

**CITY OF PACIFIC GROVE
CALIFORNIA**

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

YEAR ENDED JUNE 30, 2008



Vargas and Company

Accountants • Auditors • Tax Consultants

CITY OF PACIFIC GROVE, CALIFORNIA

300 Forest Avenue, Pacific Grove, California 93950

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Year Ended June 30, 2008

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, 2008

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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

February 18, 2009

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

The Charter of the City of Pacific Grove requires an annual financial report. Various financing covenants and rules associated with restricted funding sources require the City of Pacific Grove to publish a complete set of financial statements presented in conformance with generally accepted accounting principles (GAAP) and audited by a firm of licensed certified public accountants. Pursuant to these requirements, we hereby issue the Comprehensive Annual Financial Report (CAFR) for the City of Pacific Grove, California for the fiscal year ended June 30, 2008.

The report consists of management's representations concerning the City's financial position as of June 30, 2008. Consequently, management assumes full responsibility for the information presented in the report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City has contracted with Vargas and Company, a firm of licensed certified public accountants, to audit the City'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, 2008 are free from material misstatement. **The enclosed auditors' opinion indicates that the financial statements present fairly, in all material respects, the financial position of the City.** This represents significant improvement in financial management and reporting from the FY 2005/06 financial statements for which an "adverse" opinion was rendered, which indicated that the auditors could not verify the fair representation of the FY 2005/06 statements. **The auditor's opinion also notes that the City continues to carry unfunded liabilities in the workers' compensation fund of a magnitude that may place the City at risk for material financial losses.**

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 Financial Condition

We believe the information presented in the financial statements is best understood when it is considered from the broader perspective of the context within which the City of Pacific Grove operates. This section provides a brief overview of the most significant factors affecting the City's financial position.

During FY 2007/08, the City took action to correct a long-standing structural budget deficit and to restore reserves. The actions included a 16% reduction in the General Fund budget that affected services and required staffing reductions in all service areas. While costly in terms of service levels and disruption in the lives of laid-off employees, the actions resulted in a balanced budget for FY 2008/09 and a planned annual surplus equal to 1-3 percent of the General Fund to restore reserves over a period of several years. The positive effects of budget reduction measures on the City's bottom line were bolstered further by the June 2008 passage of a ballot measure implementing a new local sales tax. The new tax is expected to generate an additional \$1.2 million of revenue per year for general services.

Despite significant improvements in the financial outlook for ongoing services, the City continues to carry a significant unfunded liability for worker's compensation claims that could pose a risk to resources available to fund services in the future. These balances resulted from insufficient annual transfers from operating funds to pay current and future costs of workers compensation claims. Since the amount of net assets in the fund hit a low point of -\$2.4 million as of June 30, 2004, the City has worked to reduce the liability to -\$1.7 million. Reducing this unfunded liability is a priority for the City, and as resources are available, additional transfers from the General Fund will be made. Staff is also exploring alternative insurance approaches that could reduce these liabilities considerably.

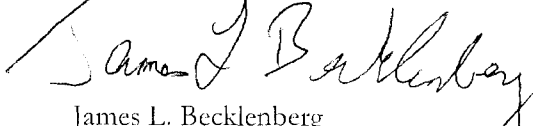
Another of the City's highest priorities addresses a major threat to the City's long-term financial stability: the California Public Employees Retirement System (CalPERS). CalPERS is a defined-benefit retirement program that relies heavily on investments in financial markets for the assets required to pay benefits to retirees. This reliance on investment returns exposes the City to potentially large rate increases when the CalPERS investment portfolio fails to meet expectations. In December 2008, CalPERS announced that its assets had lost 31 percent of its value thus far in the fiscal year, and that member agencies should plan for employer contribution increases equal to 2 to 5 percent of employee salary costs, beginning in FY 2009/10. Based on losses of such magnitude and no certainty that the CalPERS portfolio will stabilize or rebound in coming years, the City expects rates to increase significantly in the next several years, limiting the funding available for services in order to pay for increasing employee retirement costs.

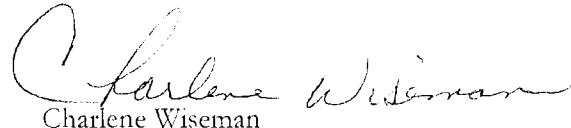
Along with most public agencies, the City's financial position is suffering the effects of the current recession. The most pronounced local effects include decreases in sales taxes, transient occupancy taxes, development fees, and golf revenues. While revenue from the new local sales tax mentioned above is expected to offset some of the economic losses, the long-term effects of current-year revenue shortfalls may challenge the City's ability to continue current levels of services and staffing.

Acknowledgements

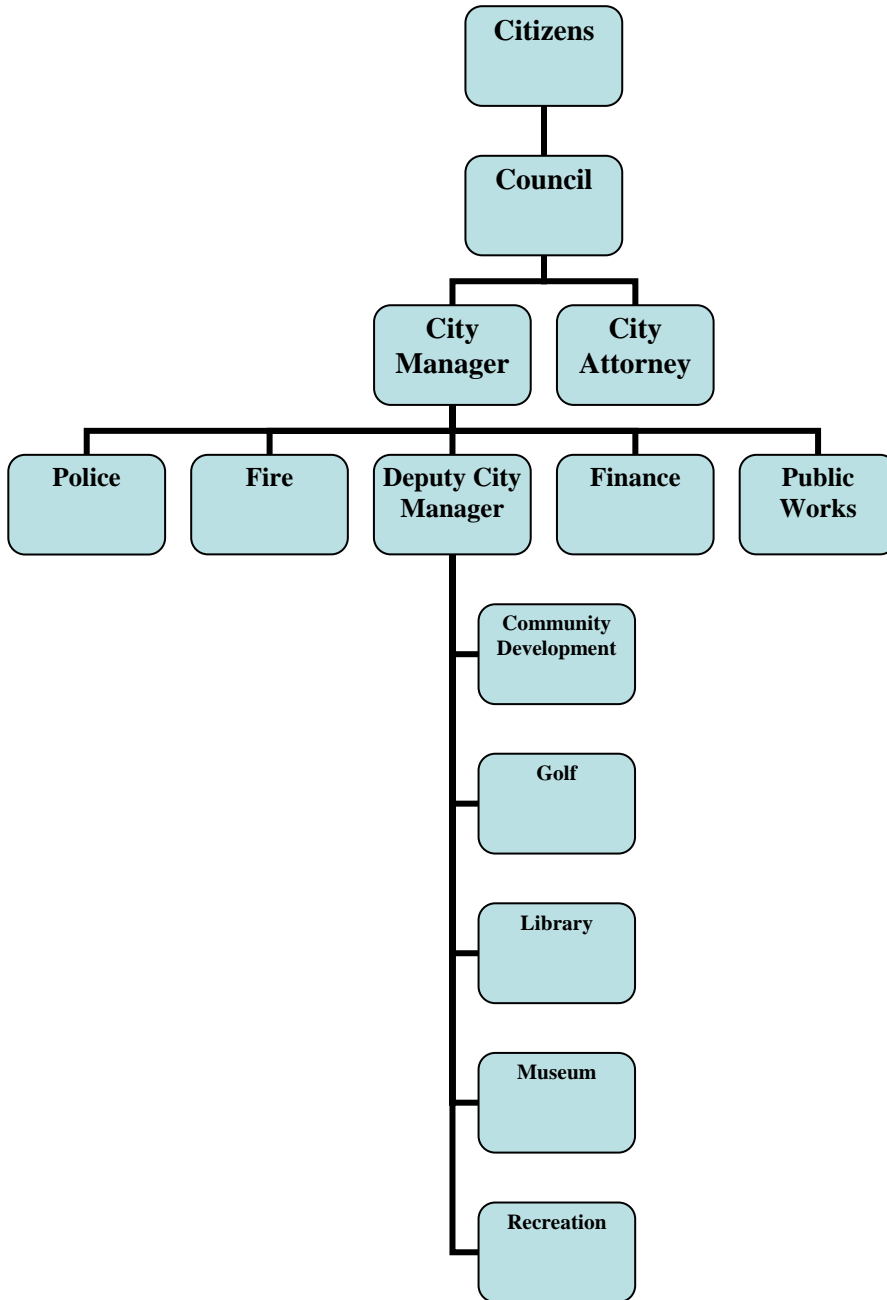
The preparation of this report would not have been possible without the efficient and dedicated services of the Finance Department staff and cooperation of all city departments. We would like to express our appreciation to the City Council for its unyielding support and demand for improvements in financial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

Respectfully submitted,


James L. Becklenberg
Director of Management and Budget


Charlene Wiseman
Interim City Manager

CITY OF PACIFIC GROVE
Organizational Chart
June 30, 2008



CITY OF PACIFIC GROVE
List of Elected and Appointed Officials
June 30, 2008

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	Lynn Burgess
Director – Library	Elisa Maddalena
Director – Museum	Bob Snyder
Head Professional – Golf Course	Joe Riekema
Coordinator – Recreation	Donald Mothershead
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, 2008, 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 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.

In our opinion, except for the effects of the matter discussed in the preceding paragraph, 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, 2008, 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 November 25, 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
November 25, 2008

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



CITY OF PACIFIC GROVE
Management's Discussion and Analysis
Year Ended June 30, 2008

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, 2008. 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, 2008 totaled \$31 million, which is \$13 million more than last year. Of the \$13 million, \$10.6 million is attributable to the implementation of the final phase of Governmental Accounting Standards Board (GASB) Statement 34 which revised how Local Governments are to present their financial reports including direction on how to account for the historical carrying cost of infrastructure assets in the governmental funds.
- Total City revenues, including program and general revenues, were \$23.1 million, or \$.3 million less than last year. The increase in program revenues from Pro Shop cart rentals and merchandise sales and general revenues from taxes could not offset the decrease in revenue from contributions from external agencies for capital improvements and other miscellaneous revenue items from the prior year due to a delay in the Recreation Trail restoration project and a reduction in the number of Sewer Lateral Replacement loans issued in the current year.
- Total expenses were \$20.9 million in fiscal 2008, representing \$.4 million more than last year attributable to the increase in depreciation expense of \$ 0.3 million that resulted from the adjustment that increased the carrying cost of infrastructure.
- Net Assets in Governmental activities increased \$12 million for a total of \$22 million, while net assets in business activities increased \$1.3 million for a total of \$9 million. The increase in Governmental activities is mainly attributable to the GASB 34 Infrastructure adjustment of \$ 10.6 million and the increase in Business-type activities is mainly attributable to the additional revenues received from the City assuming control of the Pro Shop at the Golf Course and Sewer service.
- Governmental Program Revenues decreased \$1 million from last year to \$5.5 million in fiscal 2008 attributable to a timing difference in the recognition of grant revenue received from the State of California for the Recreation Trail restoration project and the start of construction.
- Governmental Program Expenses increased \$.4 million from last year to \$17 million in fiscal 2008. The increase is mainly due to the increase in depreciation expense for infrastructure as a result of the adjustment that increased the carrying cost of infrastructure in Governmental programs.
- Revenues from Business-type activities increased by \$.46 million to \$5.4 million in fiscal 2008 attributable to the increase in merchandise sales and golf cart rentals from Pro Shop operations in the Golf Fund and Sewer service.
- Expenses of Business-type activities decreased by \$.03 million to \$3.9 million in fiscal 2008.
- In June 2008, the citizens of Pacific Grove voted for and passed a 1% Transactions and Use District Tax raising the local sales tax rate from 7.25% to 8.25%. The new tax is expected to generate \$ 1.2 million in general revenue per year.

CITY OF PACIFIC GROVE
Management's Discussion and Analysis
Year Ended June 30, 2008

- The City issued a Tax Revenue Anticipation Note, or TRAN, in the amount of \$ 3.3 million as a short-term financing vehicle to augment the City's cash flow in the first half of the fiscal year until the City receives the first Property Tax disbursement from the County in December. This is the second TRAN issued in consecutive and underlies the stated need for building up the City's cash reserves.

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 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.

CITY OF PACIFIC GROVE
Management's Discussion and Analysis
Year Ended June 30, 2008

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. In other words, revenue is recognized when earned and expenses are recognized when incurred unlike cash basis when revenue and expenses are recognized when cash is received or paid.

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 2008, 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.

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.

