

**CITY OF PACIFIC GROVE
CALIFORNIA**

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

YEAR ENDED JUNE 30, 2007



Vargas and Company
certified public accountants

CITY OF PACIFIC GROVE, CALIFORNIA

300 Forest Avenue, Pacific Grove, California 93950

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Year Ended June 30, 2007

Prepared by the Finance Department

**James L. Becklenberg
Director of Management and Budget**



CITY OF PACIFIC GROVE, CALIFORNIA
Comprehensive Annual Financial Report
Year Ended June 30, 2007

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INTRODUCTORY SECTION





CITY OF PACIFIC GROVE

300 FOREST AVENUE
PACIFIC GROVE, CALIFORNIA 93950
TELEPHONE (831) 648-3100 • FAX (831) 375-9863

March 19, 2008

To the Honorable Mayor, Members of the City Council,
and Citizens of the City of Pacific Grove, California

The Basic Financial Report for the City of Pacific Grove, California, for the fiscal year ended June 30, 2007, is hereby submitted. The report consists of management's representations concerning the City's financial position as of June 30, 2007. Consequently, management assumes full responsibility for the information presented in the report.

The City has contracted with Vargas and Company, a firm of licensed certified public accountants, to audit the City of Pacific Grove's financial statements. The goal of the independent audit is to provide reasonable assurance about whether the basic financial statements for the fiscal year ended June 30, 2007 are free from material misstatement. **The enclosed auditors' opinion indicates that the financial statements are presented fairly, subject to specific audit findings regarding under-funded internal service funds and improvements to capital asset accounting.** It is a "qualified" opinion. While not optimal, as an "unqualified" opinion would be, the opinion marks significant improvement from the prior year when the auditors issued an "adverse" opinion, which indicated that they could not verify the fair representation of the statements.

Profile of the Government

The City of Pacific Grove, California is a primarily residential community located at the tip of the Monterey Peninsula on the Central California coast. The community was founded as a Methodist Church summer retreat, and was incorporated as a city on July 16, 1889. It was granted a charter on April 22, 1927. The city government operates with a Council-Manager form of government. The seven-member City Council appoints a City Manager, who is the administrative head of the municipal government. City amenities include a library, natural history museum, a community center, a youth center, a senior center, an 18-hole golf course, a cemetery, a butterfly habitat preserve, five miles of shoreline, and numerous parks.

Factors affecting the Basic Financial Report

FY 2006/07 marked the beginning of rebuilding the City's financial accountability systems following FY 2005/06, a period during which major accounting and budget deficiencies were identified and auditors issued an adverse opinion of the City's financial statements. The adverse opinion was consistent with other reports to the City Council and the community about the City's financial condition and operations over the prior 18 months. During this period, the City contracted for the services of expert auditors and accountants to clarify the City's financial condition and recommend improved financial management practices. The consultants' reports informed strategies currently underway to stabilize the City's financial condition, eliminate unfunded liabilities, and secure

professional and qualified staff to ensure disciplined accounting and budgeting systems for the future. Specifically, the City has taken the following significant steps to improve the City's financial condition and operations:

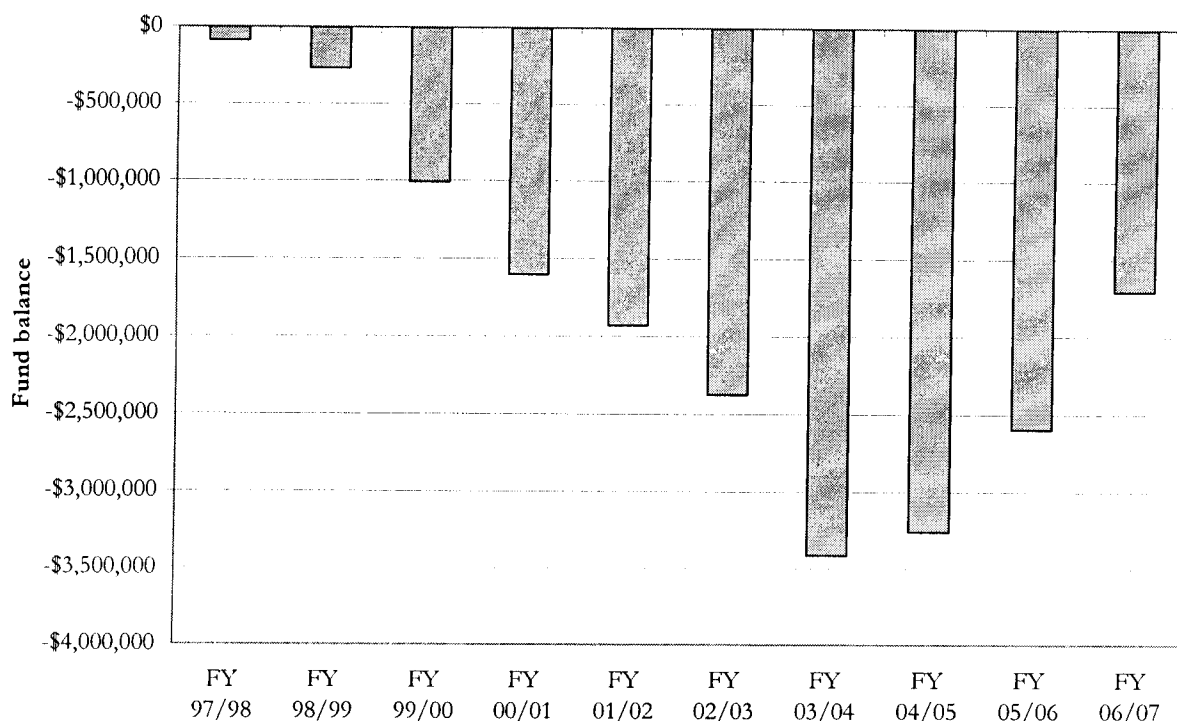
- 1) The City Council established an ad hoc Budget and Finance Committee, comprised of City Council members, Certified Public Accountants, and interested citizens, to work closely with staff to improve the quality of budget information presented to the City Council. In the Spring 2006, the committee crafted budget policies that were ultimately adopted by the City Council.
- 2) The City Council authorized a new Director of Management and Budget position for inclusion in the FY 2006/07 budget. The purpose of the position is to develop strategies to address budget problems, such as those raised by the Harvey Rose report, develop clear information for City Council and community discussions about long-term solutions, and lead operational improvement and performance measurement initiatives.
- 3) Without increasing the budget, the City Council authorized a new Senior Accountant position to improve the day-to-day accounting operations. Although this employee began work with the City in June 2007, as FY 2006/07 was concluding, he is largely responsible for the General Ledger improvements, upon which the improved auditor's opinion is based.
- 4) The City issued Pension Obligation Bonds in FY 2006/07 to refinance the City's unfunded pension liability at a lower cost. The City Council transferred the savings from the bonds to reduce the unfunded liabilities in the Worker's Compensation and Liability internal service funds.
- 5) The City implemented a "positive pay" program with the bank, which will automate check reconciliation and greatly enhance the cash reconciliation process.

Addressing auditor's FY 2006/07 concerns

The auditor's qualified their opinion of the City's financial statements, based upon two findings: under-funded internal service funds, and an inaccurate listing of capital assets. These concerns are the subject of improvement initiatives underway in earnest since a full-time accountant in June 2007.

- *Under-funded internal service funds:* The City maintains internal service funds for managing costs for liability insurance, workers compensation claims, and employee health benefits. As the chart below shows, these funds, when taken in aggregate, have carried negative fund balances (indicating unfunded liabilities) for at least the last 10 years.

Internal Services Funds (Aggregated) Reducing Unfunded Liabilities



These balances resulted from insufficient annual transfers from operating funds to pay current and future costs of workers compensation and liability claims. The chart also illustrates the City's progress toward reducing the unfunded liability. During FY 2006/07 the City's costs for these services totaled \$1.1 million. The City made sufficient transfers from the General Fund to meet these obligations, plus an additional \$0.9 million to help reduce the unfunded liability. Staff is exploring alternative insurance approaches that could reduce these liabilities considerably.

These unfunded liabilities are part of the City's larger challenge to ensure that services are financially sustainable in the long-term. During FY 2007/08 the City Council made major reductions in staffing costs citywide for the purpose of restoring reserves and reducing unfunded liabilities. These objectives are paramount for the City Council in discussions about future year's budgets.

- Inaccurate listing of capital assets:* For several years, auditors have highlighted the City's problems with the capital asset sub-ledger. Reconciling the sub-ledger with the General Ledger was a significant accomplishment for the FY 2006/07 financial statements. In the auditors' review of the statements, they discovered that capital leases recorded in prior years had been recorded inappropriately. They will be corrected for the financial statements to be issued for the fiscal year ending June 30, 2008. In addition, GASB Statement 34 requires a comprehensive inventory of infrastructure assets. This work will be completed in coming months. Please refer to the Capital Asset and Debt Administration section in the Management Discussion and Analysis for more information on capital assets.

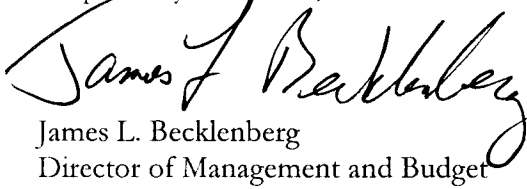
Improvements are underway, but they require time and training to optimize. FY 2007/08 will be the first complete fiscal year with new financial leadership in place. The audit finding and reports to

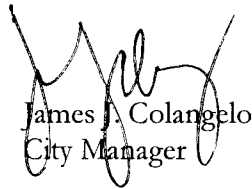
management provide a roadmap for future improvements. Most importantly, the City Council has made difficult, yet necessary budget reduction decisions to set the City on the path toward restored financial health. While these actions will help stem further financial losses in FY 2007/08, the full fruits of their labor will not be realized until FY 2008/09.

Acknowledgements

The preparation of this report would not have been possible without the efficient and dedicated services of the Finance Department staff and cooperation of all city departments. We would like to express our appreciation to the City Council for its unyielding support and demand for improvements in financial information quality and transparency.

Respectfully submitted,


James L. Becklenberg
Director of Management and Budget


James J. Colangelo
City Manager

professional and qualified staff to ensure disciplined accounting and budgeting systems for the future. Specifically, the City has taken the following significant steps to improve the City's financial condition and operations:

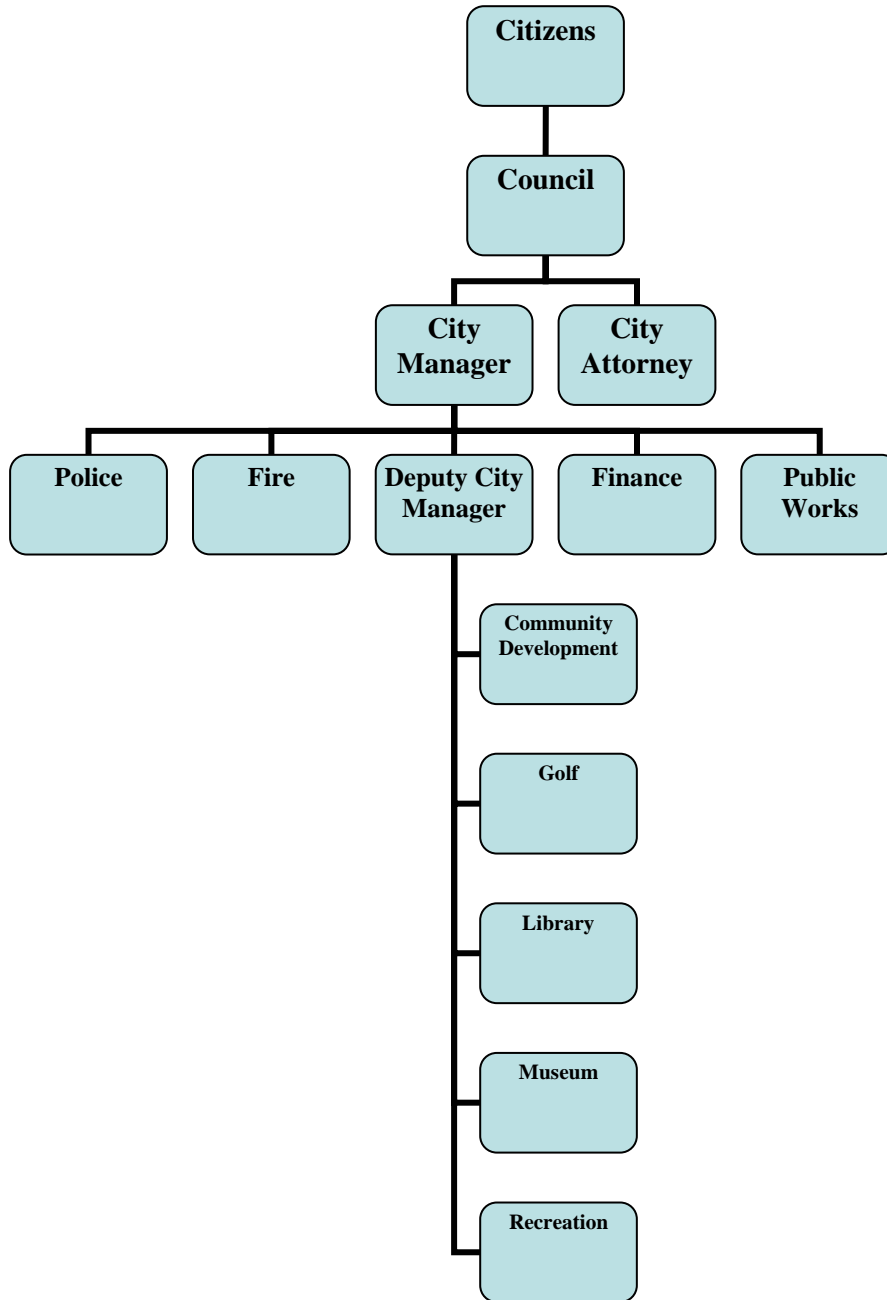
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CITY OF PACIFIC GROVE
Organizational Chart
June 30, 2007



CITY OF PACIFIC GROVE
List of Elected and Appointed Officials
June 30, 2007

Elected Officials

Mayor	Daniel Cort
Mayor Pro-Tempore	Scott Miller
Council Member	Lisa Bennett
Council Member	Alan Cohen
Council Member	Daniel Davis
Council Member	Susan Nilmeier
Council Member	Victoria Stilwell

Appointed Officials

City Manager	James Colangelo
Deputy City Manager	Charlene Wiseman
City Attorney	David Laredo
Chief – Fire	Andrew Miller
Chief – Police	Darius Engles
Director – Management & Budget	James Becklenberg
Director – Community Development	John Biggs
Director – Golf Course	Michael Leach
Director – Library	Ellen Pastore
Director – Museum	Paul Finnegan
Director – Recreation	John Miller
Superintendent – Public Works	Celia Martinez

FINANCIAL SECTION





Vargas and Company

certified public accountants

INDEPENDENT AUDITORS' REPORT

To the City Council
Pacific Grove, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pacific Grove (the "City"), as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City of Pacific Grove's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

For many years, the City has self-insured its liability and workers compensation insurance obligations. Since 2000, these liabilities have been severely underfunded. Despite improvements to the balances in the current year, the remaining magnitude of the unfunded liabilities may place the City at risk of material losses.

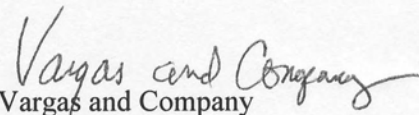
Additionally, we noted the inability of the City to properly reflect an accurate capital asset listing, particularly for those assets acquired through capital leases. This condition has prevailed as an issue in prior audits and has contributed to the conditions resulting in the prior year's adverse opinion.

In our opinion, except for the effects of the matters discussed in the preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Pacific Grove, as of June 30, 2007, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2008 on our consideration of the City of Pacific Grove's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 considered in assessing the results of our audit.

The management's discussion and analysis and the budgetary comparison schedule are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise City of Pacific Grove's basic financial statements. The introductory section, supplementary information, and statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.


Vargas and Company
San Jose, California
February 5, 2008

**Management's Discussion and Analysis (MD&A) -
Required Supplementary Information**



CITY OF PACIFIC GROVE
Management's Discussion and Analysis
Year Ended June 30, 2007

Our discussion and analysis of the City of Pacific Grove's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the accompanying notes to the financial statements. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

FINANCIAL HIGHLIGHTS

- The City's total net assets at June 30, 2007 totaled \$18 million, which is \$4 million higher than last year.
- Total City revenues, including program and general revenues, were \$23.3 million, or \$4.3 million more than last year.
- Total expenses were \$20.5 million in fiscal 2007, representing \$1.9 million more than last year.
- Net Assets in Governmental activities increased \$2.5 million for a total of \$10 million, while net assets in business activities increased \$1.5 million for a total of \$8 million.
- Governmental Program Revenues increased \$2.91 million from last year to \$6.6 million in fiscal 2007.
- Governmental Program Expenses increased \$1.65 million from last year to \$16.6 million in fiscal 2007.
- Revenues from Business-type activities increased by \$.92 million to \$4.96 million in fiscal 2007.
- Expenses of Business-type activities increased by \$.25 million to \$3.9 million in fiscal 2007.
- The City issued a Tax Revenue Anticipation Note, or TRAN, in the amount of \$1.7 million.
- The City took over operations of the Golf Course Pro Shop.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Comprehensive Annual Financial Report is presented in six parts:

- 1) Introductory Section, which includes the Transmittal Letter,
- 2) Management's Discussion and Analysis (this part),
- 3) The Basic Financial Statements, which include the Government-wide and the Fund Financial Statements, along with the Notes to the Basic Financial Statements,
- 4) Required Supplemental Information
- 5) Combining Statements for Non-major Governmental Funds and Internal Service Funds,
- 6) Statistical Information

The Basic Financial Statements

The Basic Financial Statements comprise the Government-wide Financial Statements; the Fund Financial Statements, these two sets of financial statements provide two different views of the City's financial activities and financial position; and the Notes to the Financial Statements.

