernmental revenues in the governmental fund activity. | 900 |
|---|-----|

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 position of the internal service funds | <u>597,732</u> |
|--|----------------|

| | |
|--|------------------------------|
| Change in net position of governmental activities | <u>\$ (2,509,332)</u> |
|--|------------------------------|

CITY OF PALOS VERDES ESTATES

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 JUNE 30, 2014

| | Governmental Activities - Internal Service Funds Total | |
|---|---|----------------------------|
| | <u>2014</u> | <u>2013</u> |
| Assets: | | |
| Current: | | |
| Cash and investments | \$ 4,052,128 | \$ 2,854,394 |
| Interest receivable | 5,573 | 3,213 |
| Prepaid items | 845 | 630,210 |
| | <u>4,058,546</u> | <u>3,487,817</u> |
| Total Current Assets | | |
| Capital assets | | |
| Machinery and equipment | 3,127,509 | 3,073,358 |
| Furniture and fixtures | 275,845 | 249,033 |
| Vehicles | 1,095,187 | 943,108 |
| Less accumulated depreciation | (3,816,407) | (3,721,638) |
| | <u>682,134</u> | <u>543,861</u> |
| Net Capital Assets | | |
| Total Assets | <u><u>\$ 4,740,680</u></u> | <u><u>\$ 4,031,678</u></u> |
| Liabilities and Net Position: | | |
| Liabilities: | | |
| Current liabilities: | | |
| Accounts payable | \$ 130,621 | \$ 19,351 |
| | <u>130,621</u> | <u>19,351</u> |
| Total Current Liabilities | | |
| Total Liabilities | <u>130,621</u> | <u>19,351</u> |
| Net Position: | | |
| Investment in Capital Assets | 682,134 | 543,861 |
| Unrestricted | 3,927,925 | 3,468,466 |
| | <u>4,610,059</u> | <u>4,012,327</u> |
| Total Net Position | | |
| Total Liabilities and Net Position | <u><u>\$ 4,740,680</u></u> | <u><u>\$ 4,031,678</u></u> |

CITY OF PALOS VERDES ESTATES

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

| | Governmental Activities - Internal Service Funds Totals | |
|---|--|---------------------|
| | 2014 | 2013 |
| Operating Revenues: | | |
| Charges for services | \$ 945,817 | \$ 725,275 |
| Other | - | 24,336 |
| Total Operating Revenues | 945,817 | 749,611 |
| Operating Expenses: | | |
| Materials and supplies | 7,063 | 51,336 |
| General liability insurance | 549,105 | 871,158 |
| Property and vehicle insurance | 18,588 | 18,347 |
| Workers compensation | 171,282 | - |
| Depreciation | 207,751 | 278,423 |
| Total Operating Expenses | 953,789 | 1,219,264 |
| Operating Income (Loss) | (7,972) | (469,653) |
| Nonoperating Revenues: | | |
| Interest revenue | 30,087 | 1,293 |
| Gain on disposal of capital assets | 12,617 | 2,375 |
| Total Nonoperating Revenues | 42,704 | 3,668 |
| Net income before transfers and contributions | 34,732 | (465,985) |
| Capital contributions from other funds | - | 71,268 |
| Transfers in | 563,000 | 578,000 |
| Changes in Net Position | 597,732 | 183,283 |
| Net Position: | | |
| Beginning of Fiscal Year | 4,012,327 | 3,829,044 |
| End of Fiscal Year | \$ 4,610,059 | \$ 4,012,327 |

CITY OF PALOS VERDES ESTATES

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2014

| | Governmental Activities - Internal Service Funds Totals | |
|--|--|---------------------|
| | 2014 | 2013 |
| Cash Flows from Operating Activities: | | |
| Cash received from user departments | \$ 945,817 | \$ 749,611 |
| Cash paid to suppliers for goods or services | (26,496) | (1,048,909) |
| Net Cash Provided by (Used in) Operating Activities | 919,321 | (299,298) |
| Cash Flows from Non-Capital Financing Activities: | | |
| Cash transfers in | 563,000 | 578,000 |
| Net Cash Provided by Non-Capital Financing Activities | 563,000 | 578,000 |
| Cash Flows from Capital and Related Financing Activities: | | |
| Acquisition and construction of capital assets | (324,931) | (148,209) |
| Proceeds from sales of capital assets | 12,617 | 2,375 |
| Net Cash Used in Capital and Related Financing Activities | (312,314) | (145,834) |
| Cash Flows from Investing Activities: | | |
| Interest received | 27,727 | 2,270 |
| Net Cash Provided by Investing Activities | 27,727 | 2,270 |
| Net Increase in Cash and Cash Equivalents | 1,197,734 | 135,138 |
| Cash and Cash Equivalents at Beginning of Year | 2,854,394 | 2,719,256 |
| Cash and Cash Equivalents at End of Year | \$ 4,052,128 | \$ 2,854,394 |
| Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities: | | |
| Operating income (loss) | \$ (7,972) | \$ (469,653) |
| Adjustments to reconcile operating income (loss) net cash provided by (used in) operating activities: | | |
| Depreciation | 207,751 | 278,423 |
| (Increase)/decrease in prepaid items | 626,628 | (126,415) |
| Increase (decrease) in accounts payable | 92,914 | 18,347 |
| Total Adjustments | 927,293 | 170,355 |
| Net Cash Provided by (Used in) Operating Activities | \$ 919,321 | \$ (299,298) |
| Non-Cash Investing, Capital, and Financing Activities: | | |
| Equipment acquisitions funded by governmental funds | \$ - | \$ 71,268 |

CITY OF PALOS VERDES ESTATES

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014

| | Agency Funds | |
|--------------------------|-------------------|-------------------|
| | 2014 | 2013 |
| Assets: | | |
| Cash and investments | \$ 174,973 | \$ 171,065 |
| Interest receivable | 62 | 82 |
| Total Assets | \$ 175,035 | \$ 171,147 |
| Liabilities: | | |
| Accounts payable | \$ 2,535 | \$ 5,328 |
| Deposits payable | 172,500 | 165,819 |
| Total Liabilities | \$ 175,035 | \$ 171,147 |

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CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1: Summary of Significant Accounting Policies

a. Reporting Entity

The City of Palos Verdes Estates (City), California was incorporated under the General Laws of the State of California on December 20, 1939. 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, 2013 (the most recent information available), audited financial statements indicated the following:

| | | |
|------------------------------|----|-----------|
| Total assets | \$ | 3,163,125 |
| Total liabilities | | 107,803 |
| Total equity (Net Position) | | 3,055,322 |
| Revenues | | 3,581,801 |
| Expenditures | | 3,023,278 |
| Net increase in net position | | 558,523 |

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 other financing sources. 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 *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.

Property taxes, franchise taxes, sales taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Note 1: Summary of Significant Accounting Policies (Continued)

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 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 position.

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 other financing sources. 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

Given their materiality and significance, 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 voter approved 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 government sources for purposes of funding major capital projects.

The Sewer Capital Projects Fund is used to account for funds received from a retired direct assessment levied by the City for the purpose of funding major sewer projects. Residual assessment funds that remain are to be used exclusively for sewer maintenance, repairs and 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

Note 1: Summary of Significant Accounting Policies (Continued)

basis. Specific funds included herein are the Equipment Replacement and Insurance Funds.

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. Specific funds included herein are the Special Deposit and Police Property Evidence Funds.

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

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 1: Summary of Significant Accounting Policies (Continued)

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.

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, 2014, 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, 2014, the total property taxes receivable is \$166,163.

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 position. 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. Deferred outflows/inflows of resources

In addition to assets, the statement of net position and governmental fund balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

Note 1: Summary of Significant Accounting Policies (Continued)

In addition to liabilities, the statement of net position and governmental fund balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet and is related to grant revenue.

j. 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.

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 Position. No expenditure has been reported for these long-term amounts. Compensated absences are reported in governmental funds only if they have matured.

k. 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.

Note 1: Summary of Significant Accounting Policies (Continued)

- 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.

I. Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

m. Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

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.

The City also monitors its unassigned fund balances in achieving policy established target reserve levels. Unassigned General Fund balances as of June 30, 2014 total \$2,523,018.

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 1: Summary of Significant Accounting Policies (Continued)

n. 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.

o. 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.

p. 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: Cash Investments

Cash investments as of June 30, 2014, are classified in the accompanying financial statements as follows:

| | |
|----------------------------|----------------------|
| Statement of net position: | |
| Cash and investments | \$ 30,195,528 |
| Fiduciary funds: | |
| Cash and investments | 174,973 |
| Total cash and investments | <u>\$ 30,370,501</u> |

Cash and investments as of June 30, 2014 consist of the following:

| | |
|--------------------------------------|----------------------|
| Cash on hand | \$ 1,500 |
| Deposits with financial institutions | 912,880 |
| Investments | 29,456,121 |
| Total cash and investments | <u>\$ 30,370,501</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, 2014

Note 2: 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 | Yes | N/A | 100% | 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.

The City has adopted an investment policy which establishes internal limits by investment type, and applies more restrictive requirements than state regulations.

