



# **Palos Verdes Library District**

Rolling Hills Estates, California

## **Annual Financial Report**

*For the Year Ended June 30, 2017*



**Palos Verdes Library District  
Annual Financial Report  
For the Year Ended June 30, 2017**

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## **FINANCIAL SECTION**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
of the Palos Verdes Library District  
Rolling Hills Estates, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Palos Verdes Library District (District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Palos Verdes Library District as of June 30, 2017, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 8, the Budgetary Comparison Schedule - General Fund, Budgetary Comparison Schedule - Debt Service Fund, Schedule of the District's Proportionate Share of the Plan's Net Pension Liability, and the Schedule of the District's Contributions to the Pension Plan on pages 43 through 46, respectively be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated January 30, 2018, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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* and should be read in conjunction with this report in considering the results of our audit.

*The PwC Group, LLP*

Santa Ana, California  
January 30, 2018



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

***Independent Auditors' Report***

To the Board of Trustees  
of the Palos Verdes Library District  
Rolling Hills Estates, California

We have audited, in accordance with the 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 Palos Verdes Library District (District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated January 30, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 entity'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. 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.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District'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*.

To the Board of Trustees  
of the Palos Verdes Library District  
Rolling Hills Estates, California  
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**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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*The PwC Group, LLP*

Santa Ana, California  
January 30, 2018

**Palos Verdes Library District**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Year Ended June 30, 2017**

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As management of the Palos Verdes Library District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities and performance of the District for the fiscal year ended June 30, 2017. Please read it in conjunction with additional information that we have furnished in the accompanying basic financial statements, which follow this section.

**Financial Highlights**

- The District's change in net position for the year ended June 30, 2017 was \$(1,047,810) primarily due to increases in salaries and payments made to reduce the District's pension liability.
- The District's total revenues decreased by 11.67% or \$(1,133,948), to \$8,583,575 in fiscal year 2017 due primarily to the decrease in the related property tax revenues collected in previous years to pay for the District's debt service.
- The District's total expenses increased 14.71% or \$1,235,250, in fiscal year 2017 due primarily to a \$571,537 increase in salaries and benefits expense and a \$718,912 increase in materials and services expense.

**Using This Financial Report**

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies. The Statement of Net Position includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Activities. This statement measures the success of the District's operations over the past year and can be used to determine the District's profitability and credit worthiness.

**Government-wide Financial Statements**

**Statement of Net Position and Statement of Activities**

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Activities report information about the District in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net position* and changes in them. Think of the District's net position – the difference between assets and liabilities – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position is one indicator of whether its *financial health* is improving or deteriorating.

**Governmental Funds Financial Statements**

**Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance**

*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.

**Palos Verdes Library District**  
**Management's Discussion and Analysis (Unaudited) (Continued)**  
**For the Year Ended June 30, 2017**

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*.

**Notes to the Basic 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.

**Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's budgetary information and compliance.

**Condensed Statements of Net Position**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Change</u>
<b>Assets:</b>			
Current assets	\$ 5,834,785	\$ 7,658,111	\$ (1,823,326)
Capital assets, net	<u>8,987,453</u>	<u>9,667,901</u>	<u>(680,448)</u>
<b>Total assets</b>	<u>14,822,238</u>	<u>17,326,012</u>	<u>(2,503,774)</u>
<b>Deferred outflows of resources</b>	<u>1,585,347</u>	<u>461,421</u>	<u>1,123,926</u>
<b>Liabilities:</b>			
Current liabilities	412,134	1,867,389	(1,455,255)
Noncurrent liabilities	<u>4,570,411</u>	<u>3,218,888</u>	<u>1,351,523</u>
<b>Total liabilities</b>	<u>4,982,545</u>	<u>5,086,277</u>	<u>(103,732)</u>
<b>Deferred inflows of resources</b>	<u>515,205</u>	<u>743,511</u>	<u>(228,306)</u>
<b>Net position:</b>			
Investment in capital assets	8,987,453	8,422,901	564,552
Restricted for debt service	-	1,336,988	(1,336,988)
Restricted for capital projects	18,594	18,561	33
Unrestricted	<u>1,903,788</u>	<u>2,179,195</u>	<u>(275,407)</u>
<b>Total net position</b>	<u>\$ 10,909,835</u>	<u>\$ 11,957,645</u>	<u>\$ (1,047,810)</u>

**Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by \$10,909,835 as of June 30, 2017.

A portion of the District's net position 82.4% or \$8,987,453 reflects its investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to operate the District; consequently, these assets are *not* available for future spending. At the end of fiscal year 2017, the District shows a positive balance in its unrestricted net position of \$1,903,788 that may be utilized in future years.

**Palos Verdes Library District**  
**Management's Discussion and Analysis (Unaudited) (Continued)**  
**For the Year Ended June 30, 2017**

**Condensed Statement of Activities**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Change</u>
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 559,559	\$ 440,002	\$ 119,557
Operating grants and contributions	316,315	417,521	(101,206)
General revenues:			
Property taxes	7,693,652	8,824,153	(1,130,501)
Interest earnings	14,049	35,847	(21,798)
<b>Total revenues</b>	<u>8,583,575</u>	<u>9,717,523</u>	<u>(1,133,948)</u>
<b>Expenses:</b>			
Library operations:			
Salaries and benefits	6,295,157	5,723,620	571,537
Materials and services	2,438,509	1,719,597	718,912
Depreciation	892,532	885,772	6,760
Interest	5,187	67,146	(61,959)
<b>Total expenses</b>	<u>9,631,385</u>	<u>8,396,135</u>	<u>1,235,250</u>
<b>Change in net position</b>	(1,047,810)	1,321,388	(2,369,198)
<b>Net position:</b>			
Beginning of year	<u>11,957,645</u>	<u>10,636,257</u>	<u>1,321,388</u>
End of year	<u>\$ 10,909,835</u>	<u>\$ 11,957,645</u>	<u>\$ (1,047,810)</u>

The statement of activities shows how the government's net position changes during the fiscal year. In the case of the District, net position decreased by \$(1,047,810) for the fiscal year ended June 30, 2017.