The Government-wide Financial Statements provide a longer-term view of the City's activities as a whole, and comprise the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of the City as a whole, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The

CITY OF PACIFIC GROVE
Management's Discussion and Analysis
Year Ended June 30, 2007

Statement of Activities provides information about all the City's revenues and all its expenses of each City's programs. The Statement of Activities explains in detail the change in Net Assets for the year.

All of the City's activities are grouped into Government Activities and Business-type activities, as explained below. All the amounts in the Statement of Net Assets and the Statement of Activities are separated into Governmental Activities and Business-type Activities in order to provide a summary of these two activities of the city as a whole.

The Fund Financial Statements report the City's operations in more detail than the Government-wide Financial Statements and focus primarily on the short-term activities of the City's General Fund. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities present information about the following:

- Governmental Activities – All of the City's basic services are considered to be governmental activities, including community development, public safety, public works, recreation, and general administration services. These services are supported by general City revenues such as taxes, and by specific program revenues such as developer fees.
- Business-type activities – The City's enterprise activities are reported here, including sewer, golf and cemetery. Unlike governmental services, these services are supported by charges paid by users based on the amount of the service they use.

Government-wide Financial Statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the City as a whole.

Fund Financial Statements

The Fund Financial Statements provide detailed information about each of the City's most significant funds, called major funds. The concept of major funds, and the criteria for determination of which are major funds, was established by GASB Statement 34 and replaces the concept of combining like funds and presenting them in total. Instead, each major fund is presented individually, with all non-major funds summarized and presented only in a single column. Subordinate schedules present the detail of these non-major funds. Major funds present the major activities of the City for the year, and may change from year to year as a result of changes in pattern of City's activities. For fiscal year 2007, other than the General fund, no governmental fund met the requirements for major fund classification established by GASB Statement 34.

Fund Financial Statements include governmental, enterprise and internal service funds.

Governmental Fund Financial Statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

CITY OF PACIFIC GROVE
Management's Discussion and Analysis
Year Ended June 30, 2007

Enterprise and Internal Service Fund Financial Statements are prepared on the full accrual basis and include all of their assets and liabilities, current and long-term.

Since the City's Internal Service Funds provide goods and services only to the City's governmental and business-type activities, their activities are reported only in total at the fund level. Internal Service Funds may not be major funds because their revenues are derived from other City funds. These revenues are eliminated in the Government-wide Financial Statements and any related profits or losses are returned to the activities which created them, along with any residual net assets of the Internal Service Funds.

Comparisons of Budget and Actual financial information are presented for the General Fund only.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This analysis focuses on the net assets and changes in net assets of the City's Governmental Activities and Business-type Activities presented in the Government-wide Statement of Net Assets and Statement of Activities that follow.

Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>		
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>Variance</u>
Assets:							
Current and other assets	\$29,748,610	\$26,106,424	\$ 1,978,374	\$ 1,034,212	\$31,726,984	\$27,140,636	16.9%
Capital assets	<u>11,010,500</u>	<u>8,566,171</u>	<u>11,920,787</u>	<u>11,215,790</u>	<u>22,931,287</u>	<u>19,781,961</u>	15.9%
Total assets	<u>40,759,110</u>	<u>34,672,595</u>	<u>13,899,161</u>	<u>12,250,002</u>	<u>54,658,271</u>	<u>46,922,597</u>	16.5%
Liabilities:							
Current and other liabilities	2,912,922	950,027	452,033	247,799	3,364,955	1,197,826	180.9%
Long-term liabilities	<u>27,806,917</u>	<u>26,156,765</u>	<u>5,451,716</u>	<u>5,505,684</u>	<u>33,258,633</u>	<u>31,662,449</u>	5.0%
Total liabilities	<u>30,719,839</u>	<u>27,106,792</u>	<u>5,903,749</u>	<u>5,753,483</u>	<u>36,623,588</u>	<u>32,860,275</u>	11.5%
Net assets:							
Invested in capital assets, net of related debt	7,326,730	5,981,590	6,710,459	5,894,695	14,037,189	11,876,285	18.2%
Restricted	46,151	23,342	278,951	271,490	325,102	294,832	10.3%
Unrestricted	<u>2,666,390</u>	<u>1,560,871</u>	<u>1,006,002</u>	<u>330,334</u>	<u>3,672,392</u>	<u>1,891,205</u>	94.2%
Total net assets	<u>\$10,039,271</u>	<u>\$ 7,565,803</u>	<u>\$ 7,995,412</u>	<u>\$ 6,496,519</u>	<u>\$18,034,683</u>	<u>\$14,062,322</u>	28.2%

Analysis of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For the city, assets exceeded liabilities by \$18,034,683 at the close of the current fiscal year.

The largest portion of the City's net assets \$14,037,189 (77.8%) reflects its investment in capital assets (e.g. land, infrastructure, building, improvements, sewer lines, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these assets to provide services; consequently, these assets are not available for future spending. Although the City's investment

CITY OF PACIFIC GROVE
Management's Discussion and Analysis
Year Ended June 30, 2007

in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The balance increased \$2.2 million, or 18.2%, from the prior year. This increase is due to prior period adjustments to correct the historical cost and depreciation amounts for capital assets, plus current year capital expenditures and depreciation including, but not limited to, oceanfront restoration, storm water runoff diversion, fire apparatus, receipt of title and deed of donated land from the Federal Government where the Golf Course back nine and Pt. Pinos Lighthouse are located and habitat restoration amounting to a net increase of \$3.2 million, less additional current year capital related debt activity of \$1 million. Increases to capital related debt included a new capital lease for a fire apparatus and an increase in the accreted value of the Pension Obligation Bond. The accreted value is the original value of the bond plus any accumulated imputed interest. Imputed interest is calculated based upon actual payments that are to be paid, but have not yet been paid. This interest is important for discount bonds and other securities that are sold below face value and mature at par. The IRS uses an accretive method for calculating the imputed interest on treasury bonds, which are taxed yearly, even though no interest is paid until maturity.

The City has had ongoing problems with properly reflecting an accurate capital asset listing. During Fiscal Year 2006-07, the capital assets sub-ledger was substantially updated to include assets acquired in previous fiscal years that had not been recorded properly. The auditors found other examples of assets that were included but were improperly recorded. Additionally, GASB 34 requires a complete inventory of all capital assets, including historical costs of infrastructure, to be completed by June 30, 2008 which could result in further prior-period adjustments.

An additional portion of the City's net assets of \$325,102 (1.8%) represents resources that are subject to external restrictions on how they may be used. This amount increased \$30,270, or 10.3%, from the prior year. \$46,151 is reserved for the Butterfly Bond debt service and \$278,951 is reserved for the Golf Course Certificates of Participation bond debt service.

The remaining (20.4%) represents the unrestricted net assets of \$3,672,392, which may be used to meet the city's ongoing obligations for services. This amount increased \$1.8 million, or 94%, from the prior year. This increase is primarily due to increased revenue from other governmental agencies in order to offset capital expenditures and an increase in operating revenues from the Golf Course due to an increase in green fees and the City taking over operations of the Pro Shop. This increase helped offset the increase in expenses related to interest payments on long-term debt and additional staffing and consulting costs for the administrative departments.

CITY OF PACIFIC GROVE
Management's Discussion and Analysis
Year Ended June 30, 2007

Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>		
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>% Change</u>
Revenues:							
Program revenues							
Charges for services	\$ 1,987,866	\$ 1,816,798	\$4,723,407	\$4,041,111	\$ 6,711,273	\$ 5,857,909	14.6%
Operating grants & contri.	4,603,425	825,603	-	-	4,603,425	825,603	457.6%
Capital grants & contri.	-	-	239,453	-	239,453	-	100.0%
General revenues							
Taxes	11,096,547	11,826,123	-	-	11,096,547	11,826,123	(6.2%)
Interest & invest. income	366,670	320,530	-	51,377	366,670	371,907	(1.4%)
Miscellaneous	121,659	209,222	192,961	11,629	314,620	220,851	42.5%
Transfers	(420)	(202,146)	420	202,146	-	-	0.0%
Total revenues	<u>18,175,747</u>	<u>14,796,130</u>	<u>5,156,241</u>	<u>4,306,263</u>	<u>23,331,988</u>	<u>19,102,393</u>	22.1%
Expenses:							
Public safety							
Police	4,388,766	4,684,733	-	-	4,388,766	4,684,733	(6.3%)
Fire	2,915,740	2,535,344	-	-	2,915,740	2,535,344	15.0%
General administration	2,129,732	1,552,641	-	-	2,129,732	1,552,641	37.2%
Public works	2,329,285	2,144,800	-	-	2,329,285	2,144,800	8.6%
Recreation	928,432	931,474	-	-	928,432	931,474	(0.3%)
Library	1,066,275	962,216	-	-	1,066,275	962,216	10.8%
Comm. dev't & bldg insp.	1,243,160	1,199,217	-	-	1,243,160	1,199,217	3.7%
Museum	378,831	306,195	-	-	378,831	306,195	23.7%
Interest on long-term debt	1,198,955	608,871	-	-	1,198,955	608,871	96.9%
Cemetery Operating	-	-	261,782	210,118	261,782	210,118	24.6%
Sewer Operating	-	-	1,229,301	1,478,477	1,229,301	1,478,477	(16.9%)
Golf Course	-	-	2,425,379	1,972,413	2,425,379	1,972,413	23.0%
Total expenses	<u>16,579,176</u>	<u>14,925,491</u>	<u>3,916,462</u>	<u>3,661,008</u>	<u>20,495,638</u>	<u>18,586,499</u>	10.3%
Change in net assets	1,596,571	(129,361)	1,239,779	645,255	2,836,350	515,894	449.8%
Net assets, beginning	7,565,803	7,695,164	6,496,519	5,851,264	14,062,322	13,546,428	3.8%
Prior period adjustment	<u>876,897</u>	<u>-</u>	<u>259,114</u>	<u>-</u>	<u>1,136,011</u>	<u>-</u>	100.0%
Net asset, ending	<u>\$10,039,271</u>	<u>\$ 7,565,803</u>	<u>\$7,995,412</u>	<u>\$6,496,519</u>	<u>\$18,034,683</u>	<u>\$14,062,322</u>	28.2%

At the end of the current fiscal year, the City reported positive balances in all three categories of net assets, both for the City as a whole, as well as for its separate governmental activities.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with financial legal requirements.

Governmental Funds

The primary purpose of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's

CITY OF PACIFIC GROVE
Management's Discussion and Analysis
Year Ended June 30, 2007

financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the City include the General Fund, Special Revenue Funds, Capital Project Fund, Debt Service Fund and Permanent Funds.

The following table summarizes the revenues, expenditures and changes in fund balances for all governmental funds for the current year.

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

	<u>General</u>	Nonmajor <u>Funds</u>	<u>Total</u>
Revenues	\$14,854,243	\$3,900,285	\$18,754,528
Expenditures	(13,655,017)	(3,936,882)	(17,591,899)
Net other financing sources (uses)	(<u>1,552,294</u>)	<u>902,073</u>	(<u>650,221</u>)
Net Change in Fund Balances	(353,068)	865,476	512,408
Fund Balances, Beginning	1,186,125	5,652,394	6,838,519
Prior Period Adjustments	<u>-</u>	(<u>218,308</u>)	(<u>218,308</u>)
Restated Fund Balances, Beginning	<u>1,186,125</u>	<u>5,434,086</u>	<u>6,620,211</u>
Fund Balances, Ending	\$ <u>833,057</u>	\$ <u>4,696,307</u>	\$ <u>7,132,619</u>

The prior-period adjustment is related to the billing for 911 dispatch and emergency communication services provided by the County of Monterey. The invoice paid during the current fiscal year was for services provided in fiscal year 2005-2006 and should have been accrued in the previous year. The adjustment reclassified the prior year payment to fund balance, reducing the beginning fund balance, and accrued the payment for fiscal year 2006-2007 which was paid by the City after June 30, 2007.

At June 30, 2007, the City's governmental funds reported combined ending fund balances of \$7,132,619, an increase of \$294,100 in comparison with the prior year. Approximately 80% or \$5,694,050 of the combined ending fund balances constitutes unreserved fund balance, which is available to meet the City's current and future needs, of which \$833,057 is available to the City's General Fund. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has been committed to pay debt service of \$46,151 for the Butterfly Bond and a long-term debt receivable of \$1,392,418 for Housing Rehabilitation loans.

The General Fund is the primary operating fund of the City. At June 30, 2007 unreserved fund balance of the General Fund was \$833,057 which is also its total fund balance. As a measure of the General Fund's liquidity, it may be useful to compare both the unreserved fund balance and total fund balance to total fund expenditures. Unreserved and total General Fund Balance represents 6.1% of total general fund expenditures of \$13,655,017. The unreserved portion of the General Fund balance reflects the measure of currently available financial resources and is the cumulative difference between recorded assets and liabilities of the General Fund.

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The City Council has established a designated General Fund reserve policy of 10% of revenues, or \$1,875,453, for contingencies as well as a tax interim reserve of \$750,000 totaling \$2.63 million. The current unreserved fund balance for the general fund does not meet the required minimum levels of the General Fund reserve policy.

The following table illustrates the amount of revenues from various sources as well as increases and decreases from the previous year.

Revenues Classified by Source						
Governmental Funds						
<u>Revenues by Source</u>	<u>FY 2007</u>		<u>FY 2006</u>		<u>Increase/(Decrease)</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Change</u>
Taxes	\$11,096,547	59.2%	\$11,826,123	76.5%	(\$ 729,576)	(6.2%)
Licenses and permits	465,545	2.5%	891,434	5.8%	(425,889)	(47.8%)
Fines, forfeitures and penalties	49,419	0.3%	374,124	2.4%	(324,705)	(86.8%)
Intergovernmental	4,603,425	24.5%	825,603	5.3%	3,777,822	457.6%
Charges for current services	1,472,902	7.9%	551,240	3.6%	921,662	167.2%
Use of money and property	366,670	2.0%	320,530	2.1%	46,140	14.4%
Interdepartmental charges	578,361	3.1%	538,000	3.5%	40,361	7.5%
Other	<u>121,659</u>	<u>0.6%</u>	<u>134,222</u>	<u>0.9%</u>	(<u>12,563</u>)	(9.4%)
Totals	<u>\$18,754,528</u>	<u>100.0%</u>	<u>\$15,461,276</u>	<u>100.0%</u>	<u>\$3,293,252</u>	<u>21.3%</u>

Revenues for governmental functions totaled \$18,754,528 in fiscal year 2006-2007, which represents an increase of \$3,293,252 or 21.3% from the prior year. The City received significant revenues from other governmental agencies to reimburse the City for the costs of capital expenditures related to street improvements, oceanfront restoration and storm water runoff diversion.

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Management's Discussion and Analysis
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The following table illustrates the amount of expenditures by the various functions of the City as well as increases and decreases from the prior year.

Expenditures Classified by Function
Governmental Funds

<u>Expenditures by Function</u>	<u>FY 2007</u>		<u>FY 2006</u>		<u>Increase/(Decrease)</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Change</u>
Public safety						
Police	\$ 4,321,901	24.6%	\$ 4,631,015	29.3%	(\$ 309,114)	(6.7%)
Fire	2,735,574	15.6%	2,881,969	18.2%	(146,395)	(5.1%)
General administration	1,999,205	11.4%	1,556,989	9.8%	442,216	28.4%
Public works	2,299,280	13.1%	2,145,584	13.6%	153,696	7.2%
Recreation	876,534	5.0%	898,864	5.7%	(22,330)	(2.5%)
Library	1,077,331	6.1%	967,007	6.1%	110,324	11.4%
Comm. dev't & bldg insp.	1,246,767	7.1%	1,194,411	7.5%	52,356	4.4%
Museum	384,555	2.2%	268,295	1.7%	116,260	43.3%
Capital outlay	2,117,187	12.0%	368,393	2.3%	1,748,794	474.7%
Debt service						
Principal	416,063	2.4%	348,323	2.2%	67,740	19.4%
Interest and fiscal charges	<u>117,502</u>	<u>0.7%</u>	<u>568,710</u>	<u>3.6%</u>	(<u>451,208</u>)	(79.3%)
Totals	<u>\$17,591,899</u>	<u>100.0%</u>	<u>\$15,829,560</u>	<u>100.0%</u>	<u>\$1,762,339</u>	11.1%

Expenditures for governmental functions in fiscal year 2006-2007 totaled \$17,591,899, which is an increase of \$1,762,339 or 11.1% from the previous fiscal year. Significant increases in expenditures were due to capital outlay for oceanfront restoration, storm water runoff diversion, street improvements and a fire apparatus and also costs for additional staffing and consulting services in the administrative departments.

As a result of governmental fund activities, revenues exceeded expenditures by \$1,162,629 in the current fiscal year.

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The following table illustrates the amounts of other financing sources and uses as well as increases and decreases from the previous year.