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:

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2014

Note 2: Cash Investments (Continued)

| Investment Type | Total | Remaining Maturity (in months) | | |
|---------------------------------------|----------------------|--------------------------------|--------------------|---------------------|
| | | 12 Months Or Less | 13 to 36 Months | 25 to 60 Months |
| LAIF | \$ 19,013,651 | \$ 19,013,651 | \$ - | \$ - |
| Negotiable Certificates of Deposit | 3,472,060 | - | 496,282 | 2,975,778 |
| U.S. Agency Securities: | | | | |
| Federal Farm Credit Bank | 1,002,660 | - | - | 1,002,660 |
| Federal Home Loan Bank | 1,001,510 | - | - | 1,001,510 |
| Federal Home Loan Mortgage | 2,987,520 | - | - | 2,987,520 |
| Federal National Mortgage Association | 1,978,720 | - | - | 1,978,720 |
| Total | \$ 29,456,121 | \$ 19,013,651 | \$ 496,282 | \$ 9,946,188 |

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 by Standard and Poor's as of year-end for each investment type.

| Investment Type | Total | Minimum Legal Rating | Rating as of Year End | |
|---------------------------------------|----------------------|----------------------------|-----------------------|---------------------|
| | | | AA+ | Not Rated |
| LAIF | \$ 19,013,651 | N/A | \$ - | \$ 19,013,651 |
| Negotiable Certificates of Deposit | 3,472,060 | N/A | - | 3,472,060 |
| U.S. Agency Securities | | | | |
| Federal Farm Credit Bank | 1,002,660 | N/A | 1,002,660 | - |
| Federal Home Loan Bank | 1,001,510 | N/A | 1,001,510 | - |
| Federal Home Loan Mortgage | 2,987,520 | N/A | 2,987,520 | - |
| Federal National Mortgage Association | 1,978,720 | N/A | 1,978,720 | - |
| Total | \$ 29,456,121 | | \$6,970,410 | \$22,485,711 |

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 | \$ 2,987,520 |
| Federal National Mortgage Association | 1,978,720 |

Note 2: Cash Investments (Continued)

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. The City Treasurer may waive the collateral requirement for deposits that are fully insured up to \$250,000 by the FDIC.

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. Unrecognized losses due to fair value changes are offset against interest earnings in the reporting period.

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 3: Capital Assets

A summary of changes in capital asset activity for the year ended June 30, 2014, is as follows:

| | Balance at June 30, 2013 | Transfers | Additions | Deletions | Balance at June 30, 2014 |
|---------------------------------------|-----------------------------|--------------------|-----------------------|-------------------|-----------------------------|
| Governmental activities: | | | | | |
| Capital assets not being depreciated: | | | | | |
| Land | \$ 4,487,892 | \$ - | \$ - | \$ - | \$ 4,487,892 |
| Construction in progress | 1,685,596 | (1,685,596) | 210,656 | - | 210,656 |
| Total assets not being depreciated | <u>6,173,488</u> | <u>(1,685,596)</u> | <u>210,656</u> | <u>-</u> | <u>4,698,548</u> |
| Capital assets being depreciated: | | | | | |
| Building and improvements | 27,601,101 | - | 279,317 | 1,345,929 | 26,534,489 |
| Machinery | 4,274,649 | - | 213,714 | 408,357 | 4,080,006 |
| Furniture and fixtures | 610,320 | - | 26,812 | - | 637,132 |
| Vehicles | 943,108 | - | 265,061 | 112,982 | 1,095,187 |
| Infrastructure | <u>72,679,654</u> | <u>1,685,596</u> | <u>378,166</u> | <u>-</u> | <u>74,743,416</u> |
| Total assets being depreciated | <u>106,108,832</u> | <u>1,685,596</u> | <u>1,163,070</u> | <u>1,867,268</u> | <u>107,090,230</u> |
| Less accumulated depreciation for: | | | | | |
| Buildings and improvements | 16,408,355 | - | 1,738,623 | 1,139,498 | 17,007,480 |
| Machinery | 3,381,517 | - | 288,903 | 408,357 | 3,262,063 |
| Furniture and fixtures | 500,437 | - | 26,955 | - | 527,392 |
| Vehicles | 870,724 | - | 81,493 | 112,982 | 839,235 |
| Infrastructure | <u>39,393,512</u> | <u>-</u> | <u>2,083,734</u> | <u>-</u> | <u>41,477,246</u> |
| Total accumulated depreciation | <u>60,554,545</u> | <u>-</u> | <u>4,219,708</u> | <u>1,660,837</u> | <u>63,113,416</u> |
| Net capital assets being depreciated | <u>45,554,287</u> | <u>1,685,596</u> | <u>(3,056,638)</u> | <u>206,431</u> | <u>43,976,814</u> |
| Total capital assets | <u>\$ 51,727,775</u> | <u>\$ -</u> | <u>\$ (2,845,982)</u> | <u>\$ 206,431</u> | <u>\$ 48,675,362</u> |

The current year activity includes the write off of Bluff Cove home improvements in the carrying amount of \$206,431 given the City's plans to deconstruct them as evidenced in previous reports and fiscal plans presented to the governing body.

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

| | |
|--|---------------------|
| Governmental activities: | |
| General government | \$ 97,710 |
| Public safety | 1,851 |
| Public works | 2,084,219 |
| Parks and recreation | 1,828,177 |
| Internal service funds | <u>207,751</u> |
| Total depreciation expense-governmental activities | <u>\$ 4,219,708</u> |

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 4: Interfund Receivables, Payables and Transfers

The following summarizes the total transfers in and out as of June 30, 2014:

| | Transfers Out | | Total |
|-----------------------------------|---------------------|---|---------------------|
| | General Fund | Other Nonmajor Governmental Funds | |
| Transfers In | | | |
| General Capital Improvements Fund | \$ 500,000 | \$ 200,000 | \$ 700,000 |
| Internal Service Funds | 563,000 | - | 563,000 |
| Total: | <u>\$ 1,063,000</u> | <u>\$ 200,000</u> | <u>\$ 1,263,000</u> |

The transfers were made to fund various capital improvement projects and also fund the insurance internal service fund through department charges.

The composition of current interfund receivable and payable as of June 30, 2014, are as follows:

| | Due to Other Funds | |
|-----------------------------|--------------------------|------------------|
| | Special Projects Fund | Total |
| <u>Due From Other Funds</u> | | |
| General Fund | \$ 28,331 | \$ 28,331 |
| Total: | <u>\$ 28,331</u> | <u>\$ 28,331</u> |

The interfund balances relate to reimbursement for Prop A maintenance funds as of June 30, 2014.

Note 5: Long-Term Liabilities

A summary of changes in long-term liabilities for the fiscal year ended June 30, 2014, is as follows:

| | Balance at July 1, 2013 | Additions | Deletions | Balance at June 30, 2014 | Due Within One Year | Due Beyond One Year |
|--------------------------------|----------------------------|-------------------|---------------------|-----------------------------|------------------------|------------------------|
| Governmental activities: | | | | | | |
| Compensated absences | \$ 792,998 | \$ 692,982 | \$ 649,609 | \$ 836,371 | \$ 78,983 | \$ 757,388 |
| Plan benefits (note 8) | 316,202 | 25,509 | 17,875 | 323,836 | - | 323,836 |
| Retrospective deposit payable: | | | | | | |
| General liability | 438,487 | - | 352,106 | 86,381 | - | 86,381 |
| Workers' compensation | 123,030 | 94,083 | - | 217,113 | - | 217,113 |
| Total | <u>\$ 1,670,717</u> | <u>\$ 812,574</u> | <u>\$ 1,019,590</u> | <u>\$ 1,463,701</u> | <u>\$ 78,983</u> | <u>\$ 1,384,718</u> |

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

Note 5: 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, 2015 for the Workers' Compensation program. Retrospective deposit payments are scheduled to resume. The October 2013 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, 2014, the retrospective amount due was \$303,494.

Note 6: 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 119 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 6: 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 2013-14 reinsurance contracts the annual aggregate deductible is \$3.0 million and is fully retained by the Authority. (6) Costs of the covered claims from \$15 million to \$20 million are paid under reinsurance agreements. (7) Costs of covered claims from \$ 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 \$30 million per occurrence. This \$30 million subsidence sub-limit is composed of (a) \$5 million retained within the pool's SIR, (b) \$15 million in reinsurance and (c) \$10 million in excess insurance. The excess insurance layer has a \$10 million annual aggregate.

Note 6: Liability, Workers' Compensation, and Purchased Insurance (Continued)

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 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 \$46,122,474. 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 2013-14.

Note 7: 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, except for certain executive management employees hired before the end of this reporting period. The City's employer required annual contribution rate was 8.551% 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, 2014, the City's contribution of \$160,943 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2011, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), (b) project salary increases range from 3.30% to 14.20% for miscellaneous employees depending on age, service, and type of employment. This includes an inflation component of 2.75%. 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 twelve years.

THREE-YEAR TREND INFORMATION FOR PERS – Miscellaneous Plan

| <u>Fiscal Year</u> | <u>Required Contribution</u> | <u>Percentage Contributed</u> |
|--------------------|----------------------------------|-----------------------------------|
| 6/30/2012 | \$ 64,857 | 100% |
| 6/30/2013 | 72,529 | 100% |
| 6/30/2014 | 160,943 | 100% |

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.

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 7: Defined Benefits Pension Plan (Continued)

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 26.149% 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, 2014, the City's contribution of \$580,185 was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2011, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), (b) project salary increases range from 3.30% to 14.20% for safety employees depending on age, service, and type of employment. This includes an inflation component of 2.75%. 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 thirteen years.

THREE-YEAR TREND INFORMATION FOR PERS – Public Safety Plan

| <u>Fiscal Year</u> | <u>Required Contribution</u> | <u>Percentage Contributed</u> |
|--------------------|----------------------------------|-----------------------------------|
| 6/30/2012 | \$ 624,391 | 100% |
| 6/30/2013 | 547,327 | 100% |
| 6/30/2014 | 580,185 | 100% |

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.