**Governmental Funds Financial Analysis**

The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, the *unassigned fund balance* may serve as a useful measure of the government's net resources for spending at the end of the fiscal year.

As of June 30, 2017, the District's General Fund reported a fund balance of \$5,540,740. An amount of \$341,656 constitutes the District's *unassigned fund balance*, which is available for future library expenditures.

**Palos Verdes Library District**  
**Management's Discussion and Analysis (Unaudited) (Continued)**  
**For the Year Ended June 30, 2017**

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**Capital Asset Administration**

At June 30, 2017, the District's investment in capital assets amounted to \$8,987,453 (net of accumulated depreciation). This investment in capital assets includes structures and improvements and equipment. (See Note 3 for further information)

Capital assets balances are as follows:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Non-depreciable assets	\$ 855,401	\$ 752,694
Depreciable assets	31,289,522	31,180,145
Accumulated depreciation and amortization	<u>(23,157,470)</u>	<u>(22,264,938)</u>
Total capital assets, net	<u>\$ 8,987,453</u>	<u>\$ 9,667,901</u>

**Debt Service**

Debt service balances are as follows:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Bonds payable	<u>\$ -</u>	<u>\$ 1,245,000</u>

(See Note 4 for further debt service information)

**Conditions Affecting Current Financial Position**

Management is unaware of any conditions, which could have a significant impact on the District's current financial position, net position or operating results in terms of past, present and future.

**Requests for Information**

The District's basic financial statements are designed to present users with a general overview of the District's finances and to demonstrate the District's accountability. If you have any questions about the report or need additional information, please contact the District's Finance Director, Julie Mattix, at the Palos Verdes Library District, 701 Silver Spur Road, Rolling Hills Estates, CA 90275.

## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**Palos Verdes Library District**  
**Statement of Net Position**  
**June 30, 2017**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
<b>Current assets:</b>	
Cash and investments (Note 2)	\$ 5,679,184
Accrued interest receivable	8,391
Property taxes receivable	147,210
<b>Total current assets</b>	<b>5,834,785</b>
<b>Noncurrent assets:</b>	
Capital assets – not being depreciated (Note 3)	855,401
Capital assets, net – being depreciated (Note 3)	8,132,052
<b>Total noncurrent assets</b>	<b>8,987,453</b>
<b>Total assets</b>	<b>14,822,238</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred amounts related to net pension liability (Note 6)	1,585,347
<b>Total deferred outflows of resources</b>	<b>1,585,347</b>
<b>LIABILITIES</b>	
<b>Current liabilities:</b>	
Accounts payable and accrued expenses	76,460
Accrued salaries and benefits	217,585
Due within one year:	
Compensated absences (Note 5)	118,089
<b>Total current liabilities</b>	<b>412,134</b>
<b>Noncurrent liabilities:</b>	
Due in more than one year:	
Compensated absences (Note 5)	118,089
Net pension liability (Note 6)	4,452,322
<b>Total noncurrent liabilities</b>	<b>4,570,411</b>
<b>Total liabilities</b>	<b>4,982,545</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred amounts related to net pension liability (Note 6)	515,205
<b>Total deferred inflows of resources</b>	<b>515,205</b>
<b>NET POSITION</b>	
Investment in capital assets	8,987,453
Restricted for capital projects (Note 7)	18,594
Unrestricted	1,903,788
<b>Total net position</b>	<b>\$ 10,909,835</b>

**Palos Verdes Library District**  
**Statement of Activities**  
**For the Year Ended June 30, 2017**

	<b>Governmental Activities</b>
<b>Expenses:</b>	
Library operations:	
Operations	\$ 8,733,666
Depreciation expense	892,532
Interest expense	5,187
<b>Total expenses</b>	<b>9,631,385</b>
<b>Program revenues:</b>	
Charges for services	559,559
Operating grants and contributions	316,315
<b>Total program revenues</b>	<b>875,874</b>
<b>Net program expenses</b>	<b>(8,755,511)</b>
<b>General revenues:</b>	
Property taxes	7,693,652
Investment earnings	14,049
<b>Total general revenues</b>	<b>7,707,701</b>
<b>Change in net position</b>	<b>(1,047,810)</b>
<b>Net position:</b>	
Beginning of year	11,957,645
End of year	<b>\$ 10,909,835</b>

**FUND FINANCIAL STATEMENTS**

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**Palos Verdes Library District**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2017**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS</u></b>			
<b>Assets:</b>			
Cash and cash equivalents	\$ 5,679,184	\$ -	\$ 5,679,184
Accrued interest receivable	8,391	-	8,391
Property taxes receivable	147,210	-	147,210
<b>Total assets</b>	<b><u>\$ 5,834,785</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 5,834,785</u></b>
<b><u>LIABILITIES AND FUND BALANCE</u></b>			
<b>Liabilities:</b>			
Accounts payable and accrued expenses	\$ 76,460	\$ -	\$ 76,460
Accrued salaries and benefits	217,585	-	217,585
<b>Total liabilities</b>	<b><u>294,045</u></b>	<b><u>-</u></b>	<b><u>294,045</u></b>
<b>Fund balance: (Note 9)</b>			
Restricted	18,594	-	18,594
Committed	236,178	-	236,178
Assigned	4,944,312	-	4,944,312
Unassigned	341,656	-	341,656
<b>Total fund balance</b>	<b><u>5,540,740</u></b>	<b><u>-</u></b>	<b><u>5,540,740</u></b>
<b>Total liabilities and fund balance</b>	<b><u>\$ 5,834,785</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 5,834,785</u></b>

**Palos Verdes Library District**  
**Reconciliation of the Balance Sheet of Governmental Funds to the**  
**Government-Wide Statement of Net Position of Governmental Activities**  
**June 30, 2017**

