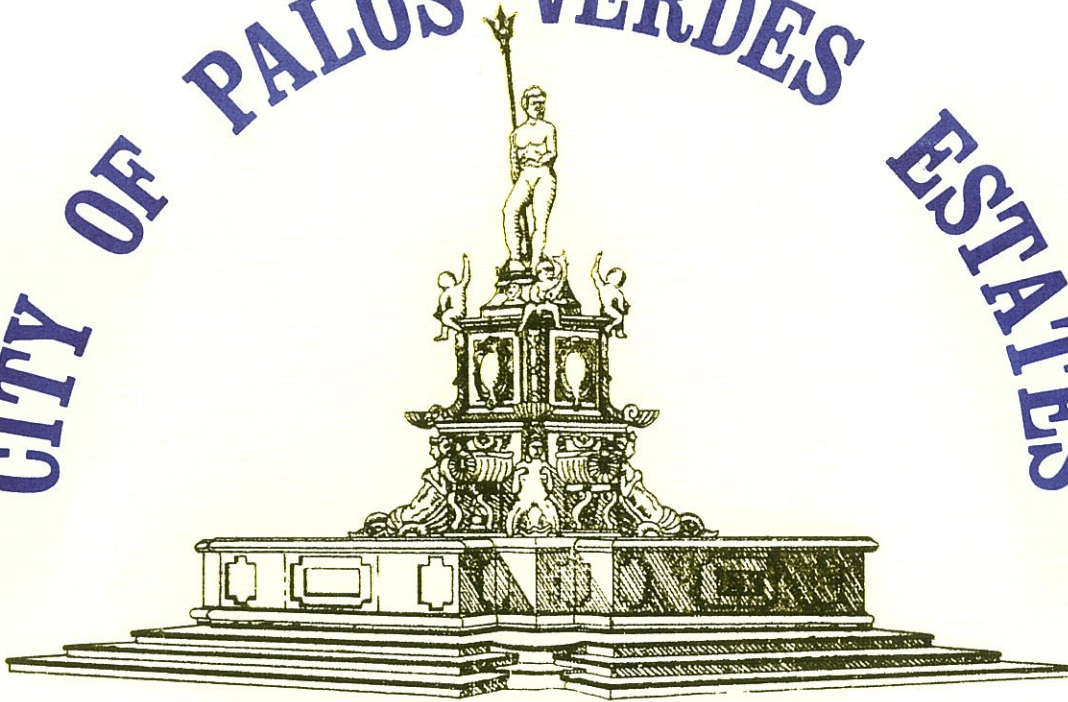


**CITY OF PALOS VERDES  
ESTATES**



**INCORPORATED 1939**

**CALIFORNIA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
year ended June 30, 2016



**CITY OF PALOS VERDES ESTATES  
PALOS VERDES ESTATES, CALIFORNIA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**WITH REPORT ON AUDIT  
BY INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS**

**FOR THE YEAR ENDED JUNE 30, 2016**

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# CITY OF PALOS VERDES ESTATES

## COMPREHENSIVE ANNUAL FINANCIAL REPORT JUNE 30, 2016

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January 16, 2017

Honorable Mayor and Members of the City Council:

It is the policy of the City of Palos Verdes Estates to annually publish 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, 2016.

This report consists of City 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 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 statements 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 statements are complete and reliable in all material aspects.

The City’s financial statements have been audited by White Nelson Diehl Evans, LLP, an independent public accountancy firm. The firm was retained by the City in fiscal year 2015/16; this completes their first year engagement with the City. 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 unmodified (“clean”) opinion that the City’s financial statements for the fiscal year ended June 30, 2016 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, is comprised primarily of residential lots with panoramic views overlooking the Pacific Ocean and Los Angeles metropolitan area along with large areas of parklands that are maintained

as permanent open space. The City was incorporated in 1939 and is the oldest of the four cities on the Palos Verdes Peninsula. The City's population is 13,589 within an area of 4.75 square miles. As a residential community with almost no commercial tax base, the City depends significantly on property taxes and a special parcel tax to provide services to the public.

The City has operated under the council-manager form of government. Policy-making and legislative authority are vested in five City Council members. City Council members are elected on a non-partisan basis. Elections are 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 all hiring decisions. Voters also elect, every four years, a City Treasurer who is responsible for the City's investment and banking decisions.

City employees provide the following public services: public safety; planning and building services; public works, maintenance of City buildings, parkways, medians and streets; and general administrative services. The City contracts with the Los Angeles County Fire Department for fire suppression and paramedic services. The City also contracts with private firms for professional engineering and capital project management; building plan check, permitting and inspection; information technology services; refuse collection; and grounds maintenance. The City maintains an exclusive franchise for residential refuse collection. The City also maintains 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 adopts a two-year budget document; however, the City Council reviews and affirms 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 balanced 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 contingencies, 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 revenue source. Other fund balances that are non-spendable; restricted; assigned and unassigned, are established in conformance with the adopted Council policy and GASB 54.

**Government Accounting Standards Board (GASB) 68 – A Foundational Change** – The valuable impact of this accounting standard that became effective in the prior reporting year cannot be understated. It effectively calls for the full-accrual recording of actuarially determined employee pension obligations as of the date of this report. As such, our City, and all cities across the country, are preparing financial reports that include these material liabilities. In the case of our City, a pension liability impact of \$9.7 million is included herein. With the standard's introduction, some points of clarification are important. Firstly, it is notable that the subject pension liabilities should not be interpreted to have direct/near term budgetary impact; which is to say, budget projections of cost remain whole as presented and determined. This is because budgets are primarily built on a cash, or on a fund-accounting, basis. Secondly, it is also evident that the inclusion of pension liabilities properly communicates the long term cost of such benefits. It also underscores the challenges, as discussed in current and past budgets, faced by cities in managing the rising cost of operations in a limited revenue source environment. The presence of GASB 68 is the single largest change in the last several years of reporting.

**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 Investment Policy. The Investment Policy defines the objectives and priorities of the investment program; it is centered on the safety and liquidity of funds as the highest two priorities, as per California government code. 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**

The following list highlights the City's accomplishments during the past fiscal year. These accomplishments generally reflect efforts of the entire organization – City Council, City Manager, Executive staff, Police Department and all employees. It is not intended to be a comprehensive list but is a good representation of the efforts to serve the community.

- Bluff Cove Deconstruction Project: Following a determination that the seven city owned homes should be demolished and the property retained as open space, this project was completed with over \$658,709 expended in this year of reporting. As of the date of this presentation, the project is completed and was done so within the allotted project budget.
- Public Works projects completed during the year included the construction of sewer force mains for Rocky Point Road Sewage Pump Station and Paseo del Mar Sewage Pump Station. Total project cost of \$1,692,472.
- Initiated installation of catch-basin inserts to comply with federally mandated storm water requirements.
- Public Safety: In the Police Department, accomplishments included continued emergency preparedness planning efforts through the City's Disaster District Plan (DDP) expanding

on the prior year procurement of 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, added 8 Volunteers in Patrol (VIPS) & Parkland Rangers to assist with efforts to enhance community outreach and policing efforts.

- Automated License Plate Reader (ALPR) System: The Peninsula Cities in coordination partnered on a comprehensive program to install an ALPR system to enhance law enforcement efforts.
- PVE-CARES: Added two annual events: 1) Teen Tech event (paired High School students to teach seniors how to work digital devices such as computers, 2) “Dr. Talk” Brain fitness for seniors along with adding 7 new volunteers.
- Capital Improvements: Construction projects included street maintenance and reconstruction, curb and gutter improvements, purchase of safety equipment and vehicle replacements.
- New Contract for Engineering & Building Services: The firm of HR Green was retained to assist in engineering projects and to provide contract personnel to provide plan review and inspection for building related services.
- Community Development: Over 2,100 building permits were issued focusing on additions and new construction of homes.
- Forestry: The City’s urban forest has over 10,000 trees. Over 1,500 trees were trimmed or removed to maintain a rural character and maintain a high level of safety.
- Fiscal Plan: Finance and all Department teams, building on the City’s well-established and successful foundation, adopted the first-year of the two-year budget and have set a standard for the upcoming biennial document moving forward. This financial report affirms the quality of the projections made in this past biennial as all budget limits and reserve balances have been met according to plan. This past year the City again received an award for excellence in financial reporting in lines with its tradition.
- Organization Leadership and Management: This past year, the City received and reviewed over 2,089 applications for vacant positions; such as, Police Services Officer, Police Officer Lateral/Academy Graduate, Police Services Aide, Part-time Office Specialist, Part-time Receptionist, Part-time Planner, Seasonal Maintenance Worker, Administrative Analyst; and among them, the introduction of a new Urban Forester and City Engineer/Public Works Director.
- Organizational Professional Training & Development: City staff participated in over 40 mandated training/webinars specific to their position. This has greatly assisted the City in maintaining required certification for its employees and provided the knowledge and tools to continue to provide excellent customer service to our residents.
- Technology: Advances in technology were completed again this year including the launch of an outsourced citywide printing-support contract and a major upgrade to citywide servers including efficient virtualization. This past year also saw the completion of the full installation of the City’s 911 communications system following the records management upgrade the prior year.

## 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 overwhelmingly residential predominately with 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. 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 3% 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.

**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 affect necessary infrastructure maintenance and replacement is a challenge for both our City and those that surround us. Similarly, a determination for continuance of the Fire and Paramedic Special Parcel Tax that expires in 2017, is necessary for long-term planning. The special tax accounts for approximately 27% of the City's core services to the public. As the City projects forward, the funding of its infrastructure remains a key focus of both challenge and opportunity. Developing a long range model that both anticipates and funds the maintenance or replacement of key city assets is critical to fostering the quality of life that our City is known for. These major assets include: Sewer and storm water systems; City buildings & equipment; technology capabilities; the urban forest; open spaces; roadways, curbs & gutters and general city equipment.

## 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, 2015. In order to receive a Certificate of Achievement, the City

published an 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 thank the City Council and City Treasurer for support of 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 Donna Coonan, Michelle Mello and Teresa Bowers for their vision, management, diligence, assistance, and service in achieving the City's financial success during the year.

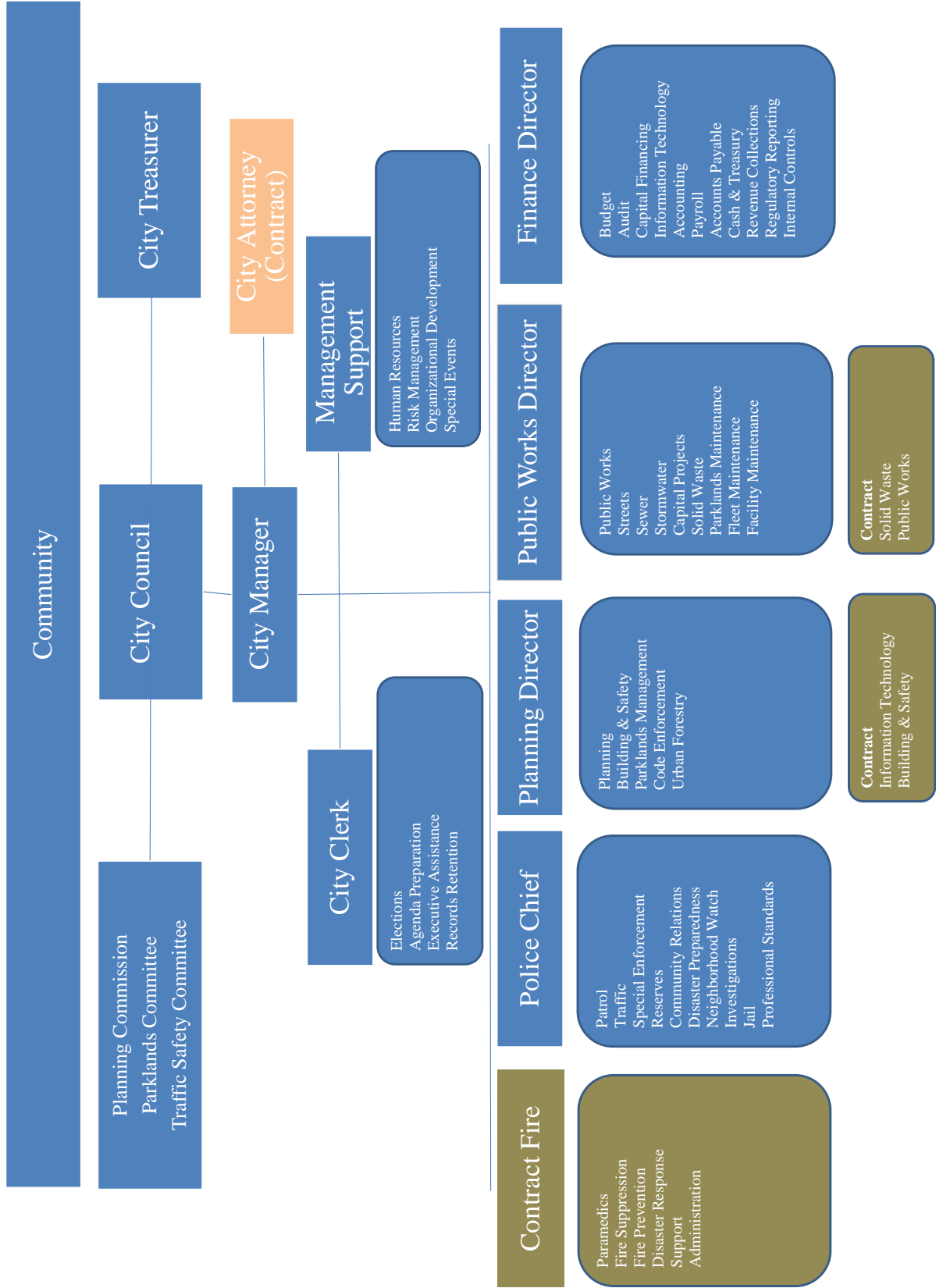


Anton Dahlerbruch  
City Manager



John Downs  
Finance Director

# City of Palos Verdes Estates - Organizational Structure



# Elected Officials & Executive Team

## ELECTED OFFICIALS

Mayor

Jennifer L. King

Myor Pro Tem

James D. Vandever

Council Members

Betty Lin Peterson

John Rea

James F. Goodhart

City Treasurer

Joseph C. Sherwood, Jr.

## EXECUTIVE TEAM

City Manager

Anton Dahlerbruch

City Attorney

Christi Hogin

Finance Director

John Downs

Chief of Police

Jeff Kepley

City Clerk

Vickie Kroneberger

Planning & Building/Deputy City Manager

Sheri Repp-Loadsman

Public Works

Ken Rukavina





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, 2015**

Executive Director/CEO

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## INDEPENDENT AUDITORS' REPORT

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

### **Report on the 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, 2016, 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.

### **Auditors' 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 basic 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 auditors' 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 auditors consider internal control relevant to the City'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 City'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.

## **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, as of June 30, 2016, 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**

### *Report on Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of proportionate share of the net pension liability for the miscellaneous and safety plans, the schedules of plan contributions for the miscellaneous and safety plans, and the budgetary comparison schedules for the General Fund, Special Projects Special Revenue Fund, and the Special Fire Parcel Tax Special Revenue Fund, identified as Required Supplementary Information (RSI) in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *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 schedules, and statistical section, as listed in the table of contents, 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 (supplementary information), as listed in the table of contents, is the responsibility of management and was derived from and relates 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 supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

## **Other Matters (Continued)**

### *Other Information (Continued)*

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 express no opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2017, 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 the 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.