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 8: 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2014

Note 8: 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 | \$ 34,900 |
| Interest on net plan obligation | 6,324 |
| Adjustment to annual required contribution | <u>(15,715)</u> |
| Annual plan cost | 25,509 |
| Contributions/benefits paid | <u>17,875</u> |
| Increase (decrease) in net plan obligation | 7,634 |
| Net plan obligation beginning of year | <u>316,202</u> |
| Net plan obligation end of year | <u><u>\$ 323,836</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 4.75% 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, 2012 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 4.75% per annum.
2. Average hire age for eligible employees is 27.
3. Average retirement age is 57.
4. Inflation rate of 2.75% 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.

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.

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2014

Note 8: Special Retirement Income Plan (Continued)

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, 2012:

| | Total | General Employees | Management | Police |
|--|------------|-------------------|------------|------------|
| Active: Pre-65 | \$ 303,577 | \$ 49,396 | \$ 79,244 | \$ 174,937 |
| Post-65 | - | - | - | - |
| Subtotal | 303,577 | 49,396 | 79,244 | 174,937 |
| Retiree: Pre-65 | 98,484 | - | - | 98,484 |
| Post-65 | - | - | - | - |
| Subtotal | 98,484 | - | - | 98,484 |
| Subtotal Pre-65 | 402,061 | 49,396 | 79,244 | 273,421 |
| Subtotal Post-65 | - | - | - | - |
| Grand Total | 402,061 | 49,396 | 79,244 | 273,421 |
| Funded at July 1, 2012 | - | - | - | - |
| Unfunded AAL | \$ 402,061 | \$ 49,396 | \$ 79,244 | \$ 273,421 |
| 1st Year UAAL Amortization at 4.75% 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 |
|------------------------|---------------------------|---------------------------------|-------------------------|------------------------|
| 2012 | \$ 28,248 | \$ 15,050 | 53% | \$ 303,076 |
| 2013 | 26,326 | 13,200 | 50% | 316,202 |
| 2014 | 25,509 | 17,875 | 70% | 323,836 |

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% |
| 7/1/2012 | - | 402,061 | 402,061 | - | 4,017,811 | 10.01% |

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 9: 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 10: Construction Commitments

As is the normal case from year-to-year, the City has active construction projects open, as of June 30, 2014, resulting from its biennial capital plan. The following projects remained under formal obligations with other approved project balances subject to rollover into the subsequent fiscal year. Project specifically obligated at year end include:

- Catch Basins \$162,418
- Citywide Gateway Enhancements \$ 40,505
- Del Sol Turnout \$ 74,904

Beyond these contractual commitments, the City recorded \$2,588,989 in approved project budgets on or before June 30, 2014.

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CITY OF PALOS VERDES ESTATES

BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 YEAR ENDED JUNE 30, 2014

| | Budget Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|---------------------|---------------------|---------------------|--|
| | Original | Final | | |
| Revenues: | | | | |
| Taxes | \$ 7,271,000 | \$ 7,271,000 | \$ 7,862,766 | \$ 591,766 |
| Licenses and permits | 685,000 | 685,000 | 605,924 | (79,076) |
| Intergovernmental | 1,140,200 | 1,140,200 | 1,205,422 | 65,222 |
| Charges for services | 447,545 | 447,545 | 407,283 | (40,262) |
| Use of money and property | \$ 1,094,000 | \$ 1,094,000 | \$ 1,267,550 | \$ 173,550 |
| Fines and forfeitures | 190,000 | 190,000 | 206,877 | 16,877 |
| Miscellaneous | 142,500 | 142,500 | 273,269 | 130,769 |
| Total Revenues | 10,970,245 | 10,970,245 | 11,829,091 | 858,846 |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 1,546,465 | 1,936,855 | 1,845,803 | 91,052 |
| Public safety | 6,072,295 | 6,144,095 | 5,924,133 | 219,962 |
| Parks and recreation | 1,118,075 | 1,153,075 | 1,141,517 | 11,558 |
| Public works | 1,642,800 | 1,711,710 | 1,427,205 | 284,505 |
| Total Expenditures: | 10,379,635 | 10,945,735 | 10,338,658 | 607,077 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 590,610 | 24,510 | 1,490,433 | 1,465,923 |
| Other Financing Sources | | | | |
| Transfers out | - | (1,228,000) | (1,063,000) | 165,000 |
| Total Other Financing Sources (Uses): | - | (1,228,000) | (1,063,000) | 165,000 |
| Net Change in Fund Balances | 590,610 | (1,203,490) | 427,433 | 1,630,923 |
| Fund Balances, Beginning of Year | 9,395,053 | 9,395,053 | 9,395,053 | - |
| Fund Balances, End of Year | \$ 9,985,663 | \$ 8,191,563 | \$ 9,822,486 | \$ 1,630,923 |

CITY OF PALOS VERDES ESTATES

BUDGETARY COMPARISON SCHEDULE
 SPECIAL PROJECTS
 YEAR ENDED JUNE 30, 2014

| | Budget Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Intergovernmental | \$ 203,000 | \$ 203,000 | \$ 83,680 | \$ (119,320) |
| Use of money and property | 2,700 | 2,700 | 3,881 | 1,181 |
| Total Revenues | 205,700 | 205,700 | 87,561 | (118,139) |
| Expenditures: | | | | |
| Current: | | | | |
| Public works | 19,620 | 79,620 | 63,764 | 15,856 |
| Total Expenditures: | 19,620 | 79,620 | 63,764 | 15,856 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 186,080 | 126,080 | 23,797 | (102,283) |
| Other Financing Sources | | | | |
| Transfers out | - | (32,596) | - | 32,596 |
| Total Other Financing Sources (Uses): | - | (32,596) | - | 32,596 |
| Net Change in Fund Balances | 186,080 | 93,484 | 23,797 | (69,687) |
| Fund Balances, Beginning of Year | 660,304 | 660,304 | 660,304 | - |
| Fund Balances, End of Year | \$ 846,384 | \$ 753,788 | \$ 684,101 | \$ (69,687) |

CITY OF PALOS VERDES ESTATES

**BUDGETARY COMPARISON SCHEDULE
SPECIAL FIRE PARCEL TAX
YEAR ENDED JUNE 30, 2014**

| | Budget Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|-----------------------|-------------------|---------------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Assessments | \$ 4,284,440 | \$ 4,284,440 | \$ 4,299,284 | \$ 14,844 |
| Intergovernmental | 9,000 | 9,000 | 10,038 | 1,038 |
| Use of money and property | - | - | 459 | 459 |
| Total Revenues | 4,293,440 | 4,293,440 | 4,309,781 | 16,341 |
| Expenditures: | | | | |
| Current: | | | | |
| Public safety | 4,275,235 | 4,275,235 | 4,260,342 | 14,893 |
| Total Expenditures: | 4,275,235 | 4,275,235 | 4,260,342 | 14,893 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 18,205 | 18,205 | 49,439 | 1,448 |
| Net Change in Fund Balances | 18,205 | 18,205 | 49,439 | 31,234 |
| Fund Balances, Beginning of Year | 502,579 | 502,579 | 502,579 | - |
| Fund Balances, End of Year | \$ 520,784 | \$ 520,784 | \$ 552,018 | \$ 31,234 |

CITY OF PALOS VERDES ESTATES

**REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014**

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 consistent with generally accepted accounting principles (GAAP). Accordingly, actual revenues and expenditures can be compared with related budgeted amounts without any significant reconciling items. A formal budget was not adopted for the Drug Intervention Special Revenue Fund, therefore a budgetary comparison is not presented for this fund.

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 and between departments based on policy based dollar limits. Budgetary revisions that alter the total appropriations of a fund and/or a capital project 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 obligations as well as any amendments authorized by the City Council.

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.

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, 2014

| | <u>Special Revenue Funds</u> | | | |
|--|------------------------------|------------------------------|--------------------------|------------------------|
| | <u>Gas Tax</u> | <u>Drug Intervention</u> | <u>SLESF</u> | <u>Corrections</u> |
| Assets: | | | | |
| Cash and investments | \$ 336,128 | \$ 81,513 | \$ 146,138 | \$ 5,521 |
| Interest receivable | 107 | 29 | 65 | - |
| Prepaid items | 3,241 | - | - | - |
| Due from other governments | 43,579 | - | - | - |
| Total Assets | <u>\$ 383,055</u> | <u>\$ 81,542</u> | <u>\$ 146,203</u> | <u>\$ 5,521</u> |
| Liabilities and Fund Balances: | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 6,385 | \$ - | \$ 31,734 | \$ - |
| Accrued salaries and benefits | 6,948 | - | 517 | - |
| Total Liabilities | <u>13,333</u> | <u>-</u> | <u>32,251</u> | <u>-</u> |
| Fund Balances: | | | | |
| Nonspendable: | | | | |
| Prepaid costs | 3,241 | - | - | - |
| Restricted for: | | | | |
| Public safety | - | 81,542 | 113,952 | 5,521 |
| Public works | 366,481 | - | - | - |
| Total Fund Balances | <u>369,722</u> | <u>81,542</u> | <u>113,952</u> | <u>5,521</u> |
| Total Liabilities and Fund Balances | <u>\$ 383,055</u> | <u>\$ 81,542</u> | <u>\$ 146,203</u> | <u>\$ 5,521</u> |

