



MEMORANDUM

Agenda Item #: 5
Meeting Date: January 23, 2018

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: ANTON DAHLERBRUCH, CITY MANAGER /s/

SUBJECT: PRESENTATION OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) FOR THE PERIOD ENDING JUNE 30, 2017

DATE: JANUARY 23, 2018

ISSUE/PURPOSE

Shall the City Council receive and file the City's Comprehensive Annual Financial Report (CAFR) for the period ending June 30, 2017?

BACKGROUND

Annually, the City prepares in coordination with an independent external auditor a Comprehensive Annual Financial Report (CAFR). The CAFR is a set of financial statements that present the City's financial reports, verifies the accuracy of the City's financial records and compliance with policies, includes an audit of internal controls, and states the City's compliance with the accounting requirements promulgated by the Governmental Accounting Standards Board (GASB). For its excellence in reporting and fiscal management each year, the City has received recognition of its CAFR from the Government Finance Officers Association.

The CAFR as presented covers the results of City operations for the fiscal year (FY) 2016-17 ending June 30, 2017. The report has been prepared by the Finance Department with assistance of the City's auditor, White Nelson Diehl Evans (WNDE), LLP. This is the second year of a three year contract with the firm. In order to continually have a fresh look at the City's finances and procedures, the auditors focus on different key areas related to financial operations each and every year. For FY 2016-17, the auditors focused on the recently implemented new ADP

payroll system and related internal process. The auditor's report also presents FY 2016-17 ending with General Fund revenues, before transfers out, exceeding expenses¹.

As a component of the audit process, the City Council Audit Committee consisting of Mayor Vandever and Mayor Pro Tem Peterson met with the auditors on December 5, 2017. The discussion comprised of a review of process, audit internal control comments, and fiscal results.

Included in this staff report are three reports foundational to this process. These include:

- Draft Comprehensive Annual Financial Report Year Ended June 30, 2017
- Audit Communications Letter
- Internal Control Compliance Letter

As an executive summary of results, Attachment A provides a "CAFR at a Glance" of high level takeaways of this year's audit. Also, the actual draft CAFR document (Attachment B) includes two key narratives, the Transmittal Letter and the Management Discussion & Analysis. Attachments C & D are required internal control and process communications that accompany the audit process.

DISCUSSION

In summary, WNDE issued an unmodified (formerly known as an "unqualified" or "clean") opinion of the City's finances, rendering the City a "clean fiscal bill of health". Overall, the City continues to operate under solid financial practices.

It is clear from the Comprehensive Annual Financial Report (CAFR) that for fiscal year 2016-17, the City continued to have operating revenue in excess of operating expenses that in turn, provided for the transfer of funds to the Capital Improvement Fund for infrastructure projects and maintained the policy (and healthy) fiscal reserve for emergencies. This point should not be confused with the City's Net Position. Net Position for Palos Verdes Estates is not a reflection of the City's operational condition and activities; the City continues to be in a positive and sound position for providing the current level of services. The Net Position, on the other hand, incorporates citywide depreciation, pension liability and outflows for which funds have been banked over time for capital improvement costs. The City's Net Position primarily points out that over time, new or increased revenue will be necessary for the City's infrastructure and for meeting pension obligations. The Net Position illustrates the need to address the long-term needs of the City.

RECOMMENDATION

It is recommended that the City Council receive and file the Comprehensive Annual Financial Report for the period ending June 30, 2017.

¹ The FY 2016-17 CAFR represents the financial results ending June 30, 2017, prior to the impact on the City by loss of approximately \$5 million in parcel tax revenue resulting from the failure of Measure D.

ATTACHMENTS

- Attachment A: “CAFR AT A GLANCE”
- Attachment B: Comprehensive Annual Financial Report Year Ended June 30, 2017
- Attachment C: Audit Communications Letter – 2017 Conclusion
- Attachment D: Internal Control Compliance Letter – 2017 GAS Letter
- Attachment E: Management Letter - 2017
- Attachment F: Appropriations Limit Worksheet – 2017 GANN Report
- Attachment G: Calculation of Net Position

2016-17 CAFR at a Glance

2015-16

Highlights

- Unmodified (Clean) Opinion
- First year of new external auditor
- Includes **GASB 68** - new Pension Reporting
- Reflects GASB 54 – new Fund Reserve Definitions
- GASB 34 - GASB 44 - GASB 45 - GASB 51 compliant
- No Single Audit (Federal Grants) Required
- Received the 2015 - GFOA Excellence in Reporting Award

2016-17

Highlights

- Unmodified (Clean) Opinion
- Second year of engagement with new external auditor
- Compliant with all previous and appropriate GASB pronouncements
- No Single Audit (Federal Grants) Required
- Received the 2016 - GFOA Excellence in Reporting Award

2016-17 CAFR at a Glance (cont.)

Financial

General Fund

- \$564,000 operating (General Fund) surplus (prior to transfer-out to Capital Improvement Fund)
- \$1 million transferred to the Capital Improvement Fund
- Policy Reserves maintained - \$7.2 million
- Year ended with additional unreserved Fund Balance of \$4 million
- Revenues exceed budget by \$750,000
- Expenses below budget by \$390,000

2016-17 CAFR at a Glance (cont.)

Financial

Other Funds & Performance Indicators

- Total Capital Improvement Fund Balance - \$6.2 million for future capital improvement projects and comprehensive maintenance improvements
- Capital project progress - \$1 million in City improvements
- Total Sewer Fund Balance - \$3.7 million for future capital improvement projects and maintenance improvements
- Annual expense of \$929,000 for long-term pensions liability of \$13 million
- No City debt
- Government Funds maintain healthy and expected reserves

2016-17 CAFR at a Glance (cont.)

Continuing and Future Challenges

- CalPERS rate increases (specifically in FY 2018-19)
- Unfunded liabilities (compensated absences, CalPERS, etc.)
- Loss of Parcel Tax revenue comprising approximately 25% of City revenues
- Historical and current revenue for Capital Improvement Fund projects
- Unfunded mandates
- General cost increases operations, infrastructure, and maintenance
- Rising workers compensation, health insurance, insurance, and pension costs
- Uncertainty with State legislation and economy
- Sustaining and vitality of the organization
- Educating and communicating with the public about the actual and accurate fiscal condition of the City



INCORPORATED 1939

CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT
year ended June 30, 2017

**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, 2017

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CITY OF PALOS VERDES ESTATES

COMPREHENSIVE ANNUAL FINANCIAL REPORT JUNE 30, 2017

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CITY OF PALOS VERDES ESTATES

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CITY OF PALOS VERDES ESTATES

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January 15, 2018

Honorable Mayor and Members of the City Council:

In recognition of our commitment to financial transparency and fiscal integrity, the City of Palos Verdes Estates annually publishes 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 this continuing dedication to financial accuracy and disclosure, the comprehensive annual financial statements of the City of Palos Verdes Estates (“the City”) is presented for the fiscal year ended June 30, 2017.

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 these 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 Palos Verdes Estates City Council for a three-year term beginning with the fiscal year 2015/16 audit; the presentation of this report completes the second year of their engagement with the City. The goal of the independent audit is to provide reasonable assurance that the City of Palos Verdes Estates’ financial statements are free of material misstatement. In turn, the independent auditor has again rendered an unmodified (“clean”) opinion that the City’s financial statements for the fiscal year ended June 30, 2017 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 properties 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 had depended significantly on property taxes and a special parcel tax to provide services to the public.

The City operates 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 have been held in March of odd-numbered years, although in accordance with State law, elections are transitioning to November in even-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 City 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 a franchise for residential refuse collection. The City also maintains concession agreements for use of City property for recreational public golf, tennis, swimming and stables.

Financial Policies

Budget Policy and Practice - For planning purposes, the City Council 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 City 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 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 City Council policy and GASB 54.

Government Accounting Standards Board (GASB) 68 – The valuable impact of this accounting standard, which became effective in the in fiscal year 2014/15 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, cities across the country prepare financial reports that include these material liabilities. For Palos Verdes Estates, a pension liability impact of \$12.5 million is identified herein. With GASB 68, 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.

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. For the year ending June 30, 2017, 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 in fiscal year 2016/17. These accomplishments generally reflect the 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 rather, it is a representation of the organization’s collective efforts to serve the community.

- **Public Safety:** In the Police Department, accomplishments included maintaining an average emergency response time of 3 minutes, establishing of a “callback” program to improve communications with the community, and establishing of social media presence

to increase community outreach and connections. The Department also implemented steps in succession planning with one Police Captain attending the FBI National Academy and one Police Captain attending Command College.

- Capital Improvements and Equipment Replacement: Construction projects included 3.36 miles of street maintenance and reconstruction, curb and gutter improvements, and the installation of catch-basin inserts to comply with federally mandated storm water requirements for the portions of the City's watershed tributary to Machado Lake. Equipment replacement included new shelving and fixtures in the Public Works storage area for equipment, the storage of emergency traffic control signs and devices and housing inventory for emergency road closures; the purchase of safety equipment; and the purchase of replacement vehicles.
- Public Works: The Public Works Department was proactive in preparing for the rainy season which produced 17.41 inches of rain between October 1, 2016 and September 30, 2017. Storm drains were inspected and cleaned; sandbags were placed in poor drainage areas; runoff was monitored during heavy rain events; debris was picked up and drains were cleared subsequent to rain events; and crews were on duty during forecasted extremely severe weather to ensure public safety. The Public Works Department also facilitated the removal of unpermitted structures and miscellaneous debris from Lunada Bay.
- Local Hazard Mitigation: Approximately 220 acres of open space adjacent to private property was cleared for fire safety. In response to the Disaster Mitigation Act of 2000, the City prepared a Local Hazard Mitigation Plan to assess the community's susceptibility to various natural hazards and identifying activities to minimize potential impacts.
- Community Development: Over 2,000 building permits were issued for additions and new construction of homes. Total value of building permits issued was approximately \$18 million. There was increased interest in remodeling or building new homes with the submittal of 41 new Neighborhood Compatibility applications.
- Forestry: The City's urban forest has over 10,000 trees. Over 1,500 trees were trimmed to improve strong growth, remove damaged limbs, enhance aesthetics and as a preventative measure to reduce risk. Approximately 225 trees were removed due to damage, disease or safety concerns.
- Fiscal Plan and Management: The City Council adopted the first-year of the City's two-year budget. The adopted budget represented a balanced resource allocation plan to achieve the priorities established by the City Council through a comprehensive budget review process and consistent with City policy. This past year the City again also received an award for excellence in financial reporting in lines. The City also entered into a contract with ADP for payroll processing. The contract with ADP provides efficiency through paperless timecards, online automated payroll, and a personnel intranet.
- Organization Leadership and Management: The City of Palos Verdes Estates received and reviewed over 1,024 applications that were submitted for vacant staff positions that included Police Services Officer, Police Officer Lateral/Academy Graduate, Police Services Aide, and Administrative Analyst among others.
- Organizational Professional Training & Development: City staff participated in over 50 mandated training/webinars specific to their position providing required certification for employees and providing for the knowledge and tools necessary for maintaining customer service. The City of Palos Verdes Estates also initiated an internship program for High

School and College Students that teaches civic engagement through hands-on work experience.

- **Technology:** A joint effort with all of the Peninsula cities lead to an agreement to install a comprehensive Automatic License Plate Reader (ALPR) system to assist the Palos Verdes Estates Police Department and the Los Angeles County Sheriff's Department in crime prevention, enforcement and investigation.

Factors Affecting Financial Condition

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

Local Economy. The City of Palos Verdes Estates is overwhelmingly residential; predominately comprised of single family homes. The City is fully developed and has few vacant parcels. Commercial activity in the City is primarily real estate firms and other companies that support real estate activity, including mortgage and title companies. Property Tax is a key component of 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, replacement, and upgrade are critical components of the City's financial planning and fiscal needs. Like other cities, long-term planning is also necessary for meeting the obligations of state mandates, pension, insurance, healthcare and contract increases. However, because voter approval of new or increased revenues will be necessary, developing the fiscal resources to affect necessary infrastructure maintenance, replacement and upgrade and to meet operating obligations is a continual challenge for the City. The Fire and Paramedic Special Parcel Tax that expired in 2017 was necessary for sustaining City services and for keeping the City on sound footing for long-term planning. The Fire and Paramedic Special Tax accounted for approximately 25% of the City's core services to the public. As the City moves forward, sustaining core services will be the fundamental and primary focus. Infrastructure will remain a key need as both a challenge and opportunity for long-term financial planning. Developing a long range model that both anticipates and funds the maintenance, replacement and upgrade of City assets and the other operating cost increases will be necessary; it

will be critical for maintaining the quality of life and services that residents expect and desire. The major assets for which long-term financial planning is necessary includes: sewer and storm water systems; City buildings & equipment; technology equipment and infrastructure; the urban forest and open space/parklands; and roadways, curbs & gutters; and general Citywide equipment.

Awards and Acknowledgments

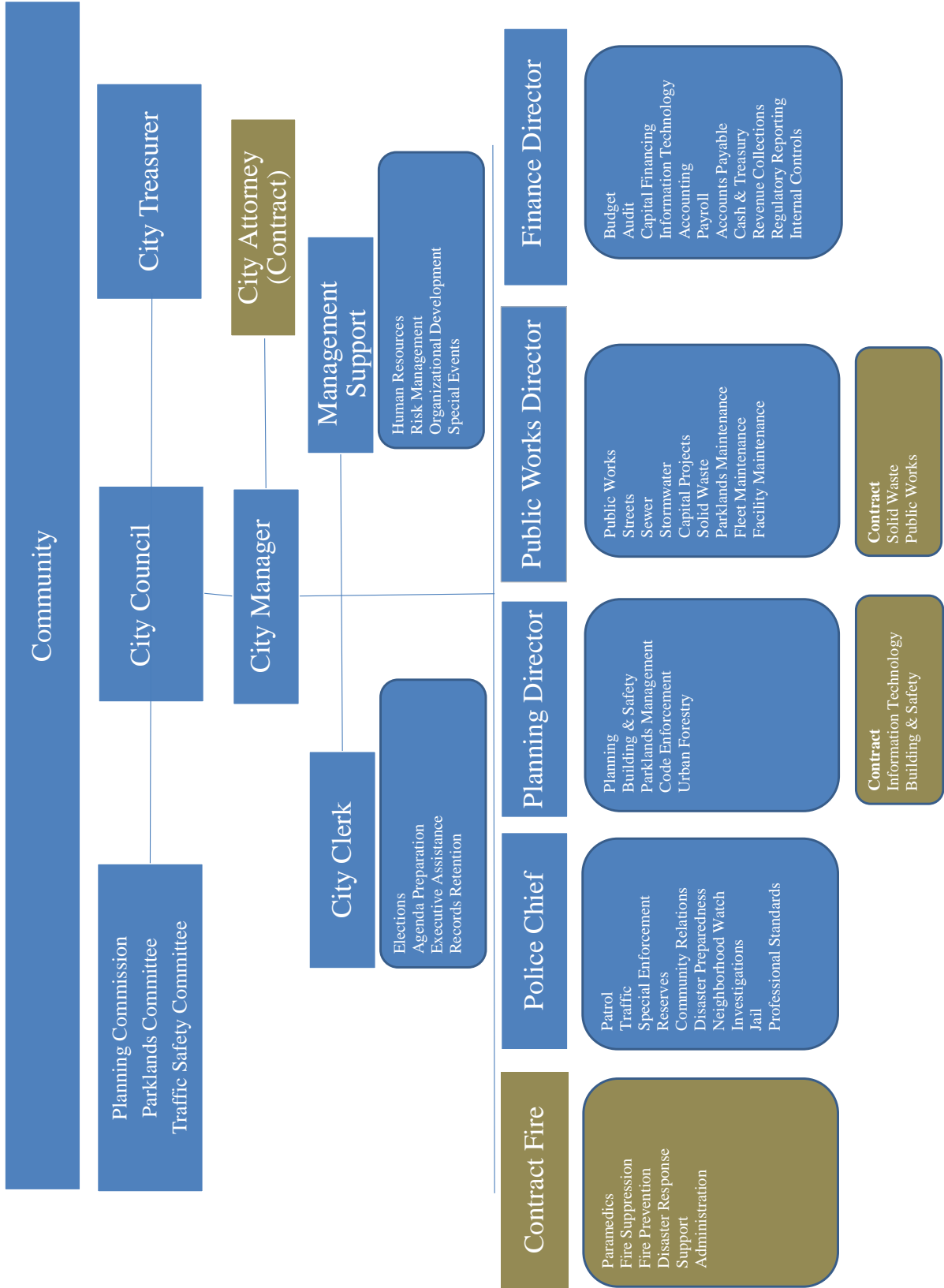
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2016. In order to receive a Certificate of Achievement, the City published 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 all the current and former staff of the Finance Department for their vision, management, diligence, assistance, and service in achieving the City's financial success during the year.