<b>Fund balance of governmental funds</b>	<u>\$ 5,540,740</u>
 Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet. However, the statement of net position includes those assets as capital assets.	8,987,453
Deferred outflows of resources used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet. However, the statement of net position includes those deferred outflows of resources.	1,585,347
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.	
Compensated absences	(236,178)
Net pension liability is not due and payable in the current period and therefore is not reported in the governmental funds.	(4,452,322)
Deferred inflows of resources used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet. However, the statement of net position includes those deferred inflows of resources.	<u>(515,205)</u>
<b>Total adjustments</b>	<u>5,369,095</u>
<b>Net position of governmental activities</b>	<u><u>\$ 10,909,835</u></u>

**Palos Verdes Library District**  
**Statement of Revenues, Expenditures, and Change in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2017**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
<b>Revenues:</b>			
Property taxes	\$ 7,667,121	\$ 26,531	\$ 7,693,652
Charges for services	559,559	-	559,559
Operating grants and contributions	316,315	-	316,315
Investment earnings	12,713	1,336	14,049
<b>Total revenues</b>	<u>8,555,708</u>	<u>27,867</u>	<u>8,583,575</u>
<b>Expenditures:</b>			
Library operations:			
Salaries and benefits	6,433,486	-	6,433,486
Materials and services	2,384,215	54,294	2,438,509
Capital outlay	212,084	-	212,084
Debt service:			
Principal	-	1,245,000	1,245,000
Interest	-	31,125	31,125
<b>Total expenditures</b>	<u>9,029,785</u>	<u>1,330,419</u>	<u>10,360,204</u>
<b>Revenues over (under) expenditures</b>	(474,077)	(1,302,552)	(1,776,629)
<b>Other financing sources (uses):</b>			
Operating transfers in (out)	60,374	(60,374)	-
<b>Total other financing sources (uses)</b>	<u>60,374</u>	<u>(60,374)</u>	<u>-</u>
<b>Net change in fund balance</b>	(413,703)	(1,362,926)	(1,776,629)
<b>Fund Balance:</b>			
Beginning of year	5,954,443	1,362,926	7,317,369
End of year	<u>\$ 5,540,740</u>	<u>\$ -</u>	<u>\$ 5,540,740</u>

**Palos Verdes Library District**  
**Reconciliation of the Statement of Revenues, Expenditures, and Change in**  
**Fund Balances of Governmental Funds to the Government-Wide Statement of Activities**  
**For the Year Ended June 30, 2017**

**Net Change in Fund Balance – Governmental Funds** \$ (1,776,629)

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

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

Capital outlay	212,084
Depreciation expense	(892,532)

Principal repayment of long-term debt is reported as an expenditure in governmental funds. However, principal repayments reduce liabilities in the statement of net position and do not result in expenses in the statement of activities.	1,245,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenses in governmental funds as follows:

Net change in compensated absences	19,531
Net change in net pension liability and related deferred resources	118,798
Net change in accrued interest	<u>25,938</u>
<b>Total adjustments</b>	<u><u>728,819</u></u>

**Change in Net Position of Governmental Activities** \$ (1,047,810)

**Palos Verdes Library District**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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**Note 1 – Reporting Entity and Summary of Significant Accounting Policies**

***Organization and Operations of the Reporting Entity***

The Palos Verdes Library District was formed on April 14, 1928, in accordance with the provisions of the California Education Code, Section 27501, which provides for the establishment of library districts. The governing body is an elected board of five trustees.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of U.S. GAAP. The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable for a component that has substantively the same governing body as the District's governing body, and additionally (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility for the activities of the component unit.

**Basis of Accounting and Measurement Focus**

The District's financial statements are prepared in conformity with U.S. GAAP. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States.

***Government-Wide Financial Statements***

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets and liabilities, including capital assets, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function.

The types of transactions reported as program revenues for the District are to be reported in three categories, if applicable: 1) charges for services, 2) operating grants and contributions, and, 3) capital grants and contributions. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Grant and contributions include revenues restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

In accordance with U.S. GAAP the Statement of Net Position reports separate sections for Deferred Outflows of Resources, and Deferred Inflows of Resources, when applicable.

**Deferred Outflows of Resources** represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.

**Deferred Inflows of Resources** represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as a revenue until that time.

**Palos Verdes Library District**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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**Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)**

**Basis of Accounting and Measurement Focus (Continued)**

***Fund Financial Statements***

These statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. Incorporated into these statements is a schedule to reconcile and explain the differences in net position as presented in these statements to the net position presented in the Government-wide Financial Statements. The District has presented its General Fund, as its major fund, in this statement to meet the qualifications of U.S. GAAP.

Governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period.

Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60-days after year-end) are recognized when due. The primary sources susceptible to accrual for the District are property taxes and assessments, interest earnings, investment revenue and operating and capital grant revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, exceptions to this rule include principal and interest on debt, which are recognized when due.

The District reports the following major funds:

***Governmental Funds:***

***General Fund*** – is a government’s primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund when necessary.

***Debt Service Fund*** – is a governmental fund that accounts for all resources provided to pay for the interest and principal on the District’s general purpose debt.

***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in District net position during the reporting period. Actual results could differ from those estimates.

**Palos Verdes Library District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)**

***Investments***

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

U.S. GAAP, defines fair value, establishes a framework for measuring fair value and establishes disclosures about fair value measurement. Investments, unless otherwise specified, recorded at fair value in the Statements of Net Position, are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Levels of inputs are as follows:

Level 1 – Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.

Level 2 – Inputs, other than quoted prices included in Level 1 that is observable for assets or liabilities through corroboration with market data at the measurement date.

Level 3 – Unobservable inputs that reflect management’s best estimate of what market participants would use in pricing the assets or liabilities at the measurement date.