CITY OF PALOS VERDES ESTATES

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014

| | Special Revenue Funds | | | Total Nonmajor Governmental Funds |
|--|-----------------------|-------------------|-------------------|--|
| | Proposition A | Measure R | Proposition C | |
| Assets: | | | | |
| Cash and investments | \$ 545,423 | \$ 116,930 | \$ 171,450 | \$ 1,403,103 |
| Interest receivable | 185 | 37 | 55 | 478 |
| Prepaid items | - | - | - | 3,241 |
| Due from other governments | - | - | - | 43,579 |
| Total Assets | \$ 545,608 | \$ 116,967 | \$ 171,505 | \$ 1,450,401 |
| Liabilities and Fund Balances: | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ 38,119 |
| Accrued salaries and benefits | - | - | - | 7,465 |
| Total Liabilities | - | - | - | 45,584 |
| Fund Balances: | | | | |
| Nonspendable: | | | | |
| Prepaid costs | - | - | - | 3,241 |
| Restricted for: | | | | |
| Public safety | - | - | - | 201,015 |
| Public works | 545,608 | 116,967 | 171,505 | 1,200,561 |
| Total Fund Balances | 545,608 | 116,967 | 171,505 | 1,404,817 |
| Total Liabilities and Fund Balances | \$ 545,608 | \$ 116,967 | \$ 171,505 | \$ 1,450,401 |

CITY OF PALOS VERDES ESTATES

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

| | Special Revenue Funds | | | |
|--|------------------------------|------------------------------|-------------------|--------------------|
| | Gas Tax | Drug Intervention | SLESF | Corrections |
| Revenues: | | | | |
| Revenues from other agencies | \$ 445,916 | \$ - | \$ 100,000 | \$ 6,050 |
| Use of money and property | 1,219 | 410 | 848 | - |
| Total Revenues | 447,135 | 410 | 100,848 | 6,050 |
| Expenditures: | | | | |
| Current: | | | | |
| General government | - | - | - | - |
| Public safety | - | - | 108,451 | 4,802 |
| Public works | 288,879 | - | - | - |
| Total Expenditures | 288,879 | - | 108,451 | 4,802 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 158,256 | 410 | (7,603) | 1,248 |
| Other Financing Sources (Uses): | | | | |
| Transfers out | - | - | - | - |
| Total Other Financing Sources (Uses) | - | - | - | - |
| Net Change in Fund Balances | 158,256 | 410 | (7,603) | 1,248 |
| Fund Balances, Beginning of Year | 211,466 | 81,132 | 121,555 | 4,273 |
| Fund Balances, End of Year | \$ 369,722 | \$ 81,542 | \$ 113,952 | \$ 5,521 |

CITY OF PALOS VERDES ESTATES

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

| | <u>Special Revenue Funds</u> | | | <u>Total Nonmajor Governmental Funds</u> |
|--|------------------------------|-------------------|----------------------|--|
| | <u>Proposition A</u> | <u>Measure R</u> | <u>Proposition C</u> | |
| Revenues: | | | | |
| Revenues from other agencies | \$ 230,630 | \$ 142,767 | \$ 191,654 | \$ 1,117,017 |
| Use of money and property | 2,530 | 625 | 767 | 6,399 |
| Total Revenues | 233,160 | 143,392 | 192,421 | 1,123,416 |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 5,309 | - | - | 5,309 |
| Public safety | - | - | - | 113,253 |
| Public works | 200,000 | - | 189,578 | 678,457 |
| Total Expenditures | 205,309 | - | 189,578 | 797,019 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 27,851 | 143,392 | 2,843 | 326,397 |
| Other Financing Sources (Uses): | | | | |
| Transfers out | - | (200,000) | - | (200,000) |
| Total Other Financing Sources (Uses) | - | (200,000) | - | (200,000) |
| Net Change in Fund Balances | 27,851 | (56,608) | 2,843 | 126,397 |
| Fund Balances, Beginning of Year | 517,757 | 173,575 | 168,662 | 1,278,420 |
| Fund Balances, End of Year | \$ 545,608 | \$ 116,967 | \$ 171,505 | \$ 1,404,817 |

CITY OF PALOS VERDES ESTATES

BUDGETARY COMPARISON SCHEDULE
 GAS TAX
 YEAR ENDED JUNE 30, 2014

| | Budget Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Intergovernmental | \$ 417,975 | \$ 417,975 | \$ 445,916 | \$ 27,941 |
| Total Revenues | 418,600 | 418,600 | 447,135 | 28,535 |
| Expenditures: | | | | |
| Current: | | | | |
| Public works | 312,445 | 326,945 | 288,879 | 38,066 |
| Total Expenditures: | 312,445 | 326,945 | 288,879 | 38,066 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 106,155 | 91,655 | 158,256 | 66,601 |
| Net Change in Fund Balances | 106,155 | 91,655 | 158,256 | 66,601 |
| Fund Balances, Beginning of Year | 211,466 | 211,466 | 211,466 | - |
| Fund Balances, End of Year | \$ 317,621 | \$ 303,121 | \$ 369,722 | \$ 66,601 |

CITY OF PALOS VERDES ESTATES

BUDGETARY COMPARISON SCHEDULE
 SLESF
 YEAR ENDED JUNE 30, 2014

| | Budget Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|-------------------|------------------|-------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Intergovernmental | \$ 100,000 | \$ 100,000 | \$ 100,000 | \$ - |
| Use of money and property | - | - | 848 | 848 |
| Total Revenues | 100,000 | 100,000 | 100,848 | 848 |
| Expenditures: | | | | |
| Current: | | | | |
| Public safety | 55,080 | 193,080 | 108,451 | 84,629 |
| Total Expenditures: | 55,080 | 193,080 | 108,451 | 84,629 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 44,920 | (93,080) | (7,603) | (83,781) |
| Net Change in Fund Balances | 44,920 | (93,080) | (7,603) | 85,477 |
| Fund Balances, Beginning of Year | 121,555 | 121,555 | 121,555 | - |
| Fund Balances, End of Year | \$ 166,475 | \$ 28,475 | \$ 113,952 | \$ 85,477 |

CITY OF PALOS VERDES ESTATES

BUDGETARY COMPARISON SCHEDULE
CORRECTIONS
YEAR ENDED JUNE 30, 2014

| | Budget Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|-----------------|----------------|-------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Intergovernmental | \$ 3,000 | \$ 3,000 | \$ 6,050 | \$ 3,050 |
| Total Revenues | 3,000 | 3,000 | 6,050 | 3,050 |
| Expenditures: | | | | |
| Current: | | | | |
| Public safety | 3,000 | 6,500 | 4,802 | 1,698 |
| Total Expenditures: | 3,000 | 6,500 | 4,802 | 1,698 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | - | (3,500) | 1,248 | 4,748 |
| Net Change in Fund Balances | - | (3,500) | 1,248 | 4,748 |
| Fund Balances, Beginning of Year | 4,273 | 4,273 | 4,273 | - |
| Fund Balances, End of Year | \$ 4,273 | \$ 773 | \$ 5,521 | \$ 4,748 |

CITY OF PALOS VERDES ESTATES

BUDGETARY COMPARISON SCHEDULE
 PROPOSITION A
 YEAR ENDED JUNE 30, 2014

| | Budget Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Intergovernmental | \$ 205,000 | \$ 205,000 | \$ 230,630 | \$ 25,630 |
| Use of money and property | 1,800 | 1,800 | 2,530 | 730 |
| Total Revenues | 206,800 | 206,800 | 233,160 | 26,360 |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 5,310 | 5,310 | 5,309 | 1 |
| Public works | 200,000 | 200,000 | 200,000 | - |
| Total Expenditures: | 205,310 | 205,310 | 205,309 | 1 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 1,490 | 1,490 | 27,851 | 26,361 |
| Net Change in Fund Balances | 1,490 | 1,490 | 27,851 | 26,361 |
| Fund Balances, Beginning of Year | 517,757 | 517,757 | 517,757 | - |
| Fund Balances, End of Year | \$ 519,247 | \$ 519,247 | \$ 545,608 | \$ 26,361 |

CITY OF PALOS VERDES ESTATES

BUDGETARY COMPARISON SCHEDULE
 MEASURE R
 YEAR ENDED JUNE 30, 2014

| | Budget Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Intergovernmental | \$ 126,000 | \$ 126,000 | \$ 142,767 | \$ 16,767 |
| Use of money and property | 1,000 | 1,000 | 625 | (375) |
| Total Revenues | 127,000 | 127,000 | 143,392 | 16,392 |
| Other Financing Sources | | | | |
| Transfers out | - | (200,000) | (200,000) | - |
| Total Other Financing Sources (Uses): | - | (200,000) | (200,000) | - |
| Net Change in Fund Balances | 127,000 | (73,000) | (56,608) | 16,392 |
| Fund Balances, Beginning of Year | 173,575 | 173,575 | 173,575 | - |
| Fund Balances, End of Year | \$ 300,575 | \$ 100,575 | \$ 116,967 | \$ 16,392 |

CITY OF PALOS VERDES ESTATES

BUDGETARY COMPARISON SCHEDULE
 PROPOSITION C
 YEAR ENDED JUNE 30, 2014

| | Budget Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Intergovernmental | \$ 170,000 | \$ 170,000 | \$ 191,654 | \$ 21,654 |
| Use of money and property | 300 | 300 | 767 | 467 |
| Total Revenues | 170,300 | 170,300 | 192,421 | 22,121 |
| Expenditures: | | | | |
| Current: | | | | |
| Public works | 189,580 | 189,580 | 189,578 | 2 |
| Total Expenditures: | 189,580 | 189,580 | 189,578 | 2 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (19,280) | (19,280) | 2,843 | 22,119 |
| Net Change in Fund Balances | (19,280) | (19,280) | 2,843 | 22,123 |
| Fund Balances, Beginning of Year | 168,662 | 168,662 | 168,662 | - |
| Fund Balances, End of Year | \$ 149,382 | \$ 149,382 | \$ 171,505 | \$ 22,123 |