Anton Dahlerbruch
City Manager

City of Palos Verdes Estates - Organizational Structure



Elected Officials & Executive Team

ELECTED OFFICIALS

Mayor

Mayor Pro Tem

Council Members

James D. Vandever

Betty Lin Peterson

Stanford S. Davidson

Kenneth J. Kao

Jennifer L. King

City Treasurer

Victoria Lozzi

EXECUTIVE TEAM

City Manager

Anton Dahlerbruch

City Attorney

Christi Hogin

Finance Director

Vacant

Chief of Police

Mark Velez

Deputy City Clerk

Lauren Pettit

Planning & Building Director/Deputy City Manager

Sheri Repp-Loadsmen

Public Works Director

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, 2016

Christopher P. Morill

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, 2017, 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, 2017, 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.

Emphasis of Matter

As discussed in Note 11 to the financial statements, the City adopted Governmental Accounting Standards Board's 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. The result of this implementation of this Statement decreased the net position at July 1, 2016 of the governmental activities by \$150,529. Our opinions are not modified with respect to this matter.

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, the schedule of changes in total pension liability and related ratios for the special retirement income plan, the schedule of contributions for the special retirement income plan, and the budgetary comparison schedules for the General Fund, Special Projects Special Revenue Fund, Special Fire Parcel Tax Special Revenue Fund, and the Proposition A 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 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.

Other Matters (Continued)

Other Information (Continued)

The combining and individual 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.

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 17, 2018, 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 17, 2018

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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, 2017. 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 City had to implement Government Accounting Standards Board (GASB) Statement Number 68 and during the current year, Statement Number 73. This fundamentally new reporting standards, 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, 2017 at \$13,020,874. 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 2016-2017 totaled \$58,234,352. Including the impact of GASB 68, this is a decrease of \$3,091,064 or 5.27% lower compared to the prior year. The City's net investment in capital assets at June 30, 2017 totaled \$42,687,887, a decrease of \$2,669,692 mostly attributable to the annual depreciation of \$4,371,622 net of additions totaling \$1,701,930.
- Unrestricted net position, which may be used to meet the government's ongoing obligations, totaled \$8,958,644 net of the impact of the pension liabilities noted above.
- Net position restricted for special purposes, including public works and public safety, totaled \$6,587,821. Of this total, \$3,698,194 represents assets restricted for sanitary sewer improvements as part of the sewer capital fund and \$2,889,627 restricted special revenue dollars.

Governmental Funds / Budgetary Basis

- The General Fund ended the year in a lower position as compared to FY 2015-16. As of June 30, 2017, the General Fund balance was \$11,138,731, a decrease of \$189,653 (or -1.67%). General Fund revenues exceeded expenditures by \$563,885 which is less than the prior year and above the 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, exchanging Proposition A Sales Tax for General Fund money, and the continued cost conscious delivery of core municipal services. FY 2016-17 results include General Fund revenue of \$13,748,783 and expenditures of \$13,184,898. Revenues available for appropriation were \$745,741 more than budgeted while actual expenditures were \$392,550 below budget.
- During the year, the City's governmental revenues totaled \$19,878,886, an increase of \$749,805, or 3.92%, from the prior year. General governmental expenditures totaled \$20,207,547 for the fiscal year end, a decrease in expenditures of \$1,039,838, or 4.89% from the prior year. Revenue increases were mostly General Fund driven and expenditure decreases reflect a lower level of activity related to capital improvements outlay in the public works arena. In accordance with the budget appropriations at the outset of the year and during the year, overall governmental expenditures exceeded revenues by \$328,661 or 1.65%. These expenditures were made from unrestricted and unobligated funds and were one-time scheduled or project related expenses, such as a resident satisfaction survey, that were paid with available funds not set aside as the City's policy-established reserves.

- 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 38% of the City’s total operating budget, and it exceeds 55% of the General Fund operating expenditures. Restricted balances include \$3,698,194 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, deferred outflows of resources, liabilities and deferred inflows of resources, 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 special revenue fund, the special fire parcel tax special revenue fund and the two capital improvement funds; general capital and sewer. Data from the other six 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 18-23 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 91-94 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 95-97 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 29-64 of this report.

Other information. The combining statements referred to earlier in connection with non-major governmental funds are presented following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 77-81.

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, may 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 2015-16 and 2016-2017 are shown in Table 1. For fiscal year 2016-17, assets and deferred outflows of resources exceeded liabilities and deferred outflows of resources by \$58,234,352.

Net Position	2017	2016	Change (in dollars)
Current and other assets	28,978,936	28,549,095	429,841
Capital assets	42,687,887	45,357,579	(2,669,692)
Total Assets	71,666,823	73,906,674	(2,239,851)
Deferred Outflows	3,385,017	1,074,121	2,310,896
Non Current liabilities	(1,060,520)	(1,327,626)	267,106
Pension Liabilities	(13,020,874)	(9,345,440)	(3,675,434)
Other liabilities	(1,744,770)	(1,073,417)	(671,353)
Total liabilities	(15,826,164)	(11,746,483)	(4,079,681)
Deferred Inflows	(991,324)	(1,758,367)	767,043
Net Invested in capital assets	42,687,887	45,357,579	(2,669,692)
Restricted	6,587,821	6,416,566	171,255
Unrestricted	8,958,644	9,701,800	(743,156)
Total net position	58,234,352	61,475,945	(3,241,593)

The largest portion of the City’s net position (73%) 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. The decrease of \$2,669,692 is attributable to the annual depreciation of \$4,371,622 net of additions totaling \$1,701,930.

An additional portion of the City’s net position (11%) represent resources that are subject to legal restrictions on how they may be used. Increase is attributable to current year revenues exceeding current expenditures for restricted funds.

The remaining balance of unrestricted net position (15%) may be used to meet the government’s ongoing obligations. The unrestricted net position decreased by \$743,156. Although revenues exceed expenditures (before depreciation) by approximately \$1.2M, \$1.7M was utilized to fund current capital outlay. Included as part of the unrestricted net position is the general capital project fund balance, which totals \$6,182,123 or 69% of the unrestricted net position, this amount is designated for future capital projects.

Governmental activities. During FY 16/17, the City’s net position, including depreciation and capital spending, decreased \$3,091,064 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

Activities	2017	2016
Program revenues:		
Charges for services	8,912,227	6,520,473
Operating grants and contributions	1,021,983	2,012,613
Capital grants and contributions	380,084	1,755,994
General revenues:		
Property taxes	9,088,751	8,570,992
Other taxes	1,483,396	1,858,197
Other	628,092	680,654
Total revenues	<u>21,514,533</u>	<u>21,398,923</u>
Expenses:		
General government	3,519,766	2,910,838
Public safety	12,044,602	11,555,448
Public works	5,797,999	3,092,448
Parks and recreation	3,243,230	6,890,858
Total expenses	<u>24,605,597</u>	<u>24,449,592</u>
Increase in net position	(3,091,064)	(3,050,669)
Net position beginning	<u>61,325,416</u>	<u>64,526,614</u>
GASB 73 Restatement		(150,529)
Net position June 30, 2017	<u>58,234,352</u>	<u>61,325,416</u>

Figure 1 – Revenues - Governmental Activities FY 2016-2017

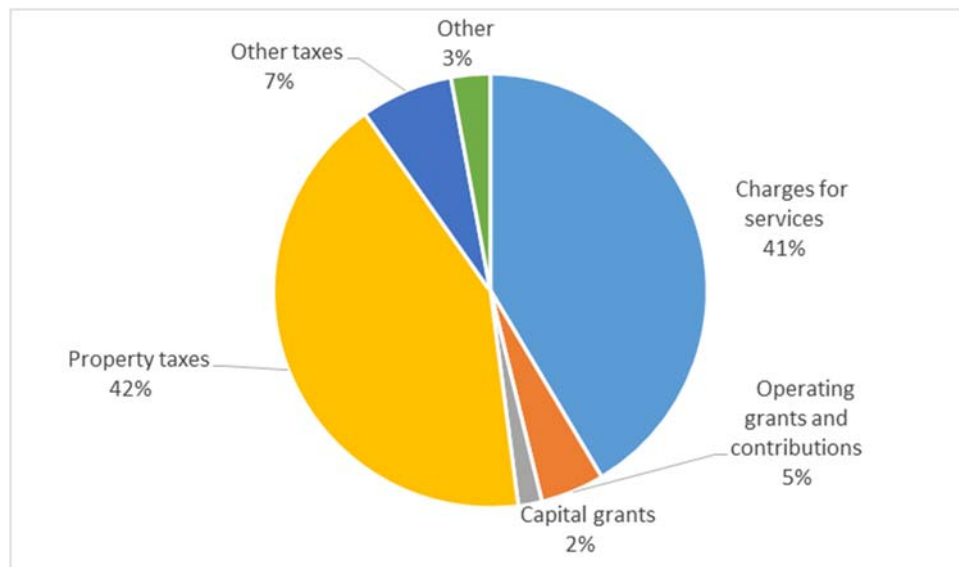
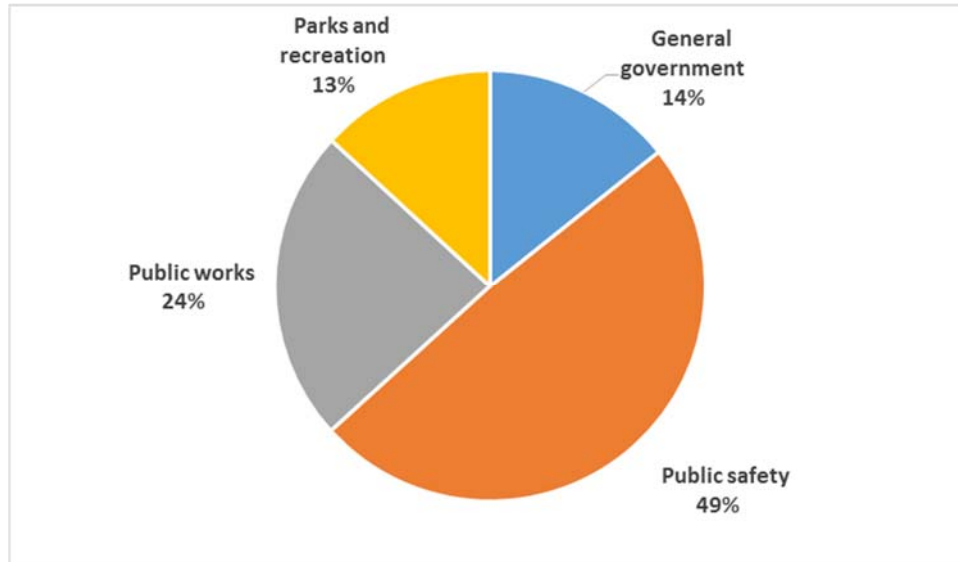


Figure 2 – Expenses – Governmental Activities FY 2016-17



Fund Financial Statements / Budgetary Basis

Governmental Funds

The City of Palos Verdes Estates’ governmental funds ending fund balances totaled \$23,908,675, an increase of \$671,339 or 2.89% compared to the prior year. For the fiscal year ending June 30, 2017, the governmental funds restricted fund balances totaled \$6,587,821, including \$3,698,194 (56%) for sanitary sewer capital improvements. The General Fund committed fund balance was maintained at \$7,200,000 as required by City policy. The assigned fund balance for the governmental funds totaled \$6,182,123 and consists primarily of capital fund reserves. The unassigned fund balance of the General Fund totaled \$3,923,488, \$190,319 below last year’s number.

Six funds qualified as major funds under the GASB 34 reporting criteria: the General Fund, Special Projects Special Revenue Fund, Special Fire Parcel Tax Special Revenue Fund, Proposition A Sales Tax Special Revenue Fund, Sewer Fund and General Capital Improvements Funds. The General Fund is the chief operating fund of the City. Its balance totaled \$11,138,731, a decrease of \$189,653, or 1.67%, below the prior. In the end result the General Fund attained an unfavorable operating deficit of \$189,653 with revenues exceeding budget by 5.74% and expenditures under budget by 2.89%.

The Special Project Special Revenue 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 Special Revenue Fund generally are transferred to reimburse other funds, mainly the General Fund and General Capital Projects Fund, for eligible expenditure activity.

The Special Fire Parcel Tax Special Revenue Fund balance increased \$36,659, commensurate with last year. Fire contract services through Los Angeles County totaled \$4,688,664, an increase of \$162,969 (4.7160%) compared to the prior year. Revenue from the special fire tax assessments totaled \$4,714,745. Other revenues totaled \$10,578.

The Proposition A Special Revenue Fund balance decreased \$629,094. Balance at June 30, 2017 totaled \$2,124.

The General Capital Improvement Fund’s fund balance increased \$1,085,607 and ended the year with a balance of \$6,182,123. The higher balance results from \$1,000,000 of transfers from the General Fund

and interest earned on cash balances. Capital expenditures totaled \$1,066,462, a lower amount of capital expenditures than the prior year. Operating revenue is primarily made up of interest earnings and other ancillary income which totaled \$58,199. 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.

The Sewer Capital Projects Fund balance totals \$3,698,194. Other ancillary revenue totaled \$28,433 while infrastructure improvements totaled \$14,824. 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.

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 \$697,067, an increase of \$88,227 from the prior year. Total Net Position, including capital values, in the Equipment Replacement and Insurance Funds at year end equaled \$2,962,825 and \$1,045,064 respectively for a total of \$4,007,889. This reflects an overall decrease of \$834,180.

General Fund Budgetary Highlights

The difference between the original General Fund budget and the final amended budget expenditures was an increase of \$430,494. The final amended General Fund budget totaled \$13,003,042 for revenue and \$13,577,448 for expenditures. Net transfers of \$753,538 were estimated in the updated FY 16/17 budget, mostly to fund capital projects.

At year end, budget results were favorable on both sides of the equation. General Fund revenues came in \$745,741 (5.74%) above estimates while General fund expenditures were \$392,550 (2.89%) less than budget. The savings occurred within general Governmental, Public safety and Public Works services and were mostly associated with salary savings, professional and contract services.

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, 2017, totals \$42,687,887 (net of accumulated depreciation). This is a decrease of \$2,669,692 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 \$1,701,930 and construction in progress expenditures of \$1,021,108 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 and Roadway construction projects totaling \$947,357.
- Facility Improvement projects totaling \$23,431.
- Infrastructure construction projects totaling \$70,788.
- City Beautification projects totaling \$37,959.
- Replacement of two vehicles and a motorcycle within the Equipment Replacement Fund for the Police Department totaling \$136,707.
- Purchase of Automobile License Plate Reader equipment within the Equipment Replacement Fund for the Police Department totaling \$85,813.
- City-wide network project upgrade within the Equipment Replacement Fund totaling \$83,312.
- Upgrade City-wide phone system within the Equipment Replacement Fund totaling \$37,593.

Figure 3 – Capital Assets (net of Depreciation)

Capital Assets	2017	2016
Land	4,487,892	4,487,892
Construction in progress	18,774	41,945
Building and improvements	6,177,685	7,622,152
Machinery and equipment	548,160	613,353
Furniture and fixtures	19,516	20,283
Vehicles	463,904	446,221
Infrastructure	30,971,956	32,125,733
Total	<u>42,687,887</u>	<u>45,357,579</u>

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 \$1,060,520, a decrease of \$267,106 (20.12%) composed of \$575,029 due within one year and \$485,491 due in more than one year for vested or accumulated employee compensated absences. Additional information on long-term debt can be found in note 5 beginning on page 48 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 16/17 represents the first year of a two-year budget cycle. As we look forward, the City Council adopted the second year of the FY 16/18 biennial budget on June 21, 2017 and the following factors were considered in preparing the prospective budget:

- In March 2017, the City suffered the loss of a major source of revenue to fund fire and paramedic services. Measure D, a special parcel tax designed to continue funding fire and paramedic services failed to receive the required two thirds approval from the voters. This tax represented 25% or \$5 million of the City’s operating budget. In order to balance the FY 2017-18 budget, the City made \$1.3 million of one-time and ongoing reductions, transferred \$1.5 million from the Equipment Replacement Fund and utilized \$1.5 million of General Fund reserves. The City is planning to put forward another parcel tax measure during the second half of fiscal year 2017-18 to reestablish the revenue source.
- The City is projecting a moderate 6.75% growth in revenue sources that exceed FY 16/17 projections. In calculating end of year FY 16/17 fund balances, results exceeded expectations and factored in favorably.
- The City is projecting a 7.71% reduction in General Fund expenditures for FY 17/18 when compared to the final FY 16/17 appropriations with the implementation of one-time and ongoing reductions in operations and the suspension of equipment replacement allocations.
- 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. Property tax growth assumptions are projected at a conservative 3.8% growth rate.