CITY OF PACIFIC GROVE
Management's Discussion and Analysis
Year Ended June 30, 2008

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>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>Variance</u>
Assets:							
Current and other assets	\$28,597,436	\$29,748,610	\$ 2,989,180	\$ 1,978,374	\$31,586,616	\$31,726,984	(0.4%)
Capital assets	<u>21,469,601</u>	<u>11,010,500</u>	<u>11,888,034</u>	<u>11,920,787</u>	<u>33,357,635</u>	<u>22,931,287</u>	45.5%
Total assets	<u>50,067,037</u>	<u>40,759,110</u>	<u>14,877,214</u>	<u>13,899,161</u>	<u>64,944,251</u>	<u>54,658,271</u>	18.8%
Liabilities:							
Current and other liabilities	1,296,938	2,912,922	328,568	452,033	1,625,506	3,364,955	(51.7%)
Long-term liabilities	<u>27,153,239</u>	<u>27,806,917</u>	<u>5,271,434</u>	<u>5,451,716</u>	<u>32,424,673</u>	<u>33,258,633</u>	(2.5%)
Total liabilities	<u>28,450,177</u>	<u>30,719,839</u>	<u>5,600,002</u>	<u>5,903,749</u>	<u>34,050,179</u>	<u>36,623,588</u>	(7.0%)
Net assets:							
Invested in capital assets, net of related debt	16,939,051	7,326,730	6,766,042	6,710,459	23,705,093	14,037,189	68.9%
Restricted	79,019	46,151	275,552	278,951	354,571	325,102	9.1%
Unrestricted	<u>4,598,790</u>	<u>2,666,390</u>	<u>2,235,618</u>	<u>1,006,002</u>	<u>6,834,408</u>	<u>3,672,392</u>	86.1%
Total net assets	<u>\$21,616,860</u>	<u>\$10,039,271</u>	<u>\$ 9,277,212</u>	<u>\$ 7,995,412</u>	<u>\$30,894,072</u>	<u>\$18,034,683</u>	71.3%

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 \$30,894,072 at the close of the current fiscal year.

The largest portion of the City's net assets \$23,705,093 (76.7%) reflects its investment in capital assets (e.g. land, infrastructure, building, improvements, machinery and equipment, sewer lines, and construction in progress); 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 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.

CITY OF PACIFIC GROVE
Management's Discussion and Analysis
Year Ended June 30, 2008

Invested in Capital Assets net of related debt increased \$ 9.7 million, or 68.9%, from the prior year. This increase is due to a prior period adjustment to account for the historical cost and depreciation of the City's infrastructure assets as per GASB 34 in the amount of \$ 10.6 million, and an increase in the accreted value of the Pension Obligation Bond of \$ 1.1 million. 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.

Prior to this fiscal year, the City had ongoing problems with properly reflecting an accurate capital asset listing. During Fiscal Year 2007-08, the capital assets sub-ledger continued to be updated to include assets acquired in previous fiscal years that had not been recorded properly. In accordance with GASB 34, the City completed the adjustment required to record the historical cost of infrastructure as well.

Invested in Capital Assets net of related debt increased \$9.7 million, or 68.9%, from the prior year. This increase is due to a prior period adjustment to account for the historical cost and depreciation of the City's infrastructure assets as per GASB 34 in the amount of \$10.6 million, and an increase in the accreted value of the Pension Obligation Bond of \$1.1 million. 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.

Prior to this fiscal year, the City had ongoing problems with properly reflecting an accurate capital asset listing. During Fiscal Year 2007-08, the capital assets sub-ledger continued to be updated to include assets acquired in previous fiscal years that had not been recorded properly. In accordance with GASB 34, the City completed the adjustment required to record the historical cost of infrastructure as well.

An additional portion of the City's net assets of \$354,571 (1.1%) represents resources that are subject to external restrictions on how they may be used. This amount increased \$29,469, or 9.1%, from the prior year. \$79,019 is restricted for the Butterfly Bond debt service and \$ 275,522 is restricted for the Golf Course Certificates of Participation bond debt service.

The remaining (22.1%) represents the unrestricted net assets of \$6,834,408, which may be used to meet the city's ongoing obligations for services. This amount increased \$3.16 million, or 86.1%, from the prior year. The increase is primarily due to the increase in net assets from governmental activities of \$1.2 million, the increase in net assets from business-type activities of \$1.3 million and the decrease in the compensated absences liability of \$.5 million due to payouts to separated or retired employees for accrued sick and vacation leave time.

CITY OF PACIFIC GROVE
Management's Discussion and Analysis
Year Ended June 30, 2008

Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>		
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>% Change</u>
Revenues:							
Program revenues							
Charges for services	\$ 1,934,185	\$ 1,987,866	\$5,420,864	\$4,723,407	\$ 7,355,049	\$ 6,711,273	9.6%
Operating grants & contri.	3,560,620	4,603,425	-	-	3,560,620	4,603,425	(22.7%)
Capital grants & contri.	-	-	-	239,453	-	239,453	(100.0%)
General revenues							
Taxes	11,631,771	11,096,547	-	-	11,631,771	11,096,547	4.8%
Interest & invest. income	314,367	366,670	112,541	-	426,908	366,670	16.4%
Miscellaneous	17,843	121,659	67,580	192,961	85,423	314,620	(72.8%)
Transfers	<u>400,000</u>	<u>(420)</u>	<u>(400,000)</u>	<u>420</u>	<u>-</u>	<u>-</u>	na
Total revenues	<u>17,858,786</u>	<u>18,175,747</u>	<u>5,200,985</u>	<u>5,156,241</u>	<u>23,059,771</u>	<u>23,331,988</u>	(1.2%)
Expenses:							
Public safety							
Police	4,968,663	4,388,766	-	-	4,968,663	4,388,766	13.2%
Fire	3,024,090	2,915,740	-	-	3,024,090	2,915,740	3.7%
General administration	2,667,817	2,129,732	-	-	2,667,817	2,129,732	25.3%
Public works	2,352,891	2,329,285	-	-	2,352,891	2,329,285	1.0%
Recreation	622,419	928,432	-	-	622,419	928,432	(33.0%)
Library	828,222	1,066,275	-	-	828,222	1,066,275	(22.3%)
Comm. dev't & bldg insp.	1,017,804	1,243,160	-	-	1,017,804	1,243,160	(18.1%)
Museum	171,746	378,831	-	-	171,746	378,831	(54.7%)
Interest on long-term debt	1,327,298	1,198,955	-	-	1,327,298	1,198,955	10.7%
Cemetery Operating	-	-	284,697	261,782	284,697	261,782	8.8%
Sewer Operating	-	-	1,075,578	1,229,301	1,075,578	1,229,301	(12.5%)
Golf Course	<u>-</u>	<u>-</u>	<u>2,523,229</u>	<u>2,425,379</u>	<u>2,523,229</u>	<u>2,425,379</u>	4.0%
Total expenses	<u>16,980,950</u>	<u>16,579,176</u>	<u>3,883,504</u>	<u>3,916,462</u>	<u>20,864,454</u>	<u>20,495,638</u>	1.8%
Change in net assets	877,836	1,596,571	1,317,481	1,239,779	2,195,317	2,836,350	(22.6%)
Net assets, beginning	10,039,271	7,565,803	7,995,412	6,496,519	18,034,683	14,062,322	28.2%
Prior period adjustment	<u>10,699,753</u>	<u>876,897</u>	<u>(35,681)</u>	<u>259,114</u>	<u>10,664,072</u>	<u>1,136,011</u>	838.7%
Net asset, ending	<u>\$21,616,860</u>	<u>\$10,039,271</u>	<u>\$9,277,212</u>	<u>\$7,995,412</u>	<u>\$30,894,072</u>	<u>\$18,034,683</u>	71.3%

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 and business-type activities.

CITY OF PACIFIC GROVE
Management's Discussion and Analysis
Year Ended June 30, 2008

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 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>	<u>Nonmajor Funds</u>	<u>Total</u>
Revenues	\$16,386,972	\$2,539,301	\$18,926,273
Expenditures	(15,712,937)	(2,007,881)	(17,720,818)
Net other financing sources (uses)	(<u>644,807</u>)	<u>706,607</u>	<u>61,800</u>
 Net Change in Fund Balances	 29,228	 1,238,027	 1,267,255
 Fund Balances, Beginning	 833,057	 6,299,562	 7,132,619
Prior Period Adjustments	<u>30,420</u>	(<u>35,321</u>)	(<u>4,901</u>)
Restated Fund Balances, Beginning	<u>863,477</u>	<u>6,264,241</u>	<u>7,127,718</u>
 Fund Balances, Ending	 <u>\$ 892,705</u>	 <u>\$7,502,268</u>	 <u>\$ 8,394,973</u>

At June 30, 2008, the City's governmental funds reported combined ending fund balances of \$8,394,973, an increase of \$1,262,354 in comparison with the prior year. Approximately 83% or \$6,983,103 of the combined ending fund balances constitutes unreserved fund balance, which is available to meet the City's current and future needs, of which \$892,705 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 \$79,019 for the Butterfly Bond and a long-term debt receivable of \$1,332,851 for Housing Rehabilitation loans.

CITY OF PACIFIC GROVE
Management's Discussion and Analysis
Year Ended June 30, 2008

The General Fund is the primary operating fund of the City. At June 30, 2008 unreserved fund balance of the General Fund was \$892,705 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 5.7% of total general fund expenditures of \$15,712,937. 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.

The City Council has established a designated General Fund reserve policy of 10% of revenues, or \$1,785,879, for contingencies as well as a tax interim reserve of \$750,000 totaling \$2.54 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 2008</u>		<u>FY 2007</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	\$11,631,771	61.5%	\$11,096,547	59.2%	\$ 535,224	4.8%
Licenses and permits	455,021	2.4%	465,545	2.5%	(10,524)	(2.3%)
Fines, forfeitures and penalties	52,245	0.3%	49,419	0.3%	2,826	5.7%
Intergovernmental	3,560,620	18.8%	4,603,425	24.5%	(1,042,805)	(22.7%)
Charges for current services	1,426,919	7.5%	1,472,902	7.8%	(45,983)	(3.1%)
Use of money and property	314,367	1.7%	366,670	2.0%	(52,303)	(14.3%)
Interdepartmental charges	1,467,487	7.7%	578,361	3.1%	889,126	153.7%
Other	<u>17,843</u>	<u>0.1%</u>	<u>121,659</u>	<u>0.6%</u>	(<u>103,816</u>)	(85.3%)
Totals	<u>\$18,926,273</u>	<u>100.0%</u>	<u>\$18,754,528</u>	<u>100.0%</u>	<u>\$ 171,745</u>	0.9%

Revenues for governmental functions totaled \$18,926,273 in fiscal year 2007-2008, which represents an increase of \$171,745 or 0.9% from the prior year. The City received an increase in tax revenue and additional interdepartmental revenue as a result of allocating the costs of the Pension Obligation Bond debt service to the appropriate functions. The City had a significant decrease in revenue from intergovernmental sources mainly due to the revenue accrued in the prior year for reimbursement of expenses made on behalf of the Storm Water diversion project.

In June the citizens of Pacific Grove voted for and passed Measure U, a 1% Transactions and Use District tax effectively raising the local sales tax rate from 7.25% to 8.25%. This general tax will provide additional sales tax revenue to allow the City to preserve basic city services.

CITY OF PACIFIC GROVE
Management's Discussion and Analysis
Year Ended June 30, 2008

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 2008</u>		<u>FY 2007</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	\$ 5,009,577	28.3%	\$ 4,321,901	24.6%	\$ 687,676	15.9%
Fire	2,933,181	16.6%	2,735,574	15.5%	197,607	7.2%
General administration	2,467,139	13.9%	1,999,205	11.3%	467,934	23.4%
Public works	2,540,545	14.3%	2,299,280	13.1%	241,265	10.5%
Recreation	802,661	4.5%	876,534	5.0%	(73,873)	(8.4%)
Library	865,616	4.9%	1,077,331	6.1%	(211,715)	(19.7%)
Comm. dev't & bldg insp.	1,222,336	6.9%	1,246,767	7.1%	(24,431)	(2.0%)
Museum	252,074	1.4%	384,555	2.2%	(132,481)	(34.5%)
Capital outlay	322,541	1.8%	2,117,187	12.0%	(1,794,646)	(84.8%)
Debt service						
Principal	1,111,275	6.3%	416,063	2.4%	695,212	167.1%
Interest and fiscal charges	<u>193,873</u>	<u>1.1%</u>	<u>117,502</u>	<u>0.7%</u>	<u>76,371</u>	<u>65.0%</u>
Totals	<u>\$17,720,818</u>	<u>100.0%</u>	<u>\$17,591,899</u>	<u>100.0%</u>	<u>\$ 128,919</u>	<u>0.7%</u>

Expenditures for governmental functions in fiscal year 2007-2008 totaled \$17,720,818, which is a slight increase of \$128,919 or 0.7% from the previous fiscal year. The City did not budget for an increase in expenditures however, due to the GASB 34 adjustment for the historic infrastructure cost, depreciation expense allocated out to the separate functions increased by approximately \$315,000 from the prior year. As a result of governmental fund activities, revenues exceeded expenditures by \$1,205,455 in the current fiscal year.

In May 2008, the City Council passed a resolution of intent to terminate its contract with the California Public Employee Retirement System, or CalPERS. This action was the first step in exploring other retirement options for its employees and to allow CalPERS senior actuarial staff to begin the process of determining the cost to the City for terminating its contract. The City Council has cited a potential financial risk to the City should it maintain its current defined benefit retirement plan and has directed staff to seek other alternatives including defined contribution plans. Any determination of whether the City will terminate its contract will not be final until at least January 2011.