CITY OF PALOS VERDES ESTATES

**BUDGETARY COMPARISON SCHEDULE
GENERAL CAPITAL IMPROVEMENTS
YEAR ENDED JUNE 30, 2014**

| | Budget Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|-----------------------|---------------------|---------------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Use of money and property | \$ 50,000 | \$ 50,000 | \$ 80,892 | \$ 30,892 |
| Miscellaneous | - | - | 15,000 | 15,000 |
| Total Revenues | 50,000 | 50,000 | 95,892 | 45,892 |
| Expenditures: | | | | |
| Current: | | | | |
| Public works | 1,499,500 | 2,046,990 | 1,472,273 | 574,717 |
| Total Expenditures: | 1,499,500 | 2,046,990 | 1,472,273 | 574,717 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (1,449,500) | (1,996,990) | (1,376,381) | 620,609 |
| Other Financing Sources | | | | |
| Transfers in | - | - | 700,000 | 700,000 |
| Total Other Financing Sources (Uses): | - | - | 700,000 | 700,000 |
| Net Change in Fund Balances | (1,449,500) | (1,996,990) | (676,381) | 1,320,609 |
| Fund Balances, Beginning of Year | 9,051,662 | 9,051,662 | 9,051,662 | - |
| Fund Balances, End of Year | \$ 7,602,162 | \$ 7,054,672 | \$ 8,375,281 | \$ 1,320,609 |

CITY OF PALOS VERDES ESTATES

BUDGETARY COMPARISON SCHEDULE
SEWER
YEAR ENDED JUNE 30, 2014

| | Budget Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|---------------------|---------------------|---------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Assessments | \$ - | \$ - | \$ 16,489 | \$ 16,489 |
| Use of money and property | 50,000 | 50,000 | 52,793 | 2,793 |
| Total Revenues | 50,000 | 50,000 | 69,282 | 19,282 |
| Expenditures: | | | | |
| Current: | | | | |
| Public works | 3,985,000 | 4,265,420 | 144,261 | 4,121,159 |
| Total Expenditures: | 3,985,000 | 4,265,420 | 144,261 | 4,121,159 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (3,935,000) | (4,215,420) | (74,979) | 4,140,441 |
| Net Change in Fund Balances | (3,935,000) | (4,215,420) | (74,979) | 4,140,441 |
| Fund Balances, Beginning of Year | 5,404,357 | 5,404,357 | 5,404,357 | - |
| Fund Balances, End of Year | \$ 1,469,357 | \$ 1,188,937 | \$ 5,329,378 | \$ 4,140,441 |

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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 POSITION
INTERNAL SERVICE FUNDS
JUNE 30, 2014

| | <u>Governmental Activities - Internal Service Funds</u> | | |
|---|---|----------------------------|----------------------------|
| | <u>Equipment Replacement</u> | <u>Insurance</u> | <u>Totals</u> |
| Assets: | | | |
| Current: | | | |
| Cash and investments | \$ 2,727,176 | \$ 1,324,952 | \$ 4,052,128 |
| Interest receivable | 5,119 | 454 | 5,573 |
| Prepaid items | - | 845 | 845 |
| Total Current Assets | <u>2,732,295</u> | <u>1,326,251</u> | <u>4,058,546</u> |
| Capital assets | | | |
| Machinery and equipment | 3,127,509 | - | 3,127,509 |
| Furniture and fixtures | 275,845 | - | 275,845 |
| Vehicles | 1,095,187 | - | 1,095,187 |
| Less accumulated depreciation | (3,816,407) | - | (3,816,407) |
| Net Capital Assets | <u>682,134</u> | <u>-</u> | <u>682,134</u> |
| Total Assets | <u>\$ 3,414,429</u> | <u>\$ 1,326,251</u> | <u>\$ 4,740,680</u> |
| Liabilities and Net Position: | | | |
| Liabilities: | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 37,707 | \$ 92,914 | \$ 130,621 |
| Total Current Liabilities | <u>37,707</u> | <u>92,914</u> | <u>130,621</u> |
| Total Liabilities | <u>37,707</u> | <u>92,914</u> | <u>130,621</u> |
| Net Position: | | | |
| Net investment in Capital Assets | 682,134 | - | 682,134 |
| Unrestricted | 2,694,588 | 1,233,337 | 3,927,925 |
| Total Net Position | <u>3,376,722</u> | <u>1,233,337</u> | <u>4,610,059</u> |
| Total Liabilities and Net Position | <u>\$ 3,414,429</u> | <u>\$ 1,326,251</u> | <u>\$ 4,740,680</u> |

CITY OF PALOS VERDES ESTATES

COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2014

| | Governmental Activities - Internal Service Funds | | |
|---|---|---------------------|---------------------|
| | Equipment Replacement | Insurance | Totals |
| Operating Revenues: | | | |
| Charges for services | \$ 300,590 | \$ 645,227 | \$ 945,817 |
| Total Operating Revenues | 300,590 | 645,227 | 945,817 |
| Operating Expenses: | | | |
| Materials and supplies | 7,063 | - | 7,063 |
| General liability insurance | - | 549,105 | 549,105 |
| Property and vehicle insurance | - | 18,588 | 18,588 |
| Workers compensation | - | 171,282 | 171,282 |
| Depreciation | 207,751 | - | 207,751 |
| Total Operating Expenses | 214,814 | 738,975 | 953,789 |
| Operating Income (Loss) | 85,776 | (93,748) | (7,972) |
| Nonoperating Revenues (Expenses): | | | |
| Interest revenue | 25,566 | 4,521 | 30,087 |
| Gain (loss) on disposal of capital assets | 12,617 | - | 12,617 |
| Total Nonoperating Revenues (Expenses) | 38,183 | 4,521 | 42,704 |
| Net income before transfers | 123,959 | (89,227) | 34,732 |
| Transfers in | - | 563,000 | 563,000 |
| Changes in Net Position | 123,959 | 473,773 | 597,732 |
| Net Position: | | | |
| Beginning of Year | 3,252,763 | 759,564 | 4,012,327 |
| End of Fiscal Year | \$ 3,376,722 | \$ 1,233,337 | \$ 4,610,059 |

CITY OF PALOS VERDES ESTATES

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2014

| | <u>Governmental Activities - Internal Service Funds</u> | | |
|--|---|---------------------|---------------------|
| | <u>Equipment Replacement</u> | <u>Insurance</u> | <u>Totals</u> |
| Cash Flows from Operating Activities: | | | |
| Cash received from user departments | \$ 300,590 | \$ 645,227 | \$ 945,817 |
| Cash paid to suppliers for goods or services | (7,063) | (19,433) | (26,496) |
| Net Cash Provided by (Used in) Operating Activities | 293,527 | 625,794 | 919,321 |
| Cash Flows from Non-Capital Financing Activities: | | | |
| Cash transfers in | - | 563,000 | 563,000 |
| Net Cash Provided by Non-Capital Financing Activities | - | 563,000 | 563,000 |
| Cash Flows from Capital and Related Financing Activities: | | | |
| Acquisition and construction of capital assets | (324,931) | - | (324,931) |
| Proceeds from sales of capital assets | 12,617 | - | 12,617 |
| Net Cash Used in Capital and Related Financing Activities | (312,314) | - | (312,314) |
| Cash Flows from Investing Activities: | | | |
| Interest received | 23,274 | 4,453 | 27,727 |
| Net Cash Provided by (Used in) Investing Activities | 23,274 | 4,453 | 27,727 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 4,487 | 1,193,247 | 1,197,734 |
| Cash and Cash Equivalents at Beginning of Year | 2,722,689 | 131,705 | 2,854,394 |
| Cash and Cash Equivalents at End of Year | \$ 2,727,176 | \$ 1,324,952 | \$ 4,052,128 |
| Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities: | | | |
| Operating income (loss) | \$ 85,776 | \$ (93,748) | \$ (7,972) |
| Adjustments to reconcile operating income (loss) net cash provided by (used in) operating activities: | | | |
| Depreciation | 207,751 | - | 207,751 |
| (Increase)/decrease in prepaid items | - | 626,628 | 626,628 |
| Increase (decrease) in accounts payable | - | 92,914 | 92,914 |
| Total Adjustments | 207,751 | 719,542 | 927,293 |
| Net Cash Provided by (Used in) Operating Activities | \$ 293,527 | \$ 625,794 | \$ 919,321 |

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 STATEMENT OF NET POSITION
 ALL AGENCY FUNDS
 JUNE 30, 2014

| | <u>Special Deposits</u> | <u>Police Property Evidence</u> | <u>Totals</u> |
|--------------------------|-----------------------------|-------------------------------------|--------------------------|
| Assets: | | | |
| Cash and investments | \$ 161,365 | \$ 13,608 | \$ 174,973 |
| Interest receivable | 57 | 5 | 62 |
| Total Assets | <u>\$ 161,422</u> | <u>\$ 13,613</u> | <u>\$ 175,035</u> |
| | | | |
| Liabilities: | | | |
| Accounts payable | \$ 2,535 | \$ - | \$ 2,535 |
| Deposits payable | 158,887 | 13,613 | 172,500 |
| Total Liabilities | <u>\$ 161,422</u> | <u>\$ 13,613</u> | <u>\$ 175,035</u> |