***Property Taxes***

Property taxes attach as an enforceable lien on property as of January 1, each year. Secured property taxes are levied on July 1 and are payable in two installments, on December 10 and April 10. The County of Los Angeles Assessor’s Office assesses all real and personal property within the County each year. The County of Los Angeles Tax Collector’s Office bills and collects the District’s share of property taxes. The County of Los Angeles Treasurer’s Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes receivable at year-end are related to property taxes collected by the County of Los Angeles, which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

***Prepaid Items***

Certain payments to vendors reflects costs or deposits applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

**Palos Verdes Library District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)**

***Capital Assets***

Capital assets are recorded in the government-wide financial statements. Included in capital assets are land, building, building improvements, equipment and furniture and fixtures. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated assets are recorded at estimated fair market value at the date of donation. Capital outlay is recorded as expenditures of the General Fund and as assets in the government-wide financial statements to the extent the District’s capitalization threshold is met. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Asset Class	Useful Lives
Buildings	20 years
Furniture and equipment	3-5 years

***Compensated Absences***

It’s the District policy to allow vacation time between 10 to 20 working days based on completed years of service. Vacation time may be accumulated each pay period beginning with the date of hire for salaried employees. Vacation time may not be used until after the employee successfully completes the first 6 months of their introductory period. It’s the District policy that vacation shall be used annually. The District’s maximum accrual is 240 hours, unless other approved by management.

***Pensions***

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 pension of the District’s pension plans and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by the plans (Note 9). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

The following timeframes are used for pension reporting:

<b><u>CalPERS</u></b>	
Valuation date	June 30, 2015
Measurement date	June 30, 2016
Measurement period	July 1, 2015 to June 30, 2016

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retirees) as of the beginning of the measurement period.

**Palos Verdes Library District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)**

***Net Position***

The financial statements utilize a net position presentation. Net position is categorized as follows:

**Investment in Capital Assets** – This component of net position consists of capital assets, net of accumulated depreciation.

**Restricted** – This component of net position consists of constraints placed on assets reduced by liabilities and deferred inflows of resources use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

**Unrestricted** – This component of net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted component of net position.

***Fund Balance***

The financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the District is bound to honor constraints on how specific amounts can be spent.

**Nonspendable** – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.

**Restricted** – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions enabling legislation.

**Committed** – amounts that can only be used for specific purposes determined by formal action of the District’s highest level of decision-making authority (the Board of Trustees) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.

**Assigned** – amounts that are constrained by the District’s intent to be used for specific purposes. The intent can be established at either the highest level of decision-making, or by a body or an official designated for that purpose. This is also the classification for residual funds in the District’s special revenue funds.

**Unassigned** – the residual classification for the District’s general fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The Board of Trustees established, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, followed by the unrestricted, committed, assigned and unassigned resources as they are needed.

**Palos Verdes Library District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)**

***Fund Balance Policy***

The District believes that sound financial management principles require that sufficient funds be retained by the District to provide a stable financial base at all times. To retain this stable financial base, the District needs to maintain an unrestricted fund balance in its funds sufficient to fund cash flows of the District and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned and unassigned fund balances are considered unrestricted.

The purpose of the District's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

***Budgetary Policies***

Prior to June 30th each fiscal year, the District adopts an annual appropriated budget for planning, control, and evaluation purposes. The budget includes proposed expenses and the means of financing them. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. The Board approves total budgeted appropriations and any amendments to the appropriations throughout the year. Actual expenses may not exceed budgeted appropriations, except by a 2/3 vote of the Board. Formal budgetary integration is employed as a management control device during the year. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

**Palos Verdes Library District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 2 – Cash and Investments**

Cash and investments at June 30, 2017, consist of the following:

Description	Balance
Cash on hand	\$ 1,546
Demand deposits with financial institutions	1,220,947
Investments	4,456,691
Total cash and investments	\$ 5,679,184

***Demand Deposits***

At June 30, 2017, the carrying amount of the District’s demand deposits was \$1,220,947 and the financial institution balance was \$1,245,203. The \$24,256 net difference represents outstanding checks, deposits-in-transit and/or other reconciling items.

The California Government Code requires California banks and savings and loan associations to secure an entity's deposits by pledging government securities with a value of 110% of an entity's deposits. California law also allows financial institutions to secure entity deposits by pledging first trust deed mortgage notes having a value of 150% of an entity's total deposits. The entity's Treasurer may waive the collateral requirement for deposits which are fully insured up to \$250,000 by the FDIC.

The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized agent of depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an agent of depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an agent of depositor has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California agents of depository are considered to be held for, and in the name of, the local government.

***Custodial Credit Risk***

The 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 deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District’s investment policy requires that collateral be held by an independent third party with whom the District has a current custodial agreement.

The custodial credit risk for *investments* is the risk that in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The District’s investment policy requires that all security transactions are conducted on a delivery-versus-payment (DVP) method and that all securities are held by a qualified, third-party custodian, as evidenced by safekeeping receipts. The trust department of the District’s bank may act as third-party custodian, provided that the custodian agreement is separate from the banking agreement. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government’s indirect investment in securities through the use of mutual funds or government investment pools (such as LACTIP).

As of June 30, 2017 none of the District’s deposits were exposed to disclosable custodial credit risk.

**Palos Verdes Library District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 2 – Cash and Investments (Continued)**

**Investments**

Investments as of June 30, 2017 consisted of the following:

<u>Investments</u>	<u>Measurement Input</u>	<u>Credit Rating</u>	<u>Fair Value June 30, 2016</u>	<u>Maturity 12 Months or Less</u>
<b>External Investment Pools:</b>				
Los Angeles County Treasury Investment Pool (LACTIP)	Level 2	AAA/bf	\$ 4,456,691	\$ 4,456,691
<b>Total investments</b>			<u>\$ 4,456,691</u>	<u>\$ 4,456,691</u>

***Authorized Investments and Investment Policy***

The District has adopted an investment policy directing the Fiscal Officer to deposit funds in financial institutions.