CITY OF PACIFIC GROVE
Management's Discussion and Analysis
Year Ended June 30, 2008

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 2008</u>		<u>FY 2007</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	\$ -	0.0%	\$ 410,134	(63.1%)	(\$410,134)	(100.0%)
Transfers in	1,106,607	1790.6%	497,659	(76.5%)	608,948	122.4%
Transfers out	(1,044,807)	(1690.6%)	(1,558,014)	239.6%	513,207	32.9%
Totals	<u>\$ 61,800</u>	<u>100.0%</u>	<u>(\$ 650,221)</u>	<u>100.0%</u>	<u>\$712,021</u>	109.5%

Net Other Financing Sources and Uses for fiscal year 2007-2008 totaled \$61,800 which is an increase of \$712,021, or 109.5%, from the previous fiscal year's negative amount. During the fiscal year 2007-2008, and based on auditor recommendation, the City reviewed the cost allocation process to determine if these costs were allocated to the correct function. The City will continue to review its cost allocation process in order to ensure that costs are allocated appropriately to the correct function to show the true cost to the City in providing that service.

As a result of governmental fund activities (excluding prior period adjustment), the net change in fund balance increased \$29,228 in the General fund and \$1,238,027 in all of the other governmental funds for a total increase of \$1,267,255.

Proprietary Funds

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

CITY OF PACIFIC GROVE
Management's Discussion and Analysis
Year Ended June 30, 2008

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:

	Major Funds			Total
	<u>Sewer Operating</u>	<u>Golf Course</u>	<u>Cemetery Operating</u>	
Operating revenues	\$2,419,481	\$2,869,699	\$199,264	\$5,488,444
Operating expenses	(<u>1,003,834</u>)	(<u>2,315,513</u>)	(<u>281,002</u>)	(<u>3,600,349</u>)
Operating income (loss)	1,415,647	554,186	(81,738)	1,888,095
Net non-operating revenues (expenses)	(<u>19,646</u>)	(<u>171,392</u>)	<u>20,424</u>	(<u>170,614</u>)
Net income (loss) before transfers	1,396,001	382,794	(61,314)	1,717,481
Transfers out	<u>-</u>	(<u>400,000</u>)	<u>-</u>	(<u>400,000</u>)
Change in net assets	<u>1,396,001</u>	(<u>17,206</u>)	(<u>61,314</u>)	<u>1,317,481</u>
Net Assets, Beginning	3,840,499	3,500,744	654,169	7,995,412
Prior Period Adjustment	(<u>72,928</u>)	(<u>2,754</u>)	<u>40,001</u>	(<u>35,681</u>)
Restated Net Assets, Beginning	<u>3,767,571</u>	<u>3,497,990</u>	<u>694,170</u>	<u>7,959,731</u>
Net Assets, Ending	<u>\$5,163,572</u>	<u>\$3,480,784</u>	<u>\$632,856</u>	<u>\$9,277,212</u>

There were no significant events in the Sewer fund during the current fiscal year. Please refer to Note 5 in the Notes to the Basic Financial Statements for more information regarding the Sewer Lateral Replacement Loan program.

The significant event that took place in the Golf Fund during the current fiscal year was the beginning of a practice to budget and transfer a portion of golf revenues to support general services, subject to the availability of funds after all Golf Course financial obligations have been met. In the current year, the amount transferred was \$400,000 to the General Fund. Please refer to Note 5 in the Notes to the Basic Financial Statements for more information regarding the Golf Course Kitchen Equipment Lease.

The significant event in the Cemetery Fund was the acquisition through lease of a turf mower. See Note 7 in the Notes to the Basic Financial Statements for more information regarding the turf mower capital lease.

CITY OF PACIFIC GROVE
Management's Discussion and Analysis
Year Ended June 30, 2008

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2008, totaled \$33,357,635 (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, buildings, improvements, machinery and equipment, sewer lines, and construction in progress. Significant capital asset acquisitions and changes during the current fiscal year included the following: acquisition of a new turf mower for the Cemetery 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.

Prior Period Adjustment for Infrastructure

In order for the City to be in full compliance with the requirements for financial reporting pronounced in GASB 34, the City had to determine the historical cost and depreciation of infrastructure assets from July 1, 1980 through June 30, 2007. The City identified the following components to be used in determining the cost of infrastructure, miles of streets and alleys, sidewalks, lineal feet of box culverts and pipe for storm drains, each catch basin, headwall, manhole cover, street sign, stop sign and traffic signal. A determination of replacement cost needed to be made for each asset and then that replacement cost was to be deflated to 1980 dollars and then depreciated forward using the straight-line method with an estimated useful life of 70 years. The City was able to locate an infrastructure analysis that was completed in 1986 that had determined the replacement cost for all infrastructure assets, including sewer lines and deflated those costs to 1980 dollars by using the Consumer Price Index for all urban consumers in San Francisco, San Jose, Oakland area. The City recorded a prior-period adjustment of approximately \$10.6 million to estimate the historical carrying cost of infrastructure

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>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	
Land	\$ 2,338,290	\$ 2,338,290	\$ 362,973	\$ 362,973	\$ 2,701,243	\$ 2,701,243	0.0%
Construction in progress	237,305	-	-	-	237,305	-	na
Infrastructure	19,161,043	1,931,547	-	-	19,161,043	1,931,547	892.0%
Building	11,117,346	10,988,836	6,093,798	6,093,798	17,211,144	17,082,634	0.8%
Improvements	242,192	240,692	2,925,889	2,824,748	3,168,081	3,065,440	3.3%
Machinery & equipment	3,626,579	3,413,712	1,596,432	1,450,797	5,223,011	4,864,509	7.4%
Sewer lines	-	-	5,112,783	4,848,853	5,112,783	4,848,853	5.4%
Total cost	<u>\$36,722,735</u>	<u>\$18,913,057</u>	<u>\$16,091,875</u>	<u>\$15,581,169</u>	<u>\$52,814,610</u>	<u>\$34,494,226</u>	53.1%

CITY OF PACIFIC GROVE
Management's Discussion and Analysis
Year Ended June 30, 2008

Current year capital asset activity included infrastructure improvements in oceanfront restoration, storm water runoff diversion and street improvements. Please refer to Note 6 in the Notes to the Basic Financial Statements for more detailed information regarding Capital Assets.

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>2008</u>	<u>2007</u>	<u>% Change</u>
<u>Governmental Activities</u>			
General Obligation Refunding Note	\$ 739,504	\$ 794,277	(6.9%)
Bank Loans	75,000	75,000	0.0%
Capital Lease	1,523,616	1,749,375	(12.9%)
Pension Obligation Bond	<u>20,687,042</u>	<u>20,390,473</u>	1.5%
Total Governmental Activities	<u>\$23,025,162</u>	<u>\$23,009,125</u>	0.1%
<u>Business-type Activities</u>			
Sewer Revenue Bonds	\$1,299,855	\$1,328,991	(2.2%)
Sewer Capital Lease	57,137	51,338	11.3%
Golf Certificates of Participation	<u>3,765,000</u>	<u>3,830,000</u>	(1.7%)
Total Business-type Activities	<u>\$5,121,992</u>	<u>\$5,210,329</u>	(1.7%)

The only significant increase in long-term debt was the addition of a capital lease for a new turf mower for the Cemetery and the accreted interest on the pension obligation bond. Please refer to Note 7 in the Notes to the Basic Financial Statements for more detailed information regarding long-term debt.

FACTORS AFFECTING ECONOMIC STATUS

In fiscal year 2007, The City took action to restore reserves and correct long-standing budget deficit issues. The steps taken were drastic but necessary to balance the budget for fiscal year 2008. The citizens of Pacific Grove passed a tax measure in June 2008 implementing a new local sales tax. This new tax is expected to generate \$1.2 million of revenue per year for general services.

Even with the budget reductions taken in 2007, and a balanced budget in place for 2008 and additional revenues being generated from the creation of the new local sales tax, the City still faces a risk with its sizeable unfunded liability in Worker's Compensation claims. Although the City has been able to reduce this liability by over \$0.7 million in the past four fiscal years, the amount of the unfunded liability is still \$1.7 million and poses a risk to current resources available to fund services in the future. Reducing the liability is a priority for the City and as resources become available, additional transfers from the General Fund will be made to further reduce the liability.

CITY OF PACIFIC GROVE
Management's Discussion and Analysis
Year Ended June 30, 2008

Another item that poses a risk to the City's long-term financial stability is the California Public Employees Retirement System, or CalPERS. CalPERS is a defined-benefit retirement program that relies heavily on investment returns to pay benefits to retirees. With significant losses due to the collapse of the Stock Market, CalPERS announced that member agencies should plan for employer contribution rate increases equal to 2 to 5 percent of employee salary costs beginning in fiscal year 2011-2012. The City sees no certainty that the CalPERS portfolio will stabilize or rebound in the coming years and is expecting contribution rates to increase limiting the resources available to fund services in order to pay for increasing employee retirement costs.

As with most public agencies, including the State of California, the City's financial position is suffering the effects of the current recession. The most pronounced local effects include decreases in sales tax, transient occupancy tax, development fees, and golf revenues. While revenue generated from the new local sales tax mentioned above is expected to offset some of the economic losses, the long-term effects of current-year revenue shortfalls may challenge the City's ability to continue current levels of services and staffing.

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, 2008

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<u>Assets</u>			
Cash and investments			
Available for operations	\$ 5,732,938	\$ 1,814,124	\$ 7,547,062
Held in trust	871,697	325,552	1,197,249
Receivables			
Taxes	962,577	-	962,577
Accounts	946,807	438,090	1,384,897
Interest and other	255,954	8,490	264,444
Loans	1,332,851	256,538	1,589,389
Inventory	-	62,909	62,909
Prepaid expenses	-	16,250	16,250
Deferred charges	18,494,612	67,227	18,561,839
Capital assets			
Land	2,338,270	362,973	2,701,243
Infrastructure	19,161,043	-	19,161,043
Building	11,117,346	6,093,798	17,211,144
Improvements	242,192	2,925,889	3,168,081
Machinery and equipment	3,626,579	1,596,432	5,223,011
Sewer lines	-	5,112,783	5,112,783
Construction in progress	237,305	-	237,305
Accumulated depreciation	<u>(15,253,134)</u>	<u>(4,203,841)</u>	<u>(19,456,975)</u>
Total Assets	<u>\$ 50,067,037</u>	<u>\$ 14,877,214</u>	<u>\$ 64,944,251</u>
<u>Liabilities</u>			
Accounts payable	\$ 694,063	\$ 92,000	\$ 786,063
Interest payable	62,609	100,518	163,127
Accrued wages and benefits	540,266	48,660	588,926
Deferred revenue	-	87,390	87,390
Due within one year			
Claims payable	601,646	-	601,646
Long-term debt	1,543,401	126,921	1,670,322
Due beyond one year			
Claims payable	1,423,009	-	1,423,009
Compensated absences	2,103,422	149,442	2,252,864
Long-term debt	<u>21,481,761</u>	<u>4,995,071</u>	<u>26,476,832</u>
Total Liabilities	<u>28,450,177</u>	<u>5,600,002</u>	<u>34,050,179</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	16,939,051	6,766,042	23,705,093
Restricted			
Debt service	79,019	275,552	354,571
Unrestricted	<u>4,598,790</u>	<u>2,235,618</u>	<u>6,834,408</u>
Total Net Assets	<u>21,616,860</u>	<u>9,277,212</u>	<u>30,894,072</u>
Total Liabilities and Net Assets	<u>\$ 50,067,037</u>	<u>\$ 14,877,214</u>	<u>\$ 64,944,251</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, 2008

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues and Changes in Net Assets</u>		<u>Total</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	
Governmental Activities						
Public safety						
Police	\$ 4,968,663	\$ 602,086	\$ 1,108,374	\$ (3,258,203)	\$ -	\$ (3,258,203)
Fire	3,024,090	352,529	648,969	(2,022,592)	-	(2,022,592)
General administration	2,667,817	296,518	545,857	(1,825,442)	-	(1,825,442)
Public works	2,352,891	305,341	562,098	(1,485,452)	-	(1,485,452)
Recreation	622,419	96,470	177,589	(348,360)	-	(348,360)
Library	828,222	104,036	191,518	(532,668)	-	(532,668)
Community development & building inspection	1,017,804	146,909	270,443	(600,452)	-	(600,452)
Museum	171,746	30,296	55,772	(85,678)	-	(85,678)
Interest on long-term debt	1,327,298	-	-	(1,327,298)	-	(1,327,298)
Total Governmental Activities	<u>16,980,950</u>	<u>1,934,185</u>	<u>3,560,620</u>	<u>(11,486,145)</u>	<u>-</u>	<u>(11,486,145)</u>
Business-type Activities						
Cemetery Operating	284,697	192,063	-	-	(92,634)	(92,634)
Sewer Operating	1,075,578	2,383,467	-	-	1,307,889	1,307,889
Golf Course	2,523,229	2,845,334	-	-	322,105	322,105
Total Business-type Activities	<u>3,883,504</u>	<u>5,420,864</u>	<u>-</u>	<u>-</u>	<u>1,537,360</u>	<u>1,537,360</u>
Total	<u>\$ 20,864,454</u>	<u>\$ 7,355,049</u>	<u>\$ 3,560,620</u>	<u>(11,486,145)</u>	<u>1,537,360</u>	<u>(9,948,785)</u>
General Revenues						
Taxes				11,631,771	-	11,631,771
Interest and investment income				314,367	112,541	426,908
Miscellaneous				17,843	67,580	85,423
Transfers				400,000	(400,000)	-
Total General Revenues and Transfers				<u>12,363,981</u>	<u>(219,879)</u>	<u>12,144,102</u>
Change in Net Assets				877,836	1,317,481	2,195,317
Net Assets, Beginning				10,039,271	7,995,412	18,034,683
Prior Period Adjustment				<u>10,699,753</u>	<u>(35,681)</u>	<u>10,664,072</u>
Net Asset, Ending				<u>\$ 21,616,860</u>	<u>\$ 9,277,212</u>	<u>\$ 30,894,072</u>