Other Financing Sources (Uses)
Governmental Funds

	<u>FY 2007</u>		<u>FY 2006</u>		<u>Increase/(Decrease)</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Change</u>
Proceeds from capital lease	\$ 410,134	(63.1%)	\$ 49,045	(27.0%)	\$ 361,089	736.2%
Proceeds from long-term debt	-	0.0%	19,365,355	(10,669.8%)	(19,365,355)	(100.0%)
P.O.B. payment to PERS	-	0.0%	(18,908,784)	10,418.2%	18,908,784	100.0%
Transfers in	497,659	(76.5%)	425,719	(234.6%)	71,940	16.9%
Transfers out	(1,558,014)	239.6%	(1,112,832)	613.1%	(445,182)	(40.0%)
Totals	(\$ 650,221)	<u>100.0%</u>	(\$ 181,497)	<u>100.0%</u>	(\$ 468,724)	(258.3%)

Net Other Financing Sources and Uses for fiscal year 2006-2007 totaled negative \$650,221 which is a decrease of \$468,724, or 258.3%, from the previous fiscal year's negative amount. The decrease is primarily attributable to the increased amount transferred from the General fund to the internal service funds which have been severely under-funded for many years.

As a result of governmental fund activities, the net change in fund balance decreased (\$353,068) in the General fund and increased \$865,476 in all of the other governmental funds for a net increase of \$512,408.

Proprietary Funds

The City's Proprietary Funds provide the same type of information found in the government-wide financial statements, but in more detail.

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The following table summarizes the Proprietary Funds' actual revenues, expenses and change in net assets as a result of operations for the current fiscal year:

	<u>Major Funds</u>			
	<u>Sewer Operating</u>	<u>Golf Course</u>	<u>Cemetery Operating</u>	<u>Total</u>
Operating revenues	\$2,302,661	\$2,312,548	\$301,159	\$4,916,368
Operating expenses	(<u>1,091,696</u>)	(<u>2,316,961</u>)	(<u>258,036</u>)	(<u>3,666,693</u>)
Operating income (loss)	1,210,965	(4,413)	43,123	645,873
Net non-operating revenues (expenses)	(<u>137,605</u>)	(<u>108,418</u>)	(<u>3,746</u>)	(<u>249,769</u>)
Net income (loss) before capital contributions and transfers	1,073,360	(112,831)	39,377	999,906
Capital contributions	- .	239,453	- .	239,453
Transfers in	<u>- .</u>	<u>420</u>	<u>- .</u>	<u>420</u>
Change in net assets	<u>1,073,360</u>	<u>127,042</u>	<u>39,377</u>	<u>1,239,779</u>
Net Assets, Beginning	3,031,491	3,124,276	340,752	6,496,519
Prior Period Adjustment	(<u>264,352</u>)	<u>249,426</u>	<u>274,040</u>	<u>259,114</u>
Restated Net Assets, Beginning	<u>2,767,139</u>	<u>3,373,702</u>	<u>614,792</u>	<u>6,755,633</u>
Net Assets, Ending	<u>\$3,840,499</u>	<u>\$3,500,744</u>	<u>\$654,169</u>	<u>\$7,995,412</u>

The prior period adjustments were necessary due to the significant updates to the Capital Asset sub-ledger for prior year acquisitions. These adjustments corrected the historical cost and accumulated depreciation balances for the capital assets in each of the proprietary funds. In order to be fully compliant with GASB 34, a comprehensive inventory, including historical costs for infrastructure, of all capital assets will be completed by June 30, 2008.

The only significant increase to Sewer fund revenue was increased participation in the Sewer Lateral Replacement Loan program from the prior year. Please refer to Note 5 in the Notes to the Basic Financial Statements for more information regarding the Sewer Lateral Replacement Loan program.

There were significant events that took place at the Golf Course during the current fiscal year that led to an increase in both operating revenues and expenses from the prior year. Operating revenues increased due to the raising of green fees and the City taking over operations, from a third party concessionaire, of the Pro Shop. Operating expenses increased due to additional staffing costs for Pro Shop personnel and purchasing costs for inventory for resale. There was also a receipt of title and deed of land donated to the City by the Federal Government. This land comprised of the back nine of the Golf Course as well as the Pt. Pinos Lighthouse.

There were no significant increases or decreases in revenues and expenses to note for the Cemetery fund.

CITY OF PACIFIC GROVE
Management's Discussion and Analysis
Year Ended June 30, 2007

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2007, totaled \$22,931,287 (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, buildings, improvements, machinery and equipment, and sewer lines. Significant capital asset acquisitions during the current fiscal year included the following; the federal government transferred title and deed for the land that contains the back nine of the golf course and Pt. Pinos lighthouse, acquisition of a new fire apparatus capital lease and improvements to city infrastructure for oceanfront restoration, storm water runoff and street improvements.

For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital assets as expenditures.

As discussed previously, properly reflecting an accurate capital asset listing has been an ongoing challenge for the City. Although significant improvements were made during the current fiscal year in the form of prior-period adjustments, a more thorough inventory count is required in order for the City to be fully compliant with the requirements of GASB 34. This work will be completed by June 30, 2008.

Capital assets for the governmental and business-type activities are presented below to illustrate changes from the prior year:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>		<u>% of Change</u>
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	
Land	\$ 2,338,290	\$ 2,338,290	\$ 362,973	\$ 123,520	\$ 2,701,243	\$ 2,461,810	9.7%
Construction in progress	-	21,768	-	-	-	21,768	(100.0%)
Infrastructure	1,931,547	627,350	-	-	1,931,547	627,350	207.9%
Building	10,988,836	11,134,827	6,093,798	5,639,991	17,082,634	16,774,818	1.8%
Improvements	240,692	14,734	2,824,748	2,645,886	3,065,440	2,660,620	15.2%
Machinery & equipment	3,413,712	2,848,470	1,450,797	1,619,776	4,864,509	4,468,246	8.9%
Sewer lines	-	-	4,848,853	4,630,085	4,848,853	4,630,085	4.7%
Total cost	<u>\$18,913,057</u>	<u>\$16,985,439</u>	<u>\$15,581,169</u>	<u>\$14,659,258</u>	<u>\$34,494,226</u>	<u>\$31,644,697</u>	9.0%

Current year capital asset activity included infrastructure improvements in oceanfront restoration, storm water runoff diversion and street improvements. Please refer to Note 7 in the Notes to the Basic Financial Statements for more detailed information regarding Capital Assets.

CITY OF PACIFIC GROVE
Management's Discussion and Analysis
Year Ended June 30, 2007

Long-term Debt

The City's long-term debts for governmental and business-type activities are presented below to illustrate changes from the prior year:

	<u>2007</u>	<u>2006</u>	<u>% Change</u>
<u>Governmental Activities</u>			
General Obligation Refunding Note	\$ 794,277	\$ 849,589	(6.5%)
Bank Loans	75,000	75,000	0.0%
Capital Lease	1,749,375	1,659,992	5.4%
Pension Obligation Bond	<u>20,390,473</u>	<u>19,365,355</u>	5.3%
Total Governmental Activities	<u>\$23,009,125</u>	<u>\$21,949,936</u>	4.8%
<u>Business-type Activities</u>			
Sewer Revenue Bonds	\$1,328,991	\$1,358,127	(2.1%)
Sewer Capital Lease	51,338	67,968	(24.5%)
Golf Certificates of Participation	<u>3,830,000</u>	<u>3,895,000</u>	(1.7%)
Total Business-type Activities	<u>\$5,210,329</u>	<u>\$5,321,095</u>	(2.1%)

The only significant increase in long-term debt was the addition of a capital lease for a new fire apparatus and the accreted interest on the pension obligation bond. Please refer to Note 8 in the Notes to the Basic Financial Statements for more detailed information regarding long-term debt.

REQUESTS FOR INFORMATION

This financial report is intended to provide our citizens, taxpayers, parents, investors, and creditors with a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department at 300 Forest Avenue, Pacific Grove, CA 93950.

**Basic Financial Statements -
Government-wide Financial Statements**



CITY OF PACIFIC GROVE, CALIFORNIA
Statement of Net Assets
June 30, 2007

	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Cash and investments			
Available for operations	\$ 5,647,707	\$ 991,843	\$ 6,639,550
Held in trust	844,135	278,951	1,123,086
Receivables			
Taxes	1,138,032	-	1,138,032
Accounts	1,275,744	367,266	1,643,010
Interest and other	125,219	3,509	128,728
Loans	1,392,418	234,661	1,627,079
Inventory	-	32,026	32,026
Deferred charges	19,325,355	70,118	19,395,473
Capital assets			
Land	2,338,270	362,973	2,701,243
Infrastructure	1,931,547	-	1,931,547
Building	10,988,836	6,093,798	17,082,634
Improvements	240,692	2,824,748	3,065,440
Machinery and equipment	3,413,712	1,450,797	4,864,509
Sewer lines	-	4,848,853	4,848,853
Accumulated depreciation	<u>(7,902,557)</u>	<u>(3,660,382)</u>	<u>(11,562,939)</u>
Total Assets	<u>\$ 40,759,110</u>	<u>\$ 13,899,161</u>	<u>\$ 54,658,271</u>
<u>Liabilities</u>			
Accounts payable	\$ 510,506	\$ 242,806	\$ 753,312
Interest payable	56,496	101,733	158,229
Accrued wages and benefits	505,120	66,539	571,659
Tax and revenue anticipation notes payable	1,840,800	-	1,840,800
Deferred revenue	-	40,955	40,955
Due within one year			
Claims payable	673,072	-	673,072
Long-term debt	1,111,275	110,590	1,221,865
Due beyond one year			
Claims payable	1,469,892	-	1,469,892
Compensated absences	2,654,828	241,387	2,896,215
Long-term debt	<u>21,897,850</u>	<u>5,099,739</u>	<u>26,997,589</u>
Total Liabilities	<u>30,719,839</u>	<u>5,903,749</u>	<u>36,623,588</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	7,326,730	6,710,459	14,037,189
Restricted			
Debt service	46,151	278,951	325,102
Unrestricted	<u>2,666,390</u>	<u>1,006,002</u>	<u>3,672,392</u>
Total Net Assets	<u>10,039,271</u>	<u>7,995,412</u>	<u>18,034,683</u>
Total Liabilities and Net Assets	<u>\$ 40,759,110</u>	<u>\$ 13,899,161</u>	<u>\$ 54,658,271</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF PACIFIC GROVE, CALIFORNIA
Statement of Activities
Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities							
Public safety							
Police	\$ 4,388,766	\$ 575,013	\$ 1,331,594	\$ -	\$ (2,482,159)	\$ -	\$ (2,482,159)
Fire	2,915,740	363,958	842,841	-	(1,708,941)	-	(1,708,941)
General administration	2,129,732	265,988	615,963	-	(1,247,781)	-	(1,247,781)
Public works	2,329,285	305,911	708,417	-	(1,314,957)	-	(1,314,957)
Recreation	928,432	116,620	270,063	-	(541,749)	-	(541,749)
Library	1,066,275	143,334	331,930	-	(591,011)	-	(591,011)
Community development & building inspection	1,243,160	165,878	384,134	-	(693,148)	-	(693,148)
Museum	378,831	51,164	118,483	-	(209,184)	-	(209,184)
Interest on long-term debt	1,198,955	-	-	-	(1,198,955)	-	(1,198,955)
Total Governmental Activities	16,579,176	1,987,866	4,603,425	-	(9,987,885)	-	(9,987,885)
Business-type Activities							
Cemetery Operating	261,782	293,959	-	-	-	32,177	32,177
Sewer Operating	1,229,301	2,198,463	-	-	-	969,162	969,162
Golf Course	2,425,379	2,230,985	-	239,453	-	45,059	45,059
Total Business-type Activities	3,916,462	4,723,407	-	239,453	-	1,046,398	1,046,398
Total	\$ 20,495,638	\$ 6,711,273	\$ 4,603,425	\$ 239,453	(9,987,885)	1,046,398	(8,941,487)
General Revenues							
Taxes					11,096,547	-	11,096,547
Interest and investment income					366,670	-	366,670
Miscellaneous					121,659	192,961	314,620
Transfers					(420)	420	-
Total General Revenues and Transfers					11,584,456	193,381	11,777,837
Change in Net Assets					1,596,571	1,239,779	2,836,350
Net Assets, Beginning					7,565,803	6,496,519	14,062,322
Prior Period Adjustment					876,897	259,114	1,136,011
Net Asset, Ending					\$ 10,039,271	\$ 7,995,412	\$ 18,034,683

The notes to the basic financial statements are an integral part of this statement.

Basic Financial Statements - Fund Financial Statements



CITY OF PACIFIC GROVE, CALIFORNIA
Balance Sheet - Governmental Funds
June 30, 2007

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Assets</u>			
Cash and investments			
Available for operations	\$ 1,967,599	\$ 3,230,711	\$ 5,198,310
Held in trust	-	844,135	844,135
Receivables			
Taxes	1,138,032	-	1,138,032
Accounts	126,502	1,149,242	1,275,744
Interest and other	125,219	-	125,219
Loans	-	1,392,418	1,392,418
	<u> </u>	<u> </u>	<u> </u>
Total Assets	\$ <u>3,357,352</u>	\$ <u>6,616,506</u>	\$ <u>9,973,858</u>
<u>Liabilities</u>			
Accounts payable	\$ 189,938	\$ 310,175	\$ 500,113
Accrued wages and benefits	493,557	6,769	500,326
Tax and revenue anticipation notes payable	1,840,800	-	1,840,800
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>2,524,295</u>	<u>316,944</u>	<u>2,841,239</u>
<u>Fund Balances</u>			
Reserved for			
Long-term loan receivable	-	1,392,418	1,392,418
Debt service	-	46,151	46,151
Unreserved, reported in			
General fund			
Designated for			
Contingencies	83,057	-	83,057
Tax interim	750,000	-	750,000
Special revenue funds	-	2,357,537	2,357,537
Capital projects funds	-	380,302	380,302
Permanent funds	-	2,123,154	2,123,154
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balance	<u>833,057</u>	<u>6,299,562</u>	<u>7,132,619</u>
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	\$ <u>3,357,352</u>	\$ <u>6,616,506</u>	\$ <u>9,973,858</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF PACIFIC GROVE, CALIFORNIA
Reconciliation of the Governmental Funds Balance Sheet to the
Government-wide Statement of Net Assets - Governmental Activities
June 30, 2007

Fund Balances - Total Governmental Funds	\$ 7,132,619
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	11,010,500
--	------------

Deferred charges in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	19,325,355
---	------------

Internal service funds are used by management to charge the costs of health, workers' compensation, and liability self-insurances to individual funds. The assets and liabilities are included in governmental activities in the statement of net assets.	(1,708,754)
---	-------------

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.	
Long-term debt	\$ (23,009,125)
Compensated absences	(2,654,828)
	(25,663,953)

Interest payable on long-term debt does not require the use of current financial resources and, therefore, is not accrued as a liability in the governmental funds.	(56,496)
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Net Assets of Governmental Activities	\$ <u>10,039,271</u>
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The notes to the basic financial statements are an integral part of this statement.

CITY OF PACIFIC GROVE, CALIFORNIA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2007

	General	Nonmajor Governmental Funds	Total
<u>Revenues</u>			
Taxes	\$ 10,983,554	\$ 112,993	\$ 11,096,547
Licenses and permits	465,545	-	465,545
Fines, forfeitures and penalties	49,419	-	49,419
Intergovernmental	1,427,351	3,176,074	4,603,425
Charges for current services	1,184,034	288,868	1,472,902
Use of money and property	142,313	224,357	366,670
Interdepartmental charges	578,361	-	578,361
Other	23,666	97,993	121,659
	<hr/>	<hr/>	<hr/>
Total Revenues	14,854,243	3,900,285	18,754,528
	<hr/>	<hr/>	<hr/>
<u>Expenditures</u>			
Current			
Public safety			
Police	4,019,344	302,557	4,321,901
Fire	2,727,070	8,504	2,735,574
General administration	1,998,035	1,170	1,999,205
Public works	1,813,059	486,221	2,299,280
Recreation	876,534	-	876,534
Library	889,489	187,842	1,077,331
Community development & building inspection	956,740	290,027	1,246,767
Museum	294,456	90,099	384,555
Capital outlay	38,191	2,078,996	2,117,187
Debt service			
Principal	40,000	376,063	416,063
Interest and fiscal charges	2,099	115,403	117,502
	<hr/>	<hr/>	<hr/>
Total Expenditures	13,655,017	3,936,882	17,591,899
	<hr/>	<hr/>	<hr/>
Excess (Deficiency) of Revenues Over Expenditures	1,199,226	(36,597)	1,162,629
	<hr/>	<hr/>	<hr/>
<u>Other Financing Sources (Uses)</u>			
Proceeds from capital lease	-	410,134	410,134
Transfers in	-	497,659	497,659
Transfers out	(1,552,294)	(5,720)	(1,558,014)
	<hr/>	<hr/>	<hr/>
Net other financing sources (uses)	(1,552,294)	902,073	(650,221)
	<hr/>	<hr/>	<hr/>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(353,068)	865,476	512,408
	<hr/>	<hr/>	<hr/>
Fund Balances, Beginning	1,186,125	5,652,394	6,838,519
Prior Period Adjustments	-	(218,308)	(218,308)
Restated Fund Balances, Beginning	1,186,125	5,434,086	6,620,211
	<hr/>	<hr/>	<hr/>
Fund Balances, Ending	\$ 833,057	\$ 6,299,562	\$ 7,132,619
	<hr/>	<hr/>	<hr/>

The notes to the basic financial statements are an integral part of this statement.