Investments are to be made in the following areas:

**External Investment Pools:**

Los Angeles County Treasury Investment Pool (LACTIP)

***Los Angeles County Treasury Investment Pool***

The District is a voluntary participant in the Los Angeles County Investment Pool pursuant to Government Code Section 53694. The cash flow needs of participants are monitored daily to ensure that sufficient liquidity is maintained to meet the needs of those participants. At the time deposits are made, the Los Angeles County Investment Pool's Treasurer may require the depositing entity to provide annual cash flow projections or an anticipated withdrawal schedule for deposits in excess of \$1 million. Projections are performed no less than semi-annually. In accordance with Government Code Section 27136, all request for withdrawal of funds for the purpose of investing or deposits the funds elsewhere shall be evaluated to ensure the proposed withdrawal will not adversely affect the principal deposits of the other participants. Pool detail may be obtained from the County of Los Angeles Treasurer's Office – 225 N. Hill Street – Los Angeles, CA 90012 or the Treasurer and Tax Collector's office website at [www.ttc.lacounty.gov](http://www.ttc.lacounty.gov).

The Los Angeles County Treasurer has indicated to the District that as of June 30, 2017 the value of the County's portfolio approximated \$29.556 billion and the portfolio holds no derivative products. The District's investment with the Los Angeles County Treasurer's Office as of June 30, 2017 was \$4,456,691. LACTIP's fair value factor of 0.99405 as of June 30, 2017 was used to calculate the fair value of the investments in the LACTIP.

**Fair Value Measurement Input**

The District categorizes its fair value measurement inputs within the fair value hierarchy established by generally accepted accounting principles. The District has presented its measurement inputs as noted in the table above.

**Palos Verdes Library District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 2 – Cash and Investments (Continued)**

**Credit Risk**

Credit risk is the risk that an issuer of an investment will 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. As of June 30, 2017, the District's investment in the LACTIP was rated by Standard & Poor's as AA+/S1 as noted in the table above.

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the fair values of investments with longer maturities have greater sensitivity to changes in market interest rates. The District's investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates. The District has elected to use the segmented time distribution method of disclosure for the maturities of its investments as related to interest rate risk as noted in the table above.

**Concentration of Credit Risk**

The District's investment policy contains no limitations on the amount that can be invested in any one governmental agency or non-governmental issuer beyond that stipulated by the California Government Code. There were no investments in any one governmental or non-governmental issuer that represented 5% or more of the District's total investments except for those in the LACTIP.

**Note 3 – Capital Assets**

At June 30, 2017, the capital assets balances for the District are as follows:

	<b>Balance July 1, 2016</b>	<b>Additions/ Transfers</b>	<b>Deletions/ Transfers</b>	<b>Balance June 30, 2017</b>
Non-depreciable capital assets:				
Land	\$ 392,194	\$ -	\$ -	\$ 392,194
Artwork	360,500	-	-	360,500
Construction-in-process	-	102,707	-	102,707
Total non-depreciable capital assets	<u>752,694</u>	<u>102,707</u>	<u>-</u>	<u>855,401</u>
Depreciable capital assets:				
Library buildings	29,040,423	-	-	29,040,423
Furniture and equipment	2,139,722	109,377	-	2,249,099
Total depreciable capital assets	<u>31,180,145</u>	<u>109,377</u>	<u>-</u>	<u>31,289,522</u>
Accumulated depreciation:				
Library buildings	(20,336,211)	(790,914)	-	(21,127,125)
Furniture and equipment	(1,928,727)	(101,618)	-	(2,030,345)
Total accumulated depreciation	<u>(22,264,938)</u>	<u>(892,532)</u>	<u>-</u>	<u>(23,157,470)</u>
Total depreciable capital assets, net	<u>8,915,207</u>	<u>(783,155)</u>	<u>-</u>	<u>8,132,052</u>
Total capital assets, net	<u>\$ 9,667,901</u>	<u>\$ (680,448)</u>	<u>\$ -</u>	<u>\$ 8,987,453</u>

**Palos Verdes Library District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 4 – Bonds Payable**

Changes in bonds payable for the year ended June 30, 2017 were as follows:

<u>Long-Term Debt</u>	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2017</u>
Bonds payable	\$ 1,245,000	\$ -	\$ (1,245,000)	\$ -

On May 1, 1998, the District issued General Obligation Refunding Bonds, Series 1998 (Refunding Bonds) in the amount of \$14,230,000 to advance refund the 1991 General Obligation Bonds (Original Bonds) maturing on and after August 1, 2002 in the amount of \$12,505,000. Interest rates on the Refunding Bonds vary from 3.70% to 5.00% per annum, payable semi-annually on August 1, 1998 to August 1, 2017. The advance refunding met the requirements of an in-substance defeasance of the Original Bonds maturing after 2002 in the amount of \$12,505,000. Therefore, the liability for those bonds was removed from the District's government-wide financial statements. The remaining refunded bond obligation was paid off during the year ended June 30, 2017.

**Note 5 – Compensated Absences**

At June 30, 2017, the compensated absence balance was as follows:

<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</u>	<u>Current Portion</u>	<u>Non-current Portion</u>
\$ 255,709	\$ 143,566	\$ (163,097)	\$ 236,178	\$ 118,089	\$ 118,089

**Palos Verdes Library District**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**Note 6 – Net Pension Liability and Defined Benefit Pension Plan**