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, 2008

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Assets</u>			
Cash and investments			
Available for operations	\$ 220,714	\$ 5,011,647	\$ 5,232,361
Held in trust	-	871,697	871,697
Receivables			
Taxes	962,577	-	962,577
Accounts	246,289	700,518	946,807
Interest and other	255,954	-	255,954
Loans	-	1,332,851	1,332,851
	<u> </u>	<u> </u>	<u> </u>
Total Assets	\$ <u>1,685,534</u>	\$ <u>7,916,713</u>	\$ <u>9,602,247</u>
<u>Liabilities</u>			
Accounts payable	\$ 261,682	\$ 405,326	\$ 667,008
Accrued wages and benefits	531,147	9,119	540,266
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>792,829</u>	<u>414,445</u>	<u>1,207,274</u>
<u>Fund Balances</u>			
Reserved for			
Long-term loan receivable	-	1,332,851	1,332,851
Debt service	-	79,019	79,019
Unreserved, reported in			
General fund			
Undesignated	892,705	-	892,705
Special revenue funds	-	3,254,650	3,254,650
Capital projects funds	-	533,504	533,504
Permanent funds	-	2,302,244	2,302,244
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balance	<u>892,705</u>	<u>7,502,268</u>	<u>8,394,973</u>
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	\$ <u>1,685,534</u>	\$ <u>7,916,713</u>	\$ <u>9,602,247</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, 2008

Fund Balances - Total Governmental Funds		\$ 8,394,973
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.		21,469,601
Deferred charges in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		18,494,612
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.		(1,551,133)
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	\$ (23,025,162)	
Compensated absences	<u>(2,103,422)</u>	(25,128,584)
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.		<u>(62,609)</u>
Net Assets of Governmental Activities		<u><u>\$ 21,616,860</u></u>

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, 2008

	General	Nonmajor Governmental Funds	Total
<u>Revenues</u>			
Taxes	\$ 11,404,100	\$ 227,671	\$ 11,631,771
Licenses and permits	455,021	-	455,021
Fines, forfeitures and penalties	52,245	-	52,245
Intergovernmental	1,594,668	1,965,952	3,560,620
Charges for current services	1,313,033	113,886	1,426,919
Use of money and property	82,575	231,792	314,367
Interdepartmental charges	1,467,487	-	1,467,487
Other	17,843	-	17,843
 Total Revenues	 <u>16,386,972</u>	 <u>2,539,301</u>	 <u>18,926,273</u>
<u>Expenditures</u>			
Current			
Public safety			
Police	4,751,079	258,498	5,009,577
Fire	2,811,203	121,978	2,933,181
General administration	2,358,928	108,211	2,467,139
Public works	1,863,719	676,826	2,540,545
Recreation	802,661	-	802,661
Library	829,259	36,357	865,616
Community development & building inspection	1,087,447	134,889	1,222,336
Museum	251,652	422	252,074
Capital outlay	30,762	291,779	322,541
Debt service			
Principal	830,743	280,532	1,111,275
Interest and fiscal charges	95,484	98,389	193,873
 Total Expenditures	 <u>15,712,937</u>	 <u>2,007,881</u>	 <u>17,720,818</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>674,035</u>	<u>531,420</u>	<u>1,205,455</u>
<u>Other Financing Sources (Uses)</u>			
Transfers in	400,000	706,607	1,106,607
Transfers out	<u>(1,044,807)</u>	<u>-</u>	<u>(1,044,807)</u>
 Net other financing sources (uses)	 <u>(644,807)</u>	 <u>706,607</u>	 <u>61,800</u>
Net Change in Fund Balances	29,228	1,238,027	1,267,255
Fund Balances, Beginning	833,057	6,299,562	7,132,619
Prior Period Adjustments	30,420	<u>(35,321)</u>	<u>(4,901)</u>
Restated Fund Balances, Beginning	<u>863,477</u>	<u>6,264,241</u>	<u>7,127,718</u>
Fund Balances, Ending	<u>\$ 892,705</u>	<u>\$ 7,502,268</u>	<u>\$ 8,394,973</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 Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Government-wide Statement of Activities -
Governmental Activities
Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds \$ 1,267,255

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	\$ 472,238	
Less current year depreciation	<u>(619,329)</u>	(147,091)

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	1,111,275
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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	(1,127,312)	
Amortization of deferred charges relating to the P.O.B.	(830,743)	
Change in accrued interest payable	(6,113)	
Change in compensated absences	<u>551,406</u>	(1,412,762)

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>59,159</u>
Change in Net Assets of Governmental Activities	\$ <u><u>877,836</u></u>

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, 2008

	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	\$ (104,109)	\$ 1,436,080	\$ 482,153	\$ 1,814,124	\$ 500,577
Held in trust	-	50,030	275,522	325,552	-
Receivables					
Accounts	-	401,077	37,013	438,090	-
Interest and other	-	6,418	2,072	8,490	-
Inventory	-	-	62,909	62,909	-
Prepaid expenses	-	16,250	-	16,250	-
Total Current Assets	<u>(104,109)</u>	<u>1,909,855</u>	<u>859,669</u>	<u>2,665,415</u>	<u>500,577</u>
Noncurrent Assets					
Capital assets					
Land	20	-	362,953	362,973	-
Building	709,611	-	5,384,187	6,093,798	-
Improvements	396,173	-	2,529,716	2,925,889	-
Machinery and equipment	190,076	546,140	860,216	1,596,432	-
Sewer lines	-	5,112,783	-	5,112,783	-
Accumulated depreciation	(529,261)	(1,199,565)	(2,475,015)	(4,203,841)	-
Other assets					
Loans receivable	-	117,837	138,701	256,538	-
Deferred charges	-	67,227	-	67,227	-
Total Noncurrent Assets	<u>766,619</u>	<u>4,644,422</u>	<u>6,800,758</u>	<u>12,211,799</u>	<u>-</u>
Total Assets	<u>\$ 662,510</u>	<u>\$ 6,554,277</u>	<u>\$ 7,660,427</u>	<u>\$ 14,877,214</u>	<u>\$ 500,577</u>
<u>Liabilities</u>					
Current Liabilities					
Accounts payable	\$ 2,754	\$ 30,683	\$ 58,563	\$ 92,000	\$ 27,055
Interest payable	-	16,019	84,499	100,518	-
Accrued wages and benefits	4,647	9,264	34,749	48,660	-
Deferred revenue	-	-	87,390	87,390	-
Claims payable	-	-	-	-	601,646
Long-term debt	10,681	46,240	70,000	126,921	-
Total Current Liabilities	<u>18,082</u>	<u>102,206</u>	<u>335,201</u>	<u>455,489</u>	<u>628,701</u>
Noncurrent Liabilities					
Claims payable	-	-	-	-	1,423,009
Compensated absences	-	-	149,442	149,442	-
Long-term debt	11,572	1,288,499	3,695,000	4,995,071	-
Total Noncurrent Liabilities	<u>11,572</u>	<u>1,288,499</u>	<u>3,844,442</u>	<u>5,144,513</u>	<u>1,423,009</u>
Total Liabilities	<u>29,654</u>	<u>1,390,705</u>	<u>4,179,643</u>	<u>5,600,002</u>	<u>2,051,710</u>
<u>Net Assets</u>					
Invested in capital assets, net of related debt	744,366	3,124,619	2,897,057	6,766,042	-
Restricted					
Debt service	-	30	275,522	275,552	-
Unrestricted	<u>(111,510)</u>	<u>2,038,923</u>	<u>308,205</u>	<u>2,235,618</u>	<u>(1,551,133)</u>
Total Net Assets	<u>632,856</u>	<u>5,163,572</u>	<u>3,480,784</u>	<u>9,277,212</u>	<u>(1,551,133)</u>
Total Liabilities and Net Assets	<u>\$ 662,510</u>	<u>\$ 6,554,277</u>	<u>\$ 7,660,427</u>	<u>\$ 14,877,214</u>	<u>\$ 500,577</u>

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, 2008

	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	\$ 192,063	\$ 2,383,467	\$ 2,845,334	\$ 5,420,864	\$ 935,288
Other	7,201	36,014	24,365	67,580	34,845
Total Operating Revenues	<u>199,264</u>	<u>2,419,481</u>	<u>2,869,699</u>	<u>5,488,444</u>	<u>970,133</u>
<u>Operating Expenses</u>					
Personnel services	143,387	298,916	993,608	1,435,911	2,009
Operating services	92,213	534,910	1,032,464	1,659,587	156,923
Insurance, claims and settlements	-	-	-	-	1,090,017
Depreciation	45,402	170,008	289,441	504,851	-
Total Operating Expenses	<u>281,002</u>	<u>1,003,834</u>	<u>2,315,513</u>	<u>3,600,349</u>	<u>1,248,949</u>
Operating Income (Loss)	<u>(81,738)</u>	<u>1,415,647</u>	<u>554,186</u>	<u>1,888,095</u>	<u>(278,816)</u>
<u>Non-operating Revenues (Expenses)</u>					
Interest and investment income	24,119	52,098	36,324	112,541	-
Interest expense	(3,695)	(71,744)	(207,716)	(283,155)	(225)
Total Non-operating Revenues (Expenses)	<u>20,424</u>	<u>(19,646)</u>	<u>(171,392)</u>	<u>(170,614)</u>	<u>(225)</u>
Net Income (Loss) Before Transfers	<u>(61,314)</u>	<u>1,396,001</u>	<u>382,794</u>	<u>1,717,481</u>	<u>(279,041)</u>
Transfers in	-	-	-	-	338,200
Transfers out	-	-	(400,000)	(400,000)	-
Change in Net Assets	<u>(61,314)</u>	<u>1,396,001</u>	<u>(17,206)</u>	<u>1,317,481</u>	<u>59,159</u>
Net Assets, Beginning	654,169	3,840,499	3,500,744	7,995,412	(1,708,754)
Prior Period Adjustment	40,001	(72,928)	(2,754)	(35,681)	98,462
Restated Net Assets, Beginning	<u>694,170</u>	<u>3,767,571</u>	<u>3,497,990</u>	<u>7,959,731</u>	<u>(1,610,292)</u>
Net Assets, Ending	<u>\$ 632,856</u>	<u>\$ 5,163,572</u>	<u>\$ 3,480,784</u>	<u>\$ 9,277,212</u>	<u>\$ (1,551,133)</u>

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, 2008

	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	\$ 199,263	\$ 1,964,915	\$ 2,832,687	\$ 4,996,865	\$ 935,288
Payments to suppliers	(37,992)	(295,272)	(715,596)	(1,048,860)	(698,625)
Payments to employees	(153,214)	(301,596)	(917,122)	(1,371,932)	(4,768)
Internal activity - payments to other funds	(54,819)	(225,205)	(307,807)	(587,831)	(32,298)
Claims paid	-	-	-	-	(519,269)
Other receipts (payments)	39,932	(22,898)	(158,873)	(141,839)	32,652
Net Cash Provided (Used) by Operating Activities	<u>(6,830)</u>	<u>1,119,944</u>	<u>733,289</u>	<u>1,846,403</u>	<u>(287,020)</u>
Cash Flows from Noncapital Financing Activities					
Transfers received	-	-	-	-	338,200
Transfers paid	-	-	(400,000)	(400,000)	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>-</u>	<u>-</u>	<u>(400,000)</u>	<u>(400,000)</u>	<u>338,200</u>
Cash Flows from Capital and Related Financing Activities					
Purchase of capital assets	-	(188,641)	(101,977)	(290,618)	-
Principal paid on long-term debt	(10,681)	(46,454)	(65,000)	(122,135)	-
Interest paid on long-term debt	(2,787)	(67,502)	(202,039)	(272,328)	-
Net Cash Used by Capital and Related Financing Activities	<u>(13,468)</u>	<u>(302,597)</u>	<u>(369,016)</u>	<u>(685,081)</u>	<u>-</u>
Cash Flows from Investing Activities					
Interest received	24,119	49,189	34,252	107,560	-
Net Cash Provided by Investing Activities	<u>24,119</u>	<u>49,189</u>	<u>34,252</u>	<u>107,560</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	3,821	866,536	(1,475)	868,882	51,180
Cash and Cash Equivalents, Beginning	<u>(107,930)</u>	<u>619,574</u>	<u>759,150</u>	<u>1,270,794</u>	<u>449,397</u>
Cash and Cash Equivalents, Ending	<u>\$ (104,109)</u>	<u>\$ 1,486,110</u>	<u>\$ 757,675</u>	<u>\$ 2,139,676</u>	<u>\$ 500,577</u>
Cash Flows from Operating Activities					
Operating income (loss)	\$ (81,738)	\$ 1,415,647	\$ 554,186	\$ 1,888,095	\$ (278,816)
Adjustments to reconcile operating income to net cash provided (used) by operating activities					
Depreciation	45,402	170,008	289,441	504,851	-
Decrease (increase) in operating assets					
Accounts receivable	-	(33,811)	(37,013)	(70,824)	-
Loans receivable	-	(19,471)	(2,406)	(21,877)	-
Other assets	16,910	(203,883)	120,403	(66,570)	(3,123)
Increase (decrease) in operating liabilities					
Accounts payable	21,515	(207,483)	(91,470)	(277,438)	7,347
Wages payable	(8,919)	(1,063)	(7,898)	(17,880)	(4,794)
Claims payable	-	-	-	-	(7,634)
Compensated absences	-	-	(91,954)	(91,954)	-
Net Cash Provided (Used) by Operating Activities	<u>\$ (6,830)</u>	<u>\$ 1,119,944</u>	<u>\$ 733,289</u>	<u>\$ 1,846,403</u>	<u>\$ (287,020)</u>