*White Nelson Dick Evans LLP*

Irvine, California  
January 16, 2017

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## MANAGEMENT DISCUSSION AND ANALYSIS

This discussion and analysis of the City of Palos Verdes Estates' financial performance provides an overview of the financial activities of the City for the fiscal year ended June 30, 2016. 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**

#### **Government-wide / Full Accrual Basis**

- In FY 14/15 the Government Accounting Standards Board (GASB) introduced GASB 68. This fundamentally new reporting standard, a continued move in the industry to calibrate local government with private reporting, requires the full recording of pension liabilities and their fiscal sensitivities. Based upon CalPERS provided actuarial studies, this financial report quantifies the City's pension liability at June 30, 2016 at \$9,345,440. Although this recently stated liability has no near term budgetary cash impact, as is the case for all government agencies nationwide, this adjustment decrements the full-accrual equity presentation substantially illustrating the true costs and obligations of defined benefit plans.
- The City's net position at the end of fiscal year 2015-2016 totaled \$61,475,945. Including the impact of GASB 68, this is a decrease of \$3,050,669 or 4.73% lower compared to the prior year. The City's net investment in capital assets at June 30, 2016 totaled \$45,357,579, a decrease of \$648,358 mostly attributable to the annual depreciation net of additions and dispositions.
- Unrestricted net position, which may be used to meet the government's ongoing obligations, totaled \$9,701,800 net of the impact of the pension liabilities noted above.
- Net position restricted for special purposes, including public works and public safety, totaled \$6,416,566. Of this total, \$3,684,585 represents assets restricted for sanitary sewer improvements as part of the sewer capital fund and \$2,731,981 restricted special revenue dollars.

#### **Governmental Funds / Budgetary Basis**

- The General Fund ended the year in a balanced and surplus position. As of June 30, 2016, the General Fund balance was \$11,328,384, an increase of \$878,045 (or 8.40%). General Fund revenues exceeded expenditures by \$878,045 consistent with the prior year and in line with budget projections set in the updated two-year plan. The City achieved these operating surpluses due to moderate growth in its revenue base, anchored by residential property values, and the continued cost conscious delivery of core municipal services. FY 2015-16 results include General Fund revenue of \$13,237,705 and expenditures of \$12,359,660. Revenues available for appropriation were \$698,105 more than budgeted while actual expenditures were \$5,497 above budget.
- During the year, the City's governmental revenues totaled \$19,129,081, an increase of \$776,464, or 4.23%, from the prior year. General governmental expenditures totaled \$21,247,385 for the fiscal year end, an increase in expenditures of \$2,384,327, or 12.64% from the prior year. Revenue increases were mostly General Fund driven and expenditure increases reflect an emphasis on capital improvements outlay in the public works arena. Overall governmental expenditures exceeded revenue by \$2,118,304 or 11.07%.

- The City has maintained its prudent reserve posture. 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 meets 50% of the City's total operating budget and exceeds 58% of the General Fund expenditures. Restricted balances include \$3,684,585 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 15-17 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 75-79 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 fund financial statements can be found on pages 15-17 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 89-92 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 93-95 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes can be found on pages 29-66 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 75-88.

### **Government-wide / Full Accrual 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. GASB 34, in its own right, was quite a significant shift in reporting. As mentioned above, with the introduction of GASB 68, the reporting model and the Government-wide financial statements have made yet another material shift as it relates to pension liabilities.

As noted earlier, net position can, 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 years 2014-15 and 2015-2016 are shown in Table 1. For fiscal year 2015-16, assets exceeded liabilities by \$61,475,945.

Net Position	2016	2015
Current and other assets	28,549,095	31,571,730
Capital assets	45,357,579	46,005,936
Total Assets	<b>73,906,674</b>	<b>77,577,666</b>
Deferred Outflows	<b>1,074,121</b>	<b>1,218,843</b>
Non Current liabilities	(1,327,626)	(1,506,973)
Pension Liabilities & Deferred Inflows	(9,345,440)	(8,165,477)
Other liabilities	(1,073,417)	(1,746,438)
Total liabilities	<b>(11,746,483)</b>	<b>(11,418,888)</b>
Deferred Inflows	<b>(1,758,367)</b>	<b>(2,851,007)</b>
Net Invested in capital assets	45,357,579	46,005,936
Restricted	6,416,566	7,773,508
Unrestricted	9,701,800	10,747,170
<b>Total net position</b>	<b>61,475,945</b>	<b>64,526,614</b>

The largest portion of the City’s net position (74%) 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’s net position (10%) represent resources that are subject to legal restrictions on how they may be used. The remaining balance of unrestricted net position (16%) 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 \$5,096,516 or 53% of the unrestricted net position.

**Governmental activities.** During FY 15/16, the City’s net position, including depreciation and capital spending, decreased \$3,050,669 considering all governmental activity, which is attributable to expenses in excess of program and general revenues.

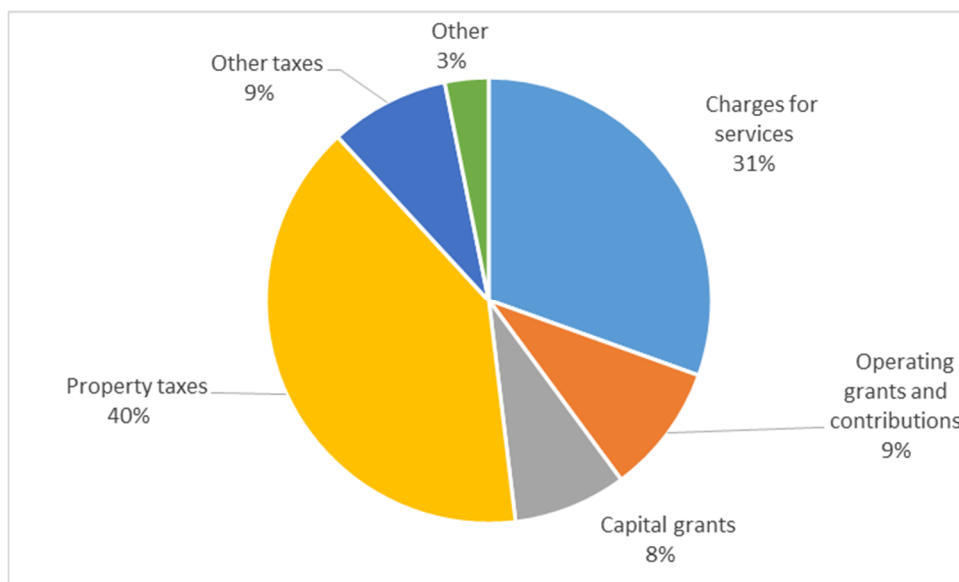
Table 2 below displays the changes by activity area followed by a revenue and expenses breakdown.

**Table 2**

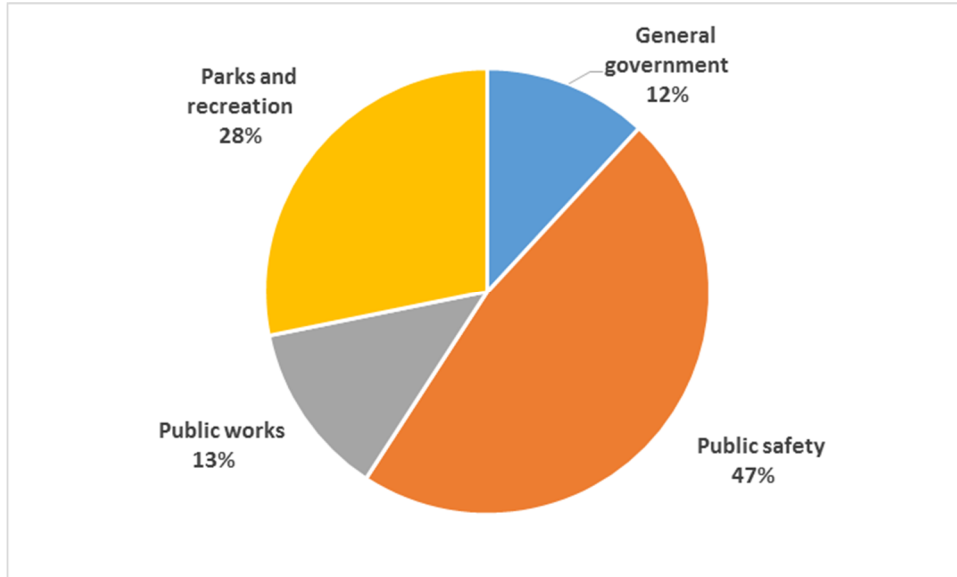
Changes in Net Position

<b>Activities</b>	<b>2016</b>	<b>2015</b>	<b>Change (in dollars)</b>
<b>Program revenues:</b>			
Charges for services	6,520,473	7,145,187	(624,714)
Operating grants and contributions	2,012,613	1,353,267	659,346
Capital grants and contributions	1,755,994	20,491	1,735,503
<b>General revenues:</b>			
Property taxes	8,570,992	6,858,942	1,712,050
Other taxes	1,858,197	2,717,397	(859,200)
Other	680,654	557,617	123,037
<b>Total revenues</b>	<b><u>21,398,923</u></b>	<b><u>18,652,901</u></b>	<b><u>2,746,022</u></b>
<b>Expenses:</b>			
General government	2,910,838	2,244,250	666,588
Public safety	11,555,448	10,476,439	1,079,009
Public works	3,092,448	3,012,404	80,044
Parks and recreation	6,890,858	5,703,028	1,187,830
<b>Total expenses</b>	<b><u>24,449,592</u></b>	<b><u>21,436,121</u></b>	<b><u>3,013,471</u></b>
Increase in net position	(3,050,669)	(2,783,220)	(267,449)
Net position beginning	<b><u>64,526,614</u></b>	<b><u>77,458,567</u></b>	<b><u>(2,783,220)</u></b>
GASB 68 Restatement		(10,148,733)	10,148,733
Net position June 30, 2015	<b><u>61,475,945</u></b>	<b><u>64,526,614</u></b>	<b><u>7,098,064</u></b>

**Figure 1 – Revenues - Governmental Activities FY 2015-2016**



**Figure 2 – Expenses – Governmental Activities FY 2015-16**



**Fund Financial Statements / Budgetary Basis**

***Governmental Funds***

The City of Palos Verdes Estates’ governmental funds ending fund balances totaled \$23,237,336, a decrease of \$2,118,304 or 8.35% compared to the prior year. For the fiscal year ending June 30, 2016, the governmental funds restricted fund balances totaled \$6,416,566, including \$3,684,585 (57%) for sanitary sewer capital improvements. The General Fund committed fund balance was maintained at \$7,200,000 in line with City policy. The assigned fund balance for the governmental funds totaled \$5,096,516 and consists primarily of capital fund reserves. The unassigned fund balance of the General Fund totaled \$4,113,807, nearly \$900,000 above last year’s number.

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. Its balance totaled \$11,328,384, an increase of \$878,045, or 8.40%, above the prior. In the end result the General Fund attained a favorable operating surplus of \$878,045 with revenues exceeding budget by 5.57% and expenditures under budget by .04%.

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. The L.A. County Proposition A Parks Funds Grant of \$150,000 reported on last year was collected by the City in FY 15-16 and restricted until in subsequent periods.

The Special Fire Parcel Tax Fund balance increased \$65,181, commensurate with last year. Fire contract services through Los Angeles County totaled \$4,452,695, an increase of \$103,909 (2.35%) compared to the prior year. Revenue from the special fire tax assessments totaled \$4,580,191. Other revenues totaled \$10,685.

The Sewer Capital Projects Fund balance totals \$3,684,585. Other ancillary revenue totaled \$42,133 while infrastructure improvements totaled \$1,495,987. As authorization for the property-owner approved sewer user fee expired in FY 12/13, 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's fund balance decreased \$2,035,277 and ended the year with a balance of \$5,096,516. Significant capital expenditures characterized the year totaling \$2,087,591, consistent with the prior year. Operating revenue is primarily made up of interest earnings and other ancillary income which totaled \$52,314. 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 \$608,840, a decrease of \$186,842 from the prior year. Total Net Position, including capital values, in the Equipment Replacement and Insurance Funds at year end equaled \$3,850,781 and \$991,288 respectively for a total of \$4,842,069. This reflects an overall decrease of \$88,884.

### **General Fund Budgetary Highlights**

The difference between the original General Fund budget and the final amended budget expenditures was an increase of \$5,497. The final amended General Fund budget totaled \$12,539,600 for revenue and \$12,365,157 for expenditures. Transfers of \$773,000 were estimated in the updated FY 15/16 budget, mostly to fund capital projects.

At year end, budget results were favorable on both sides of the equation. General Fund revenues came in \$698,105 (5.57%) above estimates while General fund expenditures were \$5,497 (0.04%) less than budget. Most of the savings occurred within general governmental services and parklands and were mostly associated with salary savings and a decrease in fee related professional services. Public Safety and Public Works exceeded their appropriations by \$251,885 offsetting the general governmental and parklands savings.

### **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, 2016, totals \$45,357,579 (net of accumulated depreciation). This is a decrease of \$648,357 compared to the prior year. This investment in capital assets includes land, buildings, improvements, machinery/equipment, vehicles, furniture, streets, sewers and storm drains. During the year, governmental fund capital additions totaled \$1,883,289 and construction in progress expenditures of \$2,321,869 were brought to completion. The most significant change in balances have to do with annual depreciation cost incurred. Major capital expenditures incurred during the year include the following:

- Street construction projects totaling \$518,608.
- Completion of sewer force main projects totaling \$1,692,472.
- Purchase and installation of a replacement City generator \$62,337.
- Replacement of two vehicles within the Equipment Replacement fund for the Police Department totaling \$82,419.

**Figure 3 – Capital Assets (net of Depreciation)**

<b>Capital Assets</b>	<b>2016</b>	<b>2015</b>	<b>Change (in dollars)</b>
Land	4,487,892	4,487,892	-
Construction in progress	41,945	459,310	(417,365)
Building and improvements	7,622,152	7,829,913	(207,761)
Machinery and equipment	613,353	610,318	3,035
Furniture and fixtures	20,283	43,138	(22,855)
Vehicles	446,221	455,510	(9,289)
Infrastructure	32,125,733	32,119,855	5,878
<b>Total</b>	<b><u>45,357,579</u></b>	<b><u>46,005,936</u></b>	<b><u>(648,357)</u></b>

Additional information on the City’s capital assets can be found in note 3 beginning on page 48 of this report.

**Long-term debt.** The City has no debt instruments outstanding but does record exiting liabilities in the area of vested employee benefits. At the end of the current fiscal year, the City of Palos Verdes Estates’ outstanding debt is \$1,327,626, a decrease of \$179,347 (11.9%) composed of \$985,505 for vested or accumulated employee compensated absences and \$342,121 for the special retirement income plan. Additional information on long-term debt can be found in note 5 beginning on page 49 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 2015-2016 represents the second year of a two-year budget cycle. As we look forward, the City Council adopted the FY 2016-18 biennial budget on June 28, 2016 and the following factors were considered in preparing the prospective budget:

- City presented a balanced operating budget and is projecting a moderate 2.5% growth in revenue streams over FY 15/16 projections. In calculating fund balances, FY 15/16 results exceeded expectations and factored in favorably.
- The City is projecting a 7.5% growth in General Fund expenditures over FY 15/16 with the inclusion of deferred equipment purchases, training and normal labor cost growth.
- 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 shear incoming dollar revenue streams as displayed below. Property tax growth assumptions are projected at a conservative 4% growth rate.
- In terms of other key revenue streams, Planning and Building activity is staged for a 8% decline back to prior year levels of FY 2013-14. Concession rent and investment earnings are trending level with recent years.

- Given its importance to city operations, the Fire and Paramedic Special Tax revenue is expected to increase by 3.6% commensurate with the new costing provided to the City. This fund is projected to bring in \$4,697,992.
- In terms of labor costs the budget includes an approved increase in Full Time Equivalent positions (full and part-time) from 61.5 to 63.25 (positions added in the prior year). Normal and sustainable salary and benefit growth assumptions were factored in including known, and estimated, CalPERS Safety pension rate increases. The city also budgets for all authorized positions. Increases in regional healthcare and insurance costs have been allowed for.
- General improvement projects are anticipated totaling \$3.71 million, including \$1,425,000 in various street improvement projects, \$427,000 in traffic projects, \$654,000 in facility improvements, \$1,146,000 for infrastructure and \$687,000 for City beautification projects. Significant prior year carryforward projects, yet to be completed, are included within these appropriations.
- The sanitary sewer budget includes \$346,000 towards upgrades on Via Coronel/Zurita and \$120,000 for MS4, Full Capture trash devices. Sewer maintenance of \$239,000 is also included Carryover projects approximating of \$521,000 are included within these appropriations.
- Overall and continued challenges, common to many cities, were noted in the budget including rising pension, health care and insurance costs as well as the continued funding of fire service, via a parcel tax, and the dedication of enhanced revenue sources to pay for citywide facilities and long term infrastructure needs.

