

City of Pacific Grove

Annual Financial Report

June 30, 2016



Chavan & Associates, LLP
Certified Public Accountants
www.cnallp.com

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CITY OF PACIFIC GROVE
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2016

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TRANSMITTAL LETTER

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**CITY OF PACIFIC GROVE**

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

October 31, 2016

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

The City of Pacific Grove (City) hereby submits the Annual Financial Report (AFR) for the fiscal year ended June 30, 2016. The AFR contains financial statements that have been prepared in conformity with generally accepted accounting principles in the United States of America (GAAP) as prescribed for government entities.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and present fairly the respective financial position and changes of the City, as of June 30, 2016. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The AFR is published to provide information about the City to its citizens, the investment community, the general public, and others who may have an interest in the financial information regarding the City. This letter of transmittal is designed to be read with and complement the Management's Discussion and Analysis (MD&A). The MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE CITY

The City of Pacific Grove, California is 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 by the State on April 22, 1927. The city operates under 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 monarch butterfly sanctuary and habitat preserve, over five miles of shoreline and recreational trails, and numerous parks.

The City maintains a website located at: <http://www.cityofpacificgrove.org> that provides online services and extensive information about the City. This website includes information about the Council, Council

meeting agendas, City job listings, City museums, local recreation, financial information, and links to other local resources, to name just a few.

FACTORS AFFECTING FINANCIAL CONDITION

Economic Challenges

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 2014-15, the City continued to operate within a balanced budget, as a result of the cost-cutting measures implemented since FY 2007-08. Additionally, General Fund revenues for FY 2014-15 exceeded anticipated (budgeted) revenues by \$1.4 million. While continuing to make improvements in its financial outlook, deferred infrastructure maintenance, service levels that fall short of citizens' expectations, and unfunded liability for workers' compensation claims remain fiscal challenges for the City. City staff has begun implementing a capital improvement program to address the needed maintenance while efforts continue to improve service delivery within resource constraints. Those efforts include the use of private sector service providers and shared services with other agencies. City staff has also implemented a five-year workers' compensation refunding plan.

The City of Pacific Grove is a participant in 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 to meet expectations exposes the City to potentially large rate increases when the CalPERS investment portfolio fails to meet expectations.

The City has reported the medical benefits paid to retirees pursuant to Governmental Accounting Standards Board (GASB) issued Statement 45. GASB 68, effective beginning with fiscal year June 30, 2015, required the City to post a net pension liability of \$23 million on its statement of net position. This liability increased to \$26.5 million as of June 30, 2016.

Internal Control

The management of the City has established a comprehensive framework of internal controls designed to ensure that the assets of the government are protected from loss, theft or misuse. This framework ensures that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. Reasonable assurance provides that the cost of internal controls should not exceed the benefits and that decisions often require the use of estimates and judgments by management.

Budgeting Controls

In addition to accounting controls, the City maintains budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. The budget also serves as the foundation for financial planning and control for the City.

Credit Rating

Over the past year, rating downgrades have occurred for a variety of public and private entities. However the City has not experienced any downgrades nor is the City on credit watch by any of the rating agencies. The City proudly maintains a strong credit rating and strives to continue this achievement.

OTHER INFORMATION**Independent Audit**

City Charter requires an annual audit by independent certified public accountants. The firm Chavan & Associates, LLP was selected to perform this service. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City, for the fiscal year ended June 30, 2016, are free of material misstatement. The independent auditor's report is presented as the first item of the financial section of the report.

Acknowledgments

The preparation of this Annual Financial Report could not have been accomplished without the cooperation and dedicated services of all City departments and the Council's exemplary leadership regarding the financial operations of the City.

Respectfully submitted,



Patricia A. Maitland
Finance Director

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, 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, 2016, and the related notes to the financial statements, which collectively comprise City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Pacific Grove, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

New Accounting Pronouncements

As discussed in Note 1 to the financial statements, the City adopted the provisions GASB Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective June 30, 2016. Our opinion is not modified with respect to these matters.