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, 2008

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, 2008

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, 2008

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, 2008

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, 2008

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, 2008

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, 2008

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, 2008

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	\$7,547,062
Cash and investments held in trust	<u>1,197,249</u>
Total City cash and investments	<u>\$8,744,311</u>

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

Investments	\$8,037,684
Cash in banks	704,142
Petty cash	<u>2,485</u>
Total City cash and investments	<u>\$8,744,311</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, 2008

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, 2008

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	\$ - .	\$200,284	\$ - .	\$ 200,284
Gov't Bonds - Non-Callable	90,338	493,176	87,842	671,356
Certificates of Deposit	50,000	193,410	- .	243,410
Money Market Funds	275,551	- .	- .	275,551
Cash or Equivalent	6,930	- .	- .	6,930
California Local Agency Investment Fund	<u>6,640,153</u>	<u>- .</u>	<u>- .</u>	<u>6,640,153</u>
 Total Investments	 <u>\$7,062,972</u>	 <u>\$886,870</u>	 <u>\$87,842</u>	 8,037,684
 Cash				
Cash in banks				704,142
Petty cash				<u>2,485</u>
 Total Cash and Investments				 <u>\$8,744,311</u>

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2008

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, 2008 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	\$ 200,284	\$ - .	\$ 200,284
Gov't Bonds - Non-Callable	671,356	- .	671,356
Certificates of Deposit	- .	243,410	243,410
Money Market Funds	275,551	- .	275,551
Cash or Equivalent	- .	6,930	6,930
California Local Agency Investment Fund	<u>- .</u>	<u>6,640,153</u>	<u>6,640,153</u>
Total Investments	<u>\$1,147,191</u>	<u>\$6,890,493</u>	8,037,684
Cash			
Cash in banks			704,142
Petty cash			<u>2,485</u>
Total Cash and Investments			<u>\$8,744,311</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, 2008.

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2008

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 purposes 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, 2008

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, 2007</u>	<u>June 30, 2008</u>
Balance held by Trustee at end of year, at fair value	\$ <u>1,062,840</u>	\$ <u>968,668</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	\$ 400,000	\$1,044,807
Nonmajor funds	<u>706,607</u>	<u>- .</u>
Total Governmental funds	1,106,607	1,044,807
Internal Service funds	<u>338,200</u>	<u>- .</u>
Total Governmental Activities	<u>1,444,807</u>	1,044,807
Business-type Activities		
Golf Course	<u>- .</u>	<u>400,000</u>
Total Business-type funds	<u>- .</u>	<u>400,000</u>
Total	<u>\$1,444,807</u>	<u>\$1,444,807</u>

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2008

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, 2008 was \$1,332,851.

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, 2008 was \$117,837.

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, 2008 was \$138,701.

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2008

NOTE 6. 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 are recorded as adjustments to capital assets as of 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.

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.

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2008

NOTE 6. CAPITAL ASSETS – Continued

Capital assets activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions/ Adjustments	Retirements/ Adjustments	Balance June 30, 2008
<u>Governmental activities</u>				
Capital assets, not being depreciated:				
Land	\$ 2,338,270	\$ - .	\$ - .	\$ 2,338,270
Construction in progress	<u>- .</u>	<u>237,305</u>	<u>- .</u>	<u>237,305</u>
Total capital assets, not being depreciated	<u>2,338,270</u>	<u>237,305</u>	<u>- .</u>	<u>2,575,575</u>
Capital assets, being depreciated:				
Infrastructure	1,931,547	17,447,846	218,350	19,161,043
Buildings	10,988,836	181,493	52,983	11,117,346
Improvements	240,692	1,500	- .	242,192
Machinery and equipment	<u>3,413,712</u>	<u>212,867</u>	<u>- .</u>	<u>3,626,579</u>
Total capital assets, being depreciated	<u>16,574,787</u>	<u>17,843,706</u>	<u>271,333</u>	<u>34,147,160</u>
Less accumulated depreciation for:				
Infrastructure	19,365	6,930,139	- .	6,949,504
Buildings	5,589,591	107,457	- .	5,697,048
Improvement	63,284	11,621	- .	74,905
Machinery and equipment	<u>2,230,317</u>	<u>301,360</u>	<u>- .</u>	<u>2,531,677</u>
Total accumulated depreciation	<u>7,902,557</u>	<u>7,350,577</u>	<u>- .</u>	<u>15,253,134</u>
Total capital assets, being depreciated, net	<u>8,672,230</u>	<u>10,493,129</u>	<u>271,333</u>	<u>18,894,026</u>
Governmental activities capital assets, net	<u>\$11,010,500</u>	<u>\$10,730,434</u>	<u>\$271,333</u>	<u>\$21,469,601</u>
<u>Business-type activities</u>				
Capital assets, not being depreciated:				
Land	\$ <u>362,973</u>	\$ - .	\$ - .	\$ <u>362,973</u>
Total capital assets, not being depreciated	<u>362,973</u>	<u>- .</u>	<u>- .</u>	<u>362,973</u>
Capital assets, being depreciated:				
Buildings	6,093,798	- .	- .	6,093,798
Improvements	2,824,748	101,141	- .	2,925,889
Machinery and equipment	1,450,797	145,635	- .	1,596,432
Sewer line	<u>4,848,853</u>	<u>263,930</u>	<u>- .</u>	<u>5,112,783</u>
Total capital assets, being depreciated	<u>15,218,196</u>	<u>510,706</u>	<u>- .</u>	<u>15,728,902</u>
Less accumulated depreciation for:				
Buildings	709,847	83,433	- .	793,280
Improvements	1,102,458	182,793	- .	1,285,251
Machinery and equipment	1,211,263	115,291	38,608	1,365,162
Sewer line	<u>636,814</u>	<u>123,334</u>	<u>- .</u>	<u>760,148</u>
Total accumulated depreciation	<u>3,660,382</u>	<u>504,851</u>	<u>- .</u>	<u>4,203,841</u>
Total capital assets, being depreciated, net	<u>11,557,814</u>	<u>5,855</u>	<u>38,608</u>	<u>11,525,061</u>
Business-type activities capital assets, net	<u>\$11,920,787</u>	<u>\$ 5,855</u>	<u>\$38,608</u>	<u>\$11,888,034</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.

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2008

NOTE 6. CAPITAL ASSETS – Continued

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	\$104,094
Fire	94,405
General administration	319,476
Public works	60,153
Recreation	20,096
Library	10,717
Museum	<u>10,388</u>
Total depreciation expense – governmental activities	<u>\$619,329</u>
Business-type activities:	
Cemetery operating	\$ 45,402
Sewer operating	170,008
Golf course	<u>289,441</u>
Total depreciation expense – business-type activities	<u>\$504,851</u>

NOTE 7. LONG-TERM DEBT

Long-term liabilities at June 30, 2008 included the following:

<u>Type of obligation</u>	<u>Original Issue Amount</u>	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2008</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	\$ 794,277	\$ -	\$ 54,773	\$ 739,504	\$ 59,210
<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	1,355,741	-	172,239	1,183,502	178,934
Police and public works						
vehicles; 3.3%; maturity 1/3/07	138,438	1,502	-	1,502	-	-

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2008

NOTE 7. LONG-TERM DEBT

<u>Type of obligation</u>	<u>Original Issue Amount</u>	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2008</u>	<u>Due within one year</u>
2005 Ford vehicles; 3.75%; maturity 8/15/07	\$ 49,045	\$ 16,341	\$ -	\$ 16,341	\$ -	\$ -
Pierce Dash 2000 Pumper; 3.885% maturity 8/15/15	410,134	375,791	-	35,677	340,114	37,063
<i>Pension Obligation Bond</i>						
Taxable Pension Obligation Bonds; 5.67%-6.12%; maturity 6/1/29	19,365,355	19,325,355	-	830,743	18,494,612	1,268,194
Accreted Interest		<u>1,065,118</u>	<u>1,171,268</u>	<u>43,956</u>	<u>2,192,430</u>	<u>-</u>
Total Governmental Activities		<u>\$23,009,125</u>	<u>\$1,171,268</u>	<u>\$1,155,231</u>	<u>\$23,025,162</u>	<u>\$1,543,401</u>
<u>Business-type Activities</u>						
<u>Enterprise fund – Cemetery</u>						
<i>Capital Lease</i>						
Mower; 4.47%; due monthly until 7/15/10	52,273	\$ -	\$42,724	\$ 20,471	\$ 22,253	\$ 10,681
<u>Enterprise fund – Sewer</u>						
<i>Revenue bonds</i>						
California Statewide						
Community Dev. Auth. Series 2000B; 3.25% - 5.125%; due 10/1/31	1,475,000	1,350,000	-	30,000	1,320,000	30,000
Less: unamortized discount		(21,009)	-	(864)	(20,145)	(864)
<i>Capital Lease</i>						
Backhoe; 2.75%-5.75%; due annually until 11/16/09	86,450	51,338	-	16,454	34,884	17,104
<u>Enterprise fund – Golf</u>						
<i>Certificates of Participation</i>						
2004 Golf Course Project; 2.75%-5.75%; maturity 8/1/34	3,960,000	<u>3,830,000</u>	<u>-</u>	<u>65,000</u>	<u>3,765,000</u>	<u>70,000</u>
Total Business-type Activities		<u>\$5,210,329</u>	<u>\$42,724</u>	<u>\$131,061</u>	<u>\$5,121,992</u>	<u>\$126,921</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.

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2008

NOTE 7. LONG-TERM DEBT - Continued

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, 2008, annual debt service requirements to maturity are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 59,210	\$ 31,591
2010	63,545	28,859
2011	67,773	25,937
2012	66,889	22,941
2013	70,966	19,874
2014-2018	<u>411,121</u>	<u>47,324</u>
Totals	<u>\$739,504</u>	<u>\$176,526</u>

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, 2008, 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, 2008, annual debt service requirements to maturity are as follows:

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2008

NOTE 7. LONG-TERM DEBT - Continued

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 178,934	\$ 43,859
2010	185,889	36,904
2011	193,115	29,678
2012	200,623	22,170
2013	208,420	14,373
2014	<u>216,521</u>	<u>6,272</u>
Totals	<u>\$1,183,502</u>	<u>\$153,256</u>

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, 2008, annual debt service requirements to maturity are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 37,063	\$13,214
2010	38,503	11,774
2011	39,999	10,278
2012	41,553	8,724
2013	43,167	7,110
2014-2016	<u>139,829</u>	<u>11,000</u>
Totals	<u>\$340,114</u>	<u>\$62,100</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, 2008, annual debt service requirements to maturity are as follows:

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2008

NOTE 7. LONG-TERM DEBT - Continued

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest Accretion</u>	<u>Interest</u>
2009	\$ 1,268,194	\$ 144,955	\$ 226,806
2010	1,240,280	140,981	304,720
2011	1,207,782	138,558	387,218
2012	1,180,806	135,449	469,194
2013	1,145,902	132,634	554,098
2014-2018	5,266,282	622,574	4,118,718
2019-2023	4,513,677	549,344	6,501,323
2024-2028	2,257,341	277,033	5,237,659
2029	<u>414,348</u>	<u>50,902</u>	<u>1,235,652</u>
Totals	<u>\$18,494,612</u>	<u>\$2,192,430</u>	<u>\$19,035,388</u>

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, 2008, annual debt service requirements to maturity are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 30,000	\$ 63,515
2010	30,000	62,383
2011	35,000	61,113
2012	35,000	59,695
2013	35,000	58,225
2014-2018	210,000	263,780
2019-2023	270,000	204,625
2024-2028	340,000	128,000
2029-2032	<u>335,000</u>	<u>34,375</u>
Totals	<u>\$1,320,000</u>	<u>\$ 935,711</u>

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2008

NOTE 7. LONG-TERM DEBT - Continued

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, 2008, annual debt service requirements to maturity are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2009	\$27,785	\$3,784
2010	28,461	3,108
2011	<u>891</u>	<u>200</u>
Totals	<u>\$57,137</u>	<u>\$7,092</u>

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, 2008, annual debt service requirements to maturity are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 70,000	\$ 201,485
2010	70,000	198,773
2011	75,000	195,779
2012	75,000	192,516
2013	80,000	188,988
2014-2018	470,000	879,594
2019-2023	605,000	739,078
2024-2028	785,000	548,061
2029-2033	1,035,000	293,941
2034-2035	<u>500,000</u>	<u>28,531</u>
Totals	<u>\$3,765,000</u>	<u>\$3,466,746</u>

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2008

NOTE 8. 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.
- 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, 2008, 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.