### **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, 2016

	<b>Governmental Activities</b>
<b>Assets:</b>	
Cash and investments	\$ 27,530,640
Receivables:	
Accounts	458,364
Accrued interest	57,186
Prepaid costs	399,903
Due from other governments	91,003
Inventories	11,999
Capital assets not being depreciated	4,529,837
Capital assets, net of accumulated depreciation	<u>40,827,742</u>
<b>Total Assets</b>	<b><u>73,906,674</u></b>
<b>Deferred Outflows of Resources:</b>	
Deferred pension related items	<u>1,074,121</u>
<b>Total Deferred Outflows of Resources</b>	<b><u>1,074,121</u></b>
<b>Liabilities:</b>	
Accounts payable	589,068
Accrued liabilities	484,349
Noncurrent liabilities:	
Due within one year	471,594
Due in more than one year	513,911
Net pension obligation	342,121
Net pension liability	<u>9,345,440</u>
<b>Total Liabilities</b>	<b><u>11,746,483</u></b>
<b>Deferred Inflows of Resources:</b>	
Deferred pension related items	<u>1,758,367</u>
<b>Total Deferred Inflows of Resources</b>	<b><u>1,758,367</u></b>
<b>Net Position:</b>	
Net investment in capital assets	45,357,579
Restricted for:	
Public safety	552,379
Public works	5,864,187
Unrestricted	<u>9,701,800</u>
<b>Total Net Position</b>	<b><u>\$ 61,475,945</u></b>

See accompanying notes to financial statements.

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CITY OF PALOS VERDES ESTATES

STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues			Net Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General government	\$ 2,910,838	\$ 472,303	\$ 11,561	\$ -	\$ (2,426,974)
Public safety	11,555,448	4,765,094	95,540	12,660	(6,682,154)
Parks and recreation	6,890,858	-	999,403	1,741,879	(4,149,576)
Public works	3,092,448	1,283,076	906,109	1,455	(901,808)
<b>Total Governmental Activities</b>	<b>\$ 24,449,592</b>	<b>\$ 6,520,473</b>	<b>\$ 2,012,613</b>	<b>\$ 1,755,994</b>	<b>(14,160,512)</b>

General Revenues:

Taxes:

Property taxes	8,570,992
Sales and use taxes	435,005
Franchise taxes	566,761
Business licenses taxes	211,125
Other taxes	645,306
Investment income	320,027
Miscellaneous	360,627

**Total General Revenues**

11,109,843

Change in Net Position

(3,050,669)

Net Position at Beginning of Year

64,526,614

**Net Position at End of Year**

**\$ 61,475,945**

See accompanying notes to financial statements.

CITY OF PALOS VERDES ESTATES

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2016

	<b>Special Revenue Funds</b>		
	<b>General</b>	<b>Special Projects</b>	<b>Special Fire Parcel Tax</b>
<b>Assets:</b>			
Cash and investments	\$ 11,759,720	\$ 971,433	\$ 186,934
Accounts receivable	434,696	-	-
Interest receivable	57,186	-	-
Prepaid costs	2,578	-	389,854
Due from other governments	-	315	90,168
Due from other funds	28,331	-	-
Inventory - materials	11,999	-	-
<b>Total Assets</b>	<b>\$ 12,294,510</b>	<b>\$ 971,748</b>	<b>\$ 666,956</b>
<b>Liabilities:</b>			
Accounts payable	\$ 487,096	\$ 225	\$ -
Accrued salaries and benefits	473,917	-	-
Due to other funds	-	28,331	-
<b>Total Liabilities</b>	<b>961,013</b>	<b>28,556</b>	<b>-</b>
<b>Deferred Inflows of Resources:</b>			
Unavailable revenues	5,113	-	-
<b>Total Deferred Inflows of Resources</b>	<b>5,113</b>	<b>-</b>	<b>-</b>
<b>Fund Balances:</b>			
<b>Nonspendable:</b>			
Prepaid costs	2,578	-	389,854
Inventory - materials	11,999	-	-
<b>Restricted for:</b>			
Public safety	-	-	277,102
Public works	-	943,192	-
<b>Committed to:</b>			
Emergency contingencies	7,200,000	-	-
<b>Assigned to:</b>			
Capital projects	-	-	-
<b>Unassigned</b>	<b>4,113,807</b>	<b>-</b>	<b>-</b>
<b>Total Fund Balances</b>	<b>11,328,384</b>	<b>943,192</b>	<b>666,956</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 12,294,510</b>	<b>\$ 971,748</b>	<b>\$ 666,956</b>

See accompanying notes to financial statements.

<u>Capital Projects Funds</u>		<u>Other</u>	<u>Total</u>
<u>General Capital</u>		<u>Governmental</u>	<u>Governmental</u>
<u>Improvements</u>	<u>Sewer</u>	<u>Funds</u>	<u>Funds</u>
\$ 5,167,056	\$ 3,684,065	\$ 1,527,075	\$ 23,296,283
-	-	-	434,696
-	-	-	57,186
-	-	6,016	398,448
-	520	-	91,003
-	-	-	28,331
-	-	-	11,999
<b>\$ 5,167,056</b>	<b>\$ 3,684,585</b>	<b>\$ 1,533,091</b>	<b>\$ 24,317,946</b>
\$ 70,540	\$ -	\$ 4,956	\$ 562,817
-	-	10,432	484,349
-	-	-	28,331
<b>70,540</b>	<b>-</b>	<b>15,388</b>	<b>1,075,497</b>
-	-	-	5,113
-	-	-	<b>5,113</b>
-	-	6,016	398,448
-	-	-	11,999
-	-	275,277	552,379
-	3,684,585	1,236,410	5,864,187
-	-	-	7,200,000
5,096,516	-	-	5,096,516
-	-	-	4,113,807
<b>5,096,516</b>	<b>3,684,585</b>	<b>1,517,703</b>	<b>23,237,336</b>
<b>\$ 5,167,056</b>	<b>\$ 3,684,585</b>	<b>\$ 1,533,091</b>	<b>\$ 24,317,946</b>

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**CITY OF PALOS VERDES ESTATES**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET POSITION  
JUNE 30, 2016**

Fund balances - total governmental funds		\$ 23,237,336
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	\$ 112,012,277	
Less accumulated depreciation	<u>(67,263,538)</u>	44,748,739
Deferred outflows related to pension items:		
Pension contribution subsequent to measurement date	994,944	
Differences between expected and actual experience	11,802	
Adjustment due to differences in proportion	<u>67,375</u>	1,074,121
Long-term debt and compensated absences that have not been included in the governmental fund activity:		
Special retirement income plan	(342,121)	
Compensated absences	<u>(985,505)</u>	(1,327,626)
Governmental funds report all pension contributions as expenditures, however, in the Statement of Net Position any excess or deficiencies in contributions in relation to the actuarial proportionate contributions are recorded as part of net pension liability.		
		(9,345,440)
Deferred inflows related to pension items:		
Net differences between projected and actual earnings	(258,741)	
Differences between expected and actual experience	(86,986)	
Changes in assumptions	(511,743)	
Differences between actual contributions and proportionate share of plan contributions	<u>(900,897)</u>	(1,758,367)
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.		
		5,113
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.		
		<u>4,842,069</u>
<b>Net position of governmental activities</b>		<b><u><u>\$ 61,475,945</u></u></b>

See accompanying notes to financial statements.

CITY OF PALOS VERDES ESTATES

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2016

	<u>Special Revenue Funds</u>		
	<u>General</u>	<u>Special Projects</u>	<u>Special Fire Parcel Tax</u>
<b>Revenues:</b>			
Property taxes	\$ 7,247,031	\$ -	\$ -
Special assessments	-	-	4,580,191
Other taxes	1,445,135	-	-
Licenses and permits	589,845	-	-
Revenue from other agencies	1,347,658	197,312	9,547
Charges for services	601,794	-	-
Use of money and property	1,498,042	8,052	1,138
Fines and forfeitures	147,573	-	-
Miscellaneous	360,627	-	-
<b>Total Revenues</b>	<b>13,237,705</b>	<b>205,364</b>	<b>4,590,876</b>
<b>Expenditures:</b>			
Current:			
General government	2,158,647	-	-
Public safety	6,832,600	-	4,525,695
Parks and recreation	1,220,890	-	-
Public works	2,147,523	3,907	-
<b>Total Expenditures</b>	<b>12,359,660</b>	<b>3,907</b>	<b>4,525,695</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	878,045	201,457	65,181
Fund Balances at Beginning of Year	10,450,339	741,735	601,775
<b>Fund Balances at End of Year</b>	<b>\$ 11,328,384</b>	<b>\$ 943,192</b>	<b>\$ 666,956</b>

See accompanying notes to financial statements.



<u>Capital Projects Funds</u>		<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>General Capital Improvements</u>	<u>Sewer</u>		
\$ -	\$ -	\$ -	\$ 7,247,031
-	1,455	-	4,581,646
-	-	-	1,445,135
-	-	-	589,845
-	-	988,646	2,543,163
-	-	-	601,794
52,314	40,678	12,043	1,612,267
-	-	-	147,573
-	-	-	360,627
<b>52,314</b>	<b>42,133</b>	<b>1,000,689</b>	<b>19,129,081</b>
-	-	5,700	2,164,347
-	-	53,872	11,412,167
-	-	-	1,220,890
2,087,591	1,495,987	714,973	6,449,981
<b>2,087,591</b>	<b>1,495,987</b>	<b>774,545</b>	<b>21,247,385</b>
(2,035,277)	(1,453,854)	226,144	(2,118,304)
7,131,793	5,138,439	1,291,559	25,355,640
<b>\$ 5,096,516</b>	<b>\$ 3,684,585</b>	<b>\$ 1,517,703</b>	<b>\$ 23,237,336</b>

**CITY OF PALOS VERDES ESTATES**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2016**

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Net change in fund balances - total governmental funds \$ (2,118,304)

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 cost of those assets is allocated over the the estimated useful lives as depreciation expense. This is the amount by which capital outlays and contributions exceeded depreciation in the current period.

Capital outlays	\$ 1,750,093	
Contributed assets	1,741,879	
Depreciation	<u>(3,953,487)</u>	(461,515)

To record change in the retrospective deposit payable reported on the Statement of Net Position in prior year. 273,149

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 the governmental funds. (80,558)

Governmental funds report all contributions in relation to the annual required contribution (ARC) for supplemental pension as expenditures, however, in the Statement of Activities only the ARC is reported as an expense. (13,244)

Pension obligation expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. (232,045)

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. (329,268)

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 fund is reported with governmental activities. (88,884)

**Change in net position of governmental activities \$ (3,050,669)**

See accompanying notes to financial statements.

CITY OF PALOS VERDES ESTATES

STATEMENT OF NET POSITION  
 PROPRIETARY FUNDS  
 JUNE 30, 2016

	<u>Governmental Activities</u> <u>Internal Service Funds</u>
<b>Assets:</b>	
Current Assets:	
Cash and investments	\$ 4,234,357
Accounts receivable	23,668
Prepaid costs	1,455
	<u>4,259,480</u>
<b>Total Current Assets</b>	<b>4,259,480</b>
Capital Assets:	
Machinery and equipment	3,181,862
Furniture and fixtures	288,225
Vehicles	1,269,151
Less accumulated depreciation	<u>(4,130,398)</u>
	<u>608,840</u>
<b>Net Capital Assets</b>	<b>608,840</b>
<b>Total Assets</b>	<b>4,868,320</b>
<b>Liabilities:</b>	
Current Liabilities:	
Accounts payable	<u>26,251</u>
	<u>26,251</u>
<b>Total Current Liabilities</b>	<b>26,251</b>
<b>Total Liabilities</b>	<b>26,251</b>
<b>Net Position:</b>	
Net investment in capital assets	608,840
Unrestricted	<u>4,233,229</u>
	<u>\$ 4,842,069</u>

See accompanying notes to financial statements.

**CITY OF PALOS VERDES ESTATES**

**STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2016**

	<b>Governmental Activities</b>
	<b>Internal Service Funds</b>
<b>Operating Revenues:</b>	
Charges for services	\$ 413,668
Other	414,190
<b>Total Operating Revenues</b>	<b>827,858</b>
<b>Operating Expenses:</b>	
Material and supplies	13,951
General liability insurance	564,102
Property and vehicle insurance	30,934
Workers' compensation	59,632
Depreciation expense	281,636
<b>Total Operating Expenses</b>	<b>950,255</b>
Operating Loss	(122,397)
<b>Nonoperating Revenues:</b>	
Interest revenue	29,373
Gain on disposal of capital assets	4,140
<b>Total Nonoperating Revenues</b>	<b>33,513</b>
Changes in Net Position	(88,884)
Net Position at Beginning of Year	4,930,953
<b>Net Position at End of Year</b>	<b>\$ 4,842,069</b>

See accompanying notes to financial statements.

CITY OF PALOS VERDES ESTATES

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 YEAR ENDED JUNE 30, 2016

	<u>Governmental Activities Internal Service Funds</u>
<b>Cash Flows from Operating Activities:</b>	
Cash received from user departments	\$ 804,190
Cash paid to suppliers for goods and services	<u>(932,906)</u>
<b>Net Cash Used in Operating Activities</b>	<b><u>(128,716)</u></b>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Acquisition and construction of capital assets	(94,794)
Proceeds from sales of capital assets	<u>4,140</u>
<b>Net Cash Provided by Capital and Related Financing Activities</b>	<b><u>(90,654)</u></b>
<b>Cash Flows from Investing Activities:</b>	
Interest received	<u>29,373</u>
<b>Net Cash Provided by Investing Activities</b>	<b><u>29,373</u></b>
<b>Net Decrease in Cash and Cash Equivalents</b>	(189,997)
Cash and Cash Equivalents at Beginning of Year	<u>4,424,354</u>
<b>Cash and Cash Equivalents at End of Year</b>	<b><u>\$ 4,234,357</u></b>
<b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities:</b>	
Operating loss	<u>\$ (122,397)</u>
<b>Adjustments to reconcile operating loss to net cash used in operating activities:</b>	
Depreciation expense	281,636
(Increase) decrease in accounts receivable	(23,668)
(Increase) decrease in prepaid costs	1,454
Increase (decrease) in accounts payable	<u>(265,741)</u>
<b>Total Adjustments</b>	<b><u>(6,319)</u></b>
<b>Net Cash Used in Operating Activities</b>	<b><u>\$ (128,716)</u></b>

See accompanying notes to financial statements.

CITY OF PALOS VERDES ESTATES

STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2016

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	<u>Agency Funds</u>
<b>Assets:</b>	
Cash and investments	\$ 183,266
<b>Total Assets</b>	<b><u>\$ 183,266</u></b>
<b>Liabilities:</b>	
Accounts payable	\$ -
Deposits payable	183,266
<b>Total Liabilities</b>	<b><u>\$ 183,266</u></b>

See accompanying notes to financial statements.

# CITY OF PALOS VERDES ESTATES

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Palos Verdes Estates, California (the City), have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

#### a. Reporting Entity

The City of Palos Verdes Estates (the 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.

#### 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 financial statements

#### 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*. *Measurement focus* indicates the type of resources being measured. 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.

# CITY OF PALOS VERDES ESTATES

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2016

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **b. Basis of Accounting and Measurement Focus (Continued)**

##### Government-wide Financial Statements (Continued)

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, deferred inflows of resources, fund balance, 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 proprietary 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.

##### 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.



# CITY OF PALOS VERDES ESTATES

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2016

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **b. Basis of Accounting and Measurement Focus (Continued)**

##### Governmental Funds (Continued)

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, current liabilities and deferred inflows of resources 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.

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.

# CITY OF PALOS VERDES ESTATES

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2016

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **b. Basis of Accounting and Measurement Focus (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 Special 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 Special Fire Parcel Tax Special 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.

# CITY OF PALOS VERDES ESTATES

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2016

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### c. Major Funds, Internal Service Funds and Fiduciary Fund Types (Continued)

Major Governmental Funds (Continued):

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

#### d. New Accounting Pronouncements

##### Current Year Standards

In fiscal year 2015-2016, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 72, "Fair Value Measurement and Application". GASB Statement No. 72 requires the City to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or income approach. GASB Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1, which are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. GASB Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that were used for the fair value measurements. There was no material impact on the City's financial statements as a result of the implementation of GASB Statement No. 72.