- In terms of other key revenue streams, Planning and Building activity is consistent with prior year levels. Concession rent and investment earnings are trending level with recent years.
- Los Angeles County Fire and Paramedic service costs are expected to increase by 4.71%. These services will be funded through transfers from the General Fund of \$4,345,858 and utilizing the one time residual fund balance of \$661,130 from the Fire Special Parcel Tax Fund. In future years, the General Fund will be covering the entire cost of fire and paramedic services.
- In terms of labor costs, the budget includes a decrease in full time equivalent positions (full and part-time) from 63.25 to 61.00. Normal and sustainable salary and benefit growth assumptions were factored in including known, and estimated, CalPERS pension rate increases. Increases in regional healthcare and insurance costs have also been factored in.
- Capital improvement projects are anticipated totaling \$2.83 million, including \$491,300 in various street improvement projects, \$151,200 in traffic projects, \$390,469 in facility improvements, \$1,441,800 for infrastructure and \$360,000 for City beautification projects. Significant prior year carryforward projects, yet to be completed, are included within these appropriations.
- The sanitary sewer budget includes \$344,000 towards upgrades on Via Coronel/Zurita and \$210,000 for MS4, full capture trash devices. Sewer maintenance of \$361,000 is also included. Carryover projects from the prior year are estimated at \$680,000 are included within these appropriations.
- Overall and continued challenges include, common to all cities, rising pension, health care and insurance costs and the dedication of enhanced revenue sources to pay for citywide facilities and long term infrastructure needs. An additional challenge focuses on establishing a new revenue source to replace the loss of revenue from the fire and paramedic parcel tax.

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, 2017

	<u>Governmental Activities</u>
Assets:	
Cash and investments	\$ 28,172,240
Receivables:	
Accounts	628,770
Accrued interest	50,646
Prepaid costs	3,019
Due from other governments	112,037
Inventories	12,224
Capital assets not being depreciated	4,506,666
Capital assets, net of accumulated depreciation	<u>38,181,221</u>
Total Assets	<u>71,666,823</u>
Deferred Outflows of Resources:	
Deferred pension related items	<u>3,385,017</u>
Total Deferred Outflows of Resources	<u>3,385,017</u>
Liabilities:	
Accounts payable	1,572,832
Accrued liabilities	171,938
Noncurrent liabilities:	
Due within one year	575,029
Due in more than one year	485,491
Net pension liability	<u>13,020,874</u>
Total Liabilities	<u>15,826,164</u>
Deferred Inflows of Resources:	
Deferred pension related items	<u>991,324</u>
Total Deferred Inflows of Resources	<u>991,324</u>
Net Position:	
Net investment in capital assets	42,687,887
Restricted for:	
Public safety	1,096,190
Public works	5,491,631
Unrestricted	<u>8,958,644</u>
Total Net Position	<u>\$ 58,234,352</u>

See accompanying notes to financial statements.

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CITY OF PALOS VERDES ESTATES

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues			Net Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General government	\$ 3,519,766	\$ 1,278,026	\$ 2	\$ -	\$ (2,241,738)
Public safety	12,044,602	4,890,197	133,688	17,757	(7,002,960)
Parks and recreation	5,797,999	1,321,757	9,556	351,212	(4,115,474)
Public works	3,243,230	1,422,247	878,737	11,115	(931,131)
Total Governmental Activities	\$ 24,605,597	\$ 8,912,227	\$ 1,021,983	\$ 380,084	(14,291,303)

General Revenues:

Taxes:

Property taxes	9,088,751
Sales and use taxes	426,147
Franchise taxes	540,772
Business licenses taxes	212,783
Other taxes	303,694
Investment income	75,988
Miscellaneous	552,104

Total General Revenues

11,200,239

Change in Net Position

(3,091,064)

Net Position at Beginning of Year, As Restated

61,325,416

Net Position at End of Year

\$ 58,234,352

See accompanying notes to financial statements.

CITY OF PALOS VERDES ESTATES

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	Special Revenue Funds		
	General	Special Projects	Special Fire Parcel Tax
Assets:			
Cash and investments	\$ 11,334,205	\$ 978,277	\$ 591,881
Accounts receivable	568,069	-	-
Interest receivable	50,646	-	-
Prepaid costs	3,019	-	-
Due from other governments	-	303	111,734
Due from other funds	28,331	-	-
Inventory - materials	12,224	-	-
Total Assets	\$ 11,996,494	\$ 978,580	\$ 703,615
Liabilities:			
Accounts payable	\$ 675,130	\$ 6,401	\$ -
Accrued salaries and benefits	167,964	-	-
Due to other funds	-	28,331	-
Total Liabilities	843,094	34,732	-
Deferred Inflows of Resources:			
Unavailable revenues	14,669	-	-
Total Deferred Inflows of Resources	14,669	-	-
Fund Balances:			
Nonspendable:			
Prepaid costs	3,019	-	-
Inventory - materials	12,224	-	-
Restricted for:			
Public safety	-	-	703,615
Public works	-	943,848	-
Committed to:			
Emergency contingencies	7,200,000	-	-
Assigned to:			
Capital projects	-	-	-
Unassigned	3,923,488	-	-
Total Fund Balances	11,138,731	943,848	703,615
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 11,996,494	\$ 978,580	\$ 703,615

See accompanying notes to financial statements.

**Special Revenue
Funds**

Proposition A	Capital Projects Funds		Other Governmental Funds	Total Governmental Funds
	General Capital Improvements	Sewer		
\$ 671,646	\$ 6,245,586	\$ 3,709,403	\$ 1,267,968	\$ 24,798,966
-	-	-	-	568,069
-	-	-	-	50,646
-	-	-	-	3,019
-	-	-	-	112,037
-	-	-	-	28,331
-	-	-	-	12,224
\$ 671,646	\$ 6,245,586	\$ 3,709,403	\$ 1,267,968	\$ 25,573,292
\$ 669,522	\$ 63,463	\$ 11,209	\$ 23,954	\$ 1,449,679
-	-	-	3,974	171,938
-	-	-	-	28,331
669,522	63,463	11,209	27,928	1,649,948
-	-	-	-	14,669
-	-	-	-	14,669
-	-	-	-	3,019
-	-	-	-	12,224
-	-	-	392,575	1,096,190
2,124	-	3,698,194	847,465	5,491,631
-	-	-	-	7,200,000
-	6,182,123	-	-	6,182,123
-	-	-	-	3,923,488
2,124	6,182,123	3,698,194	1,240,040	23,908,675
\$ 671,646	\$ 6,245,586	\$ 3,709,403	\$ 1,267,968	\$ 25,573,292

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CITY OF PALOS VERDES ESTATES

**RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2017**

Fund balances - total governmental funds		\$ 23,908,675
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	\$ 113,361,427	
Less accumulated depreciation	<u>(71,370,607)</u>	41,990,820
Deferred outflows related to pension items:		
Net differences between projected and actual earnings	2,183,826	
Pension contribution subsequent to measurement date	1,155,479	
Differences between expected and actual experience	7,587	
Adjustment due to differences in proportion	<u>38,125</u>	3,385,017
Long-term debt and compensated absences that have not been included in the governmental fund activity:		
Special retirement income plan	(500,779)	
Compensated absences	<u>(1,060,520)</u>	(1,561,299)
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.		
		(12,520,095)
Deferred inflows related to pension items:		
Differences between expected and actual experience	(62,415)	
Changes in assumptions	(328,978)	
Differences between actual contributions and proportionate share of plan contributions	<u>(599,931)</u>	(991,324)
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.		
		14,669
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>4,007,889</u>
Net position of governmental activities		<u><u>\$ 58,234,352</u></u>

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, 2017

	General	Special Revenue Funds	
		Special Projects	Special Fire Parcel Tax
Revenues:			
Property taxes	\$ 7,700,661	\$ -	\$ -
Special assessments	-	-	4,714,745
Other taxes	1,467,634	-	-
Licenses and permits	590,368	-	-
Revenue from other agencies	1,390,492	284,720	8,844
Charges for services	655,621	-	-
Use of money and property	1,256,703	8,753	1,734
Fines and forfeitures	135,200	-	-
Miscellaneous	552,104	-	-
Total Revenues	13,748,783	293,473	4,725,323
Expenditures:			
Current:			
General government	2,356,596	-	-
Public safety	7,148,621	-	4,688,664
Parks and recreation	1,362,919	-	-
Public works	2,316,762	11,297	-
Total Expenditures	13,184,898	11,297	4,688,664
Excess (Deficiency) of Revenues Over (Under) Expenditures	563,885	282,176	36,659
Other Financing Sources (Uses):			
Transfers in	246,462	-	-
Transfers out	(1,000,000)	(281,520)	-
Total Other Financing Sources (Uses)	(753,538)	(281,520)	-
Net Change in Fund Balances	(189,653)	656	36,659
Fund Balances at Beginning of Year	11,328,384	943,192	666,956
Fund Balances at End of Year	\$ 11,138,731	\$ 943,848	\$ 703,615

See accompanying notes to financial statements.

Special Revenue Funds (Continued)	Capital Projects Funds		Other Governmental Funds	Total Governmental Funds	
	Proposition	General Capital			Sewer
	A	Improvements			
\$ -	\$ -	\$ -	\$ -	\$ 7,700,661	
-	-	118	-	4,714,863	
-	-	-	-	1,467,634	
-	-	-	-	590,368	
250,536	-	-	759,489	2,694,081	
-	-	-	-	655,621	
5,549	58,199	28,315	9,101	1,368,354	
-	-	-	-	135,200	
-	-	-	-	552,104	
256,085	58,199	28,433	768,590	19,878,886	
6,016	-	-	-	2,362,612	
-	-	-	17,151	11,854,436	
-	-	-	-	1,362,919	
879,163	1,066,462	14,824	339,072	4,627,580	
885,179	1,066,462	14,824	356,223	20,207,547	
(629,094)	(1,008,263)	13,609	412,367	(328,661)	
-	2,311,532	-	100,000	2,657,994	
-	(217,662)	-	(158,812)	(1,657,994)	
-	2,093,870	-	(58,812)	1,000,000	
(629,094)	1,085,607	13,609	353,555	671,339	
631,218	5,096,516	3,684,585	886,485	23,237,336	
\$ 2,124	\$ 6,182,123	\$ 3,698,194	\$ 1,240,040	\$ 23,908,675	

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, 2017**

Net change in fund balances - total governmental funds	\$ 671,339
Amounts reported for governmental activities in the Statement of Activities are different because:	
<p>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.</p>	
Capital outlays	\$ 997,938
Contributed assets	351,212
Depreciation	<u>(4,107,069)</u>
	(2,757,919)
<p>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.</p>	
	(75,015)
<p>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.</p>	
	(8,129)
<p>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.</p>	
	(96,716)
<p>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.</p>	
	9,556
<p>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.</p>	
	<u>(834,180)</u>
Change in net position of governmental activities	<u><u>\$ (3,091,064)</u></u>

See accompanying notes to financial statements.

CITY OF PALOS VERDES ESTATES

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 JUNE 30, 2017

	<u>Governmental Activities Internal Service Funds</u>
Assets:	
Current Assets:	
Cash and investments	\$ 3,373,274
Accounts receivable	60,701
	<u>3,433,975</u>
Total Current Assets	3,433,975
Capital Assets:	
Machinery and equipment	3,388,412
Furniture and fixtures	306,694
Vehicles	1,310,961
Less accumulated depreciation	<u>(4,309,000)</u>
	<u>697,067</u>
Net Capital Assets	697,067
Total Assets	4,131,042
Liabilities:	
Current Liabilities:	
Accounts payable	<u>123,153</u>
Total Current Liabilities	123,153
Total Liabilities	123,153
Net Position:	
Net investment in capital assets	697,067
Unrestricted	<u>3,310,822</u>
Total Net Position	\$ 4,007,889

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, 2017

	Governmental Activities
	Internal Service Funds
Operating Revenues:	
Charges for services	\$ 1,231,424
Other	16,626
Total Operating Revenues	1,248,050
Operating Expenses:	
Material and supplies	64,268
General liability insurance	449,506
Property and vehicle insurance	32,438
Workers' compensation	331,682
Depreciation expense	264,553
Total Operating Expenses	1,142,447
Operating Income	105,603
Nonoperating Revenues:	
Interest revenue	26,829
Gain on disposal of capital assets	33,388
Total Nonoperating Revenues	60,217
Income before Transfers	165,820
Transfers out	(1,000,000)
Changes in Net Position	(834,180)
Net Position at Beginning of Year	4,842,069
Net Position at End of Year	\$ 4,007,889

See accompanying notes to financial statements.

CITY OF PALOS VERDES ESTATES

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2017

	<u>Governmental Activities</u>
	<u>Internal Service Funds</u>
Cash Flows from Operating Activities:	
Cash received from user departments	\$ 1,211,017
Cash paid to suppliers for goods and services	(851,817)
Net Cash Provided by Operating Activities	<u>359,200</u>
Cash Flows from Noncapital Financing Activities:	
Transfers to other funds	(1,000,000)
Net Cash Used in Noncapital Financing Activities	<u>(1,000,000)</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(280,500)
Proceeds from sales of capital assets	33,388
Net Cash Used in Capital and Related Financing Activities	<u>(247,112)</u>
Cash Flows from Investing Activities:	
Interest received	26,829
Net Cash Provided by Investing Activities	<u>26,829</u>
Net Decrease in Cash and Cash Equivalents	(861,083)
Cash and Cash Equivalents at Beginning of Year	4,234,357
Cash and Cash Equivalents at End of Year	<u>\$ 3,373,274</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	\$ 105,603
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	264,553
(Increase) decrease in accounts receivable	(37,033)
(Increase) decrease in prepaid costs	1,455
Increase (decrease) in accounts payable	24,622
Total Adjustments	<u>253,597</u>
Net Cash Provided by Operating Activities	<u>\$ 359,200</u>

See accompanying notes to financial statements.

CITY OF PALOS VERDES ESTATES

STATEMENT OF ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2017

	<u>Agency Funds</u>
Assets:	
Cash and investments	\$ 203,678
Total Assets	\$ 203,678
Liabilities:	
Accounts payable	\$ 238
Deposits payable	203,440
Total Liabilities	\$ 203,678

See accompanying notes to financial statements.

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 33.

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2017

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, 2017

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 nonexchange* 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 nonexchange 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, 2017

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 statements of net position. 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 other governmental agencies that are earmarked for separate projects.

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, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Major Governmental Funds (Continued):

The Proposition A Special Revenue Fund is used to account for funds collected and distributed by the County of Los Angeles and under Proposition A to finance transit projects within the City.

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:

Special Revenue Funds - The special revenue funds are used to account for specific revenues that are legally restricted for particular purposes.

Capital Projects Funds - The capital projects funds are used to account for resources intended to be used primarily for major capital facilities.

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 Deposits and Police Property Evidence Funds.

d. New Accounting Pronouncements

Current Year Standards

In fiscal year 2016-2017, the City implemented Governmental Accounting Standards Board 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*. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses for pension plans and related assets that are not within the scope of GASB Statement No. 68. Accounting changes adopted to conform to the provisions of this statement should be applied retroactively. The result of the implementation of this statement decreased the net position at July 1, 2016, of the governmental activities by \$150,529.

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. New Accounting Pronouncements (Continued)

Current Year Standards (Continued)

GASB 74 - *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for periods beginning after June 15, 2016, and did not impact the City.

GASB 77 - *Tax Abatement Disclosure*, effective for periods beginning after December 15, 2015, and did not impact the City.

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, and did not impact the City.

GASB 80 - *Blending Requirements for Certain Component Units*, effective for periods beginning after June 15, 2016, and did not impact the City.

Pending Accounting Standards

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

- GASB 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for periods beginning after June 15, 2017.
- 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.
- GASB 84 - *Fiduciary Activities*, effective for periods beginning after December 15, 2018.
- GASB 85 - *Omnibus 2017*, effective for periods beginning after June 15, 2017.
- GASB 86 - *Certain Debt Extinguishment Issues*, effective for periods beginning after June 15, 2017.
- GASB 87 - *Leases*, effective for periods beginning after December 15, 2019.

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 statement of net position for the internal service fund is considered cash and cash equivalents.

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. Property Taxes (Continued)

All taxes are delinquent, if unpaid, on December 10 and April 10, respectively. Unsecured personal property taxes become due on March 1 each year, and are delinquent, if unpaid, on August 31. At June 30, 2017, there were no material delinquent, unsecured property taxes. Property taxes receivable are included with due from other governments in the financial statements. At June 30, 2017, the total property taxes receivable is \$257,618.

i. Capital Assets

Capital assets, which include all infrastructure assets acquired prior to the implementation of GASB 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, 2017

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 outflow related to pensions for differences between expected and actual 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.
- Deferred outflow related to pensions for the changes in proportion and differences between the 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.
- Deferred outflow 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.

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 expected and actual 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j. Deferred Outflows/Inflows of Resources (Continued)

- Deferred inflow 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.
- Deferred inflow related to pensions for the changes in proportion and differences between the 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.

k. Pension Plans

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

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 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.

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m. Fund Balance

The City Council adopted resolution R11-09 in conformity with GASB 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 or 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 in the General Fund. In other funds, the unassigned classification is used only to report a deficit balance.

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.

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m. Fund Balance (Continued)

Stabilization Arrangements

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

Declaration of a state or federal state of emergency or declaration of a local emergency as provided in the Palos Verdes Estates Municipal Code Section 2.28.060.

Loss of general fund revenue in the amount of \$500,000 or more either through state action to divert or change general fund allocations or local conditions affecting a major revenue source.

The City also monitors its unassigned fund balances in achieving policy established target reserve levels. Unassigned General Fund balance as of June 30, 2017 totaled \$3,923,488.

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".

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.

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2017 were classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and investments	\$ 28,172,240
Statement of Fiduciary Net Position:	
Cash and investments	<u>203,678</u>
Total cash and investments	<u>\$ 28,375,918</u>

Cash and investments as of June 30, 2017 consisted of the following:

Cash on hand	\$ 1,500
Deposits with financial institutions	8,317,292
Investments	<u>20,057,126</u>
Total cash and investments	<u>\$ 28,375,918</u>

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

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, 2017

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	37 to 60 Months
LAIF	\$ 7,788,766	\$ 7,788,766	\$ -	\$ -
Negotiable Certificates of Deposit	5,370,260	985,981	2,242,529	2,141,750
U.S. Agency Securities:				
Federal Home Loan Mortgage Corporation (FHLMC)	2,959,850	-	-	2,959,850
Federal National Mortgage Association (FNMA)	<u>3,938,250</u>	<u>997,390</u>	<u>-</u>	<u>2,940,860</u>
Total	<u>\$ 20,057,126</u>	<u>\$ 9,772,137</u>	<u>\$ 2,242,529</u>	<u>\$ 8,042,460</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	\$ 7,788,766	N/A	\$ -	\$ 7,788,766
Negotiable Certificates of Deposit	5,370,260	N/A	-	5,370,260
U.S. Agency Securities:				
Federal Home Loan Mortgage Corporation	2,959,850	N/A	2,959,850	-
Federal National Mortgage Association	<u>3,938,250</u>	N/A	<u>3,938,250</u>	<u>-</u>
Total	<u>\$ 20,057,126</u>		<u>\$ 6,898,100</u>	<u>\$ 13,159,026</u>

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

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 Home Loan Mortgage Corporation	\$ 2,959,850
Federal National Mortgage Association	3,938,250

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. At June 30, 2017, all of the City’s deposits are covered by FDIC or collateralized as required by law.

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, 2017

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 valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs.

The City has the following recurring fair value measurements as of June 30, 2017:

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	Total
U.S. Government Agency Securities:				
FHLMC	\$ -	\$ 2,959,850	\$ -	\$ 2,959,850
FNMA	-	3,938,250	-	3,938,250
Negotiable Certificates of Deposit	-	<u>5,370,260</u>	-	<u>5,370,260</u>
Total Leveled Investments	<u>\$ -</u>	<u>\$ 12,268,360</u>	<u>\$ -</u>	<u>12,268,360</u>
Investments not Subject to Fair Value Hierarchy:				
LAIF				<u>7,788,766</u>
Total Investment Portfolio				<u>\$ 20,057,126</u>

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

3. CAPITAL ASSETS

A summary of changes in capital asset activity for the year ended June 30, 2017, is as follows:

	<u>Balance at</u> <u>July 1, 2016</u>	<u>Transfers</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>June 30, 2017</u>
Capital assets, not being depreciated:					
Land	\$ 4,487,892	\$ -	\$ -	\$ -	\$ 4,487,892
Construction in progress	<u>41,945</u>	<u>(1,021,108)</u>	<u>1,081,286</u>	<u>(83,349)</u>	<u>18,774</u>
Total capital assets, not being depreciated	<u>4,529,837</u>	<u>(1,021,108)</u>	<u>1,081,286</u>	<u>(83,349)</u>	<u>4,506,666</u>
Capital assets, being depreciated:					
Buildings and improvements	28,072,070	-	351,213	-	28,423,283
Machinery	4,262,303	8,805	206,550	-	4,477,658
Furniture and fixtures	649,512	-	18,469	-	667,981
Vehicles	1,269,151	-	127,761	(85,951)	1,310,961
Infrastructure	<u>77,968,641</u>	<u>1,012,303</u>	<u>-</u>	<u>-</u>	<u>78,980,944</u>
Total capital assets, being depreciated	<u>112,221,677</u>	<u>1,021,108</u>	<u>703,993</u>	<u>(85,951)</u>	<u>113,860,827</u>
Less accumulated depreciation for:					
Buildings and improvements	(20,449,918)	-	(1,795,680)	-	(22,245,598)
Machinery	(3,648,950)	-	(280,548)	-	(3,929,498)
Furniture and fixtures	(629,229)	-	(19,236)	-	(648,465)
Vehicles	(822,930)	-	(110,078)	85,951	(847,057)
Infrastructure	<u>(45,842,908)</u>	<u>-</u>	<u>(2,166,080)</u>	<u>-</u>	<u>(48,008,988)</u>
Total accumulated depreciation	<u>(71,393,935)</u>	<u>-</u>	<u>(4,371,622)</u>	<u>85,951</u>	<u>(75,679,606)</u>
Total capital assets, being depreciated, net	<u>40,827,742</u>	<u>1,021,108</u>	<u>(3,667,629)</u>	<u>-</u>	<u>38,181,221</u>
Governmental activities capital assets, net	<u>\$ 45,357,579</u>	<u>\$ -</u>	<u>\$ (2,586,343)</u>	<u>\$ (83,349)</u>	<u>\$ 42,687,887</u>

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

Governmental activities:	
General government	\$ 58,305
Public safety	2,375
Public works	2,166,078
Parks and recreation	1,880,311
Internal service funds	<u>264,553</u>
Total depreciation expense governmental activities	<u>\$ 4,371,622</u>

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Due To and Due From

The composition of current interfund receivable and payable as of June 30, 2017, are as follows:

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

The interfund balances relate to reimbursement for Prop A maintenance funds as of June 30, 2017.

Transfers In and Out

Transfers in and out for the fiscal year ended June 30, 2017 are as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	General Capital Improvements Capital Projects Fund	\$ 117,662
	Equipment Replacement Internal Service Fund	128,800
General Capital Improvements Capital Projects Fund	General Fund	1,000,000
	Special Projects Special Revenue Fund	281,520
	Other Governmental Funds	158,812
	Equipment Replacement Internal Service Fund	871,200
Other Governmental Funds	General Capital Improvements Capital Projects Fund	<u>100,000</u>
		<u>\$ 2,657,994</u>

The General Capital Improvements Capital Projects Fund and Equipment Replacement Internal Service Fund transferred \$117,662 and \$128,800 to General Fund, respectively for covering one-time project costs approved in the General Fund budget.

Transfer to General Capital Improvements Capital Projects Fund is for capital improvement projects.

The General Capital Improvements Capital Projects Fund transferred \$100,000 to Other Governmental Funds for covering one-time project costs in the General Fund budget.

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

5. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the fiscal year ended June 30, 2017, is as follows:

	Balance at July 1, 2016	Additions	Deletions	Balance at, June 30, 2017	Due Within One Year	Due in More Than One Year
Compensated absences	\$ 985,505	\$ 609,370	\$ (534,355)	\$ 1,060,520	\$ 575,029	\$ 485,491

Compensated Absences

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

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 117 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.

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. Coverage years 2013-14 and forward and not subject to routine annual retrospective adjustment. The total funding requirement for self-insurance programs is based on an actuarial analysis. Costs are allocated to individual agencies based on payroll and claims history, relative to other members of the risk-sharing pool. Additional information regarding the cost allocation methodology is provided below.

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

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

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

Primary Liability Program

In the primary 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 2016-17 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 in excess of \$2 million layer and (b) \$3 million annual aggregate deductible in the \$5 million in excess of \$10 million layer. There is a third annual aggregate deductible in the amount of \$2.5 million in the \$5 million in excess of \$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.

Workers' Compensation Program

The City of Palos Verdes Estates also participates in the workers' compensation program 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.

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

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

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

For 2016-17 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 an aggregate 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.

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 \$500,000,000. There is a \$5,000 deductible per occurrence except for nonemergency vehicle insurance which has a \$2,500 deductible.

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 \$150,000,000. There is a deductible of 5% per unit of value with a minimum deductible of \$100,000.

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.

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

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

c. Purchased Insurance (Continued)

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 facilitated 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 2016-17.

7. DEFINED BENEFITS PENSION PLANS

The following is a summary of pension related items for the year ended June 30, 2017:

	<u>Pension Liability</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Pension Expense</u>
CalPERS Miscellaneous	\$ 2,866,438	\$ 968,729	\$ (487,561)	\$ 232,814
CalPERS Safety	9,653,657	2,416,288	(503,763)	665,407
Special Retirement Income Plan	<u>500,779</u>	<u>-</u>	<u>-</u>	<u>30,751</u>
	<u>\$ 13,020,874</u>	<u>\$ 3,385,017</u>	<u>\$ (991,324)</u>	<u>\$ 928,972</u>

a. Public Employees’ Retirement System (CalPERS):

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’ four 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.

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

7. DEFINED BENEFITS PENSION PLANS (CONTINUED)

a. Public Employees’ Retirement System (CalPERS) (Continued):

General Information about the Pension Plans (Continued)

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.

Below is a summary of the plans’ provisions and benefits in effect at June 30, 2017, for which the City of Palos Verdes Estates has contracted:

Major Benefit Options	Miscellaneous	
	Classic	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 52
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required employer contribution rates	6.886%	6.250%
Required employee contribution rates:		
Normal cost rate	8.880%	6.555%
Payment of unfunded liability	\$37,233	\$0

CITY OF PALOS VERDES ESTATES

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017**

7. DEFINED BENEFITS PENSION PLANS (CONTINUED)

a. Public Employees’ Retirement System (CalPERS) (Continued):

General Information about the Pension Plans (Continued)

Benefits Provided (Continued)

Major Benefit Options	Safety	
	Classic	PEPRA
Hire date	Prior to January 1, 2013	On or After January 1, 2013
Benefit provision/benefit formula	3.0%@50	2.7%@57
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%	2.0% to 2.7%
Required employer contribution rates	19.536%	11.990%
Required employee contribution rates:		
Normal cost rate	8.987%	11.500%
Payment of unfunded liability	\$369,168	\$0

Contribution Description

Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS’ annual actuarial valuation process. The 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. City contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contributions requirements are classified as plan member contributions.

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

7. DEFINED BENEFITS PENSION PLANS (CONTINUED)

a. Public Employees’ Retirement System (CalPERS) (Continued):

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

As of June 30, 2017, the City of Palos Verdes Estates reported net pension liabilities for its proportionate share of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	\$ 2,866,438
Safety	9,653,657
	<u> </u>
Total Net Pension Liability	<u>\$ 12,520,095</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, 2016, 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, 2015 rolled forward to June 30, 2016 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.

The City’s proportionate share of the net pension liability for each Plan as of the measurement dates ended June 30, 2015 and 2016, was as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Proportion - June 30, 2015	0.06933%	0.18064%
Proportion - June 30, 2016	0.08251%	0.18639%
Change - Increase (Decrease)	0.01318%	0.00575%

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

7. DEFINED BENEFITS PENSION PLANS (CONTINUED)

a. Public Employees' Retirement System (CalPERS) (Continued):

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

For the year ended June 30, 2017, the City of Palos Verdes Estates recognized pension expense of \$232,814 and \$665,407 for the Miscellaneous and Safety Plans, respectively. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Miscellaneous		Safety	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 262,115	\$ -	\$ 893,364	\$ -
Differences between expected and actual experience	7,587	(2,923)	-	(59,492)
Change in assumptions	-	(71,782)	-	(257,196)
Net differences between projected and actual earnings on plan investments	682,236	-	1,501,590	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	16,791	(412,856)	21,334	(187,075)
Total	<u>\$ 968,729</u>	<u>\$ (487,561)</u>	<u>\$ 2,416,288</u>	<u>\$ (503,763)</u>

\$262,115 and \$893,364 reported as deferred outflows of resources related to contributions subsequent to the measurement date for the Miscellaneous and Safety Plans, respectively, will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. 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,	Miscellaneous	Safety
2018	\$ (112,623)	\$ (32,807)
2019	(79,582)	24,970
2020	237,335	638,551
2021	173,923	388,447

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

7. DEFINED BENEFITS PENSION PLANS (CONTINUED)

a. Public Employees' Retirement System (CalPERS) (Continued):

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

Actuarial Assumptions

For the measurement period ended June 30, 2016 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2015 total pension liability determined in the June 30, 2015 actuarial accounting valuation. The June 30, 2016 total pension liability was 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)
Mortality Rate Table	(2)
Post Retirement Benefit Increase	(3)

(1) Varies by entry age and service

(2) 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 April 2014 experience study report (based on CalPERS demographic data from 1997 to 2011) available on the CalPERS website.

(3) Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter.

All other actuarial assumptions used in the June 30, 2015, 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.

7. DEFINED BENEFITS PENSION PLANS (CONTINUED)

a. Public Employees' Retirement System (CalPERS) (Continued):

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

Change of Assumptions

There were no changes of assumptions during the measurement period June 30, 2016. Deferred inflows of resources for changes of assumptions presented in the financial statements represent the unamortized portion of the changes of assumptions related to prior measurement periods.

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 cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. 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 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 (PERF) cash flows. Taking into account historical returns of all the Public Employees Retirement Funds' asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), 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 PERF 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, 2017

7. DEFINED BENEFITS PENSION PLANS (CONTINUED)

a. Public Employees' Retirement System (CalPERS) (Continued):

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, 2015.

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	20.00%	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	1.00%	-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, 2017**

7. DEFINED BENEFITS PENSION PLANS (CONTINUED)

a. Public Employees' Retirement System (CalPERS) (Continued):

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:

	<u>Miscellaneous</u>	<u>Safety</u>
1% Decrease	6.65%	6.65%
Net Pension Liability	\$ 4,907,115	\$ 14,639,505
Current Discount Rate	7.65%	7.65%
Net Pension Liability	\$ 2,866,438	\$ 9,653,657
1% Increase	8.65%	8.65%
Net Pension Liability	\$ 1,179,921	\$ 5,560,786

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.

Subsequent Events

In December 2016, CalPERS' Board of Directors voted to lower the discount rate used in its actuarial valuations from 7.5% to 7.0% over three fiscal years, beginning in fiscal year 2018. The change in the discount rate will affect the contribution rates for employers beginning in fiscal year 2019, and result in increases to employers' normal costs and unfunded actuarial liabilities. For the GASB Statement 68 accounting valuations, the discount rate will move straight to 7% starting with the June 30, 2017 measurement date reports and will result in an increase to employer's total pension liabilities.

Payable to the Pension Plan

At June 30, 2017, the City had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

CITY OF PALOS VERDES ESTATES

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017**

7. DEFINED BENEFITS PENSION PLANS (CONTINUED)

b. 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. A separate report is not prepared by the plan.

Benefits Provided

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

Employees Covered

At June 30, 2017, the following employees were covered by the benefit terms of the Plan:

Inactive employees currently receiving benefits	6
Inactive employees entitled to but not receiving benefits	-
Participating active employees	<u>52</u>
Total	<u><u>58</u></u>

Funding Policy and Contribution Rates

Currently, contributions are not required from plan members. 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.

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

7. DEFINED BENEFITS PENSION PLANS (CONTINUED)

b. Special Retirement Income Plan for Health Insurance (Continued):

Net Pension Liability

The City's net pension liability for the plan is measured as the total pension liability. There are no fiduciary plan net assets. The net pension liability of the Plan is measured as of June 30, 2017, using an actuarial valuation as of June 30, 2017. Standard update procedures were used to roll backward the total pension liability to the previous measurement date. As summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions

Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	3.75%
Inflation	2.75%
Salary Increase	2.75%
Mortality Rate Table	(1)

- (1) 2014 CalPERS Mortality for Active Safety Employees
2014 CalPERS Active Mortality for Miscellaenous Employees

Change of Assumptions

There were no changes of assumptions during the measurement period June 30, 2017. Deferred inflows of resources for changes of assumptions presented in the financial statements represent the unamortized portion of the changes of assumptions related to prior measurement periods.

Discount Rate

The discount rate used to measure the total pension liability was 3.5% for the plan and was based on the Bond Buyer 20 Bond Index.

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

7. DEFINED BENEFITS PENSION PLANS (CONTINUED)

b. Special Retirement Income Plan for Health Insurance (Continued):

Changes in the Net Pension Liability

Balance at June 30, 2016	<u>\$ 492,650</u>
Changes in the year:	
Service Cost	13,671
Interest on the total pension liability	17,080
Change in assumptions	-
Benefit payments	<u>(22,622)</u>
Current year changes	<u>8,129</u>
Balance at June 30, 2017	<u><u>\$ 500,779</u></u>

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

The following presents the City's net pension liability for the Plan, calculated using the discount rate for each Plan, as well as what the City's 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:

1% Decrease	2.50%
Net Pension Liability	\$ 551,897
Current Discount Rate	3.50%
Net Pension Liability	\$ 500,779
1% Increase	4.50%
Net Pension Liability	\$ 455,726

Pension Expenses and Deferred Outflows/Inflows of Resources

For the year ended June 30, 2017, the City recognized pension expense of \$30,751. At June 30, 2017, there are no deferred outflows of resources and deferred inflows of resources.

Payable to the Pension Plan

At June 30, 2017, there was no outstanding amount of contributions payable to the pension plans for the year ended June 30, 2017.

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

8. 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), unaudited financial statements indicated the following:

Total assets	\$	3,121,218
Total liabilities		109,421
Total equity (Net Position)		3,013,796
Revenues		2,547,393
Expenditures		2,434,563
Net decrease in net position		109,830

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

9. OTHER DISCLOSURES

The following funds’ actual expenditures exceeded appropriations as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Major Funds:			
Special Projects Special Revenue Fund	\$ 8,000	\$ 11,297	\$ (3,297)
Proposition A Special Revenue Fund	256,875	885,179	(628,304)

10. 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.

CITY OF PALOS VERDES ESTATES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

11. RESTATEMENT OF NET POSITION

The implementation of GASB Statement Number 73 requires reporting the net pension liability of the City's defined benefit pension plans in the financial statements and is applied retroactively by restating the net position as of the beginning of the fiscal year. The implementation of GASB Number 73 resulted in a reduction of net position by \$150,529 as of July 1, 2016.

12. SUBSEQUENT EVENTS

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through January 17, 2018, 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***

Fiscal Year Ended	June 30, 2017	June 30, 2016	June 30, 2015
Measurement Period	June 30, 2016	June 30, 2015	June 30, 2014
Proportion of the net pension liability	0.08251%	0.02771%	0.02858%
Proportionate share of the net pension liability	\$ 2,866,438	\$ 1,902,144	\$ 1,778,540
Covered - employee payroll	\$ 2,446,654	\$ 2,239,339	\$ 1,886,370
Proportionate share of the net pension liability as a percentage of covered - employee payroll	117.16%	84.94%	94.28%
Plan fiduciary net position	\$ 12,291,096	\$ 12,415,924	\$ 12,551,262
Plan fiduciary net position as a percentage of the total pension liability	81.09%	86.72%	87.59%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

From fiscal year June 30, 2015 to June 30, 2016:

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.

From fiscal year June 30, 2016 to June 30, 2017:

There were no changes in assumptions.

* - Fiscal year 2015 was the 1st year of implementation, therefore only three 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***

Fiscal Year Ended	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution (actuarially determined)	\$ 262,115	\$ 216,861	\$ 235,683
Contributions in relation to the actuarially determined contributions	<u>(262,115)</u>	<u>(216,861)</u>	<u>(235,683)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll	\$ 2,303,445	\$ 2,446,654	\$ 2,239,339
Contributions as a percentage of covered - employee payroll	11.38%	8.86%	10.52%

Notes to Schedule:

Valuation Date	6/30/2014	6/30/2013	6/30/2012
Methods and Assumptions Used to Determine Contribution Rates:			
Single and agent employers	Entry age**		
Amortization method	Level percent of payroll, closed**		
Asset valuation method	Market Value***		
Inflation	2.75%**		
Salary increases	Depending on age, service and type of employment**		
Investment rate of return	7.50%, net of pension plan investment expense, including inflation**		
Retirement age	Minimum 50 years		
Mortality	Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.**		

* - Fiscal year 2015 was the 1st year of implementation, therefore only three years are shown.

** - The valuation for June 30, 2012 and 2013 (applicable to fiscal years ended June 30, 2015 and 2016, respectively) included the same actuarial assumptions.

*** - The valuation for June 30, 2012 (applicable to fiscal year ended June 30, 2015) valued assets using a 15 Year Smoothed Market method. The market value asset valuation method was utilized for the June 30, 2013 and 2014 valuations (applicable to fiscal years ended June 30, 2016 and 2017, respectively).

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***

Fiscal Year Ended	June 30, 2017	June 30, 2016	June 30, 2015
Measurement Period	June 30, 2016	June 30, 2015	June 30, 2014
Proportion of the net pension liability	0.18639%	0.10844%	0.10264%
Proportionate share of the net pension liability	\$ 9,653,657	\$ 7,443,296	\$ 6,386,937
Covered - employee payroll	\$ 2,559,701	\$ 2,389,261	\$ 2,218,767
Proportionate share of the net pension liability as a percentage of covered - employee payroll	377.14%	311.53%	287.86%
Plan fiduciary net position	\$ 27,076,227	\$ 27,874,020	\$ 27,985,891
Plan fiduciary net position as a percentage of the total pension liability	73.72%	78.92%	81.42%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

From fiscal year June 30, 2015 to June 30, 2016:

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.

From fiscal year June 30, 2016 to June 30, 2017:

There were no changes in assumptions.

* - Fiscal year 2015 was the 1st year of implementation, therefore only three 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***

Fiscal Year Ended	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution (actuarially determined)	\$ 893,364	\$ 778,083	\$ 878,354
Contributions in relation to the actuarially determined contributions	<u>(893,364)</u>	<u>(778,083)</u>	<u>(878,354)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll	\$ 2,459,458	\$ 2,559,701	\$ 2,389,261
Contributions as a percentage of covered - employee payroll	36.32%	30.40%	36.76%

Notes to Schedule:

Valuation Date	6/30/2014	6/30/2013	6/30/2012
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Methods and Assumptions Used to Determine Contribution Rates:

Single and agent employers	Entry age**
Amortization method	Level percentage of payroll, closed**
Asset valuation method	Market Value***
Inflation	2.75%**
Salary increases	Depending on age, service, and type of employment**
Investment rate of return	7.50%, net of pension plan investment expense, including inflation**
Retirement age	Minimum 50 years
Mortality	Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.**

* - Fiscal year 2015 was the 1st year of implementation, therefore only three years are shown.

** - The valuation for June 30, 2012 and 2013 (applicable to fiscal years ended June 30, 2015 and 2016, respectively) included the same actuarial assumptions.

*** - The valuation for June 30, 2012 (applicable to fiscal year ended June 30, 2015) valued assets using a 15 Year Smoothed Market method. The market value asset valuation method was utilized for the June 30, 2013 and 2014 valuations (applicable to fiscal years ended June 30, 2016 and 2017, respectively).

CITY OF PALOS VERDES

**SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY AND RELATED RATIOS
SPECIAL RETIREMENT INCOME PLAN**

Last Ten Fiscal Years*

Fiscal Year Ended	June 30, 2017
Measurement Date	6/30/2017
Total Pension Liability:	
Service cost	\$ 13,671
Interest on total pension liability	17,080
Differences between expected and actual experience	-
Changes in assumptions	-
Changes in benefits	-
Benefit payments, including refunds of employee contributions	<u>(22,622)</u>
Net Change in Total Pension Liability	8,129
Total Pension Liability - Beginning of Year	<u>492,650</u>
Net Pension Liability - Ending (a)-(b)	<u>\$ 500,779</u>
Covered - employee payroll	\$ 5,192,073
Net pension liability as percentage of covered- employee payroll	9.65%

Notes to Schedule:

There are no assets accumulated in a trust fund that meet the criteria in GASB Statement No. 73, paragraph 4 to pay related benefits.

Benefit Changes:

There were not changes in benefits.

Changes in Assumptions:

There were not changes in assumptions

* - Fiscal year 2017 was the 1st year of implementation, therefore only one year is shown.

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CITY OF PALOS VERDES ESTATES

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 7,697,833	\$ 7,697,833	\$ 7,700,661	\$ 2,828
Other taxes	1,346,135	1,346,135	1,467,634	121,499
Licenses and permits	567,500	567,500	590,368	22,868
Revenue from other agencies	1,333,054	1,333,054	1,390,492	57,438
Charges for services	515,000	515,000	655,621	140,621
Use of money and property	1,368,100	1,368,100	1,256,703	(111,397)
Fines and forfeitures	150,000	150,000	135,200	(14,800)
Miscellaneous	25,420	25,420	552,104	526,684
Total Revenues	13,003,042	13,003,042	13,748,783	745,741
Expenditures:				
Current:				
General government	2,307,935	2,534,972	2,356,596	178,376
Public safety	7,124,549	7,260,344	7,148,621	111,723
Parks and recreation	1,364,966	1,364,966	1,362,919	2,047
Public works	2,349,504	2,417,166	2,316,762	100,404
Total Expenditures	13,146,954	13,577,448	13,184,898	392,550
Excess (Deficiency) of Revenues Over (Under) Expenditures	(143,912)	(574,406)	563,885	1,138,291
Other Financing Sources (Uses):				
Transfers in	-	246,462	246,462	-
Transfers out	-	(1,000,000)	(1,000,000)	-
Total Other Financing Sources (Uses)	-	(753,538)	(753,538)	-
Net Change in Fund Balance	(143,912)	(1,327,944)	(189,653)	1,138,291
Fund Balance at Beginning of Year	11,328,384	11,328,384	11,328,384	-
Fund Balance at End of Year	\$ 11,184,472	\$ 10,000,440	\$ 11,138,731	\$ 1,138,291

CITY OF PALOS VERDES ESTATES

**BUDGETARY COMPARISON SCHEDULE
SPECIAL PROJECTS SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Revenue from other agencies	\$ 362,567	\$ 362,567	\$ 284,720	\$ (77,847)
Use of money and property	-	-	8,753	8,753
Total Revenues	362,567	362,567	293,473	(69,094)
Expenditures:				
Current:				
Public works	8,000	8,000	11,297	(3,297)
Total Expenditures	8,000	8,000	11,297	(3,297)
Excess (Deficiency) of Revenues Over (Under) Expenditures	354,567	354,567	282,176	(72,391)
Other Financing Uses:				
Transfers out		(281,520)	(281,520)	-
Total Other Financing Uses	-	(281,520)	(281,520)	-
Net Change in Fund Balance	354,567	73,047	656	(72,391)
Fund Balance at Beginning of Year	943,192	943,192	943,192	-
Fund Balance at End of Year	\$ 1,297,759	\$ 1,016,239	\$ 943,848	\$ (72,391)

CITY OF PALOS VERDES ESTATES

**BUDGETARY COMPARISON SCHEDULE
SPECIAL FIRE PARCEL TAX SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Special assessments	\$ 4,688,992	\$ 4,688,992	\$ 4,714,745	\$ 25,753
Revenue from other agencies	9,000	9,000	8,844	(156)
Use of money and property	-	-	1,734	1,734
Total Revenues	4,697,992	4,697,992	4,725,323	27,331
Expenditures:				
Current:				
Public safety	4,703,818	4,703,818	4,688,664	15,154
Total Expenditures	4,703,818	4,703,818	4,688,664	15,154
Net Change in Fund Balance	(5,826)	(5,826)	36,659	42,485
Fund Balance at Beginning of Year	666,956	666,956	666,956	-
Fund Balance at End of Year	\$ 661,130	\$ 661,130	\$ 703,615	\$ 42,485

CITY OF PALOS VERDES ESTATES

**BUDGETARY COMPARISON SCHEDULE
PROPOSITION A SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Revenue from other agencies	\$ 251,565	\$ 251,565	\$ 250,536	\$ (1,029)
Use of money and property	3,500	3,500	5,549	2,049
Total Revenues	255,065	255,065	256,085	1,020
Expenditures:				
Current:				
General government	5,310	5,310	6,016	(706)
Public works	251,565	251,565	879,163	(627,598)
Total Expenditures	256,875	256,875	885,179	(628,304)
Net Change in Fund Balance	(1,810)	(1,810)	(629,094)	(627,284)
Fund Balance at Beginning of Year	631,218	631,218	631,218	-
Fund Balance at End of Year	\$ 629,408	\$ 629,408	\$ 2,124	\$ (627,284)

CITY OF PALOS VERDES ESTATES

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2017

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.

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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 received from the State Department of Corrections.

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 purposes within the City.

CAPITAL PROJECTS FUND

The Capital Projects Fund is used to account for resources intended to be used primarily for major capital facilities.

Parklands - is used to make improvements to/in the City's parklands.

CITY OF PALOS VERDES ESTATES

COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2017

	Special Revenue Funds		
	Gas Tax	Drug Intervention	SLESF
Assets:			
Cash and investments	\$ 112,468	\$ 83,681	\$ 304,542
Total Assets	\$ 112,468	\$ 83,681	\$ 304,542
Liabilities:			
Accounts payable	\$ 23,791	\$ -	\$ -
Accrued salaries and benefits	3,974	-	-
Total Liabilities	27,765	-	-
Fund Balances:			
Restricted for:			
Public safety	-	83,681	304,542
Public works	84,703	-	-
Total Fund Balances	84,703	83,681	304,542
Total Liabilities and Fund Balances	\$ 112,468	\$ 83,681	\$ 304,542

<u>Special Revenue Funds (Continued)</u>			<u>Capital Projects Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Corrections</u>	<u>Measure R</u>	<u>Proposition C</u>	<u>Parklands</u>	
\$ 4,515	\$ 273,824	\$ 388,479	\$ 100,459	\$ 1,267,968
\$ 4,515	\$ 273,824	\$ 388,479	\$ 100,459	\$ 1,267,968
\$ 163	\$ -	\$ -	\$ -	\$ 23,954
-	-	-	-	3,974
163	-	-	-	27,928
4,352	-	-	-	392,575
-	273,824	388,479	100,459	847,465
4,352	273,824	388,479	100,459	1,240,040
\$ 4,515	\$ 273,824	\$ 388,479	\$ 100,459	\$ 1,267,968

CITY OF PALOS VERDES ESTATES

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017

	Special Revenue Funds		
	Gas Tax	Drug Intervention	SLESF
Revenues:			
Revenue from other agencies	\$ 264,063	\$ -	\$ 129,324
Use of money and property	1,221	680	2,481
Total Revenues	265,284	680	131,805
Expenditures:			
Current:			
Public safety	-	-	14,146
Public works	339,072	-	-
Total Expenditures	339,072	-	14,146
Excess (Deficiency) of Revenues Over (Under) Expenditures	(73,788)	680	117,659
Other Financing Sources (Uses):			
Transfers in	-	-	-
Transfers out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Net Change in Fund Balances	(73,788)	680	117,659
Fund Balances at Beginning of Year	158,491	83,001	186,883
Fund Balances at End of Year	\$ 84,703	\$ 83,681	\$ 304,542

<u>Special Revenue Funds (Continued)</u>			<u>Capital Projects Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Corrections</u>	<u>Measure R</u>	<u>Proposition C</u>	<u>Parklands</u>	
\$ 1,964	\$ 155,898	\$ 208,240	\$ -	\$ 759,489
-	2,495	1,765	459	9,101
1,964	158,393	210,005	459	768,590
3,005	-	-	-	17,151
-	-	-	-	339,072
3,005	-	-	-	356,223
(1,041)	158,393	210,005	459	412,367
-	-	-	100,000	100,000
-	(158,812)	-	-	(158,812)
-	(158,812)	-	100,000	(58,812)
(1,041)	(419)	210,005	100,459	353,555
5,393	274,243	178,474	-	886,485
\$ 4,352	\$ 273,824	\$ 388,479	\$ 100,459	\$ 1,240,040

CITY OF PALOS VERDES ESTATES

**BUDGETARY COMPARISON SCHEDULE
GAS TAX SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Revenue from other agencies	\$ 360,192	\$ 360,192	\$ 264,063	\$ (96,129)
Use of money and property	1,000	1,000	1,221	221
Total Revenues	361,192	361,192	265,284	(95,908)
Expenditures:				
Current:				
Public works	356,957	356,957	339,072	17,885
Total Expenditures	356,957	356,957	339,072	17,885
Net Change in Fund Balance	4,235	4,235	(73,788)	(78,023)
Fund Balance at Beginning of Year	158,491	158,491	158,491	-
Fund Balance at End of Year	\$ 162,726	\$ 162,726	\$ 84,703	\$ (78,023)

CITY OF PALOS VERDES ESTATES

**BUDGETARY COMPARISON SCHEDULE
 DRUG INTERVENTION SPECIAL REVENUE FUND
 YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Use of money and property	\$ 500	\$ 500	\$ 680	\$ 180
Total Revenues	500	500	680	180
Net Change in Fund Balance	500	500	680	180
Fund Balance at Beginning of Year	83,001	83,001	83,001	-
Fund Balance at End of Year	\$ 83,501	\$ 83,501	\$ 83,681	\$ 180

CITY OF PALOS VERDES ESTATES

**BUDGETARY COMPARISON SCHEDULE
SLESF SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Revenue from other agencies	\$ 100,000	\$ 100,000	\$ 129,324	\$ 29,324
Use of money and property	500	500	2,481	1,981
Total Revenues	100,500	100,500	131,805	31,305
Expenditures:				
Current:				
Public safety	100,000	114,145	14,146	99,999
Total Expenditures	100,000	114,145	14,146	99,999
Net Change in Fund Balance	500	(13,645)	117,659	131,304
Fund Balance at Beginning of Year	186,883	186,883	186,883	-
Fund Balance at End of Year	\$ 187,383	\$ 173,238	\$ 304,542	\$ 131,304

CITY OF PALOS VERDES ESTATES

**BUDGETARY COMPARISON SCHEDULE
CORRECTIONS SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Revenue from other agencies	\$ 6,000	\$ 6,000	\$ 1,964	\$ (4,036)
Total Revenues	6,000	6,000	1,964	(4,036)
Expenditures:				
Current:				
Public safety	4,700	4,700	3,005	1,695
Total Expenditures	4,700	4,700	3,005	1,695
Net Change in Fund Balance	1,300	1,300	(1,041)	(2,341)
Fund Balance at Beginning of Year	5,393	5,393	5,393	-
Fund Balance at End of Year	\$ 6,693	\$ 6,693	\$ 4,352	\$ (2,341)

CITY OF PALOS VERDES ESTATES

**BUDGETARY COMPARISON SCHEDULE
MEASURE R SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Revenue from other agencies	\$ 157,812	\$ 157,812	\$ 155,898	\$ (1,914)
Use of money and property	1,000	1,000	2,495	1,495
Total Revenues	158,812	158,812	158,393	(419)
Other Financing Uses:				
Transfers out	(158,812)	(158,812)	(158,812)	-
Total Other Financing Uses	(158,812)	(158,812)	(158,812)	-
Net Change in Fund Balance	-	-	(419)	(419)
Fund Balance at Beginning of Year	274,243	274,243	274,243	-
Fund Balance at End of Year	\$ 274,243	\$ 274,243	\$ 273,824	\$ (419)

CITY OF PALOS VERDES ESTATES

**BUDGETARY COMPARISON SCHEDULE
 PROPOSITION C SPECIAL REVENUE FUND
 YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Revenue from other agencies	\$ 209,892	\$ 209,892	\$ 208,240	\$ (1,652)
Use of money and property	1,000	1,000	1,765	765
Total Revenues	210,892	210,892	210,005	(887)
Net Change in Fund Balance	210,892	210,892	210,005	(887)
Fund Balance at Beginning of Year	178,474	178,474	178,474	-
Fund Balance at End of Year	\$ 389,366	\$ 389,366	\$ 388,479	\$ (887)

CITY OF PALOS VERDES ESTATES

**BUDGETARY COMPARISON SCHEDULE
GENERAL CAPITAL IMPROVEMENTS CAPITAL PROJECTS FUND - MAJOR FUND
YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Use of money and property	\$ -	\$ -	\$ 58,199	\$ 58,199
Total Revenues	-	-	58,199	58,199
Expenditures:				
Current:				
Public works	2,844,327	3,080,774	1,066,462	2,014,312
Total Expenditures	2,844,327	3,080,774	1,066,462	2,014,312
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,844,327)	(3,080,774)	(1,008,263)	2,072,511
Other Financing Sources (Uses):				
Transfers in	-	2,557,699	2,311,532	(246,167)
Transfers out	-	(217,662)	(217,662)	-
Total Other Financing Sources (Uses)	-	2,340,037	2,093,870	(246,167)
Net Change in Fund Balance	(2,844,327)	(740,737)	1,085,607	1,826,344
Fund Balance at Beginning of Year	5,096,516	5,096,516	5,096,516	-
Fund Balance at End of Year	\$ 2,252,189	\$ 4,355,779	\$ 6,182,123	\$ 1,826,344

CITY OF PALOS VERDES ESTATES

**BUDGETARY COMPARISON SCHEDULE
SEWER CAPITAL PROJECTS FUND - MAJOR FUND
YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Special assessments	\$ -	\$ -	\$ 118	\$ 118
Use of money and property	30,000	30,000	28,315	(1,685)
Total Revenues	30,000	30,000	28,433	(1,567)
Expenditures:				
Current:				
Public works	593,570	593,570	14,824	578,746
Total Expenditures	593,570	593,570	14,824	578,746
Net Change in Fund Balance	(563,570)	(563,570)	13,609	577,179
Fund Balance at Beginning of Year	3,684,585	3,684,585	3,684,585	-
Fund Balance at End of Year	\$ 3,121,015	\$ 3,121,015	\$ 3,698,194	\$ 577,179

CITY OF PALOS VERDES ESTATES

**BUDGETARY COMPARISON SCHEDULE
 PARKLANDS CAPITAL PROJECTS FUND - NONMAJOR FUND
 YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Use of money and property	\$ -	\$ -	\$ 459	\$ 459
Total Revenues	-	-	459	459
Other Financing Sources:				
Transfers in	-	100,000	100,000	-
Total Other Financing Sources	-	100,000	100,000	-
Net Change in Fund Balance	-	100,000	100,459	459
Fund Balance at Beginning of Year	-	-	-	-
Fund Balance at End of Year	\$ -	\$ 100,000	\$ 100,459	\$ 459

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, 2017

	Governmental Activities - Internal Service Funds		
	Equipment Replacement	Insurance	Total
Assets:			
Current Assets:			
Cash and investments	\$ 2,344,297	\$ 1,028,977	\$ 3,373,274
Accounts receivable	44,614	16,087	60,701
Total Current Assets	2,388,911	1,045,064	3,433,975
Capital Assets:			
Machinery and equipment	3,388,412	-	3,388,412
Furniture and fixtures	306,694	-	306,694
Vehicles	1,310,961	-	1,310,961
Less accumulated depreciation	(4,309,000)	-	(4,309,000)
Net Capital Assets	697,067	-	697,067
Total Assets	3,085,978	1,045,064	4,131,042
Liabilities:			
Current Liabilities:			
Accounts payable	123,153	-	123,153
Total Current Liabilities	123,153	-	123,153
Total Liabilities	123,153	-	123,153
Net Position:			
Net investment in capital assets	697,067	-	697,067
Unrestricted	2,265,758	1,045,064	3,310,822
Total Net Position	\$ 2,962,825	\$ 1,045,064	\$ 4,007,889

CITY OF PALOS VERDES ESTATES

COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2017

	Governmental Activities - Internal Service Funds		
	Equipment Replacement	Insurance	Total
Operating Revenues:			
Charges for services	\$ 370,470	\$ 860,954	\$ 1,231,424
Other	16,626	-	16,626
Total Operating Revenues	387,096	860,954	1,248,050
Operating Expenses:			
Material and supplies	64,268	-	64,268
General liability insurance	-	449,506	449,506
Property and vehicle insurance	-	32,438	32,438
Workers' compensation	-	331,682	331,682
Depreciation expense	264,553	-	264,553
Total Operating Expenses	328,821	813,626	1,142,447
Operating Income	58,275	47,328	105,603
Nonoperating Revenues:			
Interest revenue	20,381	6,448	26,829
Gain on disposal of capital assets	33,388	-	33,388
Total Nonoperating Revenues	53,769	6,448	60,217
Income before Transfers	112,044	53,776	165,820
Transfers out	(1,000,000)	-	(1,000,000)
Changes in Net Position	(887,956)	53,776	(834,180)
Net Position at Beginning of Year	3,850,781	991,288	4,842,069
Net Position at End of Year	\$ 2,962,825	\$ 1,045,064	\$ 4,007,889

CITY OF PALOS VERDES ESTATES

**COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2017**

	Governmental Activities - Internal Service Funds		
	Equipment Replacement	Insurance	Total
Cash Flows from Operating Activities:			
Cash received from user departments	\$ 357,482	\$ 853,535	\$ 1,211,017
Cash paid to suppliers for goods and services	(39,646)	(812,171)	(851,817)
Net Cash Provided by Operating Activities	317,836	41,364	359,200
Cash Flows from Noncapital Financing Activities:			
Transfers to other funds	(1,000,000)	-	(1,000,000)
Net Cash Used in Noncapital Financing Activities	(1,000,000)	-	(1,000,000)
Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of capital assets	(280,500)	-	(280,500)
Proceeds from sales of capital assets	33,388	-	33,388
Net Cash Used in Capital and Related Financing Activities	(247,112)	-	(247,112)
Cash Flows from Investing Activities:			
Interest received	20,381	6,448	26,829
Net Cash Provided by Investing Activities	20,381	6,448	26,829
Net Increase (Decrease) in Cash and Cash Equivalents	(908,895)	47,812	(861,083)
Cash and Cash Equivalents at Beginning of Year	3,253,192	981,165	4,234,357
Cash and Cash Equivalents at End of Year	\$ 2,344,297	\$ 1,028,977	\$ 3,373,274
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating income	\$ 58,275	\$ 47,328	\$ 105,603
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	264,553	-	264,553
(Increase) decrease in accounts receivable	(29,614)	(7,419)	(37,033)
(Increase) decrease in prepaid costs	-	1,455	1,455
Increase (decrease) in accounts payable	24,622	-	24,622
Total Adjustments	259,561	(5,964)	253,597
Net Cash Provided by Operating Activities	\$ 317,836	\$ 41,364	\$ 359,200

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, 2017

	<u>Special Deposits</u>	<u>Police Property Evidence</u>	<u>Totals</u>
Assets:			
Cash and investments	\$ 189,285	\$ 14,393	\$ 203,678
Total Assets	<u>\$ 189,285</u>	<u>\$ 14,393</u>	<u>\$ 203,678</u>
Liabilities:			
Accounts payable	\$ 238	\$ -	\$ 238
Deposits payable	189,047	14,393	203,440
Total Liabilities	<u>\$ 189,285</u>	<u>\$ 14,393</u>	<u>\$ 203,678</u>

CITY OF PALOS VERDES ESTATES

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 ALL AGENCY FUNDS
 YEAR ENDED JUNE 30, 2017

	<u>Balance June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</u>
SPECIAL DEPOSITS				
Assets:				
Cash and investments	\$ 169,000	\$ 22,944	\$ (2,659)	\$ 189,285
Total Assets	\$ 169,000	\$ 22,944	\$ (2,659)	\$ 189,285
Liabilities:				
Accounts payable	\$ -	\$ 861	\$ (623)	\$ 238
Deposits payable	169,000	22,706	(2,659)	189,047
Total Liabilities	\$ 169,000	\$ 23,567	\$ (3,282)	\$ 189,285
POLICE PROPERTY EVIDENCE				
Assets:				
Cash and investments	\$ 14,266	\$ 290	\$ (163)	\$ 14,393
Total Assets	\$ 14,266	\$ 290	\$ (163)	\$ 14,393
Liabilities:				
Deposits payable	\$ 14,266	\$ 290	\$ (163)	\$ 14,393
Total Liabilities	\$ 14,266	\$ 290	\$ (163)	\$ 14,393
TOTAL - ALL AGENCY FUNDS				
Assets:				
Cash and investments	\$ 183,266	\$ 23,234	\$ (2,822)	\$ 203,678
Total Assets	\$ 183,266	\$ 23,234	\$ (2,822)	\$ 203,678
Liabilities:				
Accounts payable	\$ -	\$ 861	\$ (623)	\$ 238
Deposits payable	183,266	22,996	(2,822)	203,440
Total Liabilities	\$ 183,266	\$ 23,857	\$ (3,445)	\$ 203,678

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STATISTICAL SECTION

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

Contents	<u>Pages</u>
<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.	100 - 103
<u>Revenue Capacity</u> these schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.	104 - 112
<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.	113 - 114
<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.	115 - 116
<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.	117 - 119

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									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Governmental activities										
Net investment in capital assets	\$ 60,831	\$ 59,719	\$ 56,687	\$ 54,677	\$ 53,240	\$ 51,728	\$ 48,675	\$ 46,006	\$ 45,358	\$ 42,688
Restricted	1,324	1,720	2,050	8,254	8,461	7,996	7,970	7,773	6,417	6,588
Unrestricted	<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>	<u>8,958</u>
 Total governmental activities net position	 <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>	 <u>\$ 58,234</u>
 Primary government										
Net investment in capital assets	\$ 60,831	\$ 59,719	\$ 56,687	\$ 54,677	\$ 53,240	\$ 53,240	\$ 48,675	\$ 46,006	\$ 45,358	\$ 42,688
Restricted	1,324	1,720	2,050	8,254	8,461	8,461	7,970	7,773	6,417	6,588
Unrestricted	<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>9,210</u>	<u>8,958</u>
 Total primary government net position	 <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>\$ 60,985</u>	 <u>\$ 58,234</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									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Expenses:										
Governmental activities:										
General government	\$ 1,504	\$ 1,693	\$ 1,592	\$ 1,699	\$ 1,573	\$ 2,157	\$ 1,542	\$ 2,244	\$ 2,911	\$ 3,520
Public safety	8,899	9,554	9,536	9,770	10,281	9,969	10,299	10,476	11,555	12,045
Public works	4,588	4,327	4,887	4,299	4,250	2,980	2,970	3,013	6,891	5,798
Parks and recreation	2,721	2,808	2,821	2,892	3,166	4,692	5,257	5,703	3,092	3,243
Total governmental activities expenses	<u>\$ 17,712</u>	<u>\$ 18,382</u>	<u>\$ 18,836</u>	<u>\$ 18,660</u>	<u>\$ 19,270</u>	<u>\$ 19,798</u>	<u>\$ 20,068</u>	<u>\$ 21,436</u>	<u>\$ 24,449</u>	<u>\$ 24,606</u>
Program revenues:										
Governmental activities:										
Charges for services:										
General government	\$ 56	\$ 63	\$ 68	\$ 66	\$ 56	\$ 85	\$ 50	\$ 56	\$ 472	\$ 1,278
Public safety	3,714	3,902	4,071	4,291	4,260	4,416	4,548	4,675	4,765	4,890
Public works	1,265	852	978	1,477	1,129	1,153	957	1,154	1,283	1,422
Parks and recreation	989	1,008	987	992	1,066	1,109	1,190	1,261	-	1,322
Operating grants and contributions	907	1,113	1,291	1,021	1,077	1,036	1,177	1,353	2,013	1,022
Capital grants and contributions	2,522	3,656	2,012	1,377	1,212	1,070	48	20	1,756	380
Total governmental activities program revenues	<u>9,453</u>	<u>10,594</u>	<u>9,407</u>	<u>9,224</u>	<u>8,800</u>	<u>8,869</u>	<u>7,970</u>	<u>8,519</u>	<u>10,289</u>	<u>10,314</u>
Net (expense)/revenue	<u>\$ (8,259)</u>	<u>\$ (7,788)</u>	<u>\$ (9,429)</u>	<u>\$ (9,436)</u>	<u>\$ (10,470)</u>	<u>\$ (10,929)</u>	<u>\$ (12,098)</u>	<u>\$ (12,917)</u>	<u>\$ (14,160)</u>	<u>\$ (14,292)</u>
General revenues and other changes in net position:										
Governmental activities:										
Taxes:										
Property taxes	\$ 5,390	\$ 5,661	\$ 5,695	\$ 5,743	\$ 5,842	\$ 6,099	\$ 6,494	\$ 6,859	\$ 7,247	\$ 9,089
Utility users tax	-	-	-	-	-	-	-	-	-	-
Sales and use taxes	406	340	309	319	318	349	384	427	435	426
Franchise taxes and other taxes	886	850	813	961	897	925	985	1,042	1,009	1,058
Motor vehicle in lieu tax (unrestricted)	1,052	1,092	1,107	1,127	1,097	1,126	1,184	1,248	1,323	-
Investment income	456	241	97	208	186	(12)	256	215	320	76
Miscellaneous	200	80	491	79	143	178	285	343	361	552
Total General Revenue and Extraordinary Item	<u>8,390</u>	<u>8,264</u>	<u>8,512</u>	<u>8,437</u>	<u>8,483</u>	<u>8,665</u>	<u>9,588</u>	<u>10,134</u>	<u>10,695</u>	<u>11,201</u>
Change in Net Position	<u>\$ 131</u>	<u>\$ 476</u>	<u>\$ (917)</u>	<u>\$ (999)</u>	<u>\$ (1,987)</u>	<u>\$ (2,264)</u>	<u>\$ (2,510)</u>	<u>\$ (2,783)</u>	<u>\$ (3,465)</u>	<u>\$ (3,091)</u>

* 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									
	2008	2009	2010	2011*	2012*	2013*	2014*	2015*	2016*	2017*
General fund:										
Reserved	\$ 37	\$ 4	\$ 57							
Unreserved	7,468	8,472	8,472							
Total general fund	<u>\$ 7,505</u>	<u>\$ 8,476</u>	<u>\$ 8,529</u>							
All other governmental funds:										
Reserved	\$ 330	\$ 328	\$ 335							
Unreserved, reported in:										
Designated for capital projects	2,709	1,857	291							
Special revenue funds	1,436	2,064	1,716							
Capital projects funds	14,190	14,901	17,099							
Total all other governmental funds	<u>18,665</u>	<u>19,150</u>	<u>19,441</u>							
Total	<u>\$ 26,170</u>	<u>\$ 27,626</u>	<u>\$ 27,970</u>							
General fund:										
Nonspendable				\$ 65	\$ 86	\$ 98	\$ 99	\$ 31	\$ 15	\$ 15
Restricted				-	-	-	-	-	-	-
Committed				7,200	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	3,924
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>	<u>\$ 11,139</u>
All other governmental funds:										
Nonspendable				\$ 331	\$ 3	\$ 358	\$ 373	\$ -	\$ 395	\$ -
Restricted				7,861	8,308	7,487	7,598	7,773	6,417	6,588
Committed				-	-	-	-	-	-	-
Assigned				-	9,611	9,052	8,375	7,132	5,096	6,182
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>	<u>12,770</u>
Total				<u>\$ 27,631</u>	<u>\$ 26,813</u>	<u>\$ 26,292</u>	<u>\$ 26,166</u>	<u>\$ 25,355</u>	<u>\$ 23,237</u>	<u>\$ 23,909</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									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues:										
Property Tax	\$ 5,390	\$ 5,661	\$ 5,695	\$ 5,693	\$ 5,842	\$ 6,099	\$ 6,494	\$ 6,859	\$ 7,247	\$ 7,701
Special assessment	4,924	5,140	5,098	5,316	5,044	5,221	4,316	4,464	4,582	4,715
Utility user tax	-	-	-	-	-	-	-	-	-	-
Other taxes	1,479	1,385	1,378	1,574	1,214	1,274	1,369	1,469	1,445	1,468
Licenses and permits	654	545	514	625	675	701	606	598	590	590
Fines and forfeitures	191	190	181	210	212	206	2,416	2,591	2,543	135
Use of money and agencies	2,058	1,639	1,300	1,175	1,228	1,089	407	447	602	1,368
Revenues from other agencies	1,771	3,088	2,155	2,051	2,278	2,218	1,412	1,423	1,612	2,694
Charges for services	678	410	549	501	454	475	207	176	147	656
Miscellaneous	323	89	975	79	144	176	288	326	361	552
Total revenues	17,468	18,147	17,845	17,224	17,091	17,459	17,515	18,353	19,129	19,879
Expenditures										
General government	1,437	1,561	1,536	1,595	1,437	1,503	1,853	2,069	2,164	2,363
Public safety	8,893	9,504	10,877	10,805	10,368	9,851	10,298	10,803	11,412	11,854
Public works	5,164	4,514	4,014	3,913	4,938	4,971	3,786	4,801	6,450	4,628
Parks and recreation	1,123	1,113	1,074	1,091	1,166	1,078	1,141	1,190	1,221	1,363
Total expenditures	16,617	16,692	17,501	17,404	17,909	17,403	17,078	18,863	21,247	20,208
Excess (deficiency) of revenues over (under) expenditures	851	1,455	344	(180)	(818)	56	437	(510)	(2,118)	(329)
Other financing sources (uses):										
Transfers in	1,709	541	563	5,357	1,162	883	700	1,015		
Transfers out	(1,709)	(541)	(563)	(5,515)	(1,162)	(1,461)	(1,263)	(1,317)		
Total other financing sources (uses)	-	-	-	(158)	-	(578)	(563)	(302)	-	-
Net change in fund balances	\$ 851	\$ 1,455	\$ 344	\$ (338)	\$ (818)	\$ (522)	\$ (126)	\$ (812)	\$ (2,118)	\$ (329)

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>
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
2017	7,700,661	-	426,147	1,040,622	1,388,090	10,555,520

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			
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%
2017	6,698,291	54,279	4,132	8,555	6,748,147	0.1110%

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 Penninsula Unified School District	LA County Flood Control District	Metropolitan Water District	Palos Verdes Library District	Los Angeles County	Comm. College	Total Direct Overlapping Rates
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	0.1130	0.8870	1.00000	0.0234	-	0.0035	0.0056	-	0.0358	1.06830
2017	0.1130	0.8870	1.00000	0.0232	-	0.0035	-	-	0.0359	1.06260

Source: Los Angeles County Auditor Controller's Office.

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

Taxpayer	2017			2008		
	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	\$ 33,437,863	1	0.50%	\$ 29,544,631	1	0.62%
Lowell W and Lisa B. Hill	32,501,795	2	0.48%			
Masafumi Miyamoto	15,092,947	3	0.22%	13,335,664	4	0.28%
Jose A. and Brigitte Collazo Trust	14,959,182	4	0.22%	16,174,079	2	0.34%
Yi Lin	13,705,875	5	0.20%			
Jackson and Julie Yang	13,477,835	6	0.20%	10,702,102	7	0.22%
Winstep Int'l Holdings USA LLC	13,198,250	7	0.20%			
Linda Montgomerie Trust Nanji Fam Trust	12,249,729	8	0.18%			
Timothy D Armour Trust	11,891,176	9	0.18%			
Richard C Lundquist Company Trust	11,568,911	10	0.17%	10,221,928	9	0.21%
Bernadette Chao Trust				8,866,151	10	0.18%
Jason and Wendy Moskowitz Trust				11,291,827	5	0.23%
Goon G Kim Living Trust				11,050,000	6	0.23%
Hussain M Shaikh				10,291,870	8	0.21%
Albert Centofante Trust				13,742,134	3	0.28%
	<u>\$ 172,083,563</u>		<u>2.55%</u>	<u>\$ 135,220,386</u>		<u>2.80%</u>

Source: Los Angeles County Assessor

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

Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years (1)	Total Collections to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
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%
2017	7,241,298	7,154,824	98.81%	-	7,154,824	98.81%

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		
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 \$0.183637/sq. ft
2016	-	67	-	-	-	21,482	-	21,482	
2017	5,192		15,744,671	242,466	15,987,137	4,653,836	54,760	4,708,596	\$328.16/parcel plus \$0.187952/sq. ft
2017	-	68	-	-	-	22,315	-	22,315	

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, 2017

Current Year and Prior Year

Property Owners	2017		
	Building Square Footage Value	Special Fire Tax Assessed	Percentage of Building Square Footage
Barnett, Rita C	36,753	\$ 9,533	0.23%
Lunada Bay Investment Co.	36,478	7,184	0.23%
Chen Tei Fu Co. Trust	29,678	5,906	0.18%
Peninsula Investment Co.	29,502	6,201	0.18%
79 parcels (special fire tax paid over \$2,000)	963,053	206,932	6.02%
1235 parcels (special fire tax paid between \$1,000-\$1,999)	5,942,604	1,522,196	37.17%
3878 parcels (special fire tax paid less than \$1,000 each)	<u>9,081,480</u>	<u>2,979,468</u>	<u>56.80%</u>
Total	<u>15,987,137</u>	<u>\$ 4,708,596</u>	<u>100.00%</u>

CITY OF PALOS VERDES ESTATES

Principal Special Fire Taxpayers

June 30, 2017

Current Year and Prior Year

Property Owners	2017		
	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>15,839,998</u>	<u>\$ 4,573,417</u>	<u>100.00%</u>

CITY OF PALOS VERDES ESTATES

Fire Tax Rates

Direct Government

Last Five Fiscal Years

	<u>City Direct Tax Rate</u>
2013	0.26540
2014	0.27380
2015	0.28140
2016	0.28870
2017	0.29450

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, 2017

2016-2017 Assessed Valuation: \$6,748,147,361

Governmental Unit	Outstanding Debt 6/30/17	Estimated Percentage Applicable	Estimated Share of
Overlapping General Fund Debt (Note 1)			
Los Angeles County General Fund Obligations	\$ 1,996,576,065	0.502%	\$ 10,022,812
Los Angeles County Superintendent of Schools COP'S	7,204,988	0.502%	\$ 36,169
Los Angeles County Sanitation District- South Bay Authorities	3,969,369	15.827%	\$ 628,232
Los Angeles County Sanitation District #5	23,288,051	0.571%	\$ 132,975
Direct & Overlapping Tax & Assessment Debt (Note 2)			
Los Angeles Community College District	3,847,880,000	0.903%	34,746,356
Palos Verdes Peninsula Unified School District	65,322,853	29.990%	19,590,324
Los Angeles Regional Park & Open Space Assessment District	38,895,000	0.502%	195,253
Palos Verdes Library District	-	0.000%	-
Metropolitan Water District	74,905,000	0.261%	<u>195,502</u>
Subtotal, overlapping debt			65,547,623
City direct debt			(0)
Less: Los Angeles County General Fund Obligations supported by landfill revenues			<u>-</u>
Net Total direct and overlapping debt			<u><u>\$ 65,547,623</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, 2017

(dollars in thousands)

Assessed value before homeowners exemption	<u>\$ 6,748,147</u>
Debt limit- 15% of assessed value	\$ 1,012,222
Amount of debt applicable to debt limit	<u> -</u>
	<u>\$ 1,012,222</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>	<u>2017</u>
Debt Limit	\$ 724,261	\$ 764,297	\$ 780,406	\$ 777,524	\$ 798,635	\$ 819,753	\$ 862,783	\$ 908,444	\$ 965,056	\$ 1,012,222
Total net debt applicable to limit	<u> -</u>	<u> -</u>	<u> -</u>	<u> -</u>	<u> -</u>	<u> -</u>	<u> -</u>	<u> -</u>	<u> -</u>	<u> -</u>
Legal debt margin	<u>\$ 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>	<u>\$ 1,012,222</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

<u>Calendar Year</u>	<u>City Population</u>	<u>Personal Income (thosands of dollars) (2)</u>	<u>Per Capita Personal Income (2)</u>	<u>Unemployment Rate (3)</u>
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
2017	13,663	1,257,471	91,706	0.8

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

CITY OF PALOS VERDES ESTATES

Principal Employers

Current Year

<u>Type of Business (1)</u>	<u>Number of Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
Unified School District	273	1	56.69%
Concession Clubs			
Palos Verdes Golf Club	97	2	20.14%
Palos Verdes Beach & Athletic Club	16		
Palos Verdes Tennis Club	6		
Palos Verdes Stables	6		
City Government			
City of Palos Verdes Estates	62,586	3	13.00%
Real Estate and Escrow Companies	12	4	2.49%
Restaurants	<u>9</u>	5	1.87%
Total	<u>481,586</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>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>	<u>2017</u>
General Government:										
Administration	5.520	5.520	5.520	5.520	5.125	5.125	5.125	5.188	5.686	5.686
Finance	3.600	3.600	3.600	3.600	3.000	3.000	4.000	4.000	4.000	4.000
Building and Planning	2.500	2.500	2.500	2.500	2.000	2.000	3.000	4.000	6.000	4.500
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	12.000	12.000	12.000	12.000	12.000	12.000	12.000	12.000	12.000
Other	3.330	2.500	1.500	2.500	2.500	2.800	2.800	2.600	3.100	3.900
Street and Parks	<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>	<u>7.500</u>
Total	55.950	56.120	55.620	56.620	55.125	55.425	57.425	58.288	61.286	62.586

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									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Police:										
Physical arrests	797	594	419	237	503	590	679	521	562	580
Parking violations	2,901	3,010	3,002	3,029	2,917	2,705	2,580	1,619	1,697	1,476
Moving violations	958	553	798	1,102	1,191	1,552	1,068	639	1,039	1,004
Building & Planning:										
Building permits issues	2,197	1,614	1,650	1,843	1,994	2,025	2,064	2,087	2,130	2,030
Total number of inspections	3,898	2,763	220	2,507	2,565	2,442	2,336	2,197	2,618	2,916
Grading applications	23	20	17	17.5	11.5	18.0	20.5	21.0	23	28
Neighborhood compatibility applications	49	35	32.5	33	23	27	29	29	32	42
Miscellaneous applications	34	44	53	38.50	57.00	50.00	46.00	62.00	74	96
Public Works:										
Public works permits	272	322	200	178	227	191	219	219	278	418
Street resurfacing (miles)	8.7	9.9	3.55	3.28	3.35	3.62	0.78	0.78	4.00	3.36

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									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
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	28.8	28.5	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)

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City Council of the
City of Palos Verdes Estates
Palos Verdes Estates, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Palos Verdes Estates, California (the City), as of and for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 22, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. In fiscal year 2016-2017, the City implemented Governmental Accounting Standards Board 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*. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses for pension plans and related assets that are not within the scope of GASB Statement No. 68. Accounting changes adopted to conform to the provisions of this statement should be applied retroactively. The result of the implementation of this statement decreased the net position at July 1, 2016, of the governmental activities by \$150,529. No other accounting policies were adopted, and the application of other existing policies was not changed during the year ended June 30, 2017. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Significant Audit Findings (Continued)

Qualitative Aspects of Accounting Practices (Continued)

The most sensitive estimates affecting the City's financial statements are as follows:

- a. Management's estimate of the fair value of investments is based on quoted prices in an active market. When quoted prices in active markets are not available, fair values are based on evaluated prices received by the City's broker or custodian.
- b. Management's estimate of the value of capital assets (infrastructure assets) is based on industry standards.
- c. The estimated useful lives of capital assets for depreciation purposes are based on industry standards.
- d. The annual required contributions, pension expense, net pension liability, and corresponding deferred outflows of resources and deferred inflows of resources for the City's public defined benefit plans with CalPERS are based on actuarial valuations provided by CalPERS.
- e. The annual required contributions, pension expense, and net pension liability for the City's Special Retirement Income Plan are based on actuarial valuations provided by an outside consultant.

We evaluated the key factors and assumptions used to develop these estimates in determining that they were reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were reported in Note 7 regarding the CalPERS defined benefit plans and the Special Retirement Income Plan for health insurance.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. As a result of our audit-related test work, we proposed no corrections to the financial statements.

Significant Audit Findings (Continued)

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 17, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to 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, the schedule of changes in total pension liabilities and related ratios for the special retirement income plan, and the budgetary comparison schedules for the General Fund, Special Projects Special Revenue Fund, Special Fire Parcel Tax Special Revenue Fund and the Proposition A Special Revenue Fund, which are required supplementary information (RSI) that supplements the financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Other Matters (Continued)

We were engaged to report on the combining and individual nonmajor fund financial statements and schedules (supplementary information), which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the basic financial statements or to the basic financial statements themselves.

We were not engaged to report on the introductory and statistical sections, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance.

Upcoming Changes in Accounting Standards and Regulatory Updates

Procurement Rules under the Uniform Guidance

The Uniform Guidance has different procurement rules than those previously required by the Circular A-133. Due to the work required by nonfederal entities to implement these new rules, a two-year grace period was given. In May 2017, an additional one-year grace period was given. Beginning July 1, 2018, nonfederal entities will be required to comply with all of the Uniform Guidance procurement rules. Included in these new rules is the requirement for written policies and procedures.

Commencing with the fiscal year 2018-2019 audits, auditors will request the written policies of the nonfederal entity for all single audits and review the procurement policies and procedures for compliance with the Uniform Guidance procurement rules.

Other Post-Employment Benefit Standards

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The scope of this statement addresses accounting and financial reporting for post-employment benefits other than pension (other post-employment benefits or OPEB) that is provided to the employees of state and local governmental employers. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures for defined benefit and defined contribution plans. This statement requires governments to report a net OPEB liability or asset on the face of the financial statements. The City is required to implement GASB Statement No. 75 in fiscal year ending June 30, 2018.

Restriction on Use

This information is intended solely for the use of the City Council and management of the City of Palos Verdes Estates and is not intended to be, and should not be, used by anyone other than these specified parties.

White Nelson Dick Evans LP

Irvine, California
January 17, 2018

WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

City Council of the
City of Palos Verdes Estates
Palos Verdes Estates, California

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Palos Verdes Estates, California (the City), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 17, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, as described below, that we consider to be significant deficiencies.

Segregation of Duties

Auditors' Comment and Recommendation

A good system of internal control provides for a proper segregation of the accounting functions whereby no one person has access to both physical assets and the related accounting records or to all phases of a transaction. The result of these types of situations is the risk that intentional or unintentional errors could be made and not be detected. One of the most critical areas of separation is cash. With regard to cash, we noted the following:

1. There is no dual custody of cash payments received either at City Hall or downstairs at the police counter.
2. Cash receipts are only deposited once a week at most, which is due to the limited size of the accounting department.
3. The same employee has the ability to modify vendor listings, record disbursements, and prepare checks and is occasionally responsible for mailing checks.

Although the size of the City's accounting staff prohibits complete adherence to the concept of segregation of duties, we recommend the implementation of the following practices to improve existing internal control without impairing efficiency:

1. Where possible, dual custody of all cash payments should be enforced.
2. A formal cash receipts policy should be adopted whereby there are procedures in place to allow for weekly cash deposits for routine amounts and the possibility of same-day deposits when amounts exceed a predetermined amount.
3. A daily review of the reconciliation of actual cash receipts to the accounting records should be performed by someone who is not involved with the collection of the cash receipts.
4. All edit sheets should be compared to the final check runs to ensure there are no discrepancies; these should be initialed as reviewed by management. Additionally, the City should consider the use of positive pay service with the bank whereby a person outside of the accounts payable process prepares the positive pay listing utilizing the approved edit sheet, which is prepared by the accounts payable clerk.

Management's Response

The City provides segregation of cash handling through its available staff. Staff includes two Financial Services Technicians for Accounts Payable and Payroll. Receipts are stored daily in a locked file cabinet, deposits slips are created weekly and reconciled weekly. One technician prepares the deposit, the other technician prepares the weekly cash receipt batch for recording within the financial system. Financial Services Manager, then reviews all documents for accuracy and completeness.

Cash receipts (cash or checks) are placed in an unsecure vault, and are only deposited once a week at most. Measures have been put in place so that the staff person making the deposit is not the same individual preparing the deposit.

Segregation of Duties (Continued)

Management's Response (Continued)

Daily deposits are secured in a locked file cabinet within the City's vault. Further, only members of the Finance Department have keys to the cabinet. Due to the small volumes and dollar amounts, deposit (generally) are only performed at the end of the week. However, when large dollar amounts are received they are deposited that day.

Beginning in calendar year 2017, all Business License Tax collection is being handled through a contract administrator. Cash and checks are not being collected at the City's public counter.

Prepare and Review Bank Reconciliations Timely

Auditors' Comment and Recommendation

As part of our audit procedures, we sampled a selection of monthly bank reconciliations within the 2016-2017 fiscal year. We noted that the bank reconciliations for the months of January 2017 and March 2017 were not prepared timely. An important element of internal controls over cash is the reconciliation process to identify differences between the bank's reconciliation and the general ledger and resolve differences timely. When differences are not properly identified, the bank reconciliation is not complete and can result in misappropriation of assets. Furthermore, during our review of the monthly bank reconciliations, we noted that there were checks issued in subsequent periods that were posted to the previous month in the general ledger system. As a result, the bank balances had large reconciling items to reflect the general ledger balance. We recommend that all bank accounts be reconciled within 30 days after the end of the month and that all bank reconciliations be initialed and dated by the preparer to indicate that the reconciliation was prepared in a timely manner so that large reconciling items can be identify and rectified immediately.

Management's Response

Staff agrees with the recommendation and is committed to improving the timeliness of bank reconciliations. Due to staff vacancies during the year, notably the Senior Account position and use of temporary personnel in the interim, reconciliations and the posting of some checks were delayed. With filling the vacant positions and the future continuity of staff, reconciliations will be completed in a timely manner.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Responses to the Auditors' Comments and Recommendations

The City's responses to the comments and recommendations identified in our audit are described above. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

In addition, we noted other matters involving internal control and its operation that we have reported to management of the City in a separate letter dated January 17, 2018.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

White Nelson Dick Evans LLP

Irvine, California
January 17, 2018

City Council of the
City of Palos Verdes Estates
Palos Verdes Estates, California

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Palos Verdes Estates, California (the City), as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. As discussed below, internal control and other operational matters are presented for your consideration. This letter does not affect our report dated January 17, 2018, on the financial statements of the City. Our comments and recommendations are intended to improve internal control or result in other operating efficiencies. Our comments along with our recommendations for improvement are summarized as follows:

Compliance with Investment Policy

Auditors' Comment and Recommendation

During our review of the City's Investment Policy (the Policy), we noted the following:

- Section 8 of the Policy requires that quarterly investment reports are prepared and rendered to the City Council and the City Manager within 30 days of the end of the quarter. We noted that the report for quarter ending December 31, 2017, was not submitted until February 14, 2017.

Compliance with Investment Policy (Continued)

Auditors' Comment and Recommendation Continued)

- Section 8 of the Policy requires that an annual report on the performance of the investment program and an update to the Policy be presented to the City Council. We noted that this reporting requirement was not adhered to for the 2015-2016 fiscal year nor was it adhered to for the 2016-2017 fiscal year.
- Section 9 of the Policy requires that the Policy shall be reviewed and adopted by resolution annually by the City Council. For the fiscal year 2016-2017, the Policy was not reviewed and adopted by resolution.

We recommend that the City establishes procedures to ensure compliance with the Policy.

Management's Response

For 2015-2016, due to the transition to a new Finance Director at the beginning of March 2016, the City Treasurer in coordination with the Finance Director combined the second quarter report and third quarter reports to allow the new Director time to review both reports.

Effective in March 2017, the City Council established an Investment Policy Advisory Committee comprised of two residents and the City Treasurer. The terms of the resident members began in July 2017. Also, in March 2017, voters of Palos Verdes Estates elected a new City Treasurer. Their first order of business at their first meeting on July 13, 2017 was to review and update the City Council's Investment Policy. The Committee's proposed revisions to the Investment Policy was approved by Resolution by the City Council on September 12, 2017. The Policy is calendared by the Investment Policy Advisory Committee and the City Council to be reviewed annually and approved concurrent with adoption of the City's annual operating budget.

Staff agrees with the comment noting that Quarterly Investment Report for December 2017 was submitted 14 beyond the standard established by the City's policy. The delay was due to staff vacancies and the use of temporary personnel in the Finance Department. With filling the vacant positions and long-term continuity, the Quarterly Investment Report will be completed in a timely manner. However, the Quarterly Investment Report contains interest earnings and changes in market value of investments that was continually provided throughout the year for public scrutiny.

Outstanding Checks

Auditors' Comment and Recommendation

During our testing of a bank reconciliation, we noted several checks that had been outstanding for more than one year, some dating as far back as 2012. We recommend that an outstanding checks listing be reviewed periodically to help determine why some checks remain outstanding for so long. Based on this investigation, the City can take the appropriate action with regard to these outstanding checks (i.e., void the check, void and reissue the check, or keep the check listed as outstanding). In addition, we recommend that the City considers adopting a policy for stale checks and implementing controls to ensure the policy is adhered to.

Outstanding Checks (Continued)

Management's Response

The amount of each check is immaterial. However, staff follows the recommendation of the auditor for keeping a list of outstanding checks. Due to staff vacancies and the use of temporary personnel in the Finance Department, and the immaterial amount of these checks, the Department's primary focus has been basic accounting and operations. With filling the position vacancies and the subsequent long-term continuity of personnel, staff will be incorporating a stale check policy within the broader framework of creating new accounting policies.

The table listed below includes the checks in question.

ACCOUNT	CHECK NUMBER	Year	CHK DATE	VENDOR NUMBER	VENDOR NAME	CLEARED	OUTSTANDING
10105	521690	2012	6/12/2012	CHA7	HEATHER CHAPMAN		45.00
							45.00
10105	523346	2013	4/9/2013	RIO01	RIO HONDO COLLEGE		9.20
							9.20
10105	118764	2014	11/15/2013		John Eberhard		0.87
10105	525713	2014	6/24/2014	PER10	PAULA PEREZ		50.00
							50.87
10105	525946	2015	8/12/2014	ROS01	ROSCO PRODUCTIONS		514.12
10105	526364	2015	10/28/2014	FRO01	MARK FRONTEROTTA		3.62
10105	526422	2015	10/28/2014	THO12	SANDRA THOMPSON		3.62
10105	526425	2015	10/28/2014	VAN12	STEVEN VAN SICKLEN		3.62
10105	526435	2015	10/28/2014	WRI01	WILLIAM WRIGHT		3.62
10105	526568	2015	11/25/2014	SOU20	SOUTH BAY ORTHOPAEDIC SPE		280.00
							808.60
					Total Dollars		\$ 913.67

Capitalization Policy

Auditors' Comment and Recommendation

Currently, the City does not have a formal capitalization policy that provides guidelines as to the formal treatment of certain assets and appropriate lives for depreciation purposes. However, there is a reference to the capitalization threshold in the City's procurement policy. To ensure uniform treatment of capital expenditures, we recommend that the City adopts a policy for capitalization of assets.

Management's Response

The Capitalization Policy is listed within the notes to the Comprehensive Annual Financial Report (CAFR) under Note 1; Summary of Significant Accounting Policies. With new staff that will be filling existing vacancies and their longevity in their positions, an Accounting Policy Manual will be developed to address this finding.

Capital Asset Inventory

Auditors' Comment and Recommendation

During our audit, we noted that the City has not performed a physical inventory of its capital asset in several years. To ensure capital assets on hand are correctly accounted for, we recommend that the City performs a physical inventory of its capital assets and uses the results to modify the subsidiary schedule, as necessary.

Management's Response

Staff agrees with this recommendation and will incorporate the recommendation into future work plans.

Interfund Balances

Auditors' Comment and Recommendation

During our testing of interfund transactions, we noted that balances due from the Special Projects Fund to the General Fund in the amount of \$28,331 have been carried over for several years and have not been reconciled. The amounts are immaterial; however, in order to provide accurate interfund balances, we recommend that the City reconciles all general ledger accounts, including interfund amounts, each year and adjusts the general ledger, as necessary.

Management's Response

Staff agrees with this recommendation and will incorporate the recommendation into future work plans.

Payroll Reports

Auditors' Comment and Recommendation

During our testing of payroll expenditures, we noted that the City does not currently reconcile the Quarterly Payroll Information Returns (Form 941) to the general ledger. A reconciliation of these returns is a critical process to ensure the completeness of the records and provide an understanding of the expenditures reported. We recommend that the City reconciles these returns to the general ledger before they are filed.

Management's Response

Staff agrees with this recommendation and will be incorporating a general ledger reconciliation to the Quarterly Payroll Information Returns (Form 941) with the filling of vacant positions to manage day-to-day work responsibilities.

City's Responses to Auditors' Comments and Recommendations

The City's responses to the comments and recommendations identified in our audit are described above. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, the City Council, and others within the City and is not intended to be, and should not be, used by anyone other than these specified parties.

White Nelson Dick Evans LLP

Irvine, California
January 17, 2018

CITY OF PALOS VERDES ESTATES, CALIFORNIA

APPROPRIATIONS LIMIT WORKSHEET NO. 6

WITH INDEPENDENT ACCOUNTANTS' REPORT
ON AGREED-UPON PROCEDURES
APPLIED TO APPROPRIATIONS LIMIT WORKSHEET NO. 6

FOR THE YEAR ENDED JUNE 30, 2017

INDEPENDENT ACCOUNTANTS' REPORT
ON AGREED-UPON PROCEDURES APPLIED
TO APPROPRIATIONS LIMIT WORKSHEET NO. 6

City Council of the
City of Palos Verdes Estates
Palos Verdes Estates, California

We have performed the procedures enumerated below to the accompanying Appropriations Limit Worksheet No. 6 of the City of Palos Verdes Estates, California, for the year ended June 30, 2017. These procedures, which were agreed to by the City of Palos Verdes Estates, California, and the League of California Cities (the League) (as presented in the League publication titled "Article XIII-B Appropriations Limit Uniform Guidelines"), were performed solely to assist the City of Palos Verdes Estates, California, in meeting the requirements of Section 1.5 of Article XIII B of the California Constitution. The City of Palos Verdes Estates' management is responsible for the Appropriations Limit Worksheet No. 6.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and our findings were as follows:

1. We obtained the completed Appropriations Limit Worksheet No. 6 for the year ended June 30, 2017, and compared the limit and annual adjustment factors included in that worksheet to the limit and annual adjustment factors that were adopted by resolution of the City Council. We also compared the population and inflation options included in the aforementioned worksheet to those that were selected by a recorded vote of the City Council.

No exceptions were noted as a result of our performing this procedure.

2. For the accompanying Appropriations Limit Worksheet No. 6, we added last year's limit to the total adjustments and compared the resulting amount to this year's limit. We also recalculated the adjustment factor and the adjustment for inflation and population and compared the results to the amounts on Appropriations Limit Worksheet No. 6.

No exceptions were noted as a result of our performing this procedure.

3. We compared the prior-year appropriations limit presented in the accompanying Appropriations Limit Worksheet No. 6 to the prior-year appropriations limit adopted by the City Council for the prior year.

No exceptions were noted as a result of our performing this procedure.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the accompanying Appropriations Limit Worksheet No. 6. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. No procedures have been performed with respect to the determination of the appropriation limit for the base year, as defined by the League publication titled "Article XIII-B Appropriations Limit Uniform Guidelines."

This report is intended solely for the information and use of the City Council and management of the City of Palos Verdes Estates, California, and is not intended to be, and should not be, used by anyone other than these specified parties.

White Nelson Dick Evans LLP

Irvine, California
January 17, 2018

CITY OF PALOS VERDES ESTATES
 APPROPRIATIONS LIMIT WORKSHEET NO. 6
 For the year ended June 30, 2017

Appropriations limit for fiscal year ended June 30, 2016 (Note 2) \$ 20,173,490

Adjustment factors for the fiscal year ended June 30, 2017 (Note 2):

Inflation Factor (Note 3)	Population Factor (Note 4)	Combined Factor	
1.05370000	1.0085000	1.06265645	x <u>0.06265645</u>

Adjustment for inflation and population 1,263,999

Other adjustments (Note 5) -

Total adjustments 1,263,999

Appropriations limit for fiscal year ended June 30, 2017 \$ 21,437,489

See accompanying notes to Appropriations Limit Worksheet No. 6

CITY OF PALOS VERDES ESTATES

NOTES TO APPROPRIATIONS LIMIT WORKSHEET NO. 6

For the year ended June 30, 2017

1. PURPOSE OF LIMITED PROCEDURES REVIEW:

Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), California governmental agencies are restricted as to the amount of annual appropriations from proceeds of taxes. Effective for years beginning on or after July 1, 1990, under Section 1.5 of Article XIII B, the annual calculation of the appropriations limit is subject to a limited procedures review in connection with the annual audit.

2. METHOD OF CALCULATION:

Under Section 10.5 of Article XIII B, for fiscal years beginning on or after July 1, 1990, the appropriations limit is required to be calculated based on the limit for the fiscal year 1986-1987 and adjusted for the inflation and population factors discussed at Notes 3 and 4 below.

3. INFLATION FACTORS:

A California governmental agency may adjust its appropriations limit by either the annual percentage change in the fourth quarter per capita personal income (which percentages are supplied by the State Department of Finance) or the percentage change in the local assessment roll from the preceding year due to the change of local nonresidential construction. The factor adopted by the City of Palos Verdes Estates, California (the City), for the fiscal year 2016-2017 represents the annual percentage change in the fourth quarter per capita personal income.

4. POPULATION FACTORS:

A California governmental agency may adjust its appropriations limit by either the annual percentage change of the jurisdiction's own population or the annual percentage change in population in the county where the jurisdiction is located. The factor adopted by the City for fiscal year 2016-2017 represents the annual percentage change in population for the county in which the City is located.

5. OTHER ADJUSTMENTS:

A California government agency may be required to adjust its appropriations limit when certain events occur, such as the transfer of responsibility for municipal services to, or from, another government agency or private entity. The City had no such adjustments for the year ended June 30, 2017.

City of Palos Verdes
Net Position Component

		<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>
Other Assets		28,978,936	28,549,095	31,571,730
Capital assets	(C)	42,687,887	45,357,579	46,005,936
Deferred outflows related to pensions		3,385,017	1,074,121	1,218,843
Subtotal	(A)	<u>75,051,840</u>	<u>74,980,795</u>	<u>78,796,509</u>
Other liabilities		2,805,290	2,058,922	2,924,534
Net pension liability		13,020,874	9,687,561	8,494,354
Deferred inflows related to pensions		991,324	1,758,367	2,851,007
Subtotal	(B)	<u>16,817,488</u>	<u>13,504,850</u>	<u>14,269,895</u>
Net Position	(A) - (B)	<u><u>58,234,352</u></u>	<u><u>61,475,945</u></u>	<u><u>64,526,614</u></u>
Components of net position				
Net investment in capital assets	(C)	42,687,887	45,357,579	46,005,936
Restricted for:				
Public safety		1,096,190	552,379	846,035
Public works		5,491,631	5,864,187	6,927,473
Unrestricted		8,958,644	9,701,800	10,747,170
		<u>58,234,352</u>	<u>61,475,945</u>	<u>64,526,614</u>
Changes in net position				
Revenues		21,514,533.00	21,398,923.00	18,652,901.00
Expenses (excluding depreciation)		(20,498,528.00)	(20,496,105.00)	(17,423,079.00)
Income before depreciation		1,016,005.00	902,818.00	1,229,822.00
Depreciation		(4,107,069.00)	(3,953,487.00)	(4,013,042.00)
Change in net position		<u><u>(3,091,064.00)</u></u>	<u><u>(3,050,669.00)</u></u>	<u><u>(2,783,220.00)</u></u>