CITY OF PALOS VERDES ESTATES

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 ALL AGENCY FUNDS
 YEAR ENDED JUNE 30, 2014

| | Balance 7/1/2013 | Additions | Deductions | Balance 6/30/2014 |
|---|--------------------------|-------------------------|-------------------------|--------------------------|
| <u>Special Deposits</u> | | | | |
| Assets: | | | | |
| Cash and investments | \$ 158,106 | \$ 10,442 | \$ 7,183 | \$ 161,365 |
| Interest receivable | 76 | 57 | 76 | 57 |
| Total Assets | <u>\$ 158,182</u> | <u>\$ 10,499</u> | <u>\$ 7,259</u> | <u>\$ 161,422</u> |
| Liabilities: | | | | |
| Accounts payable | \$ 5,328 | \$ 4,270 | \$ 7,063 | \$ 2,535 |
| Deposits payable | 152,854 | 10,498 | 4,465 | 158,887 |
| Total Liabilities | <u>\$ 158,182</u> | <u>\$ 14,768</u> | <u>\$ 11,528</u> | <u>\$ 161,422</u> |
| <u>Police Property Evidence</u> | | | | |
| Assets: | | | | |
| Cash and investments | \$ 12,959 | \$ 659 | \$ 10 | \$ 13,608 |
| Interest receivable | 6 | 5 | 6 | 5 |
| Total Assets | <u>\$ 12,965</u> | <u>\$ 664</u> | <u>\$ 16</u> | <u>\$ 13,613</u> |
| Liabilities: | | | | |
| Deposits payable | \$ 12,965 | \$ 664 | \$ 16 | \$ 13,613 |
| Total Liabilities | <u>\$ 12,965</u> | <u>\$ 664</u> | <u>\$ 16</u> | <u>\$ 13,613</u> |
| <u>Totals - All Agency Funds</u> | | | | |
| Assets: | | | | |
| Cash and investments | \$ 171,065 | \$ 11,101 | \$ 7,193 | \$ 174,973 |
| Interest receivable | 82 | 62 | 82 | 62 |
| Total Assets | <u>\$ 171,147</u> | <u>\$ 11,163</u> | <u>\$ 7,275</u> | <u>\$ 175,035</u> |
| Liabilities: | | | | |
| Accounts payable | \$ 5,328 | \$ 4,270 | \$ 7,063 | \$ 2,535 |
| Deposits payable | 165,819 | 11,162 | 4,481 | 172,500 |
| Total Liabilities | <u>\$ 171,147</u> | <u>\$ 15,432</u> | <u>\$ 11,544</u> | <u>\$ 175,035</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 contest 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. | 82-85 |
| Revenue Capacity | |
| These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax. | 86-94 |
| 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. | 95-96 |
| 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 | 97-98 |
| 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. | 99-101 |

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 Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

| | Fiscal Year | | | | | | | | | |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| Governmental activities | | | | | | | | | | |
| Net investment in capital assets | \$ 50,376 | \$ 55,508 | \$ 61,847 | \$ 60,831 | \$ 59,719 | \$ 56,687 | \$ 54,677 | \$ 53,240 | \$ 51,728 | \$ 48,675 |
| Restricted | 1,959 | 1,979 | 1,593 | 1,324 | 1,720 | 2,050 | 8,254 | 8,461 | 7,996 | 7,970 |
| Unrestricted | <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> | <u>20,244</u> | <u>20,813</u> |
| Total governmental activities net position | <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> | <u>\$ 79,968</u> | <u>\$ 77,458</u> |
| Primary government | | | | | | | | | | |
| Net investment in capital assets | \$ 50,376 | \$ 55,508 | \$ 61,847 | \$ 60,831 | \$ 59,719 | \$ 56,687 | \$ 54,677 | \$ 53,240 | \$ 53,240 | \$ 48,675 |
| Restricted | 1,959 | 1,979 | 1,593 | 1,324 | 1,720 | 2,050 | 8,254 | 8,461 | 8,461 | 7,970 |
| Unrestricted | <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> | <u>20,531</u> | <u>20,813</u> |
| Total primary government net position | <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> | <u>\$ 82,232</u> | <u>\$ 77,458</u> |

CITY OF PALOS VERDES ESTATES

Changes in Net Position

Last Ten Fiscal Years

(accrual basis of accounting)

(amounts expressed in thousands)

| | Fiscal Year | | | | | | | | | |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|--------------------|--------------------|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| Expenses: | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| General government | \$ 1,361 | \$ 1,385 | \$ 1,458 | \$ 1,504 | \$ 1,693 | \$ 1,592 | \$ 1,699 | \$ 1,573 | \$ 2,157 | \$ 1,542 |
| Public safety | 7,488 | 8,284 | 8,443 | 8,899 | 9,554 | 9,536 | 9,770 | 10,281 | 9,969 | 10,299 |
| Public works | 3,199 | 4,846 | 5,851 | 4,588 | 4,327 | 4,887 | 4,299 | 4,250 | 2,980 | 2,970 |
| Parks and recreation | 1,091 | 1,336 | 1,370 | 2,721 | 2,808 | 2,821 | 2,892 | 3,166 | 4,692 | 5,257 |
| Total governmental activities expenses | <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> | <u>\$ 19,798</u> | <u>\$ 20,068</u> |
| Program revenues: | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| General government | \$ 57 | \$ 54 | \$ 68 | \$ 56 | \$ 63 | \$ 68 | \$ 66 | \$ 56 | \$ 85 | \$ 50 |
| Public safety | 3,290 | 3,403 | 3,565 | 3,714 | 3,902 | 4,071 | 4,291 | 4,260 | 4,416 | 4,548 |
| Public works | 1,188 | 1,242 | 1,539 | 1,265 | 852 | 978 | 1,477 | 1,129 | 1,153 | 957 |
| Parks and recreation | 776 | 727 | 833 | 989 | 1,008 | 987 | 992 | 1,066 | 1,109 | 1,190 |
| Operating grants and contributions | 927 | 1,053 | 1,188 | 907 | 1,113 | 1,291 | 1,021 | 1,077 | 1,036 | 1,177 |
| Capital grants and contributions | 2,167 | 7,571 | 8,703 | 2,522 | 3,656 | 2,012 | 1,377 | 1,212 | 1,070 | 48 |
| Total governmental activities program revenues | <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> | <u>8,869</u> | <u>7,970</u> |
| Net (expense)/revenue | <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> | <u>\$ (10,929)</u> | <u>\$ (12,098)</u> |
| General revenues and other changes in net position: | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| Taxes: | | | | | | | | | | |
| Property taxes | \$ 4,287 | \$ 4,715 | \$ 5,157 | \$ 5,390 | \$ 5,661 | \$ 5,695 | \$ 5,743 | \$ 5,842 | \$ 6,099 | \$ 6,494 |
| Utility users tax | 2 | - | - | - | - | - | - | - | - | - |
| Sales and use taxes | 369 | 389 | 428 | 406 | 340 | 309 | 319 | 318 | 349 | 384 |
| Franchise taxes and other taxes | 828 | 850 | 891 | 886 | 850 | 813 | 961 | 897 | 925 | 985 |
| Motor vehicle in lieu tax (unrestricted) | 1,080 | 1,006 | 1,020 | 1,052 | 1,092 | 1,107 | 1,127 | 1,097 | 1,126 | 1,184 |
| Investment income | 191 | 335 | 544 | 456 | 241 | 97 | 208 | 186 | (12) | 256 |
| Miscellaneous | 230 | 136 | 118 | 200 | 80 | 491 | 79 | 143 | 178 | 285 |
| Total General Revenue and Extraordinary Item | <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> | <u>8,665</u> | <u>9,588</u> |
| Change in Net Position | <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> | <u>\$ (2,264)</u> | <u>\$ (2,510)</u> |

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

| | Fiscal Year | | | | | | | | | |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011* | 2012* | 2013* | 2014* |
| General fund: | | | | | | | | | | |
| Reserved | \$ 35 | \$ 19 | \$ 6 | \$ 37 | \$ 4 | \$ 57 | | | | |
| Unreserved | 6,595 | 7,012 | 7,256 | 7,468 | 8,472 | 8,472 | | | | |
| Total general fund | \$ 6,630 | \$ 7,031 | \$ 7,262 | \$ 7,505 | \$ 8,476 | \$ 8,529 | | | | |
| All other governmental funds: | | | | | | | | | | |
| Reserved | \$ 144 | \$ 53 | \$ 332 | \$ 330 | \$ 328 | \$ 335 | | | | |
| Unreserved, reported in: | | | | | | | | | | |
| Designated for capital projects | 3,963 | 3,640 | 2,371 | 2,709 | 1,857 | 291 | | | | |
| Special revenue funds | 2,337 | 2,493 | 1,717 | 1,436 | 2,064 | 1,716 | | | | |
| Capital projects funds | 15,409 | 15,189 | 16,008 | 14,190 | 14,901 | 17,099 | | | | |
| Total all other governmental funds | \$ 21,853 | \$ 21,375 | \$ 20,428 | \$ 18,665 | \$ 19,150 | \$ 19,441 | | | | |
| General fund: | | | | | | | | | | |
| Nonspendable | | | | | | | \$ 65 | \$ 86 | \$ 98 | \$ 99 |
| Restricted | | | | | | | - | - | - | - |
| Committed | | | | | | | 7,200 | 7,200 | 7,200 | 7,200 |
| Assigned | | | | | | | 957 | - | - | - |
| Unassigned | | | | | | | 1,111 | 1,605 | 2,097 | 2,523 |
| Total general fund | | | | | | | \$ 9,333 | \$ 8,891 | \$ 9,395 | \$ 9,822 |
| All other governmental funds: | | | | | | | | | | |
| Nonspendable | | | | | | | \$ 331 | \$ 3 | \$ 358 | \$ 373 |
| Restricted | | | | | | | 7,861 | 8,308 | 7,487 | 7,598 |
| Committed | | | | | | | - | - | - | - |
| Assigned | | | | | | | - | 9,611 | 9,052 | 8,375 |
| Unassigned | | | | | | | 10,106 | - | - | - |
| Total all other governmental funds | | | | | | | \$ 18,298 | \$ 17,922 | \$ 16,897 | \$ 16,346 |