# CITY OF PALOS VERDES ESTATES

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2016

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### d. New Accounting Pronouncements (Continued)

##### Current Year Standards (Continued)

GASB Statement No. 73, “*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*”, was required to be implemented in the current fiscal year, except for those provisions that address employer and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, and is effective for periods beginning after June 15, 2016, and did not impact the City.

GASB Statement No. 76, “*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*”, was required to be implemented in the current fiscal year, and did not impact the City.

GASB Statement No. 79, “*Certain External Investment Pools and Pool Participants*”, was required to be implemented in the current fiscal year, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing, which are effective for periods beginning after December 15, 2015, and did not impact the City.

GASB Statement No. 82, “*Pension Issues an Amendment of GASB Statement No. 67, No. 68 and No. 73*”, changed the measurement of covered payroll reported in required supplementary information and has been early implemented.

##### Pending Accounting Standards

GASB has issued the following statements, which may impact the City’s financial reporting requirements in the future:

- GASB 73 - “*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*”, contains provisions that address employer and governmental nonemployer contributing entities for pensions that are not within the scope of GASB 68, effective for periods beginning after June 15, 2016.
- GASB 74 - “*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*”, effective for periods beginning after June 15, 2016.
- GASB 75 - “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*”, effective for periods beginning after June 15, 2017.

# CITY OF PALOS VERDES ESTATES

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2016

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### d. New Accounting Pronouncements (Continued)

##### Pending Accounting Standards (Continued)

- GASB 77 - “*Tax Abatement Disclosure*”, effective for periods beginning after December 15, 2015.
- GASB 78 - “*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*”, effective for periods beginning after December 15, 2015.
- GASB 79 - “*Certain External Investment Pools and Pool Participants*”, contains certain provisions on portfolio quality, custodial credit risk, and shadow pricing, effective for periods beginning after December 15, 2015.
- GASB 80 - “*Blending Requirements for Certain Component Units*”, effective for periods beginning after June 15, 2016.
- GASB 81 - “*Irrevocable Split-Interest Agreements*”, effective for periods beginning after December 15, 2016.
- GASB 82 - “*Pension Issues*”, effective for periods beginning after June 15, 2016, except for certain provisions on selection of assumptions, which are effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

#### e. 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.

#### f. Investments

For financial reporting purposes, investments are adjusted to their fair value whenever the difference between fair value and the carrying amount is material. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

## CITY OF PALOS VERDES ESTATES

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016

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#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### **f. Investments (Continued)**

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. 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.

##### **g. Prepaid Costs and Inventory**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid costs. 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.

##### **h. Property Taxes**

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

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

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, 2016, 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, 2016, the total property taxes receivable is \$148,273.

**CITY OF PALOS VERDES ESTATES**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**i. 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 acquisition 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

# CITY OF PALOS VERDES ESTATES

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2016

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **j. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position 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 that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The City has the following items that qualify for reporting in this category:

- Deferred outflow related to pensions equal to employer contributions made after the measurement date of the net pension liability.
- Deferred outflows related to pensions for differences between actual and expected experiences. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plans, which is 3.8 years.
- Deferred outflows related to pensions for the changes in proportion and differences between employer's contributions and the employer's proportionate share of contributions. These amounts are amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the plans, which is 3.8 years.

In addition to liabilities, the statement of net position and governmental funds 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 that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The City has the following items that qualify for reporting in this category:

- Deferred inflows from unavailable revenues, which is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: grants. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Deferred inflows related to pensions for differences between actual and expected experiences. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plans, which is 3.8 years.



**CITY OF PALOS VERDES ESTATES**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**j. Deferred Outflows/Inflows of Resources (Continued)**

- Deferred inflows from pensions resulting from changes in assumptions. These amounts are amortized over a closed period equal to the average expected remaining service lives of all employees that are provided with pensions through the plans, which is 3.8 years.
- Deferred inflows related to pensions resulting from the difference in projected and actual earnings on investments of the pension plans fiduciary net position. These amounts are amortized over five years.
- Deferred inflows related to pensions for the changes in proportion and differences between employer's contributions and the employer's proportionate share of contributions. These amounts are amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the plans, which is 3.8 years.

**k. Pension Plans**

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used.

Valuation Date (VD)	June 30, 2014
Measurement Date (MD)	June 30, 2015
Measurement Period (MP)	July 1, 2014 to June 30, 2015

**l. 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 OF PALOS VERDES ESTATES

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2016

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **l. Compensated Absences (Continued)**

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

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

#### **m. Fund Balance**

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 of 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 fund balance commitment is a resolution.
- Assigned include amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The City Manager or Finance Director is authorized to assign amounts to a specific purpose, which was established by the governing body through resolution.
- Unassigned include the residual amounts that have not been restricted, committed, or assigned to specific purposes.

**CITY OF PALOS VERDES ESTATES**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**m. Fund Balance (Continued)**

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, and 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.

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 balance as of June 30, 2016 totaled \$4,113,807.

**n. Net Position**

In the government-wide financial statements and proprietary fund financial statements, net position is the excess of all the City's assets and deferred outflows over all its liabilities and deferred inflows, regardless of fund. Net position is divided into three categories. These categories apply only to net position, which is determined and are described below:

- Net investment in capital assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.
- Restricted - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.
- Unrestricted - This amount is all net position that does not meet the definition of "net investment in capital assets" or "restricted net position".

**CITY OF PALOS VERDES ESTATES**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**JUNE 30, 2016**

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**n. Net Position (Continued)**

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.

**p. Use of Estimates**

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

2. CASH AND INVESTMENTS

**Cash and Investments**

Cash and investments as of June 30, 2016 were classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and investments	\$ 27,530,640
Statement of Fiduciary Net Position:	
Cash and investments	<u>183,266</u>
Total cash and investments	<u>\$ 27,713,906</u>

Cash and investments as of June 30, 2016 consisted of the following:

Cash on hand	\$ 1,500
Deposits with financial institutions	5,755,723
Investments	<u>21,956,683</u>
Total cash and investments	<u>\$ 27,713,906</u>

**CITY OF PALOS VERDES ESTATES**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

2. CASH AND INVESTMENTS (CONTINUED)

**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.

Investment Types Authorized by State Law	Authorized by Investment Policy	*Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer
Local Agency Bonds	No	N/A	N/A	N/A
United States Treasury Obligations	Yes	5 years	None	None
United States Agency Securities	Yes	None	None	None
Banker’s Acceptances	Yes	180 days	15%	30%
Commercial Paper	Yes	270 days	15%	10%
Non-Negotiable Certificates of Deposit	Yes**	5 years	30%	N/A
Negotiable Certificates of Deposit	Yes**	5 years	30%	N/A
Repurchase Agreements	Yes	180 days	15%	10%
Reverse Repurchase Agreements	No	N/A	N/A	N/A
Medium-Term Notes (AA or higher)	Yes	2 years	15%	30%
Medium-Term Notes (A-1/A+))	No	N/A	N/A	N/A
Mutual Funds	No	N/A	N/A	N/A
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	No	N/A	N/A	N/A
County Pooled Investment Funds	Yes	N/A	20%	10%
Local Agency Investment Fund (LAIF)	Yes	N/A	None	None
JPA Pools (Other Investment Pools)	No	N/A	N/A	N/A
Guaranteed Investment Contracts (GICs)	No	N/A	N/A	N/A

N/A - Not Applicable

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

\*\*Prohibited by City policy over \$250,000.

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

**CITY OF PALOS VERDES ESTATES**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

**2. CASH AND INVESTMENTS (CONTINUED)**

**Disclosures Relating to Interest Rate Risk**

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

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

Investment Type	Total	Remaining Maturity (in Months)		
		12 Months or Less	13 to 36 Months	25 to 60 Months
LAIF	\$ 8,236,254	\$ 8,236,254	\$ -	\$ -
Negotiable Certificates of Deposit	4,715,189	493,473	2,513,010	1,708,706
U.S. Agency Securities:				
Federal Farm Credit Bank (FFCB)	2,001,200	-	-	2,001,200
Federal Home Loan Mortgage Corporation (FHLMC)	999,060	-	-	999,060
Federal National Mortgage Association (FNMA)	<u>6,004,980</u>	<u>-</u>	<u>2,001,170</u>	<u>4,003,810</u>
Total	<u>\$ 21,956,683</u>	<u>\$ 8,729,727</u>	<u>\$ 4,514,180</u>	<u>\$ 8,712,776</u>

**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	\$ 8,236,254	N/A	\$ -	\$ 8,236,254
Negotiable Certificates of Deposit	4,715,189	N/A	-	4,715,189
U.S. Agency Securities:				
Federal Farm Credit Bank	2,001,200	N/A	2,001,200	-
Federal Home Loan Mortgage Corporation	999,060	N/A	999,060	-
Federal National Mortgage Association	<u>6,004,980</u>	<u>N/A</u>	<u>6,004,980</u>	<u>-</u>
Total	<u>\$ 21,956,683</u>		<u>\$ 9,005,240</u>	<u>\$ 12,951,443</u>

**CITY OF PALOS VERDES ESTATES**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

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2. CASH AND INVESTMENTS (CONTINUED)

**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:

<u>Issuer</u>	<u>Amount Invested</u>
Federal Farm Credit Bank	\$ 2,001,200
Federal National Mortgage Association	6,004,980

**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 prorated 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.

## CITY OF PALOS VERDES ESTATES

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016

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#### 2. CASH AND INVESTMENTS (CONTINUED)

##### **Fair Value Measurements**

The City categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the relative inputs used to measure the fair value of the investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the City has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs other than quoted prices that are observable for the asset;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the City's own assumptions about the inputs market participants would use in pricing the asset (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the City's own data.

The asset's level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The determination of what constitutes observable requires judgment by the City's management. City management considers observable data to be that market data which is readily available, regularly distributed or updated, reliable, and verifiable, not proprietary, and provided by multiple independent sources that are actively involved in the relevant market.

The categorization of an investment within the hierarchy is based upon the relative observability of the inputs to its fair value measurement and does not necessarily correspond to City management's perceived risk of that investment.

The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.



**CITY OF PALOS VERDES ESTATES**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

2. CASH AND INVESTMENTS (CONTINUED)

**Fair Value Measurements (Continued)**

When available, quoted prices are used to determine fair value. When quoted prices in active markets are available, investments are classified within Level 1 of the fair value hierarchy. When quoted prices in active markets are not available, fair values are based on evaluated prices received by City’s broker or custodian.

The following is a description of the recurring valuation methods and assumptions used by the City to estimate the fair value of its investments.

The City has no investments categorized in Level 3. When valuing Level 3 securities, the inputs or methodology are not necessarily an indication of the risks associated with investing in those securities. Changes in valuation techniques may result in transfers into or out of an assigned level within the disclosure hierarchy.

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	Total
U.S. Government Agency Securities:				
FFCB	\$ -	\$ 2,001,200	\$ -	\$ 2,001,200
FHLMC	-	999,060	-	999,060
FNMA	-	6,004,980	-	6,004,980
Negotiable Certificates of Deposit	-	4,715,189	-	4,715,189
Total	<u>\$ -</u>	<u>\$ 13,720,429</u>	<u>\$ -</u>	<u>13,720,429</u>
Investments not Subject to Fair Value Hierarchy:				
LAIF				<u>8,236,254</u>
Total Investment Portfolio				<u>\$ 21,956,683</u>

**CITY OF PALOS VERDES ESTATES**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

**3. CAPITAL ASSETS**

A summary of changes in capital asset activity for the year ended June 30, 2016, is as follows:

	<u>Balance at</u> <u>July 1, 2015</u>	<u>Transfers</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>June 30, 2016</u>
Capital assets, not being depreciated:					
Land	\$ 4,487,892	\$ -	\$ -	\$ -	\$ 4,487,892
Construction in progress	<u>459,310</u>	<u>(2,321,869)</u>	<u>2,116,588</u>	<u>(212,084)</u>	<u>41,945</u>
Total capital assets, not being depreciated	<u>4,947,202</u>	<u>(2,321,869)</u>	<u>2,116,588</u>	<u>(212,084)</u>	<u>4,529,837</u>
Capital assets, being depreciated:					
Buildings and improvements	26,534,489	15,721	1,521,860	-	28,072,070
Machinery	4,121,973	62,337	279,010	(201,017)	4,262,303
Furniture and fixtures	649,512	-	-	-	649,512
Vehicles	1,234,262	-	82,419	(47,530)	1,269,151
Infrastructure	<u>75,724,830</u>	<u>2,243,811</u>	<u>-</u>	<u>-</u>	<u>77,968,641</u>
Total capital assets, being depreciated	<u>108,265,066</u>	<u>2,321,869</u>	<u>1,883,289</u>	<u>(248,547)</u>	<u>112,221,677</u>
Less accumulated depreciation for:					
Buildings and improvements	(18,704,576)	-	(1,745,342)	-	(20,449,918)
Machinery	(3,511,655)	-	(338,312)	201,017	(3,648,950)
Furniture and fixtures	(606,374)	-	(22,855)	-	(629,229)
Vehicles	(778,752)	-	(91,708)	47,530	(822,930)
Infrastructure	<u>(43,604,975)</u>	<u>-</u>	<u>(2,237,933)</u>	<u>-</u>	<u>(45,842,908)</u>
Total accumulated depreciation	<u>(67,206,332)</u>	<u>-</u>	<u>(4,436,150)</u>	<u>248,547</u>	<u>(71,393,935)</u>
Total capital assets, being depreciated, net	<u>41,058,734</u>	<u>2,321,869</u>	<u>(2,552,861)</u>	<u>-</u>	<u>40,827,742</u>
Governmental activities capital assets, net	<u>\$ 46,005,936</u>	<u>\$ -</u>	<u>\$ (436,273)</u>	<u>\$ (212,084)</u>	<u>\$ 45,357,579</u>

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

Governmental activities:	
General government	\$ 60,596
Public safety	10,354
Public works	1,981,241
Parks and recreation	2,102,323
Internal service funds	<u>281,636</u>
Total depreciation expense governmental activities	<u>\$ 4,436,150</u>

**CITY OF PALOS VERDES ESTATES**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

**Due To and Due From**

The composition of current interfund receivable and payable as of June 30, 2016, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Special ProjectsSpecial Revenue Fund	<u>\$ 28,331</u>

The interfund balances relate to reimbursement for Prop A maintenance funds as of June 30, 2016.

5. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the fiscal year ended June 30, 2016, is as follows:

	Balance at <u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	Balance at, <u>June 30, 2016</u>	Due Within <u>One Year</u>	Due in More Than <u>One Year</u>
Compensated absences	\$ 904,947	\$ 552,462	\$ (471,904)	\$ 985,505	\$ 471,594	\$ 513,911
Retrospective deposit payable:						
Workers' compensation	<u>273,149</u>	<u>-</u>	<u>(273,149)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,178,096</u>	<u>\$ 552,462</u>	<u>\$ (745,053)</u>	<u>\$ 985,505</u>	<u>\$ 471,594</u>	<u>\$ 513,911</u>

**Compensated Absences**

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

**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 had temporarily deferred the payment on retrospective deposits owed to the Authority by members. The retrospective deposit for Workers' Compensation was paid during 2016.

## CITY OF PALOS VERDES ESTATES

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2016

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#### 5. LONG-TERM LIABILITIES (CONTINUED)

##### **CJPIA Retrospective Deposit Liability (Continued)**

###### 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 an 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](http://CJPIA.org).

#### 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 (the Authority). The Authority is composed of 116 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 member government has an elected official as its representative on the Board of Directors. The Board operates through a nine-member Executive Committee.

**CITY OF PALOS VERDES ESTATES**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

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**6. LIABILITY, WORKERS' COMPENSATION, AND PURCHASED INSURANCE**  
**(CONTINUED)**

**b. Self-Insurance Programs of the Authority**

Each member pays an annual contribution at the beginning of the coverage period. A retrospective adjustment is then conducted annually thereafter, for coverage years 2012-13 and prior. Retrospective adjustments are scheduled to continue indefinitely on coverage years 2012-13 and prior, until all claims incurred during those coverage years 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. Coverage years 2013-14 and forward are not subject to routine annual retrospective adjustment.