CITY OF PACIFIC GROVE, CALIFORNIA
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Government-wide Statement of Activities -
Governmental Activities
Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds \$ 512,408

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

Governmental funds report capital outlay 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. This is the amount by which capital outlays exceeded depreciation in the current period.

Expenditures for general capital assets and other related capital assets adjustment	\$ 2,110,164	
Less current year depreciation	<u>(304,469)</u>	1,805,695

Other financing source/use in the funds increases/decreases long-term liabilities in the statement of net assets.

Proceeds from capital lease	(410,134)
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Repayments of debt principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net assets.

Principal repayments on long-term debt	416,063
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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 expenditures in governmental funds.

Accretion of capital appreciation bonds	(1,065,118)	
Amortization of deferred charges relating to the P.O.B.	(40,000)	
Change in accrued interest payable	(16,335)	
Change in compensated absences	<u>(493,396)</u>	(1,614,849)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expenses) of certain activities of the internal service funds is reported with governmental activities.

	<u>887,388</u>
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Change in Net Assets of Governmental Activities \$ 1,596,571

The notes to the basic financial statements are an integral part of this statement.

CITY OF PACIFIC GROVE, CALIFORNIA
Statement of Fund Net Assets - Proprietary Funds
June 30, 2007

	Business-type Activities - Enterprise Funds				Governmental Activities
	Cemetery Operating	Sewer Operating	Golf Course	Total	Internal Service Funds
<u>Assets</u>					
Current Assets					
Cash and investments					
Available for operations	\$ (107,930)	\$ 619,493	\$ 480,280	\$ 991,843	\$ 449,397
Held in trust	-	81	278,870	278,951	-
Receivables					
Accounts	-	367,266	-	367,266	-
Interest and other	-	3,509	-	3,509	-
Inventory	-	-	32,026	32,026	-
Total Current Assets	(107,930)	990,349	791,176	1,673,595	449,397
Noncurrent Assets					
Capital assets					
Land	20	-	362,953	362,973	-
Building	709,611	-	5,384,187	6,093,798	-
Improvements	396,173	-	2,428,575	2,824,748	-
Machinery and equipment	147,352	443,229	860,216	1,450,797	-
Sewer lines	-	4,848,853	-	4,848,853	-
Accumulated depreciation	(474,068)	(1,000,740)	(2,185,574)	(3,660,382)	-
Other assets					
Loans receivable	-	98,366	136,295	234,661	-
Deferred charges	-	70,118	-	70,118	-
Total Noncurrent Assets	779,088	4,459,826	6,986,652	12,225,566	-
Total Assets	\$ 671,158	\$ 5,450,175	\$ 7,777,828	\$ 13,899,161	\$ 449,397
<u>Liabilities</u>					
Current Liabilities					
Accounts payable	\$ 3,423	202,735	36,648	\$ 242,806	\$ 10,393
Interest payable	-	16,286	85,447	101,733	-
Accrued wages and benefits	13,566	10,326	42,647	66,539	4,794
Deferred revenue	-	-	40,955	40,955	-
Claims payable	-	-	-	-	673,072
Long-term debt	-	45,590	65,000	110,590	-
Total Current Liabilities	16,989	274,937	270,697	562,623	688,259
Noncurrent Liabilities					
Claims payable	-	-	-	-	1,469,892
Compensated absences	-	-	241,387	241,387	-
Long-term debt	-	1,334,739	3,765,000	5,099,739	-
Total Noncurrent Liabilities	-	1,334,739	4,006,387	5,341,126	1,469,892
Total Liabilities	16,989	1,609,676	4,277,084	5,903,749	2,158,151
<u>Net Assets</u>					
Invested in capital assets, net of related debt	779,088	2,911,013	3,020,358	6,710,459	-
Restricted					
Debt service	-	81	278,870	278,951	-
Unrestricted	(124,919)	929,405	201,516	1,006,002	(1,708,754)
Total Net Assets	654,169	3,840,499	3,500,744	7,995,412	(1,708,754)
Total Liabilities and Net Assets	\$ 671,158	\$ 5,450,175	\$ 7,777,828	\$ 13,899,161	\$ 449,397

The notes to the basic financial statements are an integral part of this statement.

CITY OF PACIFIC GROVE, CALIFORNIA
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds
Year Ended June 30, 2007

	Business-type Activities - Enterprise Funds				Governmental Activities
	Cemetery Operating	Sewer Operating	Golf Course	Total	Internal Service Funds
<u>Operating Revenues</u>					
Charges for current services	\$ 293,959	\$ 2,198,463	2,230,985	\$ 4,723,407	\$ 895,027
Other	7,200	104,198	81,563	192,961	44,662
Total Operating Revenues	301,159	2,302,661	2,312,548	4,916,368	939,689
<u>Operating Expenses</u>					
Personnel services	133,525	309,930	1,005,972	1,449,427	55,178
Operating services	92,665	644,166	1,023,358	1,760,189	622,423
Insurance, claims and settlements	-	-	-	-	434,635
Depreciation	31,846	137,600	287,631	457,077	-
Total Operating Expenses	258,036	1,091,696	2,316,961	3,666,693	1,112,236
Operating Income (Loss)	43,123	1,210,965	(4,413)	1,249,675	(172,547)
<u>Non-operating Revenues (Expenses)</u>					
Interest expense	(3,746)	(137,605)	(108,418)	(249,769)	-
Total Non-operating Revenues (Expenses)	(3,746)	(137,605)	(108,418)	(249,769)	-
Net Income (Loss) Before Capital Contributions and Transfers	39,377	1,073,360	(112,831)	999,906	(172,547)
Capital contributions	-	-	239,453	239,453	-
Transfers in	-	-	420	420	1,059,935
Change in Net Assets	39,377	1,073,360	127,042	1,239,779	887,388
Net Assets, Beginning	340,752	3,031,491	3,124,276	6,496,519	(2,596,142)
Prior Period Adjustment	274,040	(264,352)	249,426	259,114	-
Restated Net Assets, Beginning	614,792	2,767,139	3,373,702	6,755,633	(2,596,142)
Net Assets, Ending	\$ 654,169	\$ 3,840,499	\$ 3,500,744	\$ 7,995,412	\$ (1,708,754)

The notes to the basic financial statements are an integral part of this statement.

CITY OF PACIFIC GROVE, CALIFORNIA
Statement of Cash Flows - Proprietary Funds
Year Ended June 30, 2007

	Business-type Activities - Enterprise Funds				Governmental Activities
	Cemetery Operating	Sewer Operating	Golf Course	Total	Internal Service Funds
Cash Flows from Operating Activities					
Receipts from customers	\$ 304,743	\$ 2,198,463	\$ 2,230,985	\$ 4,734,191	\$ 895,027
Payments to suppliers	(87,786)	(538,448)	(818,088)	(1,444,322)	(621,120)
Payments to employees	(133,525)	(308,565)	(949,965)	(1,392,055)	(57,488)
Internal activity - payments to other funds	(180,406)	(70,897)	423,330	172,027	(562,474)
Claims paid	-	-	-	-	(334,278)
Other receipts (payments)	(3,584)	11,457	73,451	81,324	44,662
Net Cash Provided (Used) by Operating Activities	(100,558)	1,292,010	959,713	2,151,165	(635,671)
Cash Flows from Noncapital Financing Activities					
Transfers received	-	-	420	420	1,059,935
Net Cash Provided by Noncapital Financing Activities	-	-	420	420	1,059,935
Cash Flows from Capital and Related Financing Activities					
Purchase of capital assets	(3,626)	(503,702)	(209,239)	(716,567)	-
Principal paid on long-term debt	-	(76,970)	(65,000)	(141,970)	-
Interest paid on long-term debt	-	(73,216)	(202,425)	(275,641)	-
Net Cash Used by Capital and Related Financing Activities	(3,626)	(653,888)	(476,664)	(1,134,178)	-
Cash Flows from Investing Activities					
Interest received	(3,746)	(18,548)	7,380	(14,914)	-
Net Cash Provided (Used) by Investing Activities	(3,746)	(18,548)	7,380	(14,914)	-
Net Increase (Decrease) in Cash and Cash Equivalents	(107,930)	619,574	490,849	1,002,493	424,264
Cash and Cash Equivalents, Beginning	-	-	268,301	268,301	25,133
Cash and Cash Equivalents, Ending	\$ (107,930)	\$ 619,574	\$ 759,150	\$ 1,270,794	\$ 449,397
Cash Flows from Operating Activities					
Operating income (loss)	\$ 43,123	\$ 1,210,965	\$ (4,413)	\$ 1,249,675	\$ (172,547)
Adjustments to reconcile operating income to net cash provided (used) by operating activities					
Depreciation	31,846	137,600	287,631	457,077	-
Decrease (increase) in operating assets					
Accounts receivable	-	(12,308)	-	(12,308)	-
Loans receivable	-	(105,212)	(14,113)	(119,325)	-
Other assets	-	2,891	493,415	496,306	-
Increase (decrease) in operating liabilities					
Accounts payable	(6,258)	128,232	26,494	148,468	(675)
Wages payable	8,482	(2,730)	8,536	14,288	2,458
Claims payable	-	-	-	-	97,567
Due to other funds	(177,751)	(67,428)	105,365	(139,814)	(562,474)
Compensated absences	-	-	56,798	56,798	-
Net Cash Provided (Used) by Operating Activities	\$ (100,558)	\$ 1,292,010	\$ 959,713	\$ 2,151,165	\$ (635,671)

The notes to the basic financial statements are an integral part of this statement.



Basic Financial Statements -
Notes to the Basic Financial Statements



CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Pacific Grove is a California charter city using the Council-Manager form of government which provides the following services; public safety (police and fire), public works, community development, library, museum, parks and recreation, golf course, cemetery, butterfly habitat preserve and general administration services.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The City has elected to apply all applicable FASB pronouncements issued on or before that date to its proprietary funds. The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Reporting Entity

The City is governed by a seven-member council elected by City residents. These financial statements present the financial activities of the City, which is legally separate and fiscally independent, can issue debt, set and modify budgets and fees, and sue or be sued. The City has no component units.

B. Basis of Presentation

Government-wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the primary government (the City). This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charges to external parties.

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes are presented as general revenues.

Fund Financial Statements

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. Separate statements for each fund category are presented. The emphasis of fund financial statements is on major governmental and enterprise funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service funds are presented in a single column in the proprietary fund financial statements. The various funds are reported by generic classification within the financial statements.

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Major funds are defined as funds that have either assets, liabilities revenues or expenditures/expenses equal to ten percent of their fund type total and five percent of the grand total. The General fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

The City reports the following major governmental fund:

- The **General fund** is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in other specialized fund.

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The City reports the following major enterprise funds:

- The **Sewer Operating Fund** accounts for revenues and expenses of the City's sewer operations.
- The **Golf Course Fund** accounts for revenues and expenses of the City's golf course operations, including the Pro Shop.

Additionally, the City reports the following fund type:

- Internal Service funds account for health insurance, workers' compensation insurance, and liability insurance; all of which are provided to other departments on a cost reimbursement basis.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

The government-wide, proprietary, and fiduciary fund financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The accounting objectives of the economic resources measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Fund equity is classified as net assets.

Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Those revenues susceptible to accrual are property, sales, transient occupancy and franchise taxes, special assessments, licenses for services and interest revenue. Fines, permits, and charges for services are not susceptible to accrual because they are not measurable until received in cash.

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include taxes, grants, entitlements, and donations. On an accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting.

In the current financial resources measurement focus, only current financial assets and liabilities are generally included on the balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. The fund balance is used as the measure of available spendable financial resources at the end of the period.

Under the modified accrual basis of accounting, revenues are recognized when measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means having been earned, and collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related liability is incurred, except for debt service expenditures (principal and interest), claims and judgments, and compensated absences which are recognized as expenditures to the extent they have matured. Governmental capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as other financing sources.

The City may fund programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs followed by general revenues, if necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

D. Utility Service Billings

Sewer customers are billed every other month by a separate government agency which forwards the collections to the City. Revenues earned but not collected by year-end are accrued.

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

E. Budgets and Budgetary Accounting

The City follows these procedures in establishing budgetary data reflected in the financial statements:

1. Prior to June 30, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. At mid-year, normally in February or March, the budget is reviewed by the Council and may be amended at that time.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through the passage of an ordinance during the first City Council meeting in the month of May.
4. The City Manager may transfer budgeted amounts within a department or fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.
5. Formal budgetary interrogation is employed as a management control device during the year for the General fund, Special Revenue funds, Enterprise funds and Capital Project funds.
6. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Budgeted amounts are originally adopted or as amended by City Council. Individual amendments were not material in relation to the original appropriations.

F. Deferred Compensation Plan

City employees may defer a portion of their compensation under a City sponsored Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Under this plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, and death or in an emergency as defined by the Plan.

The laws governing deferred compensation plan assets require plan assets to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these plans are not the City's property and are not subject to City control, they have been excluded from these financial statements.

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

G. Compensated Absences

Compensated absences comprise of unpaid vacation and the vested portion of sick leave, which are accrued as earned. The City's liability for the compensated absences is recorded in various Governmental funds or Proprietary funds as appropriate. The liability for compensated absence is determined annually. For all governmental funds, amounts expected to be paid out of current financial resources are recorded as fund liabilities. The long-term portion is recorded in the Statement of Net Assets and represents a reconciling item between the fund and government-wide presentations.

H. Property Tax

Monterey County assesses properties and its bills, collects and distributes actual property taxes collected to the City. Secured and unsecured property taxes are levied on January 1.

Secured property tax is due in two installments, on November 1 and March 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31. The term "unsecured" refers to taxed on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed.

Property taxes levied are recorded as revenue and receivables on the fiscal year of levy, provided they are collected within the fiscal year or within 60 days of the fiscal year end.

I. Long-term Liabilities

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

J. Interfund Activity

Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

K. Estimates

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

NOTE 2. CASH AND INVESTMENTS

A. Policies

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the City's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for the deposits. Under California Law this collateral is held in a separate investment pool by another institution in the City's name and places in the City ahead of general creditors of the institution.

The City invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable securities instruments, or by an electronic entry registering the owner in the records of the institution issuing the security, called book entry system. In order to increase security, the City employs the Trust Department of a bank as the custodian of certain City managed investments, regardless of their form.

The City's investments are carried at fair value, as required by generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income of that fiscal year.

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2007

NOTE 2. CASH AND INVESTMENTS - Continued

The City pools cash from all sources and all funds so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time.

B. Classification

The City's total cash and investments, the following shows the allocation as presented on the accompanying statements of net assets:

Statement of Net Assets:

Cash and investments available for operations	\$6,639,550
Cash and investments held in trust	<u>1,123,086</u>
Total City cash and investments	<u>\$7,762,636</u>

The City's total cash and investments consists of the following:

Investments	\$6,637,891
Cash in banks	1,122,260
Petty cash	<u>2,485</u>
Total City cash and investments	<u>\$7,762,636</u>

C. Investments Authorized by the California Government Code and the City's Investment Policy

The City's Investment Policy and the California Government Code allow the City to invest in the following, provided that the credit ratings of the issuers are acceptable to the City. The following also identifies certain provisions of the City and California Government Code that addresses interest rate risk, credit risk, and concentration of credit risk. This does not address the City's investments of debt proceeds held by fiscal agents that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2007

NOTE 2. CASH AND INVESTMENTS - Continued

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>
Certificates of Deposit	5 years	10%
U.S. Treasury Obligation	5 years	None
U.S. Agency Securities (A)	5 years	None
California Local Agency Investment Fund	N/A	None
Repurchase Agreements	30 days	None

(A) Securities issued by agencies of the federal government agencies such as Federal Home Loan Bank (FHLB), Government National Mortgage Association (GNMA), Federal Farm Credit System, Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA) or obligations issued by a federal agency.

D. Investments Authorized by Debt Agreements

The City must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City ordinances, bond indentures or State statutes. The following identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>
U.S. Treasury Obligation	None	N/A
U.S. Agency Securities (A)	None	None
Unsecured Certificates of Deposit	30 days	A-1
Commercial Paper	270 days	A-1+
Money Market Funds	N/A	AAA-m/AAA-m-G
Repurchase Agreements	None	A
State Obligations	None	A-1
Investment Agreement	None	AA
California Local Agency Investment Fund	N/A	N/A

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2007

NOTE 2. CASH AND INVESTMENTS - Continued

(A) Securities issued by agencies of the federal government agencies such as Federal Home Loan Bank (FHLB), Government National Mortgage Association (GNMA), Federal Farm Credit System, Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA) or obligations issued by a federal agency.

E. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City generally manages its interest rate risk by holding investments to maturity.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity or earliest call date:

<u>Investment Type</u>	<u>12 Months or less</u>	<u>13 to 36 Months</u>	<u>37 to 60 Months</u>	<u>Total</u>
Investments				
U.S. Agency Securities				
Gov't Bonds - Callable	\$ - .	\$283,050	\$363,383	\$646,433
Gov't Bonds - Non-Callable	199,710	398,634	- .	598,344
Certificates of Deposit	290,915	96,012	- .	386,927
Money Market Funds	278,951	- .	- .	278,951
Cash or Equivalent	7,342	- .	- .	7,342
California Local Agency Investment Fund	<u>4,719,894</u>	<u>- .</u>	<u>- .</u>	<u>4,719,894</u>
Total Investments	<u>\$5,496,812</u>	<u>\$777,696</u>	<u>\$363,383</u>	\$6,637,891
Cash				
Cash in banks				1,122,260
Petty cash				<u>2,485</u>
Total Cash and Investments				<u>\$7,762,636</u>

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2007

NOTE 2. CASH AND INVESTMENTS - Continued

F. Credit Risk

Credit risk is the risk that an insurer 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. Presented below is the minimum rating required by the California Government Code, the City's investment policy, or debt agreements and the actual rating as of June 30, 2007 for each investment type as provided by Moody's:

<u>Investment Type</u>	<u>AAA</u>	<u>Not Rated</u>	<u>Total</u>
Investments			
U.S. Agency Securities			
Gov't Bonds - Callable	\$ 646,433	\$ - .	\$ 646,433
Gov't Bonds - Non-Callable	598,344	- .	598,344
Certificates of Deposit	- .	386,927	386,927
Money Market Funds	278,951	- .	278,951
Cash or Equivalent	- .	7,342	7,342
California Local Agency Investment Fund	<u>- .</u>	<u>4,719,894</u>	<u>4,719,894</u>
Total Investments	<u>\$1,523,728</u>	<u>\$5,114,163</u>	\$6,637,891
Cash			
Cash in banks			1,122,260
Petty cash			<u>2,485</u>
Total Cash and Investments			<u>\$7,762,636</u>

G. Concentration Risk

The City's investment policy contain limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code for investments in a County Agency Investment Fund, Negotiable Certificates of Deposit, Repurchase Agreements and Reverse Repurchase Agreements. The City does not have any investments in any one issuer, other than U.S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of total City-wide investments are as follows at June 30, 2007.

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2007

NOTE 2. CASH AND INVESTMENTS - Continued

H. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its Agent having a fair value of 105% to 150% of the City's cash on deposit. All of the City's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institutions in the City's name.

Local Agency Investment Fund (LAIF) – The City is a voluntary participant in the Local Agency Investment Fund. LAIF is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises and corporations. The carrying value of LAIF approximates fair value.

I. Cash Equivalents

For purposed of the statement of cash flows, the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Proprietary fund type's cash and investments balance classified as Available for Operations are considered cash equivalents.

NOTE 3. PERMANENT FUNDS

The City is the beneficiary of several trusts established for its citizens. These trusts generally provide for the preservation of trust principal and allow the expenditure of trust income for purposes allowed under the trust. Only trust income may be expended. The City categorizes these funds as Permanent funds in the accompanying financial statements. These funds are:

- Library Endowment Trust – established to finance the purchase of additional books and materials for the library.
- Cemetery Endowment Care Trust – which accounts for "Endowment Care" revenues received in trust for the care of decedents' graves.

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2007

NOTE 3. PERMANENT FUNDS - Continued

- Lawrence and Millie Yount Trust – established in 1992, in the amount of approximately \$900,000 including the Yount's residence. The income from this Trust may be expended for the beautification of the City and for minor improvements on the educational and/or recreational facilities maintained by the City.

In addition, the City is the beneficiary of the Bertha L. Strong Trust, established in 1956. Under its terms, the principal of the Trust may only be used for the construction of a new City Hall or the expansion of certain City facilities used for education or recreation, except those usually authorized to be constructed or expanded by taxing, bonding or assessing. Trust income may only be used for beautification of the City, and is released by the Trustee only on application by the City. Since neither the principal nor the income of the Trust are under the control of the City, these amounts are not reflected in these financial statements. The ending balance of the Trust's financial activities, as reported by the Trustee, were as follows:

	<u>June 30, 2006</u>	<u>June 30, 2007</u>
Balance held by Trustee at end of year, at fair value	<u>\$931,907</u>	<u>\$1,062,840</u>

NOTE 4. INTERFUND TRANSFER

With Council approval, resources may be transferred from one City Fund to another. The purpose of the majority of transfers is to reimburse a fund which has made an expenditure on behalf of another fund. These transfers were eliminated in the consolidation for the governmental activities. Transfers comprised the following:

	<u>Transfer In</u>	<u>Transfer Out</u>
Governmental Activities		
Governmental funds		
Major funds		
General fund	\$ - .	\$1,552,294
Nonmajor funds	<u>497,659</u>	<u>5,720</u>
Total Governmental funds	497,659	1,558,014
Internal Service funds	<u>1,059,935</u>	-
Total Governmental Activities	<u>1,557,594</u>	<u>1,558,014</u>
Business-type Activities		
Golf Course	<u>420</u>	-
Total Business-type funds	<u>420</u>	-
Total	<u>\$1,558,014</u>	<u>\$1,558,014</u>

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2007

NOTE 5. LOANS RECEIVABLE

A. Housing Assistance Loans

The City engages in programs designed to encourage construction or improvement in low-to-moderate income housing. Under these programs, loans are provided under favorable terms to homeowners or developers who agree to spend these funds in accordance with the City's terms. Terms include interest rates of three to five percent and deferral of principal and interest payment until the property changes hands. All loans are secured by a deed of trust on the property.

Although these loans and notes are expected to be repaid in full, their balance has offset by a reservation of fund balance, as they are not expected to be repaid during the current fiscal year. The balance of the loans receivable arising from these programs at June 30, 2007 was \$1,392,418.

B. Sewer Lateral Replacement Loans

The City has a Sewer Lateral Repair/Replacement Loan Program to improve sewer lateral lines connected to homeowners' residences. These loans carry an interest rate of three percent per annum. Repayment on loan principal and interest are deferred until the property is sold. All loans are secured by a deed of trust on the property. The balance of these loans receivables from this program at June 30, 2007 was \$98,366.

C. Golf Course Kitchen Equipment Purchase Lease

The City entered into a kitchen equipment purchase lease agreement with the food and beverage concessionaire at the Golf Course. The City purchased and installed the kitchen equipment during the construction of the new clubhouse and sold interest and title to the fixtures and equipment to the concessionaire. The principal amount of the loan is \$152,000 and carries an interest rate of six percent per annum. The term of the loan is fifteen years and payments of \$1,282.66 are due monthly. The balance of this loan receivable at June 30, 2007 was \$ 136,295.

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2007

NOTE 6. TAX AND REVENUE ANTICIPATION NOTES (TRAN)

On November 21, 2006, the City issued the 2006 Tax and Revenue Anticipation Notes, at 4.00% interest rate and yield of 3.379% in the amount of \$1,770,000. Tax and Revenue Anticipation Notes are issued as part of a cash management policy to maintain the City's working capital until sufficient taxes or revenues are collected to fund the City's operations. The notes are due November 28, 2007 and are collateralized by fiscal year 2006-2007 unrestricted revenues. Accrued interest payable of \$70,800 on this note is included in the \$1,840,800 reflected on the financial statement.

NOTE 7. CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The City defines capital assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of three years.

GASB Statement 34 allows the City up to four years to record infrastructure assets acquired in prior years. With the implementation of GASB 34 the City has recorded current year additions and improvements to infrastructure. Historical values for infrastructure assets since 1980 will be recorded by June 30, 2008.

GASB Statement 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Alternately, the "modified approach" may be used for certain capital assets. Depreciation is not provided under this approach, but all expenditures on these assets are expensed, unless they are additions or improvements.

The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of cost of capital assets.

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2007

NOTE 7. CAPITAL ASSETS – Continued

Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful live in years and the result is charged to expense each year until the asset is fully depreciated. The City has assigned the useful lives listed below to capital assets:

Infrastructure	70 years
Buildings	15-70 years
Improvements	10-20 years
Sewer lines	40 years
Vehicles	3-5 years
Equipment	3-30 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction phase if reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Capital assets activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions/ Adjustments	Retirements/ Adjustments	Balance June 30, 2007
<u>Governmental activities</u>				
Capital assets, not being depreciated:				
Land	\$ 2,338,290	\$ -	\$ 20	\$ 2,338,270
Construction in progress	21,768	-	21,768	-
Total capital assets, not being depreciated	<u>2,360,058</u>	<u>-</u>	<u>21,788</u>	<u>2,338,270</u>
Capital assets, being depreciated:				
Infrastructure	627,350	1,466,401	162,204	1,931,547
Buildings	11,134,827	-	145,991	10,988,836
Improvements	14,734	225,958	-	240,692
Machinery and equipment	<u>2,848,470</u>	<u>643,763</u>	<u>78,521</u>	<u>3,413,712</u>
Total capital assets, being depreciated	<u>14,625,381</u>	<u>2,336,122</u>	<u>386,716</u>	<u>16,574,787</u>
Less accumulated depreciation for:				
Infrastructure	39,703	1,324	21,662	19,365
Buildings	6,333,645	232,306	976,360	5,589,591
Improvement	-	63,284	-	63,284
Machinery and equipment	<u>2,045,920</u>	<u>184,397</u>	<u>-</u>	<u>2,230,317</u>
Total accumulated depreciation	<u>8,419,268</u>	<u>481,311</u>	<u>998,022</u>	<u>7,902,557</u>
Total capital assets, being depreciated, net	<u>6,206,113</u>	<u>1,854,811</u>	<u>(611,306)</u>	<u>8,672,230</u>
Governmental activities capital assets, net	\$ <u>8,566,171</u>	\$ <u>1,854,811</u>	\$ <u>(589,518)</u>	\$ <u>11,010,500</u>

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2007

NOTE 7. CAPITAL ASSETS - Continued

	Balance July 1, 2006	Additions/ Adjustments	Retirements/ Adjustments	Balance June 30, 2007
<u>Business-type activities</u>				
Capital assets, not being depreciated:				
Land	\$ 123,520	\$ 239,453	\$ -	\$ 362,973
Total capital assets, not being depreciated	<u>123,520</u>	<u>239,453</u>	<u>-</u>	<u>362,973</u>
Capital assets, being depreciated:				
Buildings	5,639,991	453,807	-	6,093,798
Improvements	2,645,886	178,862	-	2,824,748
Machinery and equipment	1,619,776	23,253	192,232	1,450,797
Sewer line	<u>4,630,085</u>	<u>503,702</u>	<u>284,934</u>	<u>4,848,853</u>
Total capital assets, being depreciated	<u>14,535,738</u>	<u>1,159,624</u>	<u>477,166</u>	<u>15,218,196</u>
Less accumulated depreciation for:				
Buildings	438,192	271,655	-	709,847
Improvements	1,188,772	180,369	266,683	1,102,458
Machinery and equipment	1,192,637	129,798	111,172	1,211,263
Sewer line	<u>623,867</u>	<u>84,994</u>	<u>72,047</u>	<u>636,814</u>
Total accumulated depreciation	<u>3,443,468</u>	<u>666,816</u>	<u>449,902</u>	<u>3,660,382</u>
Total capital assets, being depreciated, net	<u>11,092,270</u>	<u>492,808</u>	<u>27,264</u>	<u>11,557,814</u>
Business-type activities capital assets, net	<u>\$11,215,790</u>	<u>\$ 732,261</u>	<u>\$ 27,264</u>	<u>\$11,920,787</u>

Some capital assets may be acquired using federal and state grant funds, or they may be contributed by developers or other governments. GASB Statement 34 requires that these contributions be accounted for as revenues at the time the capital assets are contributed.

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program are as follows:

Governmental activities:	
Police	\$ 74,278
Fire	78,032
General administration	78,978
Public works	40,482
Recreation	20,473
Library	10,111
Museum	<u>2,115</u>
Total depreciation expense – governmental activities	<u>\$304,469</u>
Business-type activities:	
Cemetery operating	31,846
Sewer operating	137,600
Golf course	<u>287,631</u>
Total depreciation expense – business-type activities	<u>\$457,077</u>

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2007

NOTE 8. LONG-TERM DEBT

Long-term liabilities at June 30, 2007 included the following:

<u>Type of obligation</u>	<u>Original Issue Amount</u>	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2007</u>	<u>Due within one year</u>
<u>Governmental Activities</u>						
<u>Governmental funds</u>						
<i>General Obligation Refunding Note</i>						
2003 Refunding Butterfly Habitat Note; 4.45%; maturity 8/1/17	\$ 963,793	\$ 849,589	\$ -	\$ 55,312	\$ 794,277	\$ 54,773
<i>Housing Rehabilitation bank loan</i>						
No interest; maturity 5/18/10	150,000	75,000	-	-	75,000	-
<i>Capital Lease</i>						
2003 Civic Center financing lease; 3.85%; maturity 2/8/14	1,909,387	1,521,536	-	165,795	1,355,741	172,239
Fire trucks; 4.52%-5.4%; maturity 9/1/07	494,135	58,729	-	58,729	-	-
Police and public works vehicles; 3.3%; maturity 1/3/07	138,438	47,633	-	46,131	1,502	1,502
2005 Ford vehicles; 3.75%; maturity 8/15/07	49,045	32,094	-	15,753	16,341	16,341
Pierce Dash 2000 Pumper; 3.885% maturity 8/15/15	410,134	-	410,134	34,343	375,791	35,677
<i>Pension Obligation Bond</i>						
Taxable Pension Obligation Bonds; 5.67%-6.12%; maturity 6/1/29	19,365,355	19,365,355	-	40,000	19,325,355	830,743
Accreted Interest		-	1,065,118	-	1,065,118	-
Total Governmental Activities		<u>\$21,949,936</u>	<u>\$1,475,252</u>	<u>\$416,063</u>	<u>\$23,009,125</u>	<u>\$1,111,275</u>

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2007

NOTE 8. LONG-TERM DEBT - Continued

<u>Type of obligation</u>	<u>Original Issue Amount</u>	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2007</u>	<u>Due within one year</u>
<u>Business-type Activities</u>						
<u>Enterprise fund – Sewer</u>						
<u>Revenue bonds</u>						
California Statewide Community Dev. Auth. Series 2000B; 3.25%- 5.125%; due 10/1/31	\$1,475,000	\$1,380,000	\$ -	\$ 30,000	\$1,350,000	\$ 30,000
Less: unamortized discount		(21,873)		(864)	(21,009)	(864)
<u>Capital Lease</u>						
Backhoe; 2.75%-5.75%; due annually until 11/16/09	86,450	67,968	-	16,630	51,338	16,454
<u>Enterprise fund – Golf</u>						
<u>Certificates of Participation</u>						
2004 Golf Course Project; 2.75%-5.75%; maturity 8/1/34	3,960,000	<u>3,895,000</u>	<u>-</u>	<u>65,000</u>	<u>3,830,000</u>	<u>65,000</u>
Total Business-type Activities		<u>\$5,321,095</u>	<u>\$ -</u>	<u>\$110,766</u>	<u>\$5,210,329</u>	<u>\$110,590</u>

2003 General Obligation Refunding Note

The City issued the Butterfly Habitat Bonds on the principal amount of \$1,230,000 in 1990 to acquire and improve an ancient wintering site for Monarch Butterflies consisting of a 2.2 acres parcel.

On November 1, 2003, the City entered into a \$963,793 General Obligation Refunding Note. This note was issued to refund the remaining principal amount and accrued interest from the 1990 Butterfly Habitat Bonds. Semi-annual principal and interest are due February 1 and August 1. At June 30, 2007, annual debt service requirements to maturity are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 54,773	\$ 34,127
2009	59,210	31,591
2010	63,545	28,859
2011	67,773	25,937
2012	66,889	22,941
2013-2017	392,893	65,212
2018	<u>89,194</u>	<u>1,985</u>
Totals	<u>\$794,277</u>	<u>\$210,652</u>

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2007

NOTE 8. LONG-TERM DEBT - Continued

Housing Rehabilitation Bank Loan

On March 28, 2000, the City entered into a \$150,000 no-interest loan agreement with a bank. The loan agreement requires the loan proceeds to be used only to fund the City's housing rehabilitation loan program. At the end of 5 years, the loan agreement calls for \$75,000 of the loan balances to be forgiven, with the remaining \$75,000 due and payable at the end of 10 years. During the 2006 fiscal year, forgiveness of the \$75,000 had occurred and recorded as a decrease in long-term debt. At June 30, 2007, the loan balance is \$75,000.