**Summary**

Type of Account	Balance as of July 1, 2016	Additions	Deletions	Balance as of June 30, 2017
<b>Deferred Outflows of Resources:</b>				
Pension contributions made after the measurement date:				
CalPERS – Miscellaneous Plan	\$ 436,015	\$ 692,046	\$ (436,015)	\$ 692,046
Adjustment due to differences in proportions:				
CalPERS – Miscellaneous Plan	-	160,554	(43,393)	117,161
Differences between projected and actual earnings on pension plan investments:				
CalPERS – Miscellaneous Plan	-	764,177	-	764,177
Differences between expected and actual experience:				
CalPERS – Miscellaneous Plan	25,406	-	(13,443)	11,963
<b>Total deferred outflows of resources</b>	<b>\$ 461,421</b>	<b>\$ 1,616,777</b>	<b>\$ (492,851)</b>	<b>\$ 1,585,347</b>
<b>Net Pension Liability:</b>				
CalPERS – Miscellaneous Plan	<b>\$ 3,218,888</b>	<b>\$ 1,669,449</b>	<b>\$ (436,015)</b>	<b>\$ 4,452,322</b>
<b>Deferred Inflows of Resources:</b>				
Differences between projected and actual earnings on pension plan investments:				
CalPERS – Miscellaneous Plan	\$ 120,495	\$ -	\$ (120,495)	\$ -
Difference between actual and proportionate share of employer contributions:				
CalPERS – Miscellaneous Plan	142,954	174,524	(104,496)	212,982
Adjustment due to differences in proportions:				
CalPERS – Miscellaneous Plan	239,702	-	(93,534)	146,168
Changes in assumptions:				
CalPERS – Miscellaneous Plan	240,360	-	(84,305)	156,055
<b>Total deferred inflows of resources</b>	<b>\$ 743,511</b>	<b>\$ 174,524</b>	<b>\$ (402,830)</b>	<b>\$ 515,205</b>

**General Information about the Pension Plans**

The Plans Description Schedule

The District has engaged with CalPERS to administer the following pension plans for its employees (members):

	<b>Miscellaneous Plans</b>	
	<b>Classic Tier 1</b>	<b>PEPRA Tier 2</b>
Hire date	Prior to December 31, 2012	On or after January 1, 2013
Benefit formula	2.0% @ 55	2.0 @ 62
Benefit vesting schedule	5-years or service	5-years or service
Benefits payments	monthly for life	monthly for life
Retirement age	50 - 67 & up	52 - 67 & up
Monthly benefits, as a % of eligible compensation	1.0% to 2.0%	1.0% to 2.0%
Required member contribution rates	7.000%	6.500%
Required employer contribution rates	8.880%	6.555%

**Palos Verdes Library District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 6 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

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

*Plan Description*

The District contributes to the California Public Employees’ Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A full description of the pension plan, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the June 30, 2015 Annual Actuarial Valuation Report. This report and CalPERS’ audited financial statements are publicly available reports that can be obtained at CalPERS’ website under Forms and Publications.

*Members Covered by Benefit Terms*

At June 30, 2016 (Measurement Date), the following members were covered by the benefit terms:

<u>Plan Members</u>	<u>Miscellaneous Plans</u>		<u>Total</u>
	<u>Classic</u>	<u>PEPRA</u>	
	<u>Tier 1</u>	<u>Tier 2</u>	
Active members	39	10	49
Transferred and terminated members	30	1	31
Retired members and beneficiaries	69	-	69
<b>Total plan members</b>	<b>138</b>	<b>11</b>	<b>149</b>

*Benefits Provided*

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. A Classic CalPERS Miscellaneous member becomes eligible for service retirement upon attainment of age 55 with at least 5 years of credited service. Public Employees' Pension Reform Act (PEPRA) Miscellaneous members become eligible for service retirement upon attainment of age 62 with at least 5 years of service. The service retirement benefit is a monthly allowance equal to the product of the benefit factor, years of service, and final compensation. The final compensation is the monthly average of the member's highest 12 months for Classic and 36 months for PEPRA of full-time equivalent monthly pay. Retirement benefits for Classic Miscellaneous members are calculated as 1.0% to 2.0% of the average final 12 months compensation based on age at time of retirement. Retirement benefits for PEPRA Miscellaneous members are calculated as 1.0% to 2.0% of the average final 36 months compensation based on age at time of retirement.

Participant members are eligible for non-industrial disability retirement if they become disabled and have at least 5 years of credited service. There is no special age requirement. The standard non-industrial disability retirement benefit is a monthly allowance equal to 1.8% of final compensation, multiplied by service. Industrial disability benefits are not offered to miscellaneous employees.

A member's beneficiary may receive the basic death benefit if the member dies while actively employed. The member must be actively employed with the District to be eligible for this benefit. A member's survivor who is eligible for any other pre-retirement death benefit may choose to receive that death benefit instead of this basic death benefit. The basic death benefit is a lump sum in the amount of the members’ accumulated contributions, where interest is currently credited at 7.5 percent per year, plus a lump sum in the amount of one month's salary for each completed year of current service, up to a maximum of six months' salary. For purposes of this benefit, one month's salary is defined as the member's average monthly full-time rate of compensation during the 12 months preceding death.

**Palos Verdes Library District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 6 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

*General Information about the Pension Plans (Continued)*

Benefits Provided (Continued)

Upon the death of a retiree, a one-time lump sum payment of \$500 will be made to the retiree's designated survivor(s), or to the retiree's estate.

Benefit terms provide for annual cost-of-living adjustments to each member's retirement allowance. Beginning the second calendar year after the year of retirement, retirement and survivor allowances will be annually adjusted on a compound basis by 3%.

Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers will be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The public agency cost-sharing plans covered by the Miscellaneous risk pool, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of members. For the measurement period ended June 30, 2016 (Measurement Date), the active member contribution rate for the Classic Miscellaneous Plan and the PEPRA Miscellaneous Plan are based above in the Plans Description schedule.

Contributions for the year ended June 30, 2017 were as follows:

<u>Contribution Type</u>	<u>Miscellaneous Plans</u>		<u>Total</u>
	<u>Classic Tier 1</u>	<u>PEPRA Tier 2</u>	
Contributions – employer	\$ 654,533	\$ 37,513	\$ 692,046
Contributions – members	232,722	35,768	268,490
<b>Total contributions</b>	<b>\$ 887,255</b>	<b>\$ 73,281</b>	<b>\$ 960,536</b>

**Palos Verdes Library District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 6 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

***Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)***

*Actuarial Methods and Assumptions Used to Determine the Total Pension Liability*

For the measurement period ended June 30, 2016 (Measurement Date), the total pension liability was determined by rolling forward the June 30, 2015 total pension liability. Both the June 30, 2015 and the June 30, 2016 total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirement of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds.
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

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.