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 general government 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 from \$750,000 to \$50 million, are distributed based on the outcome of cost allocation within the first and second loss layers.

For 2015-16 the Authority's pooled retention is \$2 million per occurrence, with reinsurance to \$20 million, and excess insurance to \$50 million. The Authority's reinsurance contracts are subject to the following additional pooled retentions: (a) \$2.5 million annual aggregate deductible in the \$3 million x/s \$2 million layer and (b) \$3 million annual aggregate deductible in the \$5 million x/s \$10 million layer. There is a third annual aggregate deductible in the amount of \$2.5 million in the \$5 million x/s \$5 million layer, however it is fully covered under a separate policy and therefore not retained by the Authority.

The overall coverage limit for each member including all layers of coverage is \$50 million per occurrence. Costs of covered claims for subsidence losses have a sub-limit of \$30 million per occurrence.

## CITY OF PALOS VERDES ESTATES

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2016

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#### 6. LIABILITY, WORKERS' COMPENSATION, AND PURCHASED INSURANCE (CONTINUED)

##### **b. Self-Insurance Programs of the Authority (Continued)**

###### Workers' Compensation

The City of Palos Verdes Estates also participates in the workers' compensation pool administered by the Authority. In the workers' compensation program claims are pooled separately between public safety (police and fire) and general government 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 from \$100,000 to statutory limits are distributed based on the outcome of cost allocation within the first and second loss layers.

For 2015-16 the Authority's pooled retention is \$2 million per occurrence, with reinsurance to statutory limits 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 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, 2014 through July 1, 2017. Each member of the Authority has a \$10 million sub-limit during the 3-year term of the policy.

## CITY OF PALOS VERDES ESTATES

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2016

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#### 6. LIABILITY, WORKERS' COMPENSATION, AND PURCHASED INSURANCE (CONTINUED)

##### **c. Purchased Insurance (Continued)**

###### 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 \$48,952,672. There is a \$5,000 deductible per occurrence except for nonemergency vehicle insurance which has a \$1,000 deductible. Premiums for the coverage are paid annually and are not subject to retrospective adjustments.

###### Earthquake and Flood Insurance

The City of Palos Verdes Estates purchases earthquake and flood insurance on a portion of its property. The earthquake insurance is part of the property protection insurance program of the Authority. City of Palos Verdes Estates property currently has earthquake protection in the amount of \$0. There is a deductible of 5% per unit of value with a minimum deductible of \$100,000. 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.

###### Special Event Tenant User Liability Insurance

The City of Palos Verdes Estates further protects against liability damages by requiring tenant users of certain property to purchase low-cost tenant user liability insurance for certain activities on agency property. The insurance premium is paid by the tenant user and is paid to the City of Palos Verdes Estates according to a schedule. The City of Palos Verdes Estates then pays for the insurance. The insurance is arranged by the Authority.

##### **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 2015-16.

## CITY OF PALOS VERDES ESTATES

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2016

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#### 7. CALIFORNIA PUBLIC EMPLOYEES' RETIRMENT PLANS (CalPERS) - DEFINED BENEFITS PENSION PLANS

##### a. General Information about the Pension Plans

###### Plan Descriptions

All qualified permanent and probationary employees are eligible to participate in the City of Palos Verdes Estates' for separate cost-sharing multiple-employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website. The four Palos Verdes Estates cost-sharing plans are listed as follows:

- i. Miscellaneous Classic Plan
- ii. Miscellaneous PEPRAs Plan
- iii. Safety Classic Plan
- iv. Safety PEPRAs Plan

###### Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 to 62 with statutorily reduced benefits. For employees hired into a plan with the 1.5% at 65 formula, eligibility for service retirement is age 55 with at least 5 years of services. PEPRAs miscellaneous members become eligible for service retirement upon attainment of age 52 with at least 5 years of service. All members are eligible for non-duty disability benefits after 5 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. Safety members can receive a special death benefit if the member dies while actively employed and the death is job-related. Fire members may receive the alternate death benefit in lieu of the Basic Death Benefit or the 1957 Survivor Benefit if the member dies while actively employed and has at least 20 years of total CalPERS service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.



**CITY OF PALOS VERDES ESTATES**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

**7. CALIFORNIA PUBLIC EMPLOYEES' RETIRMENT PLANS (CalPERS) - DEFINED BENEFITS PENSION PLANS (CONTINUED)**

**a. General Information about the Pension Plans (Continued)**

Benefits Provided (Continued)

Below is a summary of the plans' provisions and benefits in effect at June 30, 2016, for which the City of Palos Verdes Estates has contracted:

Major Benefit Options	Miscellaneous	Miscellaneous PEPRA
Hire date	Prior to January 1, 2013	On or After January 1, 2013
Benefit provision/benefit formula	2.0%@55	2%@62
Social security	no	no
Full/modified	full	full
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	minimum 50	minimum 50
Monthly benefits, as a % of eligible compensation	1.46% to 2.418%	1.0% to 2.5%
Required employer contribution rates	8.551%	6.250%
Required employee contribution rates	6.891%	6.250%

Major Benefit Options	Safety	Safety PEPRA
Hire date	Prior to January 1, 2013	On or After January 1, 2013
Benefit provision/benefit formula	3.0%@50	2.0%@55
Social security	no	no
Full/modified	full	full
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	minimum 50	minimum 50
Monthly benefits, as a % of eligible compensation	3%	1.426% to 2.0%
Required employer contribution rates	26.149%	6.250%
Required employee contribution rates	8.986%	6.250%

New entrants are not allowed in the Miscellaneous Classic Plan. There were no participants in Miscellaneous PEPRA Plan as of June 30, 2014 therefore, the GASB 68 Plan was not available to be accounted in the Net Pension Liability.

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

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7. CALIFORNIA PUBLIC EMPLOYEES' RETIRMENT PLANS (CalPERS) - DEFINED BENEFITS PENSION PLANS (CONTINUED)

a. General Information about the Pension Plans (Continued)

Contribution Description

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2016, the City of Palos Verdes Estates reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous Classic	\$ 1,902,144
Safety Classic	7,443,296
Total Net Pension Liability	<u>\$ 9,345,440</u>

The City of Palos Verdes Estates' net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2015, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

**CITY OF PALOS VERDES ESTATES**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

7. CALIFORNIA PUBLIC EMPLOYEES' RETIRMENT PLANS (CalPERS) - DEFINED BENEFITS PENSION PLANS (CONTINUED)

**b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**

The City's proportionate share of the net pension liability for each Plan as of June 30, 2014 and 2015, was as follows:

	Miscellaneous Classic	Safety Classic
Proportion - June 30, 2014	0.07196%	0.17027%
Proportion - June 30, 2015	0.06933%	0.18064%
Change - Increase (Decrease)	-0.00263%	0.01037%

For the year ended June 30, 2016, the City of Palos Verdes Estates recognized pension expense of \$762,945. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 994,944	\$ -
Differences between expected and actual experience	11,802	(86,986)
Change in assumptions	-	(511,743)
Net differences between projected and actual earnings on plan investments	-	(258,741)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	67,375	(900,897)
Total	<u>\$ 1,074,121</u>	<u>\$ (1,758,367)</u>

\$994,944 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30,	Amount
2017	\$ (694,713)
2018	(697,875)
2019	(607,056)
2020	320,454

**CITY OF PALOS VERDES ESTATES**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

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7. CALIFORNIA PUBLIC EMPLOYEES' RETIRMENT PLANS (CalPERS) - DEFINED BENEFITS PENSION PLANS (CONTINUED)

**b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**

Actuarial Assumptions

For the measurement period ended June 30, 2015 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2014, total pension liability.

The June 30, 2014 and the June 30, 2015, total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increase	(1)
Investment Rate of Return	7.50% (2)
Mortality Rate Table (3)	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment and administrative expenses, including inflation
- (3) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report on the CalPERS website.

All other actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

## CITY OF PALOS VERDES ESTATES

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2016

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#### 7. CALIFORNIA PUBLIC EMPLOYEES' RETIRMENT PLANS (CalPERS) - DEFINED BENEFITS PENSION PLANS (CONTINUED)

##### **b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**

###### Change of Assumptions

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

###### Discount Rate

The discount rate used to measure the total pension liability was 7.65% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the Plans, the tests revealed the assets would not run out. Therefore, the current 7.65% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 7.65% is applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website under the GASB 68 section.

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

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

**CITY OF PALOS VERDES ESTATES**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**JUNE 30, 2016**

**7. CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT PLANS (CalPERS) - DEFINED BENEFITS PENSION PLANS (CONTINUED)**

**b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**

Discount Rate (Continued)

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2014.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100.00%		

(a) An expected inflation of 2.5% used for this period

(b) An expected inflation of 3.0% used for this period

**CITY OF PALOS VERDES ESTATES**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

7. CALIFORNIA PUBLIC EMPLOYEES’ RETIRMENT PLANS (CalPERS) - DEFINED BENEFITS PENSION PLANS (CONTINUED)

**b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the City’s proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Miscellaneous Classic	Safety Classic
1% Decrease	6.65%	6.65%
Net Pension Liability	\$ 3,852,075	\$ 12,285,660
Current Discount Rate	7.65%	7.65%
Net Pension Liability	\$ 1,902,144	\$ 7,443,296
1% Increase	8.65%	8.65%
Net Pension Liability	\$ 292,251	\$ 3,472,646

Pension Plan Fiduciary Net Position

Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports. See CalPERS website for additional information

8. SPECIAL RETIREMENT INCOME PLAN FOR HEALTH INSURANCE

**Description of Plan**

The City provides a Special Retirement Income Plan, a single employer defined benefit plan which covers eligible City employees to assist qualified retirees in purchasing health insurance. 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.

**CITY OF PALOS VERDES ESTATES**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

8. SPECIAL RETIREMENT INCOME PLAN FOR HEALTH INSURANCE (CONTINUED)

**Description of Plan (Continued)**

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 labor agreements (MOU) are entered into. Plan assets have not been accumulated in a separately established trust fund.

**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	\$ 33,925
Interest on net plan obligation	15,622
Adjustment to annual required contribution	<u>(16,503)</u>
Annual plan cost	33,044
Contributions/benefits paid	<u>(19,800)</u>
Increase in net plan obligation	13,244
Net Plan Obligation - beginning of year	<u>328,877</u>
Net Plan Obligation - end of year	<u>\$ 342,121</u>



**CITY OF PALOS VERDES ESTATES**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

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**8. SPECIAL RETIREMENT INCOME PLAN FOR HEALTH INSURANCE (CONTINUED)**

**Annual Plan Cost and Net Plan Obligation (Continued)**

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, 2015 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.

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).

**CITY OF PALOS VERDES ESTATES**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

**8. SPECIAL RETIREMENT INCOME PLAN FOR HEALTH INSURANCE (CONTINUED)**

**Annual Plan Cost and Net Plan Obligation (Continued)**

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 June 30, 2016:

	Total	General		
		Employees	Management	Police
Active: Pre-65	\$ 322,762	\$ 84,048	\$ 70,644	\$ 168,070
Post-65	-	-	-	-
Subtotal Active	<u>322,762</u>	<u>84,048</u>	<u>70,644</u>	<u>168,070</u>
Retirees Pre-65	60,632	9,429	-	51,203
Post-65	-	-	-	-
Subtotal Retirees	<u>60,632</u>	<u>9,429</u>	<u>-</u>	<u>51,203</u>
Subtotal Pre-65	383,394	93,477	70,644	219,273
Subtotal Post-65	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Grand Totals	383,394	93,477	70,644	219,273
Funded at July 1, 2012	-	-	-	-
Unfunded AAL	<u>\$ 383,394</u>	<u>\$ 93,477</u>	<u>\$ 70,644</u>	<u>\$ 219,273</u>
1 <sup>st</sup> Year UAAL Amortization at 4.5% over 25 years	<u>\$ 9,011</u>	<u>\$ 1,742</u>	<u>\$ 696</u>	<u>\$ 6,573</u>

Trend information is as follows:

Year Ended June 30,	Annual Plan Cost (APC)	Contributions/ Benefits Paid	% of APC Contributed	Net Plan Obligation
2014	\$ 25,509	\$ 17,875	70.0%	\$ 323,836
2015	24,841	19,800	80.0%	328,877
2016	33,044	19,800	60.0%	342,121

**CITY OF PALOS VERDES ESTATES**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

8. SPECIAL RETIREMENT INCOME PLAN FOR HEALTH INSURANCE (CONTINUED)

**Funded Status**

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
07/01/2010	\$ -	\$ 343,190	\$ 343,190	0.0 %	\$ 3,721,290	9.22 %
07/01/2012	-	402,061	402,061	0.0 %	4,017,811	10.01 %
07/01/2015	-	383,394	383,394	0.0 %	4,105,137	9.34 %

9. 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, 2016 (the most recent information available), audited financial statements indicated the following:

Total assets	\$ 3,141,649
Total liabilities	237,683
Total equity (Net Position)	2,903,966
Revenues	2,394,398
Expenditures	2,429,248
Net decrease in net position	(34,850)

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

**CITY OF PALOS VERDES ESTATES**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

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10. OTHER DISCLOSURES

The following funds' actual expenditures exceeded appropriations as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Nonmajor Governmental Funds:			
SLESF Special Revenue Fund	\$ 48,505	\$ 49,485	\$ (980)
Proposition A Special Revenue Fund	205,310	205,700	(390)
Proposition C Special Revenue Fund	200,940	204,330	(3,390)

11. 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.

12. SUBSEQUENT EVENTS

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through January 16, 2017, the date the financial statements were available to be issued.

**CITY OF PALPOS VERDES ESTATES**

**COST-SHARING MULTIPLE EMPLOYER MISCELLANEOUS PLANS  
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS\***

<b>Fiscal Year Ended</b>	<b>June 30, 2016</b>	<b>June 30, 2015</b>
Measurement Period	June 30, 2015	June 30, 2014
<b>Miscellaneous Classic:</b>		
Proportion of the net pension liability	0.02771%	0.02858%
Proportionate share of the net pension liability	\$ 1,902,144	\$ 1,778,540
Covered - employee payroll	\$ 2,239,339	\$ 1,886,370
Proportionate share of the net pension liability as a percentage of covered - employee payroll	84.94%	94.28%
Plan fiduciary net position	\$ 12,415,924	\$ 12,551,262
Plan fiduciary net position as a percentage of the total pension liability	86.72%	87.59%

**Notes to Schedule:**

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

\* - Historical information is required only for measurement for which GASB 68 is applicable. Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

**CITY OF PALPOS VERDES ESTATES**

**COST-SHARING MULTIPLE EMPLOYER MISCELLANEOUS PLANS  
SCHEDULE OF PLAN CONTRIBUTIONS  
AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS\***

<b>Fiscal Year Ended</b>	<b>June 30, 2016</b>	<b>June 30, 2015</b>
<b>Miscellaneous Classic:</b>		
Contractually required contribution (actuarially determined)	\$ 216,861	\$ 235,683
Contributions in relation to the actuarially determined contributions	<u>(216,861)</u>	<u>(235,683)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll	\$ 2,446,654	\$ 2,239,339
Contributions as a percentage of covered - employee payroll	8.86%	10.52%

**Notes to Schedule:**

Valuation Date June 30, 2015

Methods and Assumptions Used to Determine Contribution Rates:

Single and agent employers	Entry age normal
Amortization method	Level percent of payroll
Asset valuation method	15 year smoothed market
Inflation	2.75%
Salary increases	Depending on age, service and type of employment
Investment rate of return	7.65%, net of pension plan investment and administrative expense, including inflation
Retirement age	Minimum 50 years
Mortality	RP-2000 Health Annuitant Mortality Table

\* - Historical information is required only for measurement for which GASB 68 is applicable. Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

**CITY OF PALPOS VERDES ESTATES**

**COST-SHARING MULTIPLE EMPLOYER SAFETY PLANS  
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS\***

<b>Fiscal Year Ended</b>	<b>June 30, 2016</b>	<b>June 30, 2015</b>
Measurement Period	June 30, 2015	June 30, 2014
<b>Safety Classic:</b>		
Proportion of the net pension liability	0.10844%	0.10264%
Proportionate share of the net pension liability	\$ 7,443,296	\$ 6,386,937
Covered - employee payroll	\$ 2,389,261	\$ 2,218,767
Proportionate share of the net pension liability as a percentage of covered - employee payroll	311.53%	287.86%
Plan fiduciary net position	\$ 27,874,020	\$ 27,985,891
Plan fiduciary net position as a percentage of the total pension liability	78.92%	81.42%

**Notes to Schedule:**

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

\* - Historical information is required only for measurement for which GASB 68 is applicable. Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

**CITY OF PALPOS VERDES ESTATES**

**COST-SHARING MULTIPLE EMPLOYER SAFETY PLANS  
SCHEDULE OF PLAN CONTRIBUTIONS  
AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS\***

<b>Fiscal Year Ended</b>	<b>June 30, 2016</b>	<b>June 30, 2015</b>
<b>Safety Classic:</b>		
Contractually required contribution (actuarially determined)	\$ 778,083	\$ 878,354
Contributions in relation to the actuarially determined contributions	<u>(778,083)</u>	<u>(878,354)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll	\$ 2,559,701	\$ 2,389,261
Contributions as a percentage of covered - employee payroll	30.40%	36.76%

**Notes to Schedule:**

Valuation Date June 30, 2015

**Methods and Assumptions Used to Determine Contribution Rates:**

Single and agent employers	Entry age normal
Amortization method	Level percent of payroll
Asset valuation method	15 year smoothed market
Inflation	2.75%
Salary increases	Depending on age, service and type of employment
Investment rate of return	7.65%, net of pension plan investment and administrative expense, including inflation
Retirement age	Minimum 50 years
Mortality	RP-2000 Health Annuitant Mortality Table

\* - Historical information is required only for measurement for which GASB 68 is applicable. Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.