2003 Civic Center Financing Leases

On November 18, 1998, the City entered into a financing lease agreement for \$1,500,000 to fund the Civic Center site improvement project. Included in the project are the construction of a civic plaza, parking lot and new building, rehabilitation of the exiting City hall building, demolition of some existing building and landscaping. On August 1, 2003, the City refinanced the lease by entering into a new Civic Center Financing lease in the amount of \$1,909,387. Semi-annual principal and interest are due on February 8 and August 8. At June 30, 2007, annual debt service requirements to maturity are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 172,239	\$ 50,554
2009	178,934	43,859
2010	185,889	36,904
2011	193,115	29,678
2012	200,622	22,171
2013-2014	<u>424,942</u>	<u>20,646</u>
Totals	<u>\$1,355,741</u>	<u>\$203,812</u>

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2007

NOTE 8. LONG-TERM DEBT - Continued

Capital Lease Obligations – governmental activities

Capital lease obligations are repayable from future revenues of the fund to which they have been assigned. At June 30, 2007, annual debt service requirements to maturity are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 53,520	\$15,209
2009	37,063	13,213
2010	38,503	11,774
2011	39,999	10,278
2012	41,553	8,724
2013-2016	<u>182,996</u>	<u>18,111</u>
Totals	<u>\$393,634</u>	<u>\$77,309</u>

Pension Obligation Bond

On June 1, 2006, the City issued Taxable Pension Obligation Bond in the principal amount of \$19,365,355. The bonds were part of the California Statewide Communities Development Authority Taxable Pension Obligation Bonds Program. The purpose of the bond is to provide monies to meet the unfunded accrued actuarial liability (“UAAL”) to the California Public Employee’s Retirement System (“PERS”). Semi-annual payments are due on June 1 and December 1. At June 30, 2007, annual debt service requirements to maturity are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u> <u>Accretion</u>	<u>Interest</u>
2008	\$ 830,743	\$ 43,956	\$ 94,257
2009	1,268,194	67,589	226,806
2010	1,240,280	65,755	304,720
2011	1,207,782	64,598	387,218
2012	1,180,806	63,146	469,194
2013-2017	5,420,344	296,546	3,664,656
2018-2022	4,655,853	262,604	6,014,147
2023-2027	2,681,587	152,906	5,563,413
2028-2029	<u>839,766</u>	<u>48,018</u>	<u>2,405,234</u>
Totals	<u>\$19,325,355</u>	<u>\$1,065,118</u>	<u>\$19,129,645</u>

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2007

NOTE 8. LONG-TERM DEBT - Continued

California State Community Development Authority Series 2001B Revenue Bond

On August 1, 2001, the City issued Wastewater Revenue Bond in the principal amount of \$1,475,000. The bonds were part of the California Statewide Communities Development Authority Water and Wastewater Revenue Bond pooled financing program. The purpose of the bond is to construct certain improvements to the City of Pacific Grove's sewer system. Semi-annual interest payments are due on April 1 and October 1 and annual principal payments are due on October 1. Repayments are secured by future sewer service revenues. Interest rates on the bonds range from 3.25% to 5.125%. At June 30, 2007, annual debt service requirements to maturity are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 30,000	\$ 64,610
2009	30,000	63,515
2010	30,000	62,383
2011	35,000	61,113
2012	35,000	59,695
2013-2017	200,000	273,315
2018-2022	255,000	218,027
2023-2027	325,000	144,662
2028-2032	<u>410,000</u>	<u>53,000</u>
Totals	<u>\$1,350,000</u>	<u>\$1,000,320</u>

Capital Lease Obligations – business-type activities

Capital lease obligations are repayable from future revenues of the fund to which they have been assigned. At June 30, 2007, annual debt service requirements to maturity are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2008	\$16,454	\$2,028
2009	17,104	1,378
2010	<u>17,780</u>	<u>702</u>
Totals	<u>\$51,338</u>	<u>\$4,108</u>

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2007

NOTE 8. LONG-TERM DEBT - Continued

2004 Certificates of Participation (Golf Course Project)

On August 1, 2004, the City issued 2004 Certificates of Participation (Golf Course Project) in the principal amount of \$3,960,000. Proceeds were used to finance capital improvements to the City's municipal golf course. Semi-annual interest payments are due on February 1 and August 1 and annual principal payments are due on August 1. Repayments are secured by future revenues from the operation of the City's Golf Course Enterprise fund. Interest rates range from 2.75% to 5.75%. At June 30, 2007, annual debt service requirements to maturity are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 65,000	\$ 203,935
2009	70,000	201,485
2010	70,000	198,773
2011	75,000	195,779
2012	75,000	192,516
2013-2017	450,000	902,441
2018-2022	570,000	771,001
2023-2027	745,000	590,606
2028-2032	980,000	350,865
2033-2035	<u>730,000</u>	<u>63,280</u>
Totals	<u>\$3,830,000</u>	<u>\$3,670,681</u>

NOTE 9. NET ASSETS AND FUND BALANCES

Net Assets

The government-wide and proprietary fund financial statements utilize a net assets presentation. Net assets is classified as and displayed in three components:

- Invested in capital assets, net of related debt – Consists of the current net book value of the City's capital assets less the outstanding balances of any debt issued to finance these assets.
- Restricted net assets – Consists of net assets constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. A legally enforceable enabling legislation restriction is one that a party external to a government – such as citizens, public interest groups, or the judiciary – can compel a government to honor.

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2007

NOTE 9. NET ASSETS AND FUND BALANCES - Continued

- Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt” and are not restricted for any project or purpose.

Fund Balances

In the fund financial statements, governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated.

Reserved fund balances represent amounts that not available for appropriation or are not expendable financial resources. Reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the City management and can be increased, reduced or eliminated by similar actions.

As of June 30, 2007, reservations of fund balance are described below:

- Long-term loan receivable – to reflect the amount due from other governmental agency for the Housing Assistance Loans which are long-term in nature. Such amounts do not represent available spendable resources.
- Debt service – to reflect the funds held by trustees or fiscal agents for future payment of debt principal and interest. These funds are not available for general operations.

Portions of unreserved fund balance may be designated to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans or intent are subject to change and have not been legally authorized or may not result in expenditures.

As of June 30, 2007, designations of fund balance are described below:

- Contingencies – if available, this designation sets aside an amount equal to 10% of the previous year’s General Fund revenues.
- Tax interim – an amount equal to \$750,000 set aside to be available to assist in meeting annual cash flow demands.

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2007

NOTE 10. DEFICIT FUND EQUITY

The following funds had deficit fund balance at June 30, 2007:

Governmental Activities	
Governmental funds	
Nonmajor funds	
RSTP (TAMC)	\$ 47,164
Public Safety Augmentation	230,809
Storm Water	9,361

The following funds had deficit net assets at June 30, 2007:

Governmental Activities	
Internal Service funds	
Health Insurance	\$ 4,386
Workers' Compensation Insurance	1,822,545

The RSTP (TAMC) fund deficit resulted from reimbursable project costs from prior years not being billed to the Transportation Agency of Monterey County (TAMC) in a timely manner. Procedures have since been implemented to ensure that reimbursed costs from external agencies are submitted on a timely basis for better matching of revenues and expenditures to the period in which they are incurred.

The Public Safety Augmentation fund deficit resulted from a prior period adjustment. The County of Monterey bills cities for emergency communication services in arrears. Historically, the invoice for each fiscal year is received in September of the following fiscal year. The City's practice has been to pay the prior year's service invoice using current year revenues. A prior period adjustment was made applying the invoice paid in 2006-2007 to fiscal year 2005-2006 and accruing the invoice received and paid in September 2007 to fiscal year 2006-2007.

The Storm Water fund deficit resulted from a delay in submitting an invoice for reimbursement. During this delay the fund was overdrawn in cash and interest was assessed. Procedures have since been implemented to ensure that reimbursed costs from external agencies are submitted on a timely basis for better matching of revenues and expenditures to the period in which they are incurred.

The Health Insurance fund resulted from inadequate annual transfers from operating funds to the internal service fund. The deficit will be eliminated in future years' budgets.

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2007

NOTE 10. DEFICIT FUND EQUITY - Continued

The Workers' Compensation Insurance fund deficit resulted from a historical mismatch between claims activity and aggregate charges to departments based on claim activity. Although the city made additional transfers to reduce the deficit, the remainder of the deficit will be closed through an improved cost allocation model and additional operating transfers in future years.

NOTE 11. PENSION PLANS

Substantially all City employees are eligible to participate in pension plans offered by California Employees Retirement System (CALPERS), an agent of the cost-sharing multiple-employer defined benefit pension plan which acts as common investment and administrative agent for its participating member employers. CALPERS provides retirement, disability, and death benefits based on the employees' years of service, age, and final compensation. The City's employees participate in the separate Safety (police and fire) and Miscellaneous (all other) Employee Plans. Benefit provisions under both Plans are established by State statute and City resolution. Benefits are based on years of credited service.

The Plans' provisions and benefits are summarized as follows:

	<u>Safety</u>	<u>Miscellaneous</u>
Benefit vesting schedule (credited service)	5 years	5 years
Benefit payments	Monthly for life	Monthly for life
Retirement age	50	55
Monthly benefit, as a % of annual salary	3%	2%
Required employee contribution rates	9%	7%
Required employer contribution rates	38.852%	19.266%

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the City must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liability.

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2007

NOTE 11. PENSION PLANS - Continued

CALPERS uses the market valuation method of valuing the Plan's assets. An investment rate of return of 7.75% (net of administrative expenses) is assumed, including inflation at 3.0%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and ten percent of the net balance is amortized annually.

Effective July 1, 2005, the City's Miscellaneous and Safety Plans were joined into State-wide risk pools. The Risk Pool's latest history of funded status and funding progress are as follows (amounts in millions):

<u>Valuation Date</u>	<u>Accrued Liabilities</u>	<u>Actuarial Assets</u>	<u>Unfunded Liabilities (UL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UL as % of Payroll</u>
<i><u>Safety Plan:</u></i>						
6/30/2003	\$4,271	\$3,578	\$ 693	83.8%	\$476	145.5%
6/30/2004	5,384	4,425	959	82.2%	575	166.8%
6/30/2005	6,367	5,295	1,072	83.2%	664	161.4%
<i><u>Miscellaneous Plan:</u></i>						
6/30/2003	\$2,597	\$2,373	\$224	91.4%	\$725	30.9%
6/30/2004	2,746	2,461	285	89.6%	744	38.3%
6/30/2005	2,891	2,589	303	89.5%	755	40.1%

Audited annual financial statements are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

Actuarially required contributions for fiscal years 2007, 2006, and 2005 were \$2,588,511, \$2,105,715, and \$2,152,237 respectively. The current year's required contribution was determined as part of the June 30, 2004 actuarial valuation. The City made these contributions as required, together with certain immaterial amounts required as the result of the payment of overtime and other additional employee compensation. The City does not have a net pension obligation since it pays these actuarially required contributions monthly.

In June 2006 the City issued Pension Obligation Bonds to refinance the unfunded portion of the City's total CalPERS liability at a lower rate than that which would have been paid directly to CalPERS (7.75%). Interest rates on the bonds range from 5.67% to 6.12%.

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2007

NOTE 12. PUBLIC AGENCY RETIREMENT SYSTEM

The Omnibus Budget Reconciliation Act of 1990 (OBRA) mandates that public sector employees who are not members of their employer's existing retirement system as of January 1, 1992 be covered by either Social Security or an alternative plan. Effective May 22, 2006, the City contracted with the Public Agency Retirement System (PARS), a defined contribution plan. This Plan covers part-time, seasonal and temporary employees and all employees not covered by another retirement system. All eligible employees covered by the Plan are fully vested. Employer liabilities are limited to the amount of current contributions.

Under PARS, employees contribute 6.2% and the City contributes 6.2% of the employees' salary each pay period. For the fiscal year ending June 30, 2007, total contributions of \$115,650 were made.

NOTE 13. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

The City provides limited health care benefits through PERS to retired employees. Benefits provided require sharing of cost from retirees eligible to participate in the program. During the year ended June 30, 2007, the City paid \$28,350 for its share of benefits on behalf of 18 participants.

NOTE 14. RISK MANAGEMENT

A. Insurance Coverage

The City is a member of the Public Agency Risk Sharing Authority of California (PARSAC), a joint powers authority which provides annual general liability coverage up to \$14,000,000 in the aggregate. The City retains the risk for the first \$100,000 in the general liability claims.

PARSAC is governed by a board consisting of representatives from member municipalities. The board controls the operations of PARSAC, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the Board.

The City's premiums are based upon the following factors: claims history, total payroll, the City's exposure, the results of an on-site underwriting inspection, total insurable values, and employee classification ratings. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating which generally occurs in the third year after the completion of the program year.

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2007

NOTE 14. RISK MANAGEMENT - Continued

Financial statements for the Authority may be obtained from PARSAC, 1525 Response Road, Suite One, Sacramento, CA 95815.

The City is a member of the California Public Entity Insurance Authority (CPEIA); a joint power authority which provides excess worker's compensation liability claims coverage above the City's self-insured retention of \$100,000 per occurrence. Losses above the self-insured retention are pooled with excess reinsurance purchased to a \$45,000,000 limit. CPEIA was established for the purpose of creating a risk management pool for all California public entities. CPEIA is governed by a Board of Directors consisting of representatives of its member public entities.

As of July 1, 2006 the City joined PARSAC for its worker's compensation liability coverage.

B. Liability for Uninsured Claims

Municipalities are required to record their liability for uninsured claims and reflect the current portion of this liability as an expenditure in their financial statements. As discussed, above, the City has coverage for such claims, but it has retained the risk for the deductible, or uninsured portion of these claims.

The City's liability for uninsured claims is limited to worker's compensation, general liability and medical and vision care claims, as discussed above, and was estimated by management based on prior years' claims experience as follows:

	<u>Workers'</u> <u>Compensation</u>	<u>Liability</u> <u>Insurance</u>	<u>Total</u>
Ending balance, June 30, 2006	\$1,650,418	\$394,979	\$2,045,397
Incurred claims and changes in estimate	442,677	(59,262)	351,395
Claim payments	(<u>273,997</u>)	(<u>11,851</u>)	(<u>253,828</u>)
Ending balance, June 30, 2007	<u>\$1,819,098</u>	<u>\$323,866</u>	<u>\$2,146,964</u>
Due within one year	<u>\$541,154</u>	<u>\$131,918</u>	<u>\$673,072</u>

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2007

NOTE 15. COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards, and Grants

The City has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. If the review or audit discloses exceptions, the City may incur a liability to grantor agencies.

B. Litigation

The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney there are only some of these matters that may prove to be detrimental to the city. The total of these litigations, amounting to \$190,000 have been reserved by the city.

NOTE 16. SUBSEQUENT EVENTS

The City pooled with California counties, cities and other local agencies to issue the California Communities Tax and Revenue Anticipation Note (TRAN), at 4.5% interest rate and yield of 3.64%, with the City's portion in the amount of \$3,000,000. The TRAN document is dated June 8, 2007 with delivery of note participations on or about July 2, 2007. Tax and Revenue Anticipation Notes are issued as part of a cash management policy to maintain the City's working capital until sufficient taxes or revenues are collected to fund the City's operations. The notes are due June 30, 2008 and are collateralized by fiscal year 2007-2008 unrestricted revenues.

NOTE 17. PRIOR PERIOD ADJUSTEMENTS

Several prior period adjustments have been recorded to correct the City's net assets & fund balances from last year's adverse opinion. These are mostly adjustments on capital assets, accreted interest and expenditure cut-off.

Required Supplementary Information
(other than MD&A)



CITY OF PACIFIC GROVE, CALIFORNIA
Budgetary Comparison Schedule - General Fund
Year Ended June 30, 2007

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Budgetary Balances, Beginning	\$ 1,186,125	\$ 1,186,125	\$ 1,186,125	\$ -
Resources (inflows)				
Property tax	3,604,000	3,604,000	3,567,809	(36,191)
Sales tax	1,771,067	1,771,067	1,750,518	(20,549)
Transient occupancy tax	3,120,000	3,120,000	3,219,361	99,361
Franchise tax	867,000	867,000	691,680	(175,320)
Utility users	1,283,000	1,283,000	1,375,553	92,553
Business license	310,000	310,000	300,580	(9,420)
Real estate transfer tax	148,000	148,000	78,053	(69,947)
Licenses and permits	610,000	610,000	465,545	(144,455)
Fines, forfeitures and penalties	86,000	86,000	49,419	(36,581)
Intergovernmental	1,507,654	1,507,654	1,427,351	(80,303)
Charges for current services	1,535,800	1,535,800	1,184,034	(351,766)
Use of money and property	285,500	261,500	142,313	(119,187)
Interdepartmental charges	574,600	574,600	578,361	3,761
Other	74,000	74,000	23,666	(50,334)
Transfers in	-	334,266	-	(334,266)
Amounts Available for Appropriation	15,776,621	16,086,887	14,854,243	(1,232,644)
Charges to appropriations (outflows)				
Current				
Public safety				
Police	4,678,098	3,903,383	4,019,344	(115,961)
Fire	2,760,260	2,785,015	2,727,070	57,945
General administration	1,730,357	2,157,426	1,998,035	159,391
Public works	1,867,982	1,817,983	1,813,059	4,924
Recreation	971,726	936,726	876,534	60,192
Library	1,024,903	910,103	889,489	20,614
Community development & building inspection	1,058,680	1,044,680	956,740	87,940
Museum	305,023	295,023	294,456	567
Capital outlay	-	-	38,191	(38,191)
Debt service				
Principal	-	-	40,000	(40,000)
Interest and fiscal charges	-	-	2,099	(2,099)
Transfers out	1,530,738	1,552,294	1,552,294	-
Total Charges to Appropriation	15,927,767	15,402,633	15,207,311	195,322
Budgetary Balances, Ending	\$ 1,034,979	\$ 1,870,379	\$ 833,057	\$ (1,037,322)

Continued

CITY OF PACIFIC GROVE, CALIFORNIA
Budgetary Comparison Schedule - General Fund
Year Ended June 30, 2007

**Explanation of Differences between Budgetary Inflows and Outflows
and GAAP Revenues and Expenditures**

Sources/Inflows of Resources

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 14,854,243
Differences - budget to GAAP:	<u>-</u>
Total Revenues as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	<u>\$ 14,854,243</u>

Uses/Outflows of Resources

Actual amounts (budgetary basis) "total charges to appropriation" from the budgetary comparison schedule	\$ 15,207,311
Differences - budget to GAAP:	<u>-</u>
Total Expenditures as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	<u>\$ 13,655,017</u>
	Concluded

Supplementary Information



Nonmajor Governmental Funds

CITY OF PACIFIC GROVE, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2007

SPECIAL REVENUE FUNDS

These funds account for the proceeds of specific revenue sources which are legally restricted to expenditures for specific purposes.

Carillon Acquisition & Maintenance. This fund is for donations designated for the maintenance of the tower clock and chimes system at City Hall.