*Discount Rate*

The discount rate used to measure the total pension liability was 7.65 percent. The long-term expected rate of return on the pension plan investments was determined in which best-estimate ranges of expected future real rates are developed for each major asset class. In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were considered. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years.

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

The table below reflects 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. These geometric rates of return are net of administrative expenses.

On December 16, 2016, the CalPERS Board of Administration (the "Board") approved lowering the CalPERS discount rate assumption, the long-term rate of return, from 7.50 percent to the rates below over the next three years. This will increase the City's employer contribution costs beginning in fiscal year 2018-19. The phase in of the discount rate change approved by the Board for the next three fiscal years is as follows.

**Palos Verdes Library District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 6 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

*Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)*

Discount Rate (Continued)

The phase in of the discount rate change approved by the Board for the next three fiscal years is as follows.

Valuation Date	Required Contribution Rate	Discount Rate
June 30, 2016	2018-19	7.38%
June 30, 2017	2019-20	7.25%
June 30, 2018	2020-21	7.00%

Investment Type	New Strategic Allocation	Real Return Years 1 - 10 <sup>1</sup>	Real Return Years 11+ <sup>2</sup>
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%
	<u>100.00%</u>		

<sup>1</sup> An expected inflation rate-of-return of 2.5% is used for years 1 – 10.

<sup>2</sup> An expected inflation rate-of-return of 3.0% is used for years 11+.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.65%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65%) or 1 percentage-point higher (8.65%) than the current rate:

Plan Type	Plan's Net Pension Liability/(Asset)		
	Discount Rate - 1% 6.65%	Current Discount Rate 7.650%	Discount Rate + 1% 8.65%
CalPERS – Miscellaneous Plan	\$ 7,259,027	\$ 4,452,322	\$ 2,132,719

Pension Plan Fiduciary Net Position

Detail information about the plan's fiduciary net position is available in the separately issued CalPERS financial report and can be obtained from CalPERS' website under Forms and Publications.

**Palos Verdes Library District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 6 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

*Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)*

Proportionate Share of Net Pension Liability and Pension Expense

The following table shows the plan’s proportionate share of the risk pool collective net pension liability over the measurement period for the Miscellaneous Plan:

<u>Plan Type and Balance Descriptions</u>	<u>Plan Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Change in Plan Net Pension Liability</u>
<b>CalPERS – Miscellaneous Plan:</b>			
Balance as of June 30, 2015 (Valuation Date)	\$ 19,730,087	\$ 16,511,199	\$ 3,218,888
Balance as of June 30, 2016 (Measurement Date)	\$ 20,847,368	\$ 16,395,046	\$ 4,452,322
<b>Change in Plan Net Pension Liability</b>	<u>\$ 1,117,281</u>	<u>\$ (116,153)</u>	<u>\$ 1,233,434</u>

The following is the approach established by the plan actuary to allocate the net pension liability and pension expense to the individual employers within the risk pool.

- (1) In determining a cost-sharing plan’s proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2015). The risk pool’s fiduciary net position (“FNP”) subtracted from its total pension liability (TPL) determines the net pension liability (NPL) at the valuation date.
- (2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2016). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool’s FNP at the measurement date denotes the aggregate risk pool’s FNP at June 30, 2016 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2015-16 fiscal year).
- (3) The individual plan’s TPL, FNP and NPL are also calculated at the valuation date.
- (4) Two ratios are created by dividing the plan’s individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool’s total TPL and FNP, respectively.
- (5) The plan’s TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan’s FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.
- (6) The plan’s NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5).

**Palos Verdes Library District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 6 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

*Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)*

*Proportionate Share of Net Pension Liability and Pension Expense (Continued)*

The District's proportionate share of the net pension liability was as follows:

	<u>Percentage Share of Risk Pool</u>		<b>Change Increase/ (Decrease)</b>
	<b>Fiscal Year Ending</b>	<b>Fiscal Year Ending</b>	
	<b>June 30, 2017</b>	<b>June 30, 2016</b>	
Measurement Date	June 30, 2016	June 30, 2015	
Percentage of Risk Pool Net Pension Liability	0.144800%	0.117329%	0.027471%
Percentage of Plan (PERF C) Net Pension Liability	0.051454%	0.046896%	0.004558%

For the year ended June 30, 2017, the District recognized pension expense/ (credit) in the amounts of \$573,248 for the CalPERS Miscellaneous Plan.

The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized over 5-years straight line. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period.

The EARSL for PERF C for the measurement date ending June 30, 2016 is 3.7 years, which was obtained by dividing the total service years of 475,689 (the sum of remaining service lifetimes of the active employees) by 127,009 (the total number of participants: active, inactive, and retired) in PERF C. Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

**Palos Verdes Library District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 6 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

*Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)*

*Deferred Outflows of Resources and Deferred Inflows of Resources*

At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Account Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions made after the measurement date	\$ 692,046	\$ -
Difference between actual and proportionate share of employer contributions	-	212,982
Adjustment due to differences in proportions	-	-
Differences between expected and actual experience	11,963	-
Differences between projected and actual earnings on pension plan investments	764,177	-
Adjustment due to differences in proportions	117,161	146,168
Changes in assumptions	-	156,055
<b>Total Deferred Outflows/(Inflows) of Resources</b>	<u>\$ 1,585,347</u>	<u>\$ 515,205</u>

The District will recognize \$692,046 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date as a reduction of the net pension liability in the fiscal year ended June 30, 2017, as noted above.