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2008

NOTE 8. NET ASSETS AND FUND BALANCES - Continued

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.

NOTE 9. DEFICIT FUND EQUITY/NET ASSETS

The following funds had deficit fund balance at June 30, 2008:

Governmental Activities	
Governmental funds	
Nonmajor funds	
Public Safety Augmentation	\$294,728
Storm Water	91,661

The following funds had deficit net assets at June 30, 2008:

Governmental Activities	
Internal Service funds	
Workers' Compensation Insurance	\$1,799,719

The Public Safety Augmentation fund deficit resulted from two prior period adjustments in fiscal year 2007. 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 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 invoice received for 2007-2008 services was for more than was anticipated in the 2008 budget which resulted in current year revenues not being sufficient to pay for services. The City will continue to work with the County of Monterey to determine a more efficient manner in which the cost for emergency communications can be determined so that a more effective budgeting process can alleviate the fund's deficit but given the current economic downturn it may take some time before the entire deficit is restored.

The Storm Water fund deficit resulted from a prior period adjustment. In fiscal year 2007, a contractor working on a sewer line project and a storm water diversion project billed for both projects on one invoice that was not correctly processed by staff resulting in the entire amount of the invoice being charged to the Sewer fund. The dollar amount of the service billed was \$90,950. The prior period adjustment reversed the charge in the Sewer fund and correctly charged the cost to the Storm Water fund.

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2008

NOTE 9. DEFICIT FUND EQUITY/NET ASSETS - Continued

The Workers' Compensation Insurance fund deficit resulted from a historical mismatch between claims activity and aggregate charges to departments based on claims 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. During the current year, the City transferred sufficient funds to cover the current year costs for worker's compensation allocations and was able to reduce the deficit; however, given the economic downturn, the City was unable to transfer additional monies into the fund to reduce the deficit even further.

NOTE 10. 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	19.120%	9.173%

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, 2008

NOTE 10. 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>Safety Plan:</i>						
6/30/2005	\$6,367	\$5,295	\$1,072	83.2%	\$664	161.4%
6/30/2006	7,278	6,103	1,175	83.9%	755	155.7%
6/30/2007	7,986	6,827	1,159	85.5%	832	139.4%
<i>Miscellaneous Plan:</i>						
6/30/2005	\$2,891	\$2,589	\$303	89.5%	\$755	40.1%
6/30/2006	2,754	2,492	262	90.5%	700	37.5%
6/30/2007	2,612	2,391	221	91.5%	666	33.1%

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

Actuarially required contributions for fiscal years 2008, 2007, and 2006 were \$1,312,277, \$2,588,511, and \$2,105,715 respectively. The current year's required contribution was determined as part of the June 30, 2005 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, 2008

NOTE 11. 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, 2008, total contributions of \$115,650 were made.

NOTE 12. 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, 2008, the City paid \$28,500 for its share of benefits on behalf of 18 participants.

NOTE 13. 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, 2008

NOTE 13. 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, 2007	\$1,819,098	\$323,866	\$2,146,964
Incurred claims and changes in estimate	753,167	276,604	1,029,771
Claim payments	(774,835)	(373,245)	(1,148,080)
Ending balance, June 30, 2008	<u>\$1,797,430</u>	<u>\$227,225</u>	<u>\$2,024,655</u>
Due within one year	<u>\$465,887</u>	<u>\$135,759</u>	<u>\$601,646</u>

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2008

NOTE 14. 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 \$226,000 have been reserved by the city.

NOTE 15. 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 3.0% interest rate and yield of 1.8%, with the City's portion in the amount of \$3,315,000. The TRAN document is dated June 12, 2008 with delivery of note participations on or about July 1, 2008. 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, 2009 and are secured by a pledge of certain unrestricted revenues of the general fund for the fiscal year 2008-2009.

NOTE 16. PRIOR PERIOD ADJUSTEMENTS

Several prior period adjustments have been recorded to correct the City's Net Assets & fund balances from last year's qualified opinion. These are mostly adjustments on capital assets, accreted interest and revenue and expenditure cut-off. Two material adjustments of note require additional disclosure.

CITY OF PACIFIC GROVE
Notes to the Basic Financial Statements
Year Ended June 30, 2008

NOTE 16. PRIOR PERIOD ADJUSTEMENTS - Continued

1) The City needed to be in compliance with all requirements established in Governmental Accounting Standards Board Statement 34 by June 30, 2008. The last remaining item to be recorded on the general ledger in order to be compliant was the historical carrying cost of infrastructure assets in the governmental funds. GASB 34 detailed the components of what was to be included in calculating the cost of these assets. The City included streets and alleys, sidewalks, storm drainage system, street signs and traffic signals. Once the infrastructure system is identified the next step was to determine the cost of acquiring these assets as of July 1, 1980 and depreciating that cost to June 30, 2007 using the straight-line depreciation method estimating a useful life of 70 years. The City had on file an infrastructure analysis that was completed in 1986 and used that report as a basis for calculating the historic cost. The replacement cost was deflated to 1980 dollars using the Consumer Price Index – all urban consumers for the San Francisco, San Jose, and Oakland region and then that amount was multiplied by each unit of measure and then depreciated over 27 years. The total amount of the adjustment to beginning fund balance as a result of this infrastructure analysis is \$10.6 million.

2) In fiscal year ended June 30, 2007, an adjustment was recorded to reduce cash in the general ledger to the balances recorded on the bank statements. Because bank reconciliations were not completed for quite some time, the City could not identify in time for the audit which funds caused the overstatement of cash and allocated the overage to all the funds based on weighted average. During the current year and as a result of tighter cash management, timely bank reconciliations, and further analysis, the City was able to identify the funds which were overstated and made the appropriate corrections by reversing the adjustment from the prior year, which restated the beginning cash balances and reduced the cash balance in the funds that were overstated. The net amount of the adjustment totaled \$287 thousand.

Required Supplementary Information
(other than MD&A)



CITY OF PACIFIC GROVE, CALIFORNIA
Budgetary Comparison Schedule - General Fund
Year Ended June 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	Variance with Final Budget Positive (Negative)
Budgetary Balances, Beginning	\$ 863,477	\$ 863,477	\$ 863,477	\$ -
Resources (inflows)				
Property tax	3,891,500	3,891,500	3,848,886	(42,614)
Sales tax	1,696,000	1,696,000	1,612,980	(83,020)
Transient occupancy tax	3,245,000	3,245,000	3,282,468	37,468
Franchise tax	849,200	849,200	747,678	(101,522)
Utility users	1,423,000	1,423,000	1,545,208	122,208
Business license	304,500	304,500	300,012	(4,488)
Real estate transfer tax	90,000	90,000	66,868	(23,132)
Licenses and permits	434,000	434,000	455,021	21,021
Fines, forfeitures and penalties	77,500	77,500	52,245	(25,255)
Intergovernmental	1,407,000	1,407,000	1,594,668	187,668
Charges for current services	2,250,550	2,250,550	1,313,033	(937,517)
Use of money and property	50,000	50,000	82,575	32,575
Interdepartmental charges	526,166	526,166	1,467,487	941,321
Other	6,000	6,000	17,843	11,843
Transfers in	400,000	400,000	400,000	-
Other financing sources	-	-	-	-
	<u>16,650,416</u>	<u>16,650,416</u>	<u>16,786,972</u>	<u>136,556</u>
Amounts Available for Appropriation				
Charges to appropriations (outflows)				
Current				
Public safety				
Police	4,718,643	4,868,643	4,751,079	117,564
Fire	2,956,448	2,956,488	2,811,203	145,285
General administration	2,399,230	2,499,232	2,358,928	140,304
Public works	2,090,280	1,940,278	1,863,719	76,559
Recreation	959,631	809,630	802,661	6,969
Library	953,350	953,349	829,259	124,090
Community development & building inspector	1,077,989	1,127,988	1,087,447	40,541
Museum	282,981	282,797	251,652	31,145
Capital outlay	-	-	30,762	(30,762)
Debt service				
Principal	-	-	830,743	(830,743)
Interest and fiscal charges	-	-	95,484	(95,484)
Transfers out	1,060,492	1,060,492	1,044,807	15,685
	<u>16,499,044</u>	<u>16,498,897</u>	<u>16,757,744</u>	<u>(258,847)</u>
Total Charges to Appropriation				
Budgetary Balances, Ending	\$ <u>1,014,849</u>	\$ <u>1,014,996</u>	\$ <u>892,705</u>	\$ <u>(122,291)</u>

Continued

CITY OF PACIFIC GROVE, CALIFORNIA
Budgetary Comparison Schedule - General Fund
Year Ended June 30, 2008

**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	\$ 16,786,972
Differences - budget to GAAP:	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	<u>(400,000)</u>
Total Revenues as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	<u>\$ 16,386,972</u>

Uses/Outflows of Resources

Actual amounts (budgetary basis) "total charges to appropriation" from the budgetary comparison schedule	\$ 16,757,744
Differences - budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(1,044,807)</u>
Total Expenditures as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	<u>\$ 15,712,937</u> Concluded

Supplementary Information



Nonmajor Governmental Funds

CITY OF PACIFIC GROVE, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2008

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.

Downtown Business District. This fund accounts for the collection of self-assessed fees from businesses within the Business Improvement District and the payment of those fees to the Pacific Grove Chamber of Commerce. Businesses within the Downtown Business Improvement District remit those fees to the City upon the annual renewal of their business licenses.

Hospitality Improvement District. This fund accounts for the collection of self assessed fees by the hotels within the City and the payment of those fees to the Monterey County Convention and Visitor's Bureau. All the hotels in the City have agreed to this self assessment and remit those fees with their Transient Occupancy Tax payments.

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.

CITY OF PACIFIC GROVE, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2008

SPECIAL REVENUE FUNDS - Continued

(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.

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.

McIndoo Donation. This fund accounts for the receipt of a donation from the Jeanette J. McIndoo Trust and for the expense for beautification and enhancement of public facilities and grounds.

CITY OF PACIFIC GROVE, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2008

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.

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, 2008

	Special Revenue			
	Carillon Acquisition & Maintenance	Ocean Rescue	Library Building & Equipment	Museum Improvement
<u>Assets</u>				
Cash and investments				
Available for operations	\$ 23,508	\$ 36,198	\$ 428,361	\$ 445,972
Held in trust	-	-	-	-
Receivables				
Accounts	-	-	-	-
Loans	-	-	-	-
Total Assets	\$ 23,508	\$ 36,198	\$ 428,361	\$ 445,972
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 791	\$ -	\$ 3
Accrued wages and benefits	-	-	-	-
Total Liabilities	-	791	-	3
<u>Fund Balances</u>				
Reserved for				
Long-term loan receivable	-	-	-	-
Debt service	-	-	-	-
Unreserved, reported in				
Special revenue funds	23,508	35,407	428,361	445,969
Capital projects funds	-	-	-	-
Permanent funds	-	-	-	-
Total Fund Balance	23,508	35,407	428,361	445,969
Total Liabilities and Fund Balances	\$ 23,508	\$ 36,198	\$ 428,361	\$ 445,972

Special Revenue

Downtown Business District	Hospitality Improvement District	Library Book	Fire Dept. Emergency Equipment	Civic Center Site	Housing Program	Traffic Congestion Relief
\$ 306	\$ 30,788	\$ 43,511	\$ 37,133	\$ 25,368	\$ 236,395	\$ 9,641
-	-	-	-	-	-	-
-	50,255	-	-	-	8,151	400,000
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>865,673</u>	<u>-</u>
<u>\$ 306</u>	<u>\$ 81,043</u>	<u>\$ 43,511</u>	<u>\$ 37,133</u>	<u>\$ 25,368</u>	<u>\$ 1,110,219</u>	<u>\$ 409,641</u>
\$ 301	\$ 80,891	\$ 3,536	\$ 46	\$ -	\$ 172	\$ -
-	-	-	-	-	3,302	-
<u>301</u>	<u>80,891</u>	<u>3,536</u>	<u>46</u>	<u>-</u>	<u>3,474</u>	<u>-</u>
-	-	-	-	-	865,673	-
-	-	-	-	-	-	-
5	152	39,975	37,087	25,368	241,072	409,641
-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>5</u>	<u>152</u>	<u>39,975</u>	<u>37,087</u>	<u>25,368</u>	<u>1,106,745</u>	<u>409,641</u>
<u>\$ 306</u>	<u>\$ 81,043</u>	<u>\$ 43,511</u>	<u>\$ 37,133</u>	<u>\$ 25,368</u>	<u>\$ 1,110,219</u>	<u>\$ 409,641</u>

Continued

CITY OF PACIFIC GROVE, CALIFORNIA
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2008