Ocean Rescue. This fund is for donations to the Ocean Rescue program and fees generated by the use of the hyperbaric chamber at the Fire Department.

Library Building & Equipment. This fund is for donations designated for improvements to the City Library.

Museum Improvement. This fund is for donations designated for improvements to the Museum facility.

Library Book. This fund accounts for donations designated for the purchase of books for the City Library.

Fire Dept. Emergency Equipment. This fund accounts for grants, fees and donations in support of Fire Department safety programs.

Civic Center Site. This fund accounts for funds dedicated to the maintenance and improvement of City Hall and surrounding property, and revenues derived from the use of City owned buildings in that area..

Housing Program. This fund accounts for housing program loans under a federal program funded by CDBG.

Traffic Congestion Relief. This fund accounts for resources received from the State to provide for traffic improvements that facilitate the flow of traffic.

State Gas Tax. This fund accounts for the expenditures of State Gas Tax monies received.

RSTP (TAMC). This fund accounts for allocations from the Regional Surface Transportation Program for street and sidewalk improvements.

Drug Awareness (DARE). This fund accounts for revenues designated for the Drug Awareness and Resistance Program directed by the Police Department.

(LLEBG) Law Enforcement Block Grant. This fund accounts for federal LLEBG grant funds used in support of specific local law enforcement programs.

Environmental Enhancement. This fund accounts for revenues associated with Coastal Area Planning grants, coastal area land use, and Environmental Impact Report deposit funds.

Recreation Donation. This fund accounts for donations in support of youth programs through the Recreation Department. This fund was previously named Youth Center.

CITY OF PACIFIC GROVE, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2007

SPECIAL REVENUE FUNDS - Continued

Chautauqua Hall Preservation. This fund accounts for revenues designated for the maintenance and improvement of the historic Chautauqua Hall building.

Lighthouse Maintenance & Improvement. This fund accounts for any expenses and/or any donations, proceeds, or operating transfers received related to the maintenance and improvement of the Point Pinos Lighthouse.

Senior Housing. This fund accounts for senior housing activities.

Vehicle Replacement. This fund accounts for the purchase of City vehicles.

Housing Rehabilitation (DPRL). This fund accounts for the revolving loan funds used in the City's Housing Rehabilitation Loan Program managed by the Community Development Department.

Yount Trust Income. This fund accounts for income from the expendable portion of the Yount Trust.

Public Safety Augmentation. This fund accounts for revenue resulting from the passage of Proposition 172, designated for Public Safety related programs.

Supplemental Law Enforcement (SLES). This fund accounts for grants designated for the improvement of the law enforcement program.

Storm Water Fund. This fund accounts for all storm water activities.

Ocean Front Restoration. This fund accounts for grants and donations designated for the maintenance and improvement to the City's coastline area. This fund was previously named Rocky Shores Preservation.

Poetry Promotion fund. This fund accounts for the income from a bequest to the City designated for the promotion of poetry in the community.

CAPITAL PROJECT FUND

Buildings & Facilities Improvement. This fund accounts for funds used for the acquisition, construction and improvement of City facilities, with the exception of those assets financed by proprietary funds.

DEBT SERVICE FUND

This fund is used for the accumulation of resources for, and payment of, general long-term debt principal and interest.

1990 Butterfly Habitat Bond. This fund accounts for payment of City bonds issued for the purchase of the property known as the Butterfly Habitat.

CITY OF PACIFIC GROVE, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2007

PERMANENT FUNDS

These funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs – that is, for the benefit of the government or its citizenry.

Library Endowment Trust. This fund accounts for the principal corpus of this endowment.

Cemetery Endowment Trust. This fund accounts for the principal corpus of this endowment.

Yount Trust. This fund accounts for the principal corpus of this endowment.



CITY OF PACIFIC GROVE, CALIFORNIA
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2007

	<u>Special Revenue</u>			
	<u>Carillon Acquisition & Maintenance</u>	<u>Ocean Rescue</u>	<u>Library Building & Equipment</u>	<u>Museum Improvement</u>
<u>Assets</u>				
Cash and investments				
Available for operations	\$ 18,526	\$ 26,556	\$ 435,341	\$ 332,807
Held in trust	-	-	-	-
Receivables				
Accounts	-	-	-	-
Loans	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	\$ <u>18,526</u>	\$ <u>26,556</u>	\$ <u>435,341</u>	\$ <u>332,807</u>
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 47	\$ -	\$ -
Accrued wages and benefits	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>-</u>	<u>47</u>	<u>-</u>	<u>-</u>
<u>Fund Balances</u>				
Reserved for				
Long-term loan receivable	-	-	-	-
Debt service	-	-	-	-
Unreserved, reported in				
Special revenue funds	18,526	26,509	435,341	332,807
Capital projects funds	-	-	-	-
Permanent funds	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balance	<u>18,526</u>	<u>26,509</u>	<u>435,341</u>	<u>332,807</u>
Total Liabilities and Fund Balances	\$ <u>18,526</u>	\$ <u>26,556</u>	\$ <u>435,341</u>	\$ <u>332,807</u>

Special Revenue						
Library Book	Fire Dept. Emergency Equipment	Civic Center Site	Housing Program	Traffic Congestion Relief	State Gas Tax	RSTP (TAMC)
\$ 30,202	\$ 23,449	\$ 10,644	\$ 267,495	\$ 100,193	\$ 75,116	\$ (126,763)
-	-	-	-	-	-	-
-	-	-	-	-	4,017	84,336
-	-	-	760,139	-	-	-
<u>\$ 30,202</u>	<u>\$ 23,449</u>	<u>\$ 10,644</u>	<u>\$ 1,027,634</u>	<u>\$ 100,193</u>	<u>\$ 79,133</u>	<u>\$ (42,427)</u>
\$ 110	\$ -	\$ -	\$ 14	\$ -	\$ 383	\$ -
-	-	-	1,795	-	3,213	723
<u>110</u>	<u>-</u>	<u>-</u>	<u>1,809</u>	<u>-</u>	<u>3,596</u>	<u>723</u>
-	-	-	760,139	-	-	-
-	-	-	-	-	-	-
30,092	23,449	10,644	265,686	100,193	75,537	(43,150)
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>30,092</u>	<u>23,449</u>	<u>10,644</u>	<u>1,025,825</u>	<u>100,193</u>	<u>75,537</u>	<u>(43,150)</u>
<u>\$ 30,202</u>	<u>\$ 23,449</u>	<u>\$ 10,644</u>	<u>\$ 1,027,634</u>	<u>\$ 100,193</u>	<u>\$ 79,133</u>	<u>\$ (42,427)</u>

Continued

CITY OF PACIFIC GROVE, CALIFORNIA
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2007

	Special Revenue			
	Drug Awareness (DARE)	(LLEBG) Law Enforcement Block Grant	Environmental Enhancement	Recreation Donation
<u>Assets</u>				
Cash and investments				
Available for operations	\$ 10,523	\$ 51	\$ 16,398	\$ 4,206
Held in trust	-	-	-	-
Receivables				
Accounts	-	-	-	-
Loans	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	\$ <u>10,523</u>	\$ <u>51</u>	\$ <u>16,398</u>	\$ <u>4,206</u>
<u>Liabilities</u>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued wages and benefits	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Fund Balances</u>				
Reserved for				
Long-term loan receivable	-	-	-	-
Debt service	-	-	-	-
Unreserved, reported in				
Special revenue funds	10,523	51	16,398	4,206
Capital projects funds	-	-	-	-
Permanent funds	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balance	<u>10,523</u>	<u>51</u>	<u>16,398</u>	<u>4,206</u>
Total Liabilities and Fund Balances	\$ <u>10,523</u>	\$ <u>51</u>	\$ <u>16,398</u>	\$ <u>4,206</u>

Special Revenue

<u>Chautauqua Hall Preservation</u>	<u>Lighthouse Maintenance & Improvement</u>	<u>Senior Housing</u>	<u>Vehicle Replacement</u>	<u>Housing Rehabilitation (DPRL)</u>	<u>Yount Trust Income</u>	<u>Public Safety Augmentation</u>
\$ 7,901	\$ 22,576	\$ 7,236	\$ 20,291	\$ (39,928)	\$ 28,977	\$ 6,877
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	632,279	-	-
<u>\$ 7,901</u>	<u>\$ 22,576</u>	<u>\$ 7,236</u>	<u>\$ 20,291</u>	<u>\$ 592,351</u>	<u>\$ 28,977</u>	<u>\$ 6,877</u>
\$ -	\$ -	\$ -	\$ -	\$ 67	\$ 21	\$ 230,744
-	-	-	-	132	897	-
-	-	-	-	199	918	230,744
-	-	-	-	632,279	-	-
-	-	-	-	-	-	-
7,901	22,576	7,236	20,291	(40,127)	28,059	(223,867)
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>7,901</u>	<u>22,576</u>	<u>7,236</u>	<u>20,291</u>	<u>592,152</u>	<u>28,059</u>	<u>(223,867)</u>
<u>\$ 7,901</u>	<u>\$ 22,576</u>	<u>\$ 7,236</u>	<u>\$ 20,291</u>	<u>\$ 592,351</u>	<u>\$ 28,977</u>	<u>\$ 6,877</u>

Continued

CITY OF PACIFIC GROVE, CALIFORNIA
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2007

	Special Revenue			
	Supplemental			
	Law	Storm	Ocean	Poetry
	Enforcement	Water	Front	Promotion
	(SLES)	Fund	Restoration	Fund
<u>Assets</u>				
Cash and investments				
Available for operations	\$ 31,543	\$ (961,079)	\$ 1,046,742	\$ 129,226
Held in trust	-	-	-	-
Receivables				
Accounts	-	1,060,889	-	-
Loans	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	\$ <u>31,543</u>	\$ <u>99,810</u>	\$ <u>1,046,742</u>	\$ <u>129,226</u>
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 78,621	\$ -	\$ 35
Accrued wages and benefits	-	-	9	-
	<u>-</u>	<u>-</u>	<u>9</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>78,621</u>	<u>9</u>	<u>35</u>
<u>Fund Balances</u>				
Reserved for				
Long-term loan receivable	-	-	-	-
Debt service	-	-	-	-
Unreserved, reported in				
Special revenue funds	31,543	21,189	1,046,733	129,191
Capital projects funds	-	-	-	-
Permanent funds	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balance	<u>31,543</u>	<u>21,189</u>	<u>1,046,733</u>	<u>129,191</u>
Total Liabilities and Fund Balances	\$ <u>31,543</u>	\$ <u>99,810</u>	\$ <u>1,046,742</u>	\$ <u>129,226</u>

Capital Project	Debt Service	Permanent			
Buildings & Facilities Improvement	1990 Butterfly Habitat Bond	Library Endowment Trust	Cemetery Endowment Trust	Yount Trust	Total
\$ 380,302	\$ 46,151	\$ 377,674	\$ 901,478	\$ -	\$ 3,230,711
-	-	-	-	844,135	844,135
-	-	-	-	-	1,149,242
-	-	-	-	-	1,392,418
<u>\$ 380,302</u>	<u>\$ 46,151</u>	<u>\$ 377,674</u>	<u>\$ 901,478</u>	<u>\$ 844,135</u>	<u>\$ 6,616,506</u>
\$ -	\$ -	\$ 133	\$ -	\$ -	\$ 310,175
-	-	-	-	-	6,769
-	-	133	-	-	316,944
-	-	-	-	-	1,392,418
-	46,151	-	-	-	46,151
-	-	-	-	-	2,357,537
380,302	-	-	-	-	380,302
-	-	377,541	901,478	844,135	2,123,154
<u>380,302</u>	<u>46,151</u>	<u>377,541</u>	<u>901,478</u>	<u>844,135</u>	<u>6,299,562</u>
<u>\$ 380,302</u>	<u>\$ 46,151</u>	<u>\$ 377,674</u>	<u>\$ 901,478</u>	<u>\$ 844,135</u>	<u>\$ 6,616,506</u>
					Concluded

CITY OF PACIFIC GROVE, CALIFORNIA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended June 30, 2007

	Special Revenue			
	Carillon Acquisition & Maintenance	Ocean Rescue	Library Building & Equipment	Museum Improvement
<u>Revenues</u>				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-
Charges for current services	-	28,401	-	-
Use of money and property	-	-	-	-
Other	-	-	665	27,963
	<u>-</u>	<u>-</u>	<u>665</u>	<u>27,963</u>
Total Revenues	<u>-</u>	<u>28,401</u>	<u>665</u>	<u>27,963</u>
<u>Expenditures</u>				
Current				
Public safety				
Police	-	-	-	-
Fire	-	-	-	-
General administration	-	-	-	-
Public works	4,303	19,083	-	-
Library	-	-	107,995	-
Community development & building inspection	-	-	-	-
Museum	-	-	-	90,099
Capital outlay	-	-	-	81,485
Debt service				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>4,303</u>	<u>19,083</u>	<u>107,995</u>	<u>171,584</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(4,303)</u>	<u>9,318</u>	<u>(107,330)</u>	<u>(143,621)</u>
<u>Other Financing Sources (Uses)</u>				
Proceeds from capital lease	-	-	-	-
Transfers in	1,300	-	-	-
Transfers out	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net other financing sources (uses)	<u>1,300</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>(3,003)</u>	<u>9,318</u>	<u>(107,330)</u>	<u>(143,621)</u>
Fund Balances, Beginning	21,529	17,191	542,671	476,428
Prior Period Adjustments	-	-	-	-
Restated Fund Balances, Beginning	<u>21,529</u>	<u>17,191</u>	<u>542,671</u>	<u>476,428</u>
Fund Balances, Ending	<u>\$ 18,526</u>	<u>\$ 26,509</u>	<u>\$ 435,341</u>	<u>\$ 332,807</u>

Special Revenue

Library Book	Fire Dept. Emergency Equipment	Civic Center Site	Housing Program	Traffic Congestion Relief	State Gas Tax	RSTP (TAMC)	Drug Awareness (DARE)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	34,282	134,729	191,685	182,579	-
-	15,404	16,500	141,273	-	-	-	-
-	-	28,601	-	-	-	13,114	-
<u>52,061</u>	<u>5,099</u>	<u>-</u>	<u>8,119</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>120</u>
<u>52,061</u>	<u>20,503</u>	<u>45,101</u>	<u>183,674</u>	<u>134,729</u>	<u>191,685</u>	<u>195,693</u>	<u>120</u>
-	-	-	-	-	-	-	19,608
-	8,504	-	-	-	-	-	-
-	-	1,170	-	-	-	-	-
-	-	-	-	24,807	222,889	56,650	-
37,350	-	-	-	-	-	-	-
-	-	-	192,741	-	-	-	-
-	-	-	-	-	-	-	-
-	30,778	-	-	56,000	2,049	102,498	-
-	-	165,795	-	-	-	-	-
-	-	56,998	-	-	-	-	-
<u>37,350</u>	<u>39,282</u>	<u>223,963</u>	<u>192,741</u>	<u>80,807</u>	<u>224,938</u>	<u>159,148</u>	<u>19,608</u>
<u>14,711</u>	<u>(18,779)</u>	<u>(178,862)</u>	<u>(9,067)</u>	<u>53,922</u>	<u>(33,253)</u>	<u>36,545</u>	<u>(19,488)</u>
-	-	-	-	-	-	-	-
-	-	190,578	-	-	-	-	-
-	-	-	-	-	(4,000)	-	-
-	-	190,578	-	-	(4,000)	-	-
14,711	(18,779)	11,716	(9,067)	53,922	(37,253)	36,545	(19,488)
15,381	42,228	(1,072)	1,034,892	46,271	112,790	(79,695)	30,011
-	-	-	-	-	-	-	-
<u>15,381</u>	<u>42,228</u>	<u>(1,072)</u>	<u>1,034,892</u>	<u>46,271</u>	<u>112,790</u>	<u>(79,695)</u>	<u>30,011</u>
<u>\$ 30,092</u>	<u>\$ 23,449</u>	<u>\$ 10,644</u>	<u>\$ 1,025,825</u>	<u>\$ 100,193</u>	<u>\$ 75,537</u>	<u>\$ (43,150)</u>	<u>\$ 10,523</u>

Continued

CITY OF PACIFIC GROVE, CALIFORNIA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended June 30, 2007

	Special Revenue			
	(LLEBG) Law Enforcement Block Grant	Environmental Enhancement	Recreation Donation	Chautauqua Hall Preservation
<u>Revenues</u>				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-
Charges for current services	-	-	-	2,500
Use of money and property	-	-	-	-
Other	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,500</u>
<u>Expenditures</u>				
Current				
Public safety				
Police	13	-	-	-
Fire	-	-	-	-
General administration	-	-	-	-
Public works	-	-	-	-
Library	-	-	-	-
Community development & building inspection	-	4,071	1,044	1,762
Museum	-	-	-	-
Capital outlay	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>13</u>	<u>4,071</u>	<u>1,044</u>	<u>1,762</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(13)</u>	<u>(4,071)</u>	<u>(1,044)</u>	<u>738</u>
<u>Other Financing Sources (Uses)</u>				
Proceeds from capital lease	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>(13)</u>	<u>(4,071)</u>	<u>(1,044)</u>	<u>738</u>
Fund Balances, Beginning	64	20,469	5,250	7,163
Prior Period Adjustments	-	-	-	-
Restated Fund Balances, Beginning	<u>64</u>	<u>20,469</u>	<u>5,250</u>	<u>7,163</u>
Fund Balances, Ending	<u>\$ 51</u>	<u>\$ 16,398</u>	<u>\$ 4,206</u>	<u>\$ 7,901</u>

Special Revenue						
Lighthouse Maintenance & Improvement	Senior Housing	Vehicle Replacement	Housing Rehabilitation (DPRL)	Yount Trust Income	Public Safety Augmentation	Supplemental Law Enforcement (SLES)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	144,971	-	111,662	100,000
23,891	-	-	-	-	-	-
-	-	22,755	7,652	28,956	22,680	-
-	-	-	1,353	-	-	-
<u>23,891</u>	<u>-</u>	<u>22,755</u>	<u>153,976</u>	<u>28,956</u>	<u>134,342</u>	<u>100,000</u>
-	-	-	-	-	230,744	52,192
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	30,606	-	-
-	-	-	-	-	-	-
1,315	1,796	-	41,459	-	-	-
-	-	-	-	-	-	-
-	-	410,134	-	-	-	90,049
-	-	154,956	-	-	-	-
-	-	21,829	-	-	-	-
<u>1,315</u>	<u>1,796</u>	<u>586,919</u>	<u>41,459</u>	<u>30,606</u>	<u>230,744</u>	<u>142,241</u>
<u>22,576</u>	<u>(1,796)</u>	<u>(564,164)</u>	<u>112,517</u>	<u>(1,650)</u>	<u>(96,402)</u>	<u>(42,241)</u>
-	-	410,134	-	-	-	-
-	-	195,781	-	-	110,000	-
-	-	-	-	(1,720)	-	-
-	-	605,915	-	(1,720)	110,000	-
22,576	(1,796)	41,751	112,517	(3,370)	13,598	(42,241)
-	9,032	(21,460)	479,635	31,429	(19,157)	73,784
-	-	-	-	-	(218,308)	-
<u>-</u>	<u>9,032</u>	<u>(21,460)</u>	<u>479,635</u>	<u>31,429</u>	<u>(237,465)</u>	<u>73,784</u>
<u>\$ 22,576</u>	<u>\$ 7,236</u>	<u>\$ 20,291</u>	<u>\$ 592,152</u>	<u>\$ 28,059</u>	<u>\$ (223,867)</u>	<u>\$ 31,543</u>

Continued

CITY OF PACIFIC GROVE, CALIFORNIA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended June 30, 2007

	Special Revenue			Capital Project
	Storm Water Fund	Ocean Front Restoration	Poetry Promotion Fund	Buildings & Facilities Improvement
<u>Revenues</u>				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	1,453,279	800,000	-	21,972
Charges for current services	-	-	-	-
Use of money and property	99,810	-	-	-
Other	188	-	2,425	-
Total Revenues	<u>1,553,277</u>	<u>800,000</u>	<u>2,425</u>	<u>21,972</u>
<u>Expenditures</u>				
Current				
Public safety				
Police	-	-	-	-
Fire	-	-	-	-
General administration	-	-	-	-
Public works	26,076	94,575	-	-
Library	-	-	36,282	-
Community development & building inspection	-	-	-	45,839
Museum	-	-	-	-
Capital outlay	1,305,385	618	-	-
Debt service				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total Expenditures	<u>1,331,461</u>	<u>95,193</u>	<u>36,282</u>	<u>45,839</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>221,816</u>	<u>704,807</u>	<u>(33,857)</u>	<u>(23,867)</u>
<u>Other Financing Sources (Uses)</u>				
Proceeds from capital lease	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Net other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	221,816	704,807	(33,857)	(23,867)
Fund Balances, Beginning	(200,627)	341,926	163,048	404,169
Prior Period Adjustments	-	-	-	-
Restated Fund Balances, Beginning	<u>(200,627)</u>	<u>341,926</u>	<u>163,048</u>	<u>404,169</u>
Fund Balances, Ending	<u>\$ 21,189</u>	<u>\$ 1,046,733</u>	<u>\$ 129,191</u>	<u>\$ 380,302</u>

Debt Service	Permanent			
1990 Butterfly Habitat Bond	Library Endowment Trust	Cemetery Endowment Trust	Yount Trust	Total
\$ 112,993	\$ -	\$ -	\$ -	\$ 112,993
915	-	-	-	3,176,074
-	-	60,899	-	288,868
789	-	-	-	224,357
-	-	-	-	97,993
<u>114,697</u>	<u>-</u>	<u>60,899</u>	<u>-</u>	<u>3,900,285</u>
-	-	-	-	302,557
-	-	-	-	8,504
-	-	-	-	1,170
-	-	-	7,232	486,221
-	6,215	-	-	187,842
-	-	-	-	290,027
-	-	-	-	90,099
-	-	-	-	2,078,996
55,312	-	-	-	376,063
<u>36,576</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>115,403</u>
<u>91,888</u>	<u>6,215</u>	<u>-</u>	<u>7,232</u>	<u>3,936,882</u>
<u>22,809</u>	<u>(6,215)</u>	<u>60,899</u>	<u>(7,232)</u>	<u>(36,597)</u>
-	-	-	-	410,134
-	-	-	-	497,659
-	-	-	-	(5,720)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>902,073</u>
22,809	(6,215)	60,899	(7,232)	865,476
23,342	383,756	840,579	851,367	5,652,394
-	-	-	-	(218,308)
<u>23,342</u>	<u>383,756</u>	<u>840,579</u>	<u>851,367</u>	<u>5,434,086</u>
<u>\$ 46,151</u>	<u>\$ 377,541</u>	<u>\$ 901,478</u>	<u>\$ 844,135</u>	<u>\$ 6,299,562</u>
				Concluded



Internal Service Funds

CITY OF PACIFIC GROVE, CALIFORNIA
INTERNAL SERVICE FUNDS
June 30, 2007

Internal service funds are used to account for special activities and services performed by a designated City department for other departments on a cost reimbursement basis. The internal service funds used by the City are listed below:

Health Insurance

Workers' Compensation Insurance

Liability Insurance

These funds accumulate costs of the City's health, workers' compensation and liability and risk management programs, the costs of which are charged against City operating programs.

CITY OF PACIFIC GROVE, CALIFORNIA
Combining Statement of Fund Net Assets - Proprietary Funds - Internal Service Funds
June 30, 2007

	Health Insurance	Workers' Compensation Insurance	Liability Insurance	Total
<u>Assets</u>				
Current Assets				
Cash and investments				
Available for operations	\$ 4,127	\$ 6,980	\$ 438,290	\$ 449,397
Total Assets	<u>\$ 4,127</u>	<u>\$ 6,980</u>	<u>\$ 438,290</u>	<u>\$ 449,397</u>
<u>Liabilities</u>				
Current Liabilities				
Accounts payable	\$ 2,790	\$ 7,603	\$ -	\$ 10,393
Accrued wages and benefits	4,768	13	13	4,794
Claims payable	<u>-</u>	<u>541,154</u>	<u>131,918</u>	<u>673,072</u>
Total Current Liabilities	<u>7,558</u>	<u>548,770</u>	<u>131,931</u>	<u>688,259</u>
Noncurrent Liabilities				
Claims payable	<u>-</u>	<u>1,277,944</u>	<u>191,948</u>	<u>1,469,892</u>
Total Noncurrent Liabilities	<u>-</u>	<u>1,277,944</u>	<u>191,948</u>	<u>1,469,892</u>
Total Liabilities	<u>7,558</u>	<u>1,826,714</u>	<u>323,879</u>	<u>2,158,151</u>
<u>Net Assets</u>				
Unrestricted	<u>(3,431)</u>	<u>(1,819,734)</u>	<u>114,411</u>	<u>(1,708,754)</u>
Total Net Assets	<u>(3,431)</u>	<u>(1,819,734)</u>	<u>114,411</u>	<u>(1,708,754)</u>
Total Liabilities and Net Assets	<u>\$ 4,127</u>	<u>\$ 6,980</u>	<u>\$ 438,290</u>	<u>\$ 449,397</u>

CITY OF PACIFIC GROVE, CALIFORNIA
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets -
Proprietary Funds - Internal Service Funds
Year Ended June 30, 2007

	Health Insurance	Workers' Compensation Insurance	Liability Insurance	Total
<u>Operating Revenues</u>				
Charges for current services	\$ 109,330	\$ 785,697	\$ -	\$ 895,027
Other	<u>3,123</u>	<u>9,187</u>	<u>32,352</u>	<u>44,662</u>
Total Operating Revenues	<u>112,453</u>	<u>794,884</u>	<u>32,352</u>	<u>939,689</u>
<u>Operating Expenses</u>				
Personnel services	-	27,589	27,589	55,178
Operating services	90,664	303,159	228,600	622,423
Insurance, claims and settlements	<u>51,220</u>	<u>442,677</u>	<u>(59,262)</u>	<u>434,635</u>
Total Operating Expenses	<u>141,884</u>	<u>773,425</u>	<u>196,927</u>	<u>1,112,236</u>
Operating Income (Loss)	<u>(29,431)</u>	<u>21,459</u>	<u>(164,575)</u>	<u>(172,547)</u>
Transfers in	<u>26,000</u>	<u>383,935</u>	<u>650,000</u>	<u>1,059,935</u>
Change in Net Assets	<u>(3,431)</u>	<u>405,394</u>	<u>485,425</u>	<u>887,388</u>
Net Assets, Beginning	<u>-</u>	<u>(2,225,128)</u>	<u>(371,014)</u>	<u>(2,596,142)</u>
Net Assets, Ending	<u>\$ (3,431)</u>	<u>\$ (1,819,734)</u>	<u>\$ 114,411</u>	<u>\$ (1,708,754)</u>

CITY OF PACIFIC GROVE, CALIFORNIA
Combining Statement of Cash Flows - Proprietary Funds - Internal Service Funds
Year Ended June 30, 2007

	Health Insurance	Workers' Compensation Insurance	Liability Insurance	Total
Cash Flows from Operating Activities				
Receipts from customers	\$ 109,330	\$ 785,697	\$ -	\$ 895,027
Payments to suppliers	(85,896)	(306,624)	(228,600)	(621,120)
Payments to employees	-	(28,744)	(28,744)	(57,488)
Internal activity - payments to other funds	-	(562,474)	-	(562,474)
Claims paid	(48,430)	(273,997)	(11,851)	(334,278)
Other receipts (payments)	3,123	9,187	32,352	44,662
Net Cash Used by Operating Activities	<u>(21,873)</u>	<u>(376,955)</u>	<u>(236,843)</u>	<u>(635,671)</u>
Cash Flows from Noncapital Financing Activities				
Transfers received	26,000	383,935	650,000	1,059,935
Net Cash Provided by Noncapital Financing Activities	<u>26,000</u>	<u>383,935</u>	<u>650,000</u>	<u>1,059,935</u>
Net Increase in Cash and Cash Equivalents	4,127	6,980	413,157	424,264
Cash and Cash Equivalents, Beginning	<u>-</u>	<u>-</u>	<u>25,133</u>	<u>25,133</u>
Cash and Cash Equivalents, Ending	<u>\$ 4,127</u>	<u>\$ 6,980</u>	<u>\$ 438,290</u>	<u>\$ 449,397</u>
Cash Flows from Operating Activities				
Operating income (loss)	\$ (29,431)	\$ 21,459	\$ (164,575)	\$ (172,547)
Adjustments to reconcile operating income to net cash provided (used) by operating activities				
Increase (decrease) in operating liabilities				
Accounts payable	2,790	(3,465)	-	(675)
Wages payable	4,768	(1,155)	(1,155)	2,458
Claims payable	-	168,680	(71,113)	97,567
Due to other funds	-	(562,474)	-	(562,474)
Net Cash Used by Operating Activities	<u>\$ (21,873)</u>	<u>\$ (376,955)</u>	<u>\$ (236,843)</u>	<u>\$ (635,671)</u>



STATISTICAL SECTION



CITY OF PACIFIC GROVE, CALIFORNIA
General Fund Tax Revenues by Source
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Property Taxes</u>	<u>Sales Tax</u>	<u>Business License Tax</u>	<u>Franchise Tax</u>	<u>Utility Use Tax</u>	<u>Transient Occupancy Tax</u>	<u>Real Estate Transfer</u>	<u>Total</u>
1998	\$1,867,141	\$1,630,383	\$265,696	\$403,809	\$941,247	\$2,547,121	\$54,704	\$7,710,101
1999	1,995,864	1,592,266	275,774	400,936	950,417	2,587,506	61,716	7,864,479
2000	2,095,957	1,589,358	290,152	372,728	965,590	2,996,383	71,672	8,381,840
2001	2,275,408	1,866,784	304,176	555,334	1,161,693	2,980,690	96,928	9,241,013
2002	2,498,626	1,600,191	291,701	499,310	1,085,150	2,877,117	74,414	8,926,509
2003	2,687,244	1,689,555	288,496	456,279	1,193,955	2,896,064	90,571	9,302,164
2004	2,848,342	1,550,386	298,334	640,728	1,168,474	2,830,992	118,514	9,455,770
2005	3,013,042	1,556,246	295,605	742,655	1,287,495	3,275,108	157,315	10,327,466
2006 ¹	4,694,362	1,543,048	281,321	741,638	1,363,872	3,002,038	134,564	11,760,843
2007	3,567,809	1,750,518	300,580	691,680	1,375,553	3,219,361	78,053	10,983,554

¹ Includes property tax received in lieu of Motor Vehicle License Fee incorrectly reported as Property Tax revenue. Property Tax revenue should have been \$3,665,212.

CITY OF PACIFIC GROVE, CALIFORNIA
General Fund Revenues by Source
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Taxes</u>	<u>Licenses and permits</u>	<u>Fines, Forfeitures and penalties</u>	<u>Intergovern- mental</u>	<u>Charges for Current Services</u>	<u>Use of Money and Property</u>	<u>Other</u>	<u>Total</u>
1998	\$ 7,710,101	\$ 140,514	\$ 33,231	\$ 791,629	\$ 637,428	\$ 190,673	\$ 490,708	\$ 9,994,284
1999	7,864,479	153,961	123,896	881,019	645,057	119,224	591,039	10,378,675
2000	8,381,840	160,555	113,541	965,087	727,224	92,733	632,983	11,073,963
2001	9,241,013	205,436	77,766	1,153,652	752,374	114,112	585,587	12,129,940
2002	8,926,509	266,646	61,301	1,069,763	793,062	91,021	632,035	11,840,337
2003	9,302,164	317,414	55,938	1,067,732	791,453	38,530	679,088	12,252,319
2004	9,455,770	364,803	51,064	852,768	939,194	138,731	921,954	12,724,284
2005	10,327,466	401,750	77,289	1,266,332	1,116,378	5,423	690,483	13,885,121
2006	11,760,843	891,434	374,124	104,565	333,775	227,272	586,393	14,278,406
2007	10,983,554	465,545	49,419	1,427,351	1,184,034	142,313	602,027	14,854,243

CITY OF PACIFIC GROVE, CALIFORNIA
General Governmental Expenditures by Function
Last Ten Fiscal Years

<u>Fiscal</u> <u>Year</u>	<u>Public Safety</u>	<u>General</u> <u>Administration</u>	<u>Public</u> <u>Works</u>	<u>Culture &</u> <u>Recreation</u>	<u>Capital</u> <u>Outlay</u>	<u>Debt</u> <u>Service</u>	<u>Other</u>	<u>Total</u>
1998	\$ 4,810,787	\$ 1,353,972	\$ 1,868,033	\$ 2,726,198	\$ 623,939	\$ 336,468	\$ 12	\$ 11,719,409
1999	5,091,124	1,367,556	1,733,380	2,897,639	835,829	243,998	-	12,169,526
2000	5,061,078	1,587,645	1,857,149	2,995,475	756,537	207,270	-	12,465,154
2001	5,247,567	1,771,698	2,113,509	3,080,465	2,388,895	386,627	-	14,988,761
2002	5,788,766	1,736,515	2,048,335	4,102,150	1,929,012	426,003	-	16,030,781
2003	6,012,942	1,519,489	2,041,025	3,459,638	1,484,028	328,669	-	14,845,791
2004	6,509,054	1,665,205	1,780,741	3,199,785	723,691	350,834	-	14,229,310
2005	6,822,717	1,657,220	1,958,625	3,186,483	940,975	489,563	-	15,055,583
2006	7,512,984	1,556,989	2,145,584	3,328,577	368,393	917,033	-	15,829,560
2007	7,057,475	1,999,205	2,299,280	3,585,187	2,117,187	533,565	-	17,591,899

CITY OF PACIFIC GROVE, CALIFORNIA
Ratio of Annual Debt Service Expenditures
for General Bonded Debt to Total
Governmental Fund Expenditures¹
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Total Governmental Fund Type Expenditures</u>	<u>Debt Service as Percentage of General Expenditures</u>
1998	\$ 230,000	\$ 106,468	\$ 336,468	\$ 11,719,409	2.87%
1999	155,000	88,998	243,998	12,169,526	2.00%
2000	105,000	82,270	187,270	12,465,154	1.50%
2001	135,000	75,030	210,030	14,988,761	1.40%
2002	135,000	67,168	202,168	16,030,781	1.26%
2003	40,000	59,565	99,565	14,845,791	0.67%
2004	40,000	65,843	105,843	14,229,310	0.74%
2005	63,451	41,477	104,928	15,055,583	0.70%
2006	50,753	38,936	89,689	15,829,560	0.57%
2007	95,312	38,674	133,986	17,591,899	0.76%

¹ Includes all governmental fund types