* 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)

| | Fiscal Year | | | | | | | | | |
|--|-----------------|---------------|---------------|---------------|-----------------|---------------|-----------------|-----------------|-----------------|-----------------|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| Revenues: | | | | | | | | | | |
| Property Tax | \$ 4,288 | \$ 4,715 | \$ 5,157 | \$ 5,390 | \$ 5,661 | \$ 5,695 | \$ 5,693 | \$ 5,842 | \$ 6,099 | \$ 6,494 |
| Special assessment | 4,390 | 4,617 | 4,594 | 4,924 | 5,140 | 5,098 | 5,316 | 5,044 | 5,221 | 4,316 |
| Utility user tax | 2 | - | - | - | - | - | - | - | - | - |
| Other taxes | 1,383 | 1,474 | 1,532 | 1,479 | 1,385 | 1,378 | 1,574 | 1,214 | 1,274 | 1,369 |
| Licenses and permits | 583 | 574 | 784 | 654 | 545 | 514 | 625 | 675 | 701 | 606 |
| Fines and forfeitures | 169 | 181 | 177 | 191 | 190 | 181 | 210 | 212 | 206 | 2,416 |
| Use of money and agencies | 1,310 | 1,588 | 2,093 | 2,058 | 1,639 | 1,300 | 1,175 | 1,228 | 1,089 | 407 |
| Revenues from other agencies | 1,882 | 1,895 | 2,027 | 1,771 | 3,088 | 2,155 | 2,051 | 2,278 | 2,218 | 1,412 |
| Charges for services | 708 | 756 | 860 | 678 | 410 | 549 | 501 | 454 | 475 | 207 |
| Miscellaneous | 254 | 383 | 135 | 323 | 89 | 975 | 79 | 144 | 176 | 288 |
| Total revenues | <u>14,969</u> | <u>16,183</u> | <u>17,359</u> | <u>17,468</u> | <u>18,147</u> | <u>17,845</u> | <u>17,224</u> | <u>17,091</u> | <u>17,459</u> | <u>17,515</u> |
| Expenditures | | | | | | | | | | |
| General government | 1,307 | 1,317 | 1,475 | 1,437 | 1,561 | 1,536 | 1,595 | 1,437 | 1,503 | 1,851 |
| Public safety | 7,479 | 8,285 | 8,813 | 8,893 | 9,504 | 10,877 | 10,805 | 10,368 | 9,851 | 10,298 |
| Public works | 6,122 | 5,395 | 5,557 | 5,164 | 4,514 | 4,014 | 3,913 | 4,938 | 4,971 | 3,786 |
| Parks and recreation | 886 | 940 | 952 | 1,123 | 1,113 | 1,074 | 1,091 | 1,166 | 1,078 | 1,141 |
| Total expenditures | <u>15,794</u> | <u>15,937</u> | <u>16,797</u> | <u>16,617</u> | <u>16,692</u> | <u>17,501</u> | <u>17,404</u> | <u>17,909</u> | <u>17,403</u> | <u>17,076</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(825)</u> | <u>246</u> | <u>562</u> | <u>851</u> | <u>1,455</u> | <u>344</u> | <u>(180)</u> | <u>(818)</u> | <u>56</u> | <u>439</u> |
| Other financing sources (uses): | | | | | | | | | | |
| Transfers in | 1,762 | 891 | 2,326 | 1,709 | 541 | 563 | 5,357 | 1,162 | 883 | 700 |
| Transfers out | (1,762) | (891) | (2,335) | (1,709) | (541) | (563) | (5,515) | (1,162) | (1,461) | (1,263) |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>(9)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(158)</u> | <u>-</u> | <u>(578)</u> | <u>(563)</u> |
| Net change in fund balances | <u>\$ (825)</u> | <u>\$ 246</u> | <u>\$ 553</u> | <u>\$ 851</u> | <u>\$ 1,455</u> | <u>\$ 344</u> | <u>\$ (338)</u> | <u>\$ (818)</u> | <u>\$ (522)</u> | <u>\$ (124)</u> |

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

| <u>Fiscal Year</u> | <u>Property Tax</u> | <u>Utility Users Tax</u> | <u>Sales and Use Tax</u> | <u>Franchise and Other Taxes</u> | <u>Motor Vehicle in Lieu Tax</u> | <u>Total</u> |
|--------------------|---------------------|--------------------------|--------------------------|----------------------------------|----------------------------------|--------------|
| 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 |
| 2013 | 6,098,958 | - | 348,653 | 925,656 | 1,126,463 | 8,499,730 |
| 2014 | 6,494,061 | - | 383,800 | 984,905 | 1,183,953 | 9,046,719 |

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)

| 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 | | | |
| 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 | 5,095,980 | 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% |
| 2013 | 5,419,878 | 48,191 | 4,344 | 7,389 | 5,465,024 | 0.1130% |
| 2014 | 5,696,771 | 48,936 | 4,285 | 8,128 | 5,741,864 | 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 | | | | | Total Direct 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 | |
| 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 |
| 2013 | 0.1130 | 0.8870 | 1.00000 | 0.0241 | - | 0.0035 | 0.0064 | - | 0.0488 | 1.08279 |
| 2014 | 0.1130 | 0.8870 | 1.00000 | 0.0231 | - | 0.0035 | 0.0061 | - | 0.0445 | 1.07727 |

Source: Los Angeles County Auditor Controller's Office.

CITY OF PALOS VERDES ESTATES

Principal Property Taxpayers
Current Year and Nine Years Ago

| Taxpayer | 2014 | | | 2005 | | |
|------------------------------------|------------------------|------|---|------------------------|------|---|
| | 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 | \$ 32,144,499 | 1 | 0.56% | \$ 25,071,517 | 1 | 0.64% |
| Masafumi Miyamoto | 14,509,162 | 2 | 0.25% | 12,566,501 | 2 | 0.32% |
| Jackson and Julie Yang | 12,956,520 | 3 | 0.23% | 10,084,833 | 4 | 0.26% |
| Jose A. and Brigitte Collazo Trust | 12,004,581 | 4 | 0.21% | 8,261,573 | 7 | 0.21% |
| Richard C. Lundquist Trust | 11,121,433 | 5 | 0.19% | 8,211,456 | 8 | 0.21% |
| Jason and Wendy Moskowitz Trust | 10,853,505 | 6 | 0.19% | 10,247,524 | 3 | 0.26% |
| Gill Family Trust | 10,571,106 | 7 | 0.18% | | | |
| Timothy D. Amour Trust | 10,167,800 | 8 | 0.18% | | | |
| Palos Verdes Gold Club | 9,877,551 | 9 | 0.17% | | | |
| Lowell W and Lisa B. Hill | 9,873,788 | 10 | 0.17% | | | |
| Ta Hsiung & Chyi Chuen Kao | | | | 8,428,975 | 5 | 0.22% |
| Bernadette Chao Trust | | | | 8,354,778 | 6 | 0.21% |
| Stanley & Cindy Change Trust | | | | 7,839,311 | 9 | 0.20% |
| Robert A. & Kathle4en M. Eckert | | | | 7,828,213 | 10 | 0.20% |
| | <u>\$134,079,945</u> | | <u>2.33%</u> | <u>\$ 106,894,681</u> | | <u>2.73%</u> |

Source: Los Angeles County Assessor

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

| <u>Year Ended June 30</u> | <u>Taxes Levied for the Fiscal Year</u> | <u>Collected within the Fiscal Year of the Levy</u> | | <u>Collections in Subsequent Years (1)</u> | <u>Total Collections to Date</u> | |
|---------------------------|---|---|------------------------|--|----------------------------------|------------------------|
| | | <u>Amount</u> | <u>Percent of Levy</u> | | <u>Amount</u> | <u>Percent of Levy</u> |
| 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% |
| 2013 | 5,793,667 | 5,689,018 | 98.19% | - | 5,689,018 | 98.19% |
| 2014 | 6,121,791 | 6,031,018 | 98.52% | - | 6,031,018 | 98.52% |

Note: 1- The County of Los Angeles does not provide this information. Inclusion of amounts paid of prior year taxes 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 | Total Direct Tax Rate |
|---------------------------|--------------------------------|--------|------------------------------|---------------------|----------------------|----------------------|---------------------|-----------|--|
| | Parcels w/ Bldg. - Improvement | Vacant | Residential Property | Commercial Property | Total Square Footage | Residential Property | Commercial Property | | |
| 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 | |
| 2013 | 5,125 | | 15,376,945 | 242,466 | 15,619,411 | 4,076,952 | 48,930 | 4,125,882 | \$293.22/parcel plus \$0.16794/sq.ft |
| 2013 | 0 | 67 | 0 | 0 | 0 | 19,646 | 0 | 19,646 | |
| 2014 | 5,124 | | 15,407,685 | 242,466 | 15,650,151 | 4,213,652 | 50,511 | 4,264,162 | \$302.69/parcel plus \$0.173366/sq.ft |
| 2014 | 0 | 67 | 0 | 0 | 0 | 20,280 | 0 | 20,280 | |

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

Principal Special Fire Taxpayers

June 30, 2014

Current Year and Prior Year

| Property Owners | 2014 | | |
|---|-------------------------------------|------------------------------|---|
| | Building Square Footage Value | Special Fire Tax Assessed | Percentage of Building Square Footage |
| Lunada Bay Investment Co. | 36,478 | \$ 6,626.72 | 0.23% |
| Chen Tei Fu Co. Trust | 29,678 | 5,447.84 | 0.19% |
| Lunada Bay Apartments Ltd. | 23,361 | 4,352.68 | 0.15% |
| Plaza Palos Verdes LLC | 23,203 | 4,325.30 | 0.15% |
| 50 parcels (special fire tax paid over \$2,000) | 564,376 | 111,767.39 | 3.61% |
| 822 parcels (special fire tax paid between \$1,000-\$1,999) | 4,386,614 | 1,009,292.78 | 28.03% |
| 4319 parcels (special fire tax paid less than \$1,000 each) | 10,586,441 | 3,142,629.69 | 67.64% |
| Total | <u>15,650,151</u> | <u>\$ 4,284,442.40</u> | <u>100.00%</u> |