*Amortization of Deferred Outflows of Resources and Deferred Inflows of Resources*

Other remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized to pension expense in future periods as follows:

<u>Amortization Period Fiscal Year Ended June 30</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2017	\$ (105,153)
2018	(55,403)
2019	340,722
2020	197,930
<b>Total</b>	<u>\$ 378,096</u>

**Palos Verdes Library District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

**Note 7 – Restricted Net Position**

Restricted net position as of June 30, 2017 consisted of the following:

<b>Restricted for capital projects:</b>	
Malaga Cove Library	\$ 9,934
Miraleste Library	<u>8,660</u>
<b>Total restricted for capital projects</b>	<u><u>\$ 18,594</u></u>

**Note 8 – Fund Balance**

Fund balances classifications as of June 30, 2017 were as follows:

Description	General Fund	Debt Service Fund	Total Governmental Funds
<b>Restricted:</b>			
Malaga Cove Library	9,934	-	9,934
Miraleste Library	<u>8,660</u>	<u>-</u>	<u>8,660</u>
<b>Total assigned</b>	<u>18,594</u>	<u>-</u>	<u>18,594</u>
<b>Committed:</b>			
Compensated absences	<u>236,178</u>	<u>-</u>	<u>236,178</u>
<b>Assigned:</b>			
Minimum balance requirement	4,212,350	-	4,212,350
Emergency 5% of operating contingency	438,710	-	438,710
Capital projects	<u>293,252</u>	<u>-</u>	<u>293,252</u>
<b>Total assigned</b>	<u>4,944,312</u>	<u>-</u>	<u>4,944,312</u>
<b>Unassigned</b>	<u>341,656</u>	<u>-</u>	<u>341,656</u>
<b>Total fund balances</b>	<u><u>\$ 5,540,740</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,540,740</u></u>

**Note 9 – Deferred Compensation Savings Plan**

For the benefit of its employees, the District participates in two 457 Deferred Compensation Programs (Programs). The purpose of these Programs is to provide deferred compensation for public employees that elect to participate in the Programs. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors.

The District has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not presented in the accompanying financial statements.

**Palos Verdes Library District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2017**

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**Note 10 – Risk Management**

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District, as a member of the Special District Risk Management Authority (SDRMA), has purchased various insurance policies to manage the potential liabilities that may occur from the previously named sources. SDRMA's purpose is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2017, the District participated in the liability and property programs of the SDRMA as follows:

- General and auto liability, public officials and employees' errors and omissions and employment practices liability: Total risk financing limits of \$2.5 million, combined single limit at \$2.5 million per occurrence, subject to the following deductibles – \$500/\$1,000 per occurrence for third party general liability property damage – 50% co-insurance of cost expended by SDRMA, in excess of \$10,000 up to \$50,000, per occurrence, for employment related claims. However, 100% of the obligation will be waived if certain criteria are met.
- Employee dishonesty coverage up to \$400,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverages.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$1 billion per occurrence, subject to a \$2,000 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to a \$1,000 deductible.
- Public officials personal liability up to \$500,000 each occurrence, with an annual aggregate of \$500,000 per each elected/appointed official to which this coverage applies, subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage, deductible of \$500 per claim.

The District maintains workers' compensation coverage and employer's liability coverage in accordance with the statutory requirements of the State of California. Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2017, 2016 and 2015. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2017, 2016 and 2015.

**Note 11 – Commitments and Contingencies**

***Grant Awards***

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

***Litigation***

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**

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**Palos Verdes Library District**  
**Required Supplementary Information (Unaudited)**  
**Schedule of the District's Proportionate Share of the Plan's Net Pension Liability**  
**For the Year Ended June 30, 2017**

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**Last Ten Fiscal Years**

**California Public Employees' Retirement System (CalPERS) Miscellaneous Plan**

<b>Measurement Date:</b>	<b><u>June 30, 2016<sup>1</sup></u></b>	<b><u>June 30, 2015<sup>1</sup></u></b>	<b><u>June 30, 2014<sup>1</sup></u></b>
District's Proportion of the Net Pension Liability	0.051454%	0.046896%	0.049863%
District's Proportionate Share of the Net Pension Liability	\$ 4,452,322	\$ 3,218,888	\$ 3,102,720
District's Covered-Employee Payroll	\$ 3,579,441	\$ 3,049,823	\$ 2,960,993
District's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	<u>124.39%</u>	<u>105.54%</u>	<u>104.79%</u>
Liability	<u>74.06%</u>	<u>83.68%</u>	<u>83.07%</u>

<sup>1</sup> Historical information is presented only for measurement periods for which GASB No. 68 is applicable.

**Palos Verdes Library District**  
**Required Supplementary Information (Unaudited)**  
**Schedule of the District's Contributions to the Pension Plan**  
**For the Year Ended June 30, 2017**

**Last Ten Fiscal Years**

**California Public Employees' Retirement System (CalPERS) Miscellaneous Plan**

<b>Fiscal Year:</b>	<u>2016-17<sup>1</sup></u>	<u>2015-16<sup>1</sup></u>	<u>2014-15<sup>1</sup></u>	<u>2013-14<sup>1</sup></u>
Actuarially Determined Contribution <sup>2</sup>	\$ 492,046	\$ 436,015	\$ 420,029	\$ 331,093
Contribution in Relation to the Actuarially Determined Contribution <sup>2</sup>	<u>(692,046)</u>	<u>(436,015)</u>	<u>(420,029)</u>	<u>(331,093)</u>
Contribution Deficiency (Excess)	<u>\$ (200,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered-Employee Payroll	<u>\$ 3,951,767</u>	<u>\$ 3,579,441</u>	<u>\$ 3,049,823</u>	<u>\$ 2,960,993</u>
Contributions as a Percentage of Covered-Employee Payroll	<u>17.51%</u>	<u>12.18%</u>	<u>13.77%</u>	<u>11.18%</u>

<sup>1</sup> Historical information is presented only for measurement periods for which GASB No. 68 is applicable.

<sup>2</sup> Employers are assumed to make contributions equal to the actuarially determined contributions (which is the actuarially determined contribution). However, some employers may choose to make additional contributions towards their side-fund or their unfunded liability. Employer contributions for such plan exceed the actuarial determined contributions. CalPERS has determined that employer obligations referred to as *side-funds* are not considered separately financed specific liabilities.

<sup>3</sup> Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB No. 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

**Notes to the Schedule:**

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes)