

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