CITY OF PALOS VERDES ESTATES

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED JUNE 30, 2016**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Property taxes	\$ 7,033,000	\$ 7,033,000	\$ 7,247,031	\$ 214,031
Other taxes	1,369,000	1,369,000	1,445,135	76,135
Licenses and permits	657,000	657,000	589,845	(67,155)
Revenue from other agencies	1,308,000	1,308,000	1,347,658	39,658
Charges for services	433,000	433,000	601,794	168,794
Use of money and property	1,268,600	1,268,600	1,498,042	229,442
Fines and forfeitures	201,000	201,000	147,573	(53,427)
Miscellaneous	270,000	270,000	360,627	90,627
<b>Total Revenues</b>	<b>12,539,600</b>	<b>12,539,600</b>	<b>13,237,705</b>	<b>698,105</b>
<b>Expenditures:</b>				
Current:				
General government	2,248,108	2,343,808	2,158,647	185,161
Public safety	6,726,939	6,726,939	6,832,600	(105,661)
Parks and recreation	1,293,111	1,293,111	1,220,890	72,221
Public works	2,001,299	2,001,299	2,147,523	(146,224)
<b>Total Expenditures</b>	<b>12,269,457</b>	<b>12,365,157</b>	<b>12,359,660</b>	<b>5,497</b>
Net Change in Fund Balance	270,143	174,443	878,045	703,602
Fund Balance at Beginning of Year	10,450,339	10,450,339	10,450,339	-
<b>Fund Balance at End of Year</b>	<b>\$ 10,720,482</b>	<b>\$ 10,624,782</b>	<b>\$ 11,328,384</b>	<b>\$ 703,602</b>

CITY OF PALOS VERDES ESTATES

**BUDGETARY COMPARISON SCHEDULE  
SPECIAL PROJECTS SPECIAL REVENUE FUND  
YEAR ENDED JUNE 30, 2016**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Revenue from other agencies	\$ 98,000	\$ 98,000	\$ 197,312	\$ 99,312
Use of money and property	-	-	8,052	8,052
<b>Total Revenues</b>	<b>98,000</b>	<b>98,000</b>	<b>205,364</b>	<b>107,364</b>
<b>Expenditures:</b>				
Current:				
Public works	19,050	19,050	3,907	15,143
<b>Total Expenditures</b>	<b>19,050</b>	<b>19,050</b>	<b>3,907</b>	<b>15,143</b>
Net Change in Fund Balance	78,950	78,950	201,457	122,507
Fund Balance at Beginning of Year	741,735	741,735	741,735	-
<b>Fund Balance at End of Year</b>	<b>\$ 820,685</b>	<b>\$ 820,685</b>	<b>\$ 943,192</b>	<b>\$ 122,507</b>

CITY OF PALOS VERDES ESTATES

**BUDGETARY COMPARISON SCHEDULE  
SPECIAL FIRE PARCEL TAX SPECIAL REVENUE FUND  
YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Special assessments	\$ 4,524,034	\$ 4,524,034	\$ 4,580,191	\$ 56,157
Revenue from other agencies	9,000	9,000	9,547	547
Use of money and property	500	500	1,138	638
<b>Total Revenues</b>	<b>4,533,534</b>	<b>4,533,534</b>	<b>4,590,876</b>	<b>57,342</b>
<b>Expenditures:</b>				
Current:				
Public safety	4,537,822	4,537,822	4,525,695	12,127
<b>Total Expenditures</b>	<b>4,537,822</b>	<b>4,537,822</b>	<b>4,525,695</b>	<b>12,127</b>
Net Change in Fund Balance	(4,288)	(4,288)	65,181	69,469
Fund Balance at Beginning of Year	601,775	601,775	601,775	-
<b>Fund Balance at End of Year</b>	<b>\$ 597,487</b>	<b>\$ 597,487</b>	<b>\$ 666,956</b>	<b>\$ 69,469</b>

## **CITY OF PALOS VERDES ESTATES**

### **NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2016**

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#### **1. 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.

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**

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 - 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 - is used to account for City's share of funds collected and distributed by the County of Los Angeles under Measure R for transportation purpose within the City.

CITY OF PALOS VERDES ESTATES

COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2016

	Special Revenue Funds		
	Gas Tax	Drug Intervention	SLESF
<b>Assets:</b>			
Cash and investments	\$ 173,879	\$ 83,001	\$ 186,883
Prepaid costs	-	-	-
<b>Total Assets</b>	<b>\$ 173,879</b>	<b>\$ 83,001</b>	<b>\$ 186,883</b>
<b>Liabilities:</b>			
Accounts payable	\$ 4,956	\$ -	\$ -
Accrued salaries and benefits	10,432	-	-
<b>Total Liabilities</b>	<b>15,388</b>	<b>-</b>	<b>-</b>
<b>Fund Balances:</b>			
<b>Nonspendable:</b>			
Prepaid costs	-	-	-
<b>Restricted for:</b>			
Public safety	-	83,001	186,883
Public works	158,491	-	-
<b>Total Fund Balances</b>	<b>158,491</b>	<b>83,001</b>	<b>186,883</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 173,879</b>	<b>\$ 83,001</b>	<b>\$ 186,883</b>

<b>Special Revenue Funds (Continued)</b>				<b>Total</b>
<b>Corrections</b>	<b>Proposition A</b>	<b>Measure R</b>	<b>Proposition C</b>	<b>Nonmajor Governmental Funds</b>
\$ 5,393	\$ 625,202	\$ 274,243	\$ 178,474	\$ 1,527,075
-	6,016	-	-	6,016
<b>\$ 5,393</b>	<b>\$ 631,218</b>	<b>\$ 274,243</b>	<b>\$ 178,474</b>	<b>\$ 1,533,091</b>
\$ -	\$ -	\$ -	\$ -	\$ 4,956
-	-	-	-	10,432
-	-	-	-	<b>15,388</b>
-	6,016	-	-	6,016
5,393	-	-	-	275,277
-	625,202	274,243	178,474	1,236,410
<b>5,393</b>	<b>631,218</b>	<b>274,243</b>	<b>178,474</b>	<b>1,517,703</b>
<b>\$ 5,393</b>	<b>\$ 631,218</b>	<b>\$ 274,243</b>	<b>\$ 178,474</b>	<b>\$ 1,533,091</b>

CITY OF PALOS VERDES ESTATES

COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2016

	Special Revenue Funds		
	Gas Tax	Drug Intervention	SLESF
<b>Revenues:</b>			
Revenue from other agencies	\$ 301,002	\$ -	\$ 82,537
Use of money and property	990	731	1,621
<b>Total Revenues</b>	<b>301,992</b>	<b>731</b>	<b>84,158</b>
<b>Expenditures:</b>			
Current:			
General government	-	-	-
Public safety	-	-	49,485
Public works	310,643	-	-
<b>Total Expenditures</b>	<b>310,643</b>	<b>-</b>	<b>49,485</b>
Net Change in Fund Balances	(8,651)	731	34,673
Fund Balances at Beginning of Year	167,142	82,270	152,210
<b>Fund Balances at End of Year</b>	<b>\$ 158,491</b>	<b>\$ 83,001</b>	<b>\$ 186,883</b>



<b>Special Revenue Funds (Continued)</b>				<b>Total</b>
<b>Corrections</b>	<b>Proposition A</b>	<b>Measure R</b>	<b>Proposition C</b>	<b>Nonmajor Governmental Funds</b>
\$ -	\$ 246,657	\$ 153,539	\$ 204,911	\$ 988,646
-	5,046	1,975	1,680	12,043
-	<b>251,703</b>	<b>155,514</b>	<b>206,591</b>	<b>1,000,689</b>
-	5,700	-	-	5,700
4,387	-	-	-	53,872
-	200,000	-	204,330	714,973
<b>4,387</b>	<b>205,700</b>	-	<b>204,330</b>	<b>774,545</b>
(4,387)	46,003	155,514	2,261	226,144
9,780	585,215	118,729	176,213	1,291,559
<b>\$ 5,393</b>	<b>\$ 631,218</b>	<b>\$ 274,243</b>	<b>\$ 178,474</b>	<b>\$ 1,517,703</b>

CITY OF PALOS VERDES ESTATES

**BUDGETARY COMPARISON SCHEDULE  
GAS TAX SPECIAL REVENUE FUND  
YEAR ENDED JUNE 30, 2016**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Revenue from other agencies	\$ 361,000	\$ 361,000	\$ 301,002	\$ (59,998)
Use of money and property	1,000	1,000	990	(10)
<b>Total Revenues</b>	<b>362,000</b>	<b>362,000</b>	<b>301,992</b>	<b>(60,008)</b>
<b>Expenditures:</b>				
Current:				
Public works	346,756	346,756	310,643	36,113
<b>Total Expenditures</b>	<b>346,756</b>	<b>346,756</b>	<b>310,643</b>	<b>36,113</b>
Net Change in Fund Balance	15,244	15,244	(8,651)	(23,895)
Fund Balance at Beginning of Year	167,142	167,142	167,142	-
<b>Fund Balance at End of Year</b>	<b>\$ 182,386</b>	<b>\$ 182,386</b>	<b>\$ 158,491</b>	<b>\$ (23,895)</b>

CITY OF PALOS VERDES ESTATES

**BUDGETARY COMPARISON SCHEDULE  
 DRUG INTERVENTION SPECIAL REVENUE FUND  
 YEAR ENDED JUNE 30, 2016**

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	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Use of money and property	\$ 500	\$ 500	\$ 731	\$ 231
<b>Total Revenues</b>	<b>500</b>	<b>500</b>	<b>731</b>	<b>231</b>
Net Change in Fund Balance	500	500	731	231
Fund Balance at Beginning of Year	82,270	82,270	82,270	-
<b>Fund Balance at End of Year</b>	<b>\$ 82,770</b>	<b>\$ 82,770</b>	<b>\$ 83,001</b>	<b>\$ 231</b>

CITY OF PALOS VERDES ESTATES

**BUDGETARY COMPARISON SCHEDULE  
SLESF SPECIAL REVENUE FUND  
YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Revenue from other agencies	\$ 100,000	\$ 100,000	\$ 82,537	\$ (17,463)
Use of money and property	500	500	1,621	1,121
<b>Total Revenues</b>	<b>100,500</b>	<b>100,500</b>	<b>84,158</b>	<b>(16,342)</b>
<b>Expenditures:</b>				
Current:				
Public safety	-	48,505	49,485	(980)
<b>Total Expenditures</b>	<b>-</b>	<b>48,505</b>	<b>49,485</b>	<b>(980)</b>
Net Change in Fund Balance	100,500	51,995	34,673	(17,322)
Fund Balance at Beginning of Year	152,210	152,210	152,210	-
<b>Fund Balance at End of Year</b>	<b>\$ 252,710</b>	<b>\$ 204,205</b>	<b>\$ 186,883</b>	<b>\$ (17,322)</b>

CITY OF PALOS VERDES ESTATES

**BUDGETARY COMPARISON SCHEDULE  
CORRECTIONS SPECIAL REVENUE FUND  
YEAR ENDED JUNE 30, 2016**

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	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Revenue from other agencies	\$ -	\$ 6,000	\$ -	\$ (6,000)
<b>Total Revenues</b>	<b>-</b>	<b>6,000</b>	<b>-</b>	<b>(6,000)</b>
<b>Expenditures:</b>				
Current:				
Public safety	4,700	4,700	4,387	313
<b>Total Expenditures</b>	<b>4,700</b>	<b>4,700</b>	<b>4,387</b>	<b>313</b>
Net Change in Fund Balance	(4,700)	1,300	(4,387)	(5,687)
Fund Balance at Beginning of Year	9,780	9,780	9,780	-
<b>Fund Balance at End of Year</b>	<b>\$ 5,080</b>	<b>\$ 11,080</b>	<b>\$ 5,393</b>	<b>\$ (5,687)</b>

CITY OF PALOS VERDES ESTATES

**BUDGETARY COMPARISON SCHEDULE  
PROPOSITION A SPECIAL REVENUE FUND  
YEAR ENDED JUNE 30, 2016**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Revenue from other agencies	\$ 208,100	\$ 208,100	\$ 246,657	\$ 38,557
Use of money and property	2,500	2,500	5,046	2,546
<b>Total Revenues</b>	<b>210,600</b>	<b>210,600</b>	<b>251,703</b>	<b>41,103</b>
<b>Expenditures:</b>				
Current:				
General government	5,310	5,310	5,700	(390)
Public works	200,000	200,000	200,000	-
<b>Total Expenditures</b>	<b>205,310</b>	<b>205,310</b>	<b>205,700</b>	<b>(390)</b>
Net Change in Fund Balance	5,290	5,290	46,003	40,713
Fund Balance at Beginning of Year	585,215	585,215	585,215	-
<b>Fund Balance at End of Year</b>	<b>\$ 590,505</b>	<b>\$ 590,505</b>	<b>\$ 631,218</b>	<b>\$ 40,713</b>

CITY OF PALOS VERDES ESTATES

**BUDGETARY COMPARISON SCHEDULE  
MEASURE R SPECIAL REVENUE FUND  
YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Revenue from other agencies	\$ 129,500	\$ 129,500	\$ 153,539	\$ 24,039
Use of money and property	600	600	1,975	1,375
<b>Total Revenues</b>	<b>130,100</b>	<b>130,100</b>	<b>155,514</b>	<b>25,414</b>
Net Change in Fund Balance	130,100	130,100	155,514	25,414
Fund Balance at Beginning of Year	118,729	118,729	118,729	-
<b>Fund Balance at End of Year</b>	<b>\$ 248,829</b>	<b>\$ 248,829</b>	<b>\$ 274,243</b>	<b>\$ 25,414</b>

CITY OF PALOS VERDES ESTATES

**BUDGETARY COMPARISON SCHEDULE  
 PROPOSITION C SPECIAL REVENUE FUND  
 YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Revenue from other agencies	\$ 173,400	\$ 173,400	\$ 204,911	\$ 31,511
Use of money and property	800	800	1,680	880
<b>Total Revenues</b>	<b>174,200</b>	<b>174,200</b>	<b>206,591</b>	<b>32,391</b>
<b>Expenditures:</b>				
Current:				
Public works	200,940	200,940	204,330	(3,390)
<b>Total Expenditures</b>	<b>200,940</b>	<b>200,940</b>	<b>204,330</b>	<b>(3,390)</b>
Net Change in Fund Balance	(26,740)	(26,740)	2,261	29,001
Fund Balance at Beginning of Year	176,213	176,213	176,213	-
<b>Fund Balance at End of Year</b>	<b>\$ 149,473</b>	<b>\$ 149,473</b>	<b>\$ 178,474</b>	<b>\$ 29,001</b>



CITY OF PALOS VERDES ESTATES

**BUDGETARY COMPARISON SCHEDULE  
 GENERAL CAPITAL IMPROVEMENTS CAPITAL PROJECTS FUND - MAJOR FUND  
 YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Use of money and property	\$ 37,500	\$ 37,500	\$ 52,314	\$ 14,814
<b>Total Revenues</b>	<b>37,500</b>	<b>37,500</b>	<b>52,314</b>	<b>14,814</b>
<b>Expenditures:</b>				
Current:				
Public works	4,138,994	4,138,994	2,087,591	2,051,403
<b>Total Expenditures</b>	<b>4,138,994</b>	<b>4,138,994</b>	<b>2,087,591</b>	<b>2,051,403</b>
Net Change in Fund Balance	(4,101,494)	(4,101,494)	(2,035,277)	2,066,217
Fund Balance at Beginning of Year	7,131,793	7,131,793	7,131,793	-
<b>Fund Balance at End of Year</b>	<b>\$ 3,030,299</b>	<b>\$ 3,030,299</b>	<b>\$ 5,096,516</b>	<b>\$ 2,066,217</b>

CITY OF PALOS VERDES ESTATES

**BUDGETARY COMPARISON SCHEDULE  
SEWER CAPITAL PROJECTS FUND - MAJOR FUND  
YEAR ENDED JUNE 30, 2016**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Special assessments	\$ -	\$ -	\$ 1,455	\$ 1,455
Use of money and property	30,000	30,000	40,678	10,678
<b>Total Revenues</b>	<b>30,000</b>	<b>30,000</b>	<b>42,133</b>	<b>12,133</b>
<b>Expenditures:</b>				
Current:				
Public works	2,404,881	2,404,881	1,495,987	908,894
<b>Total Expenditures</b>	<b>2,404,881</b>	<b>2,404,881</b>	<b>1,495,987</b>	<b>908,894</b>
Net Change in Fund Balance	(2,374,881)	(2,374,881)	(1,453,854)	921,027
Fund Balance at Beginning of Year	5,138,439	5,138,439	5,138,439	-
<b>Fund Balance at End of Year</b>	<b>\$ 2,763,558</b>	<b>\$ 2,763,558</b>	<b>\$ 3,684,585</b>	<b>\$ 921,027</b>

## **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, 2016

	Governmental Activities - Internal Service Funds		
	Equipment Replacement	Insurance	Total
<b>Assets:</b>			
Current Assets:			
Cash and investments	\$ 3,253,192	\$ 981,165	\$ 4,234,357
Accounts receivable	15,000	8,668	23,668
Prepaid costs	-	1,455	1,455
<b>Total Current Assets</b>	<b>3,268,192</b>	<b>991,288</b>	<b>4,259,480</b>
Capital Assets:			
Machinery and equipment	3,181,862	-	3,181,862
Furniture and fixtures	288,225	-	288,225
Vehicles	1,269,151	-	1,269,151
Less accumulated depreciation	(4,130,398)	-	(4,130,398)
<b>Net Capital Assets</b>	<b>608,840</b>	<b>-</b>	<b>608,840</b>
<b>Total Assets</b>	<b>3,877,032</b>	<b>991,288</b>	<b>4,868,320</b>
<b>Liabilities:</b>			
Current Liabilities:			
Accounts payable	26,251	-	26,251
<b>Total Current Liabilities</b>	<b>26,251</b>	<b>-</b>	<b>26,251</b>
<b>Total Liabilities</b>	<b>26,251</b>	<b>-</b>	<b>26,251</b>
<b>Net Position:</b>			
Net investment in capital assets	608,840	-	608,840
Unrestricted	3,241,941	991,288	4,233,229
<b>Total Net Position</b>	<b>\$ 3,850,781</b>	<b>\$ 991,288</b>	<b>\$ 4,842,069</b>

CITY OF PALOS VERDES ESTATES

COMBINING STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET POSITION  
INTERNAL SERVICE FUNDS  
YEAR ENDED JUNE 30, 2016

	Governmental Activities - Internal Service Funds		
	Equipment Replacement	Insurance	Total
<b>Operating Revenues:</b>			
Charges for services	\$ -	\$ 413,668	\$ 413,668
Other	414,190	-	414,190
<b>Total Operating Revenues</b>	<b>414,190</b>	<b>413,668</b>	<b>827,858</b>
<b>Operating Expenses:</b>			
Material and supplies	13,951	-	13,951
General liability insurance	-	564,102	564,102
Property and vehicle insurance	-	30,934	30,934
Workers' compensation	-	59,632	59,632
Depreciation expense	281,636	-	281,636
<b>Total Operating Expenses</b>	<b>295,587</b>	<b>654,668</b>	<b>950,255</b>
Operating Income (Loss)	118,603	(241,000)	(122,397)
<b>Nonoperating Revenues (Expense):</b>			
Interest revenue (expense)	29,435	(62)	29,373
Gain on disposal of capital assets	4,140	-	4,140
<b>Total Nonoperating Revenues (Expense)</b>	<b>33,575</b>	<b>(62)</b>	<b>33,513</b>
Changes in Net Position	152,178	(241,062)	(88,884)
Net Position at Beginning of Year	3,698,603	1,232,350	4,930,953
<b>Net Position at End of Year</b>	<b>\$ 3,850,781</b>	<b>\$ 991,288</b>	<b>\$ 4,842,069</b>

CITY OF PALOS VERDES ESTATES

COMBINING STATEMENT OF CASH FLOWS  
INTERNAL SERVICE FUNDS  
YEAR ENDED JUNE 30, 2016

	Governmental Activities - Internal Service Funds		
	Equipment Replacement	Insurance	Total
<b>Cash Flows from Operating Activities:</b>			
Cash received from user departments	\$ 399,190	\$ 405,000	\$ 804,190
Cash paid to suppliers for goods and services	(6,543)	(926,363)	(932,906)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>392,647</b>	<b>(521,363)</b>	<b>(128,716)</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Acquisition and construction of capital assets	(94,794)		(94,794)
Proceeds from sales of capital assets	4,140	-	4,140
<b>Net Cash Provided by (Used in) Capital and Related Financing Activities</b>	<b>(90,654)</b>	<b>-</b>	<b>(90,654)</b>
<b>Cash Flows from Investing Activities:</b>			
Interest received (paid)	29,435	(62)	29,373
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>29,435</b>	<b>(62)</b>	<b>29,373</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>331,428</b>	<b>(521,425)</b>	<b>(189,997)</b>
Cash and Cash Equivalents at Beginning of Year	2,921,764	1,502,590	4,424,354
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 3,253,192</b>	<b>\$ 981,165</b>	<b>\$ 4,234,357</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:</b>			
Operating income (loss)	\$ 118,603	\$ (241,000)	\$ (122,397)
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:</b>			
Depreciation expense	281,636	-	281,636
(Increase) decrease in accounts receivable	(15,000)	(8,668)	(23,668)
(Increase) decrease in prepaid costs	-	1,454	1,454
Increase (decrease) in accounts payable	7,408	(273,149)	(265,741)
<b>Total Adjustments</b>	<b>274,044</b>	<b>(280,363)</b>	<b>(6,319)</b>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ 392,647</b>	<b>\$ (521,363)</b>	<b>\$ (128,716)</b>

## **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 ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
JUNE 30, 2016

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	<u>Special Deposits</u>	<u>Police Property Evidence</u>	<u>Totals</u>
<b>Assets:</b>			
Cash and investments	\$ 169,000	\$ 14,266	\$ 183,266
<b>Total Assets</b>	<b><u>\$ 169,000</u></b>	<b><u>\$ 14,266</u></b>	<b><u>\$ 183,266</u></b>
<b>Liabilities:</b>			
Accounts payable	\$ -	\$ -	\$ -
Deposits payable	169,000	14,266	183,266
<b>Total Liabilities</b>	<b><u>\$ 169,000</u></b>	<b><u>\$ 14,266</u></b>	<b><u>\$ 183,266</u></b>



CITY OF PALOS VERDES ESTATES

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
 ALL AGENCY FUNDS  
 YEAR ENDED JUNE 30, 2016

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2016</u>
<b>SPECIAL DEPOSITS</b>				
<b>Assets:</b>				
Cash and investments	\$ 169,614	\$ 25,827	\$ (26,441)	\$ 169,000
<b>Total Assets</b>	<b>\$ 169,614</b>	<b>\$ 25,827</b>	<b>\$ (26,441)</b>	<b>\$ 169,000</b>
<b>Liabilities:</b>				
Accounts payable	\$ 6,806	\$ 21,235	\$ (28,041)	\$ -
Deposits payable	162,808	25,107	(18,915)	169,000
<b>Total Liabilities</b>	<b>\$ 169,614</b>	<b>\$ 46,342</b>	<b>\$ (46,956)</b>	<b>\$ 169,000</b>
<b>POLICE PROPERTY EVIDENCE</b>				
<b>Assets:</b>				
Cash and investments	\$ 14,138	\$ 128	\$ -	\$ 14,266
<b>Total Assets</b>	<b>\$ 14,138</b>	<b>\$ 128</b>	<b>\$ -</b>	<b>\$ 14,266</b>
<b>Liabilities:</b>				
Deposits payable	\$ 14,138	\$ -	\$ 128	\$ 14,266
<b>Total Liabilities</b>	<b>\$ 14,138</b>	<b>\$ -</b>	<b>\$ 128</b>	<b>\$ 14,266</b>
<b>TOTAL - ALL AGENCY FUNDS</b>				
<b>Assets:</b>				
Cash and investments	\$ 183,752	\$ 25,955	\$ (26,441)	\$ 183,266
<b>Total Assets</b>	<b>\$ 183,752</b>	<b>\$ 25,955</b>	<b>\$ (26,441)</b>	<b>\$ 183,266</b>
<b>Liabilities:</b>				
Accounts payable	\$ 6,806	\$ 21,235	\$ (28,041)	\$ -
Deposits payable	176,946	25,107	(18,787)	183,266
<b>Total Liabilities</b>	<b>\$ 183,752</b>	<b>\$ 46,342</b>	<b>\$ (46,828)</b>	<b>\$ 183,266</b>

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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.

<b>Contents</b>	<b><u>Pages</u></b>
<u>Financial Trends</u> these schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	98 - 101
<u>Revenue Capacity</u> these schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.	102 - 110
<u>Debt Capacity</u> these schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's financial activities take place.	111 - 112
<u>Demographic and Economic Information</u> these schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	113 - 114
<u>Operating Information</u> these schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	115 - 117

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									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Governmental activities										
Net investment in capital assets	\$ 61,847	\$ 60,831	\$ 59,719	\$ 56,687	\$ 54,677	\$ 53,240	\$ 51,728	\$ 48,675	\$ 46,006	\$ 45,358
Restricted	1,593	1,324	1,720	2,050	8,254	8,461	7,996	7,970	7,773	6,417
Unrestricted	<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>	<u>10,747</u>	<u>9,210</u>
 Total governmental activities										
net position	<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>	<u>\$ 64,526</u>	<u>\$ 60,985</u>
 Primary government										
Net investment in capital assets	\$ 61,847	\$ 60,831	\$ 59,719	\$ 56,687	\$ 54,677	\$ 53,240	\$ 53,240	\$ 48,675	\$ 46,006	\$ 45,358
Restricted	1,593	1,324	1,720	2,050	8,254	8,461	8,461	7,970	7,773	6,417
Unrestricted	<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>	<u>10,747</u>	<u>9,701</u>
 Total primary government net position	<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>	<u>\$ 64,526</u>	<u>\$ 61,476</u>

\* The City implemented GASB 68 in 2014-15 year having a significant impact on net equity given the first time recording of citywide pension liability. This is the first year of establishing this new base of comparison.

CITY OF PALOS VERDES ESTATES

Changes in Net Position

Last Ten Fiscal Years

(accrual basis of accounting)

(amounts expressed in thousands)

	FISCAL YEAR									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Expenses:										
Governmental activities:										
General government	\$ 1,458	\$ 1,504	\$ 1,693	\$ 1,592	\$ 1,699	\$ 1,573	\$ 2,157	\$ 1,542	\$ 2,244	\$ 2,911
Public safety	8,443	8,899	9,554	9,536	9,770	10,281	9,969	10,299	10,476	11,555
Public works	5,851	4,588	4,327	4,887	4,299	4,250	2,980	2,970	3,013	6,891
Parks and recreation	1,370	2,721	2,808	2,821	2,892	3,166	4,692	5,257	5,703	3,092
<b>Total governmental activities expenses</b>	<b>\$17,122</b>	<b>\$ 17,712</b>	<b>\$18,382</b>	<b>\$ 18,836</b>	<b>\$18,660</b>	<b>\$ 19,270</b>	<b>\$ 19,798</b>	<b>\$ 20,068</b>	<b>\$ 21,436</b>	<b>\$ 24,449</b>
Program revenues:										
Governmental activities:										
Charges for services:										
General government	\$ 68	\$ 56	\$ 63	\$ 68	\$ 66	\$ 56	\$ 85	\$ 50	\$ 56	\$ 472
Public safety	3,565	3,714	3,902	4,071	4,291	4,260	4,416	4,548	4,675	4,765
Public works	1,539	1,265	852	978	1,477	1,129	1,153	957	1,154	1,283
Parks and recreation	833	989	1,008	987	992	1,066	1,109	1,190	1,261	-
Operating grants and contributions	1,188	907	1,113	1,291	1,021	1,077	1,036	1,177	1,353	2,013
Capital grants and contributions	8,703	2,522	3,656	2,012	1,377	1,212	1,070	48	20	1,756
<b>Total governmental activities program revenues</b>	<b>15,896</b>	<b>9,453</b>	<b>10,594</b>	<b>9,407</b>	<b>9,224</b>	<b>8,800</b>	<b>8,869</b>	<b>7,970</b>	<b>8,519</b>	<b>10,289</b>
<b>Net (expense)/revenue</b>	<b>\$ (1,226)</b>	<b>\$ (8,259)</b>	<b>\$ (7,788)</b>	<b>\$ (9,429)</b>	<b>\$ (9,436)</b>	<b>\$ (10,470)</b>	<b>\$ (10,929)</b>	<b>\$ (12,098)</b>	<b>\$ (12,917)</b>	<b>\$ (14,160)</b>
General revenues and other changes in net position:										
Governmental activities:										
Taxes:										
Property taxes	\$ 5,157	\$ 5,390	\$ 5,661	\$ 5,695	\$ 5,743	\$ 5,842	\$ 6,099	\$ 6,494	\$ 6,859	\$ 8,571
Utility users tax	-	-	-	-	-	-	-	-	-	-
Sales and use taxes	428	406	340	309	319	318	349	384	427	435
Franchise taxes and other taxes	891	886	850	813	961	897	925	985	1,042	1,423
Motor vehicle in lieu tax (unrestricted)	1,020	1,052	1,092	1,107	1,127	1,097	1,126	1,184	1,248	-
Investment income	544	456	241	97	208	186	(12)	256	215	320
Miscellaneous	118	200	80	491	79	143	178	285	343	361
<b>Total General Revenue and Extraordinary Item</b>	<b>8,158</b>	<b>8,390</b>	<b>8,264</b>	<b>8,512</b>	<b>8,437</b>	<b>8,483</b>	<b>8,665</b>	<b>9,588</b>	<b>10,134</b>	<b>11,110</b>
<b>Change in Net Position</b>	<b>\$ 6,932</b>	<b>\$ 131</b>	<b>\$ 476</b>	<b>\$ (917)</b>	<b>\$ (999)</b>	<b>\$ (1,987)</b>	<b>\$ (2,264)</b>	<b>\$ (2,510)</b>	<b>\$ (2,783)</b>	<b>\$ (3,050)</b>

\* The City implemented GASB 68 in 2014-15 which significantly impacted net equity and resulted in the restatement of net position by \$10,148,73 on the statement of net assets.

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

	Fiscal Year									
	2007	2008	2009	2010	2011*	2012*	2013*	2014*	2015*	2016
<b>General fund:</b>										
Reserved	\$ 6	\$ 37	\$ 4	\$ 57						
Unreserved	7,256	7,468	8,472	8,472						
Total general fund	<u>\$ 7,262</u>	<u>\$ 7,505</u>	<u>\$ 8,476</u>	<u>\$ 8,529</u>						
<b>All other governmental funds:</b>										
Reserved	\$ 332	\$ 330	\$ 328	\$ 335						
Unreserved, reported in:										
Designated for capital projects	2,371	2,709	1,857	291						
Special revenue funds	1,717	1,436	2,064	1,716						
Capital projects funds	16,008	14,190	14,901	17,099						
Total all other governmental funds	<u>20,428</u>	<u>18,665</u>	<u>19,150</u>	<u>19,441</u>						
<b>Total</b>	<u>\$ 27,690</u>	<u>\$ 26,170</u>	<u>\$ 27,626</u>	<u>\$ 27,970</u>						
<b>General fund:</b>										
Nonspendable					\$ 65	\$ 86	\$ 98	\$ 99	\$ 31	\$ 15
Restricted					-	-	-	-	-	-
Committed					7,200	7,200	7,200	7,200	7,200	7,200
Assigned					957	-	-	-	-	-
Unassigned					1,111	1,605	2,097	2,521	3,219	4,114
Total general fund					<u>\$ 9,333</u>	<u>\$ 8,891</u>	<u>\$ 9,395</u>	<u>\$ 9,820</u>	<u>\$ 10,450</u>	<u>\$ 11,329</u>
<b>All other governmental funds:</b>										
Nonspendable					\$ 331	\$ 3	\$ 358	\$ 373	\$ -	\$ 395
Restricted					7,861	8,308	7,487	7,598	7,773	6,417
Committed					-	-	-	-	-	-
Assigned					-	9,611	9,052	8,375	7,132	5,096
Unassigned					10,106	-	-	-	-	-
Total all other governmental funds					<u>18,298</u>	<u>17,922</u>	<u>16,897</u>	<u>16,346</u>	<u>14,905</u>	<u>11,908</u>
<b>Total</b>					<u>\$ 27,631</u>	<u>\$ 26,813</u>	<u>\$ 26,292</u>	<u>\$ 26,166</u>	<u>\$ 25,355</u>	<u>\$ 23,237</u>

\* GASB 54 has been implemented in fiscal year 2011 resulting in a change of definition of reserve categories

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

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Revenues:</b>										
Property Tax	\$ 5,157	\$ 5,390	\$ 5,661	\$ 5,695	\$ 5,693	\$ 5,842	\$ 6,099	\$ 6,494	\$ 6,859	\$ 7,247
Special assessment	4,594	4,924	5,140	5,098	5,316	5,044	5,221	4,316	4,464	4,582
Utility user tax	-	-	-	-	-	-	-	-	-	-
Other taxes	1,532	1,479	1,385	1,378	1,574	1,214	1,274	1,369	1,469	1,445
Licenses and permits	784	654	545	514	625	675	701	606	598	590
Fines and forfeitures	177	191	190	181	210	212	206	2,416	2,591	2,543
Use of money and agencies	2,093	2,058	1,639	1,300	1,175	1,228	1,089	407	447	602
Revenues from other agencies	2,027	1,771	3,088	2,155	2,051	2,278	2,218	1,412	1,423	1,612
Charges for services	860	678	410	549	501	454	475	207	176	147
Miscellaneous	135	323	89	975	79	144	176	288	326	361
<b>Total revenues</b>	<b>17,359</b>	<b>17,468</b>	<b>18,147</b>	<b>17,845</b>	<b>17,224</b>	<b>17,091</b>	<b>17,459</b>	<b>17,515</b>	<b>18,353</b>	<b>19,129</b>
<b>Expenditures</b>										
General government	1,475	1,437	1,561	1,536	1,595	1,437	1,503	1,853	2,069	2,164
Public safety	8,813	8,893	9,504	10,877	10,805	10,368	9,851	10,298	10,803	11,412
Public works	5,557	5,164	4,514	4,014	3,913	4,938	4,971	3,786	4,801	6,450
Parks and recreation	952	1,123	1,113	1,074	1,091	1,166	1,078	1,141	1,190	1,221
<b>Total expenditures</b>	<b>16,797</b>	<b>16,617</b>	<b>16,692</b>	<b>17,501</b>	<b>17,404</b>	<b>17,909</b>	<b>17,403</b>	<b>17,078</b>	<b>18,863</b>	<b>21,247</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>562</b>	<b>851</b>	<b>1,455</b>	<b>344</b>	<b>(180)</b>	<b>(818)</b>	<b>56</b>	<b>437</b>	<b>(510)</b>	<b>(2,118)</b>
<b>Other financing sources (uses):</b>										
Transfers in	2,326	1,709	541	563	5,357	1,162	883	700	1,015	-
Transfers out	(2,335)	(1,709)	(541)	(563)	(5,515)	(1,162)	(1,461)	(1,263)	(1,317)	-
<b>Total other financing sources (uses)</b>	<b>(9)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(158)</b>	<b>-</b>	<b>(578)</b>	<b>(563)</b>	<b>(302)</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>\$ 553</b>	<b>\$ 851</b>	<b>\$ 1,455</b>	<b>\$ 344</b>	<b>\$ (338)</b>	<b>\$ (818)</b>	<b>\$ (522)</b>	<b>\$ (126)</b>	<b>\$ (812)</b>	<b>\$ (2,118)</b>

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>
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	6,494,062	-	383,800	984,904	1,183,953	9,046,719
2015	6,858,942	-	426,727	1,042,439	1,248,033	9,576,141
2016	7,247,897	-	435,005	1,009,002	1,323,094	10,014,998

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			
2007	4,535,247	43,176	3,880	3,744	4,578,559	0.1130%
2008	4,790,155	40,470	5,049	7,269	4,828,405	0.1130%
2009	5,057,668	40,784	5,015	7,487	5,095,981	0.1130%
2010	5,159,361	44,987	5,492	7,136	5,202,704	0.1130%
2011	5,135,015	50,147	4,540	6,211	5,183,491	0.1130%
2012	5,279,303	47,759	4,732	7,560	5,324,234	0.1130%
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%
2015	6,009,062	50,686	4,768	8,225	6,056,291	0.1130%
2016	6,373,721	53,021	4,539	8,067	6,423,214	0.1109%

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

Data Source: Los Angeles County Assessor Combined Tax Rolls

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

Fiscal Year	Direct Rates				Overlapping Rates					
	City Direct Rate	LA County ERAF/Palos Verdes Library District/Palos Verdes Unified School District	Total General Levy	Palos Verdes Peninsula Unified School District	LA County Flood Control District	Metropolitan Water District	Palos Verdes Library District	Los Angeles County	Comm. College	Total Direct Overlapping Rates
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
2015	0.1130	0.8870	1.00000	0.0233	-	0.0035	0.0059	-	0.0402	1.07281
2016	0.1103	0.8870	1.00000	0.0234	-	0.0035	0.0056	-	0.0358	1.06830

Source: Los Angeles County Auditor Controller's Office.

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

Taxpayer	2016			2007		
	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	\$ 32,935,596	1	0.51%	\$ 28,965,325	1	0.63%
Lowell W and Lisa B. Hill	16,918,885	2	0.26%			
Masafumi Miyamoto	14,866,239	3	0.23%	13,074,183	4	0.29%
Yi Lin	13,500,000	4	0.21%			
Jackson and Julie Yang	13,275,386	5	0.21%	10,492,258	7	0.23%
Jose A. and Brigitte Collazo Trust	13,075,000	6	0.20%	14,869,827	2	0.33%
Winstep Int'l Holdings USA LLC	13,000,000	7	0.20%			
Jason and Wendy Moskowitz Trust	12,484,833	8	0.19%	10,661,520	6	0.23%
Richard C Lundquist Company Trust	11,395,137	9	0.18%	10,021,499	8	0.22%
Timothy D Armour Trust	11,235,022	10	0.17%			
Tekokjan S and Harpal K Gill Trust				10,957,951	5	0.24%
Hussain M Shaikh				9,934,069	9	0.22%
RMT and SV Chang 1992 Trust				8,769,503	10	0.19%
Albert Centofante Trust				13,472,682	3	0.29%
	<u>\$ 152,686,098</u>		<u>2.36%</u>	<u>\$ 131,218,817</u>		<u>2.87%</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>
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%
2015	6,458,489	6,390,201	98.94%	-	6,390,201	98.94%
2016	7,134,756	6,960,188	97.55%	-	6,960,188	97.55%

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		
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	-	68	-	-	-	19,264	-	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	-	67	-	-	-	19,646	-	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	-	67	-	-	-	20,280	-	20,280	
2015	5,125		15,560,524	242,466	15,802,990	4,374,002	52,101	4,426,103	\$320.62/parcel plus \$0.183637/sq.ft
2015	-	67	-	-	-	20,919	-	20,919	
2016	5,125		15,619,985	223,749	15,843,737	4,503,223	49,425	4,552,648	\$320.62/parcel plus
	-	67	-	-	-	21,482	-	21,482	\$0.183637/sq. ft

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, 2016  
Current Year and Prior Year

Property Owners	<b>2016</b>		
	Building Square Footage Value	Special Fire Tax Assessed	Percentage of Building Square Footage
Lunada Bay Investment Co.	36,478	\$ 7,020	0.23%
Barnett, Rita C	34,257	8,535	0.22%
Peninsula Investment Co.	29,502	6,059	0.19%
Chen Tei Fu Co. Trust	29,678	5,771	0.19%
67 parcels (special fire tax paid over \$2,000)	845,402	176,728	5.34%
1094 parcels (special fire tax paid between \$1,000-\$1,999)	5,430,979	1,348,076	34.29%
4031 parcels (special fire tax paid less than \$1,000 each)	<u>9,563,617</u>	<u>3,048,613</u>	<u>60.38%</u>
Total	<u><u>15,839,998</u></u>	<u><u>\$ 4,573,417</u></u>	<u><u>100.00%</u></u>

CITY OF PALOS VERDES ESTATES  
Principal Special Fire Taxpayers  
June 30, 2015  
Current Year and Prior Year

Property Owners	<b>2015</b>		
	Building Square Footage Value	Special Fire Tax Assessed	Percentage of Building Square Footage
Lunada Bay Investment Co.	36,478	\$ 6,835.46	0.23%
Chen Tei Fu Co. Trust	29,678	5,619.44	0.19%
Lunada Bay Apartments Ltd.	23,361	4,489.78	0.15%
Plaza Palos Verdes LLC	23,203	4,461.54	0.15%
54 parcels (special fire tax paid over \$2,000)	646,732	132,512.46	4.12%
976 parcels (special fire tax paid between \$1,000-\$1,999)	5,006,973	1,200,099.00	31.91%
4158 parcels (special fire tax paid less than \$1,000 each)	10,036,565	3,092,978.00	63.97%
Total	15,690,270	\$ 4,425,589	100%

CITY OF PALOS VERDES ESTATES

Fire Tax Rates

Direct Government

Last Five Fiscal Years

	<u>City Direct Tax Rate</u>
2012	0.25650
2013	0.26540
2014	0.27380
2015	0.28140
2016	0.28870

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, 2016

2015-2016 Assessed Valuation: \$6,433,708,879

Governmental Unit	Outstanding Debt 6/30/16	Estimated Percentage Applicable	Estimated Share of
<b>Overlapping General Fund Debt (Note 1)</b>			
Los Angeles County General Fund Obligations	\$ 2,029,010,694	0.505%	\$ 10,246,504
Los Angeles County Superintendent of Schools COP'S	7,944,360	0.505%	\$ 40,119
Los Angeles County Sanitation District-			
South Bay Authorities	4,699,750	16.087%	\$ 756,049
Los Angeles County Sanitation District #5	27,560,973	0.559%	\$ 154,066
Los Angeles Community College District	3,671,000,000	0.913%	33,520,539
Palos Verdes Peninsula Unified School District	69,065,015	29.889%	20,642,763
Palos Verdes Library District	1,245,000	28.472%	354,478
Metropolitan Water District	44,916,916	0.625%	<u>280,953</u>
Subtotal, overlapping debt			65,995,471
City direct debt			(0)
Less: Los Angeles County General Fund Obligations supported by landfill revenues			<u>(22,952)</u>
Net Total direct and overlapping debt			<u><u>\$66,018,423</u></u>

Sources: California Municipal Statistics and HDL.

**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, 2016

(dollars in thousands)

Assessed value before homeowners \$ 6,433,708

Debt limit- 15% of assessed value \$ 965,056

Amount of debt applicable to debt limit -

\$ 965,056

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Debt Limit	\$686,784	\$ 724,261	\$764,297	\$780,406	\$777,524	\$798,635	\$819,753	\$862,783	\$908,444	\$965,056
Total net debt applicable to limit	-	-	-	-	-	-	-	-	-	-
Legal debt margin	<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>	<u>\$908,444</u>	<u>\$965,056</u>
Total net debt applicable to the limit as a percentage of debt limit	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

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

Note:

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

Calendar Year	City Population	Personal Income (thousands of dollars)	Per Capita Personal Income	Unemployment Rate (%)
2006	14,041	1,043,576	74,605	1.0
2007	14,085	1,058,276	75,868	1.1
2008	14,046	1,062,042	76,159	1.6
2009	14,046	1,052,984	75,245	2.6
2010	14,085	1,303,144	92,520	2.9
2011	13,480	1,225,469	90,668	2.8
2012	13,516	1,246,247	91,710	2.1
2013	13,589	1,211,307	88,643	1.7
2014	13,665	1,206,227	88,239	1.4
2015	13,665	1,185,951	86,490	1.1
2016	13,712	1,220,847	89,035	0.8

Sources: (1) Population - California Department of Finance  
(2) Income - Last available Census  
(3) Employment - State of California Employment Development Department (City Data)

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	1450	1	85.68%
Concession Clubs			
Palos Verdes Golf Club	102	2	6.03%
Palos Verdes Beach & Athletic Club	16		
Palos Verdes Tennis Club	6		
Palos Verdes Stables	6		
City Government			
City of Palos Verdes Estates	61,286	3	3.62%
Real Estate and Escrow Companies	28	4	1.65%
Restaurants	<u>23</u>	5	1.36%
Total	<u>1,692,286</u>		100.00%

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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
General Government:										
Administration	5.520	5.520	5.520	5.520	5.520	5.125	5.125	5.125	5.188	5.686
Finance	3.600	3.600	3.600	3.600	3.600	3.000	3.000	4.000	4.000	4.000
Building and Planning	2.500	2.500	2.500	2.500	2.500	2.000	2.000	3.000	4.000	6.000
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)	11.000	11.000	12.000	12.000	12.000	12.000	12.000	12.000	12.000	12.000
Other	3.330	3.330	2.500	1.500	2.500	2.500	2.800	2.800	2.600	3.100
Street and Parks	<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>	<u>5.500</u>	<u>5.500</u>
Total	55.950	55.950	56.120	55.620	56.620	55.125	55.425	57.425	58.288	61.286

Source: City Finance Department

Notes:

- (1) The City contracts with the following:
  - a) Los Angeles County for fire and paramedic services
  - b) HR. Green for building, planning and public works administrative services.
- (2) Includes 1 Community Relations Officer and 1 Traffic Control Officer.

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

Function/Program	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Police:</b>										
Physical arrests	899	797	594	419	237	503	590	679	521	562
Parking violations	2,898	2,901	3,010	3,002	3,029	2,917	2,705	2,580	1,619	1,697
Moving violations	758	958	553	798	1,102	1,191	1,552	1,068	639	1,039
<b>Building &amp; Planning:</b>										
Building permits issues	2,458	2,197	1,614	1,650	1,843	1,994	2,025	2,064	2,087	2,130
Total number of inspections	4,072	3,898	2,763	220	2,507	2,565	2,442	2,336	2,197	2,618
Grading applications	27	23	20	17	17.5	11.5	18.0	20.5	21.0	23
Neighborhood compatibility applications	57	49	35	32.5	33	23	27	29	29	32
Miscellaneous applications	30	34	44	53	38.50	57.00	50.00	46.00	62.00	74
<b>Public Works:</b>										
Public works permits	241	272	322	200	178	227	191	219	219	278
Street resurfacing (miles)	8.7	8.7	9.9	3.55	3.28	3.35	3.62	0.78	0.78	4.00

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									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
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)	28.5	28.5	28.8	28.5	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).