	Special Revenue			
	State Gas Tax	RSTP (TAMC)	Drug Awareness (DARE)	(LLEBG) Law Enforcement Block Grant
<u>Assets</u>				
Cash and investments				
Available for operations	\$ 2,256	\$ (90,531)	\$ 14,295	\$ 67
Held in trust	-	-	-	-
Receivables				
Accounts	63,482	124,121	-	-
Loans	-	-	-	-
Total Assets	\$ 65,738	\$ 33,590	\$ 14,295	\$ 67
<u>Liabilities</u>				
Accounts payable	\$ 861	\$ -	\$ -	\$ -
Accrued wages and benefits	4,017	711	-	-
Total Liabilities	4,878	711	-	-
<u>Fund Balances</u>				
Reserved for				
Long-term loan receivable	-	-	-	-
Debt service	-	-	-	-
Unreserved, reported in				
Special revenue funds	60,860	32,879	14,295	67
Capital projects funds	-	-	-	-
Permanent funds	-	-	-	-
Total Fund Balance	60,860	32,879	14,295	67
Total Liabilities and Fund Balances	\$ 65,738	\$ 33,590	\$ 14,295	\$ 67

Special Revenue

<u>Environmental Enhancement</u>	<u>Recreation Donation</u>	<u>Chautauqua Hall Preservation</u>	<u>Lighthouse Maintenance & Improvement</u>	<u>Senior Housing</u>	<u>Vehicle Replacement</u>	<u>Housing Rehabilitation (DPRL)</u>
\$ 21,016	\$ 5,406	\$ 30,510	\$ 59,102	\$ 9,301	\$ -	\$ 92,642
-	-	-	-	-	-	-
-	-	-	-	-	-	54,509
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>467,178</u>
<u>\$ 21,016</u>	<u>\$ 5,406</u>	<u>\$ 30,510</u>	<u>\$ 59,102</u>	<u>\$ 9,301</u>	<u>\$ -</u>	<u>\$ 614,329</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,899
-	-	-	-	-	-	818
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,717</u>
-	-	-	-	-	-	467,178
-	-	-	-	-	-	-
21,016	5,406	30,510	59,102	9,301	-	144,434
-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>21,016</u>	<u>5,406</u>	<u>30,510</u>	<u>59,102</u>	<u>9,301</u>	<u>-</u>	<u>611,612</u>
<u>\$ 21,016</u>	<u>\$ 5,406</u>	<u>\$ 30,510</u>	<u>\$ 59,102</u>	<u>\$ 9,301</u>	<u>\$ -</u>	<u>\$ 614,329</u>

Continued

CITY OF PACIFIC GROVE, CALIFORNIA
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2008

	Special Revenue			
	Yount Trust Income	Public Safety Augmentation	Supplemental Law Enforcement (SLES)	Storm Water Fund
<u>Assets</u>				
Cash and investments				
Available for operations	\$ 54,105	\$ (31,453)	\$ 25,315	\$ (59,002)
Held in trust	-	-	-	-
Receivables				
Accounts	-	-	-	-
Loans	-	-	-	-
	\$ 54,105	\$ (31,453)	\$ 25,315	\$ (59,002)
Total Assets	\$ 54,105	\$ (31,453)	\$ 25,315	\$ (59,002)
<u>Liabilities</u>				
Accounts payable	\$ 87	\$ 263,275	\$ 15,574	\$ 32,388
Accrued wages and benefits	-	-	-	271
	87	263,275	15,574	32,659
Total Liabilities	87	263,275	15,574	32,659
<u>Fund Balances</u>				
Reserved for				
Long-term loan receivable	-	-	-	-
Debt service	-	-	-	-
Unreserved, reported in				
Special revenue funds	54,018	(294,728)	9,741	(91,661)
Capital projects funds	-	-	-	-
Permanent funds	-	-	-	-
	54,018	(294,728)	9,741	(91,661)
Total Fund Balance	54,018	(294,728)	9,741	(91,661)
Total Liabilities and Fund Balances	\$ 54,105	\$ (31,453)	\$ 25,315	\$ (59,002)

<u>Special Revenue</u>			<u>Capital Project</u>	<u>Debt Service</u>	<u>Permanent</u>	
<u>Ocean Front Restoration</u>	<u>Poetry Promotion Fund</u>	<u>McIndoo Donation</u>	<u>Buildings & Facilities Improvement</u>	<u>1990 Butterfly Habitat Bond</u>	<u>Library Endowment Trust</u>	<u>Cemetery Endowment Trust</u>
\$ 1,025,718	\$ 170,776	\$ 321,847	\$ 533,504	\$ 79,019	\$ 555,685	\$ 874,888
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 1,025,718</u>	<u>\$ 170,776</u>	<u>\$ 321,847</u>	<u>\$ 533,504</u>	<u>\$ 79,019</u>	<u>\$ 555,685</u>	<u>\$ 874,888</u>
\$ 5,476	\$ -	\$ -	\$ -	\$ -	\$ 26	\$ -
-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>5,476</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26</u>	<u>-</u>
-	-	-	-	-	-	-
-	-	-	-	79,019	-	-
1,020,242	170,776	321,847	-	-	-	-
-	-	-	533,504	-	-	-
-	-	-	-	-	555,659	874,888
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>555,659</u>	<u>874,888</u>
<u>1,020,242</u>	<u>170,776</u>	<u>321,847</u>	<u>533,504</u>	<u>79,019</u>	<u>555,659</u>	<u>874,888</u>
<u>\$ 1,025,718</u>	<u>\$ 170,776</u>	<u>\$ 321,847</u>	<u>\$ 533,504</u>	<u>\$ 79,019</u>	<u>\$ 555,685</u>	<u>\$ 874,888</u>

Continued

CITY OF PACIFIC GROVE, CALIFORNIA
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2008

	<u>Permanent</u>	
	Yount	
	<u>Trust</u>	<u>Total</u>
<u>Assets</u>		
Cash and investments		
Available for operations	\$ -	\$ 5,011,647
Held in trust	871,697	871,697
Receivables		
Accounts	-	700,518
Loans	-	1,332,851
	<u>-</u>	<u>1,332,851</u>
Total Assets	\$ <u>871,697</u>	\$ <u>7,916,713</u>
<u>Liabilities</u>		
Accounts payable	\$ -	\$ 405,326
Accrued wages and benefits	-	9,119
	<u>-</u>	<u>9,119</u>
Total Liabilities	<u>-</u>	<u>414,445</u>
<u>Fund Balances</u>		
Reserved for		
Long-term loan receivable	-	1,332,851
Debt service	-	79,019
Unreserved, reported in		
Special revenue funds	-	3,254,650
Capital projects funds	-	533,504
Permanent funds	871,697	2,302,244
	<u>871,697</u>	<u>2,302,244</u>
Total Fund Balance	<u>871,697</u>	<u>7,502,268</u>
Total Liabilities and Fund Balances	\$ <u>871,697</u>	\$ <u>7,916,713</u>
		Concluded



CITY OF PACIFIC GROVE, CALIFORNIA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended June 30, 2008

	Special Revenue			
	Carillon Acquisition & Maintenance	Ocean Rescue	Library Building & Equipment	Museum Improvement
<u>Revenues</u>				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	14,624	-	12,104
Charges for current services	-	-	-	-
Use of money and property	679	934	13,118	12,881
	679	934	13,118	12,881
Total Revenues	679	15,558	13,118	24,985
<u>Expenditures</u>				
Current				
Public safety				
Police	-	-	-	-
Fire	-	10,825	-	-
General administration	-	-	-	-
Public works	-	-	-	-
Library	-	-	-	-
Community development & building inspection	-	-	-	-
Museum	-	-	-	422
Capital outlay	-	-	-	1,500
Debt service				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
	-	-	-	-
Total Expenditures	-	10,825	-	1,922
Excess (Deficiency) of Revenues Over Expenditures	679	4,733	13,118	23,063
<u>Other Financing Sources (Uses)</u>				
Transfers in	-	-	-	-
Net other financing sources (uses)	-	-	-	-
Net Change in Fund Balances	679	4,733	13,118	23,063
Fund Balances, Beginning	18,526	26,509	435,341	332,807
Prior Period Adjustments	4,303	4,165	(20,098)	90,099
Restated Fund Balances, Beginning	22,829	30,674	415,243	422,906
Fund Balances, Ending	\$ 23,508	\$ 35,407	\$ 428,361	\$ 445,969

Special Revenue

Downtown Business District	Hospitality Improvement District	Library Book	Fire Dept. Emergency Equipment	Civic Center Site	Housing Progam	Traffic Congestion Relief
\$ -	\$ 107,037	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	34,881	1,225	-	157,034	400,000
-	-	-	12,617	18,000	32,686	-
<u>5</u>	<u>152</u>	<u>1,593</u>	<u>1,028</u>	<u>37,000</u>	<u>6,297</u>	<u>3,377</u>
<u>5</u>	<u>107,189</u>	<u>36,474</u>	<u>14,870</u>	<u>55,000</u>	<u>196,017</u>	<u>403,377</u>
-	-	-	-	-	-	-
-	-	-	5,843	-	-	-
-	107,037	-	-	1,174	-	-
-	-	-	-	-	-	21,943
-	-	32,850	-	-	-	-
-	-	-	-	-	87,870	-
-	-	-	-	-	-	-
-	-	-	-	-	181,493	-
-	-	-	-	172,239	-	-
-	-	-	-	<u>50,554</u>	-	-
<u>-</u>	<u>107,037</u>	<u>32,850</u>	<u>5,843</u>	<u>223,967</u>	<u>269,363</u>	<u>21,943</u>
<u>5</u>	<u>152</u>	<u>3,624</u>	<u>9,027</u>	<u>(168,967)</u>	<u>(73,346)</u>	<u>381,434</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>212,292</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>212,292</u>	<u>-</u>	<u>-</u>
<u>5</u>	<u>152</u>	<u>3,624</u>	<u>9,027</u>	<u>43,325</u>	<u>(73,346)</u>	<u>381,434</u>
-	-	30,092	23,449	10,644	1,025,825	100,193
-	-	6,259	4,611	<u>(28,601)</u>	154,266	<u>(71,986)</u>
<u>-</u>	<u>-</u>	<u>36,351</u>	<u>28,060</u>	<u>(17,957)</u>	<u>1,180,091</u>	<u>28,207</u>
<u>\$ 5</u>	<u>\$ 152</u>	<u>\$ 39,975</u>	<u>\$ 37,087</u>	<u>\$ 25,368</u>	<u>\$ 1,106,745</u>	<u>\$ 409,641</u>

Continued

CITY OF PACIFIC GROVE, CALIFORNIA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended June 30, 2008

	Special Revenue			
	State Gas Tax	RSTP (TAMC)	Drug Awareness (DARE)	(LLEBG) Law Enforcement Block Grant
<u>Revenues</u>				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	264,579	124,120	-	-
Charges for current services	-	-	-	-
Use of money and property	1,955	-	425	2
	<u>266,534</u>	<u>124,120</u>	<u>425</u>	<u>2</u>
Total Revenues	<u>266,534</u>	<u>124,120</u>	<u>425</u>	<u>2</u>
<u>Expenditures</u>				
Current				
Public safety				
Police	-	-	1,550	-
Fire	-	-	-	-
General administration	-	-	-	-
Public works	291,200	23,420	-	-
Library	-	-	-	-
Community development & building inspection	-	-	-	-
Museum	-	-	-	-
Capital outlay	-	39,644	-	-
Debt service				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
	<u>291,200</u>	<u>63,064</u>	<u>1,550</u>	<u>-</u>
Total Expenditures	<u>291,200</u>	<u>63,064</u>	<u>1,550</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(24,666)</u>	<u>61,056</u>	<u>(1,125)</u>	<u>2</u>
<u>Other Financing Sources (Uses)</u>				
Transfers in	-	-	-	-
	<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>(24,666)</u>	<u>61,056</u>	<u>(1,125)</u>	<u>2</u>
Fund Balances, Beginning	75,537	(43,150)	10,523	51
Prior Period Adjustments	9,989	14,973	4,897	14
Restated Fund Balances, Beginning	<u>85,526</u>	<u>(28,177)</u>	<u>15,420</u>	<u>65</u>
Fund Balances, Ending	<u>\$ 60,860</u>	<u>\$ 32,879</u>	<u>\$ 14,295</u>	<u>\$ 67</u>