CITY OF PALOS VERDES ESTATES

Principal Special Fire Taxpayers

June 30, 2013

Current Year and Prior Year

| Property Owners | 2013 | | |
|---|-------------------------------------|------------------------------|---|
| | Building Square Footage Value | Special Fire Tax Assessed | Percentage of Building Square Footage |
| Lunada Bay Investment Co. | 36,478 | \$ 6,419.40 | 0.23% |
| Chen Tei Fu Co. Trust | 29,678 | 5,277.40 | 0.19% |
| Lunada Bay Apartments Ltd. | 23,361 | 4,216.50 | 0.15% |
| Plaza Palos Verdes LLC | 23,203 | 4,189.96 | 0.15% |
| 41 parcels (special fire tax paid over \$2,000) | 582,014 | 109,765.45 | 3.00% |
| 705 parcels (special fire tax paid between \$1,000-\$1,999) | 3,935,600 | 867,664.78 | 25.20% |
| 4446 parcels (special fire tax paid less than \$1,000 each) | 11,101,797 | 3,168,097.50 | 71.08% |
| Total | <u>15,732,131</u> | <u>\$ 4,165,630.99</u> | <u>100.00%</u> |

CITY OF PALOS VERDES ESTATES

Fire Tax Rates

Direct Government

Last Five Fiscal Years

| | <u>City Direct Tax Rate</u> |
|------|---------------------------------|
| 2010 | 0.24690 |
| 2011 | 0.25690 |
| 2012 | 0.25650 |
| 2013 | 0.26540 |
| 2014 | 0.27380 |

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
Direct and Overlapping Governmental Activities Debt
June 30, 2014

2013-2014 Assessed Valuation: \$5,751,883,700

| Governmental Unit | Outstanding Debt 6/30/14 | Estimated Percentage Applicable | Estimated Share of |
|--|-----------------------------|---------------------------------------|----------------------------|
| Overlapping General Fund Debt (Note 1) | | | |
| Los Angeles County General Fund Obligations | \$ 1,835,420,030 | 0.505% | \$ 9,268,871 |
| Los Angeles County Superintendent of Schools COP'S | 9,529,882 | 0.505% | 48,126 |
| Los Angeles County Sanitation District- | | | |
| South Bay Authorities | 6,055,916 | 16.294% | 986,751 |
| Los Angeles County Sanitation District #5 | 35,543,738 | 0.558% | 198,334 |
| Direct & Overlapping Tax & Assessment Debt (Note 2) | | | |
| Los Angeles Community College District | 3,642,560,000 | 0.920% | 33,511,552 |
| Palos Verdes Peninsula Unified School District | 75,600,531 | 29.491% | 22,295,353 |
| Los Angeles Regional Park & Open Space | | | |
| Assessment District | 113,615,000 | 0.505% | 573,756 |
| Palos Verdes Library District | 3,530,000 | 28.092% | 991,648 |
| Metropolitan Water District | 132,275,000 | 0.263% | 347,883 |
| Los Angeles County Flood District | 17,480,000 | 0.514% | <u>89,847</u> |
| Subtotal, overlapping debt | | | 68,312,121 |
| City direct debt | | | (0) |
| Less: Los Angeles County General Fund Obligations supported by landfill revenues | | | <u>25,428</u> |
| Net Total direct and overlapping debt | | | <u><u>\$68,286,693</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 country'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, 2014

(dollars in thousands)

| | |
|--|---------------------|
| Assessed value before homeowners exemption | <u>\$ 5,751,884</u> |
| Debt limit- 15% of assessed value | \$ 862,783 |
| Amount of debt applicable to debt limit | <u>-</u> |
| Legal debt margin | <u>\$ 862,783</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> | <u>2013</u> | <u>2014</u> |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Debt Limit | \$586,564 | \$633,657 | \$ 686,784 | \$724,261 | \$764,297 | \$780,406 | \$777,524 | \$798,635 | \$819,753 | \$862,783 |
| 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>\$ 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> | <u>\$ 819,753</u> | <u>\$ 862,783</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: 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

| Calendar Year | City Population | LA County Population (thousands) (2) | Personal Income (millions of dollars) (2) | Per Capital Personal Income (2) | Unemployment Rate (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) | 12,944 | 575,045 | 44,423 | 3.1 |
| 2012 | 13,516 (1) | 13,052 | 604,832 | 46,337 | 2.7 |
| 2013 | 13,589 (1) | * | * | * | 2.3 |
| 2014 | 13,665 (1) | * | * | * | 1.9 |

- 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

| <u>Type of Business (1)</u> | <u>Number of Employees</u> | <u>Rank</u> | <u>Percentage of Total City Employment</u> |
|------------------------------------|----------------------------|-------------|--|
| Unified School District | 569 | 1 | 59.46% |
| Concession Clubs | | | |
| Palos Verdes Golf Club | 100 | 2 | 13.38% |
| Palos Verdes Beach & Athletic Club | 16 | | |
| Palos Verdes Tennis Club | 6 | | |
| Palos Verdes Stables | 6 | | |
| City Government | | | |
| City of Palos Verdes Estates | 57.425 | 3 | 6.00% |
| Real Estate and Escrow Companies | 27 | 4 | 2.82% |
| Restaurants | <u>24</u> | 5 | <u>2.51%</u> |
| Total | <u>805.425</u> | | <u>84.17%</u> |

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>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> |
|-----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| General Government: | | | | | | | | | | |
| Administration | 5.400 | 5.400 | 5.520 | 5.520 | 5.520 | 5.520 | 5.520 | 5.125 | 5.125 | 5.125 |
| Finance | 3.600 | 3.600 | 3.600 | 3.600 | 3.600 | 3.600 | 3.600 | 3.000 | 3.000 | 4.000 |
| Building and Planning | 3.000 | 2.250 | 2.500 | 2.500 | 2.500 | 2.500 | 2.500 | 2.000 | 2.000 | 3.000 |
| Police: | | | | | | | | | | |
| Sworn officers | 25.000 | 25.000 | 25.000 | 25.000 | 25.000 | 25.000 | 25.000 | 25.000 | 25.000 | 25.000 |
| Service officers (2) | 10.000 | 10.000 | 11.000 | 11.000 | 12.000 | 12.000 | 12.000 | 12.000 | 12.000 | 12.000 |
| Other | 2.530 | 3.530 | 3.330 | 3.330 | 2.500 | 1.500 | 2.500 | 2.500 | 2.800 | 2.800 |
| Street and Parks | <u>5.000</u> | <u>5.000</u> | <u>5.000</u> | <u>5.000</u> | <u>5.000</u> | <u>5.500</u> | <u>5.500</u> | <u>5.500</u> | <u>5.500</u> | <u>5.500</u> |
| Total | 54.530 | 54.780 | 55.950 | 55.950 | 56.120 | 55.620 | 56.620 | 55.125 | 55.425 | 57.425 |

Source: City Finance Department

Notes:

- (1) The City contracts with the following:
 - a) Los Angeles County for fire and paramedic services
 - b) Charles Abott & Associates for building, planning and public works administrative services.
- (2) Includes 1 Community Relations Officer and 1 Traffic Control Officer
- (3) Starting in FY 2013-2014, schedule has reclassified full time employees by function.

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

| Function/Program | Fiscal Year | | | | | | | | | |
|---|-------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| Police: | | | | | | | | | | |
| Physical arrests | 825 | 681 | 899 | 797 | 594 | 419 | 237 | 503 | 590 | 679 |
| Parking violations | 1,958 | 2,768 | 2,898 | 2,901 | 3,010 | 3,002 | 3,029 | 2,917 | 2,705 | 2,580 |
| Moving violations | 1,386 | 943 | 758 | 958 | 553 | 798 | 1,102 | 1,191 | 1,552 | 1,068 |
| Building & Planning: | | | | | | | | | | |
| Building permits issues | 1,744 | 2,052 | 2,458 | 2,197 | 1,614 | 1,650 | 1,843 | 1,994 | 2,025 | 2,064 |
| Total number of inspections | 4,170 | 4,068 | 4,072 | 3,898 | 2,763 | 220 | 2,507 | 2,565 | 2,442 | 2,336 |
| Grading applications | 27 | 24 | 27 | 23 | 20 | 17 | 17.5 | 11.5 | 18.0 | 20.5 |
| Neighborhood compatibility applications | 71 | 64 | 57 | 49 | 35 | 32.5 | 33 | 23 | 27 | 29 |
| Miscellaneous applications | 22 | 23 | 30 | 34 | 44 | 53 | 38.50 | 57.00 | 50.00 | 46.00 |
| Public Works: | | | | | | | | | | |
| Public works permits | 237 | 294 | 241 | 272 | 322 | 200 | 178 | 227 | 191 | 219 |
| Street resurfacing (miles) | 1.3 | 1.3 | 8.7 | 8.7 | 9.9 | 3.55 | 3.28 | 3.35 | 3.62 | 0.78 |

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 | Fiscal Year | | | | | | | | | |
|----------------------------|-------------|------|------|------|------|------|------|------|------|------|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| 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) | 27 | 28.5 | 28.5 | 28.8 | 28.5 | 28.5 | 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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