Special Revenue

Environmental Enhancement	Recreation Donation	Chautauqua Hall Preservation	Lighthouse Maintenance & Improvement	Senior Housing	Vehicle Replacement	Housing Rehabilitation (DPRL)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	22,000	12,432	-	-	200,232
-	-	-	20,899	-	-	4,755
<u>547</u>	<u>156</u>	<u>609</u>	<u>1,433</u>	<u>269</u>	<u>-</u>	<u>2,716</u>
<u>547</u>	<u>156</u>	<u>22,609</u>	<u>34,764</u>	<u>269</u>	<u>-</u>	<u>207,703</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	45,752
-	-	-	-	-	-	-
-	-	-	-	-	21,044	-
-	-	-	-	-	53,520	-
-	-	-	-	-	13,708	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>88,272</u>	<u>45,752</u>
<u>547</u>	<u>156</u>	<u>22,609</u>	<u>34,764</u>	<u>269</u>	<u>(88,272)</u>	<u>161,951</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>109,315</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>109,315</u>	<u>-</u>
547	156	22,609	34,764	269	21,043	161,951
16,398	4,206	7,901	22,576	7,236	20,291	592,152
4,071	1,044	-	1,762	1,796	(41,334)	(142,491)
<u>20,469</u>	<u>5,250</u>	<u>7,901</u>	<u>24,338</u>	<u>9,032</u>	<u>(21,043)</u>	<u>449,661</u>
<u>\$ 21,016</u>	<u>\$ 5,406</u>	<u>\$ 30,510</u>	<u>\$ 59,102</u>	<u>\$ 9,301</u>	<u>\$ -</u>	<u>\$ 611,612</u>

Continued

CITY OF PACIFIC GROVE, CALIFORNIA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended June 30, 2008

	Special Revenue			
	Yount Trust Income	Public Safety Augmentation	Supplemental Law Enforcement (SLES)	Storm Water Fund
<u>Revenues</u>				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	100,094	100,042	45,000
Charges for current services	-	-	-	-
Use of money and property	38,241	-	2,159	-
Total Revenues	<u>38,241</u>	<u>100,094</u>	<u>102,201</u>	<u>45,000</u>
<u>Expenditures</u>				
Current				
Public safety				
Police	-	157,965	98,983	-
Fire	-	105,310	-	-
General administration	-	-	-	-
Public works	32,941	-	-	295,712
Library	-	-	-	-
Community development & building inspection	-	-	-	-
Museum	-	-	-	-
Capital outlay	-	-	48,098	-
Debt service				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total Expenditures	<u>32,941</u>	<u>263,275</u>	<u>147,081</u>	<u>295,712</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>5,300</u>	<u>(163,181)</u>	<u>(44,880)</u>	<u>(250,712)</u>
<u>Other Financing Sources (Uses)</u>				
Transfers in	<u>20,000</u>	<u>115,000</u>	<u>-</u>	<u>250,000</u>
Net other financing sources (uses)	<u>20,000</u>	<u>115,000</u>	<u>-</u>	<u>250,000</u>
Net Change in Fund Balances	25,300	(48,181)	(44,880)	(712)
Fund Balances, Beginning	28,059	(223,867)	31,543	21,189
Prior Period Adjustments	659	(22,680)	23,078	(112,138)
Restated Fund Balances, Beginning	<u>28,718</u>	<u>(246,547)</u>	<u>54,621</u>	<u>(90,949)</u>
Fund Balances, Ending	<u>\$ 54,018</u>	<u>\$ (294,728)</u>	<u>\$ 9,741</u>	<u>\$ (91,661)</u>

Special Revenue			Capital Project	Debt Service	Permanent	
Ocean Front Restoration	Poetry Promotion Fund	McIndoo Donation	Buildings & Facilities Improvement	1990 Butterfly Habitat Bond	Library Endowment Trust	Cemetery Endowment Trust
\$ -	\$ -	\$ -	\$ -	\$ 120,634	\$ -	\$ -
-	-	309,096	-	893	167,596	-
-	5,475	-	-	-	-	19,454
<u>32,825</u>	<u>4,873</u>	<u>12,751</u>	<u>13,146</u>	<u>1,030</u>	<u>14,029</u>	<u>-</u>
<u>32,825</u>	<u>10,348</u>	<u>321,847</u>	<u>13,146</u>	<u>122,557</u>	<u>181,625</u>	<u>19,454</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
11,610	-	-	-	-	-	-
-	-	-	-	-	3,507	-
-	1,267	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	54,773	-	-
-	-	-	-	34,127	-	-
<u>11,610</u>	<u>1,267</u>	<u>-</u>	<u>-</u>	<u>88,900</u>	<u>3,507</u>	<u>-</u>
<u>21,215</u>	<u>9,081</u>	<u>321,847</u>	<u>13,146</u>	<u>33,657</u>	<u>178,118</u>	<u>19,454</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
21,215	9,081	321,847	13,146	33,657	178,118	19,454
1,046,733	129,191	-	380,302	46,151	377,541	901,478
(47,706)	32,504	-	140,056	(789)	-	(46,044)
<u>999,027</u>	<u>161,695</u>	<u>-</u>	<u>520,358</u>	<u>45,362</u>	<u>377,541</u>	<u>855,434</u>
<u>\$ 1,020,242</u>	<u>\$ 170,776</u>	<u>\$ 321,847</u>	<u>\$ 533,504</u>	<u>\$ 79,019</u>	<u>\$ 555,659</u>	<u>\$ 874,888</u>

Continued

CITY OF PACIFIC GROVE, CALIFORNIA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended June 30, 2008

	<u>Permanent</u>	
	Yount	Total
	<u>Trust</u>	<u>Total</u>
<u>Revenues</u>		
Taxes	\$ -	\$ 227,671
Intergovernmental	-	1,965,952
Charges for current services	-	113,886
Use of money and property	<u>27,562</u>	<u>231,792</u>
Total Revenues	<u>27,562</u>	<u>2,539,301</u>
<u>Expenditures</u>		
Current		
Public safety		
Police	-	258,498
Fire	-	121,978
General administration	-	108,211
Public works	-	676,826
Library	-	36,357
Community development & building inspection	-	134,889
Museum	-	422
Capital outlay	-	291,779
Debt service		
Principal	-	280,532
Interest and fiscal charges	<u>-</u>	<u>98,389</u>
Total Expenditures	<u>-</u>	<u>2,007,881</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>27,562</u>	<u>531,420</u>
<u>Other Financing Sources (Uses)</u>		
Transfers in	<u>-</u>	<u>706,607</u>
Net other financing sources (uses)	<u>-</u>	<u>706,607</u>
Net Change in Fund Balances	27,562	1,238,027
Fund Balances, Beginning	844,135	6,299,562
Prior Period Adjustments	-	(35,321)
Restated Fund Balances, Beginning	<u>844,135</u>	<u>6,264,241</u>
Fund Balances, Ending	<u>\$ 871,697</u>	<u>\$ 7,502,268</u>
		Concluded

Internal Service Funds

CITY OF PACIFIC GROVE, CALIFORNIA
INTERNAL SERVICE FUNDS
June 30, 2008

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, 2008

	<u>Health Insurance</u>	<u>Workers' Compensation Insurance</u>	<u>Liability Insurance</u>	<u>Total</u>
<u>Assets</u>				
Current Assets				
Cash and investments				
Available for operations	\$ 27,665	\$ 19,744	\$ 453,168	\$ 500,577
Total Assets	<u>\$ 27,665</u>	<u>\$ 19,744</u>	<u>\$ 453,168</u>	<u>\$ 500,577</u>
<u>Liabilities</u>				
Current Liabilities				
Accounts payable	\$ 5,022	\$ 22,033	\$ -	\$ 27,055
Claims payable	<u>-</u>	<u>465,887</u>	<u>135,759</u>	<u>601,646</u>
Total Current Liabilities	<u>5,022</u>	<u>487,920</u>	<u>135,759</u>	<u>628,701</u>
Noncurrent Liabilities				
Claims payable	<u>-</u>	<u>1,331,543</u>	<u>91,466</u>	<u>1,423,009</u>
Total Noncurrent Liabilities	<u>-</u>	<u>1,331,543</u>	<u>91,466</u>	<u>1,423,009</u>
Total Liabilities	<u>5,022</u>	<u>1,819,463</u>	<u>227,225</u>	<u>2,051,710</u>
<u>Net Assets</u>				
Unrestricted	<u>22,643</u>	<u>(1,799,719)</u>	<u>225,943</u>	<u>(1,551,133)</u>
Total Net Assets	<u>22,643</u>	<u>(1,799,719)</u>	<u>225,943</u>	<u>(1,551,133)</u>
Total Liabilities and Net Assets	<u>\$ 27,665</u>	<u>\$ 19,744</u>	<u>\$ 453,168</u>	<u>\$ 500,577</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, 2008

	<u>Health Insurance</u>	<u>Workers' Compensation Insurance</u>	<u>Liability Insurance</u>	<u>Total</u>
<u>Operating Revenues</u>				
Charges for current services	\$ 116,571	\$ 818,717	\$ -	\$ 935,288
Other	<u>34,845</u>	<u>-</u>	<u>-</u>	<u>34,845</u>
Total Operating Revenues	<u>151,416</u>	<u>818,717</u>	<u>-</u>	<u>970,133</u>
<u>Operating Expenses</u>				
Personnel services	-	1,138	871	2,009
Operating services	100,173	56,750	-	156,923
Insurance, claims and settlements	<u>60,246</u>	<u>753,167</u>	<u>276,604</u>	<u>1,090,017</u>
Total Operating Expenses	<u>160,419</u>	<u>811,055</u>	<u>277,475</u>	<u>1,248,949</u>
Operating Income (Loss)	<u>(9,003)</u>	<u>7,662</u>	<u>(277,475)</u>	<u>(278,816)</u>
<u>Non-operating Revenues (Expenses)</u>				
Interest expense	<u>-</u>	<u>(128)</u>	<u>(97)</u>	<u>(225)</u>
Total Non-operating Revenues (Expenses)	<u>-</u>	<u>(128)</u>	<u>(97)</u>	<u>(225)</u>
Net Income (Loss) Before Transfers	<u>(9,003)</u>	7,534	<u>(277,572)</u>	<u>(279,041)</u>
Transfers in	<u>38,200</u>	<u>-</u>	<u>300,000</u>	<u>338,200</u>
Change in Net Assets	29,197	7,534	22,428	59,159
Net Assets, Beginning	<u>(3,431)</u>	<u>(1,819,734)</u>	114,411	<u>(1,708,754)</u>
Prior Period Adjustment	<u>(3,123)</u>	<u>12,481</u>	<u>89,104</u>	<u>98,462</u>
Restated Net Assets, Beginning	<u>(6,554)</u>	<u>(1,807,253)</u>	<u>203,515</u>	<u>(1,610,292)</u>
Net Assets, Ending	<u>\$ 22,643</u>	<u>\$ (1,799,719)</u>	<u>\$ 225,943</u>	<u>\$ (1,551,133)</u>

CITY OF PACIFIC GROVE, CALIFORNIA
Combining Statement of Cash Flows - Proprietary Funds - Internal Service Funds
Year Ended June 30, 2008

	<u>Health Insurance</u>	<u>Workers' Compensation Insurance</u>	<u>Liability Insurance</u>	<u>Total</u>
Cash Flows from Operating Activities				
Receipts from customers	\$ 116,571	\$ 818,717	\$ -	\$ 935,288
Payments to suppliers	(97,941)	(353,243)	(247,441)	(698,625)
Payments to employees	(4,768)	-	-	(4,768)
Internal activity - payments to other funds	-	-	(32,298)	(32,298)
Claims paid	(63,369)	(451,457)	(4,443)	(519,269)
Other receipts (payments)	<u>34,845</u>	<u>(1,253)</u>	<u>(940)</u>	<u>32,652</u>
Net Cash Provided (Used) by Operating Activities	<u>(14,662)</u>	<u>12,764</u>	<u>(285,122)</u>	<u>(287,020)</u>
Cash Flows from Noncapital Financing Activities				
Transfers received	<u>38,200</u>	<u>-</u>	<u>300,000</u>	<u>338,200</u>
Net Cash Provided by Noncapital Financing Activities	<u>38,200</u>	<u>-</u>	<u>300,000</u>	<u>338,200</u>
Net Increase in Cash and Cash Equivalents	23,538	12,764	14,878	51,180
Cash and Cash Equivalents, Beginning	<u>4,127</u>	<u>6,980</u>	<u>438,290</u>	<u>449,397</u>
Cash and Cash Equivalents, Ending	<u>\$ 27,665</u>	<u>\$ 19,744</u>	<u>\$ 453,168</u>	<u>\$ 500,577</u>
Cash Flows from Operating Activities				
Operating income (loss)	\$ (9,003)	\$ 7,662	\$ (277,475)	\$ (278,816)
Adjustments to reconcile operating income to net cash provided (used) by operating activities				
Decrease (increase) in operating assets				
Other assets	(3,123)	-	-	(3,123)
Increase (decrease) in operating liabilities				
Accounts payable	2,232	5,115	-	7,347
Wages payable	(4,768)	(13)	(13)	(4,794)
Claims payable	<u>-</u>	<u>-</u>	<u>(7,634)</u>	<u>(7,634)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (14,662)</u>	<u>\$ 12,764</u>	<u>\$ (285,122)</u>	<u>\$ (287,020)</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>
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
2008	3,848,886	1,612,980	300,012	747,678	1,545,208	3,282,468	66,868	11,404,100

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>Intergovernmental</u>	<u>Charges for Current Services</u>	<u>Use of Money and Property</u>	<u>Other</u>	<u>Total</u>
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
2008	11,404,100	455,021	52,245	1,594,668	1,313,033	82,575	1,485,330	16,386,972

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>Total</u>
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>
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%
2008	885,516	128,384	1,013,900	17,720,818	5.72%

¹ Includes all governmental fund types