Deficit Net Position

As of June 30, 2016, the City's net position in its Government-wide financial statements was reported at a deficit mostly because of the long-term pension liabilities and deferrals as reported in Note 8. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The transmittal letter and combining individual non-major fund schedules, as listed in the table of contents, are presented for



purposes of additional analysis and are not a required part of the financial statements. The combining individual non-major fund schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

C & A LLP

October 30, 2016
San Jose, California

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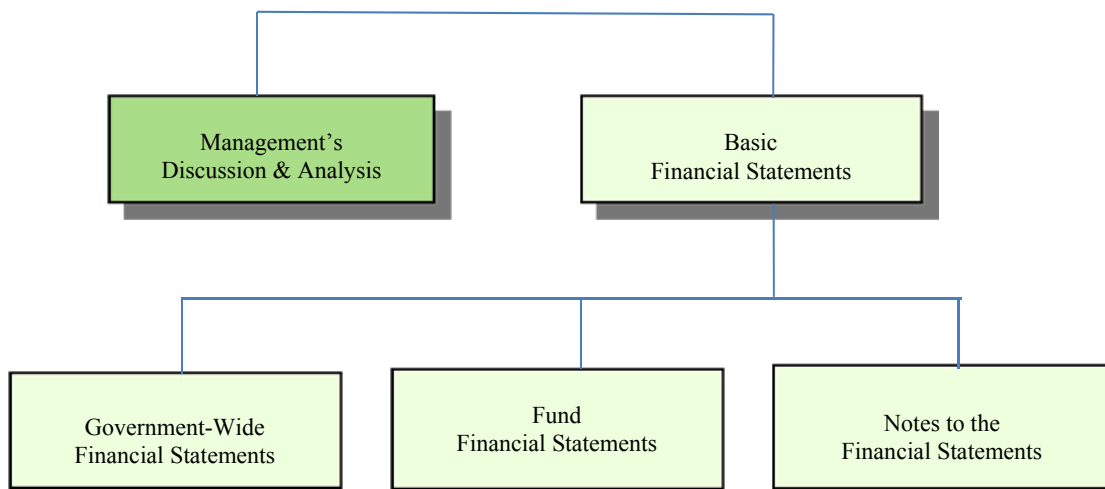
MANAGEMENT'S DISCUSSION AND ANALYSIS

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INTRODUCTION

The Management's Discussion and Analysis (MD&A) is a required section of the City's Comprehensive Annual Financial Report, as shown in the overview below. The purpose of the MD&A is to present a discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2016. This report will (1) focus on significant financial issues, (2) provide an overview of the City's financial activity, (3) identify changes in the City's financial position, (4) identify any individual fund issues or concerns, and (5) provide descriptions of significant asset and debt activity.

This information, presented in conjunction with the Basic Financial Statements is intended to provide a comprehensive understanding of the City's operations and financial standing.

Required Components of the Annual Financial Report**FISCAL YEAR 2015/16 FINANCIAL HIGHLIGHTS**

- The City's assets exceeded its liabilities by \$10.1 million; assets and deferred outflows of resources totaled \$70.5 million and liabilities and deferred outflows of resources were \$60.4 million.
- Total net position decreased by \$8.072 million from last fiscal year primarily due to the write-off of a \$10 million deferred charge related to prepaid pension obligations as required by GASB 68.
- Net position included \$35.27 million classified as net investment in capital assets; \$6.19 million as restricted; and \$31.36 million as a deficit unrestricted net position (negative net position).
- Total City-wide revenues were \$27.86 million which consists of program revenue of \$8.43 million and general revenues of \$19.42 million.
- Total City expenses were \$24.33 million.
- Total Governmental Fund fund balances were \$15.82 million, which included a \$9.92 million fund balance in the General Fund. Total fund balance increased by \$2.05 million from last year.
- General Fund revenues were \$20.81 million, while General Fund expenditures were \$18.77 million. Transfers in to the General Fund from other funds were \$.487 million and transfers out totaled \$.835 million.

THE BASIC FINANCIAL STATEMENTS

The Basic Financial Statements are comprised of 1) Government-wide (City-wide) Financial Statements, and; 2) Fund Financial Statements. These two sets of financial statements provide the reader two different perspectives of the City's financial activities and financial position.

Government-Wide Financial Statements provide a longer-term view of the City's activities as a whole, and comprise the *Statement of Net Position* and the *Statement of Activities*. The *Statement of Net Position* provides information about the financial position of the City as a whole, including all its capital assets and long-term liabilities on a 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, also on a full accrual basis, with the emphasis on measuring net revenues and/or expenses for each of the City's programs. The *Statement of Activities* explains in detail the change in Net Position for the fiscal year.

All of the City's activities are required to be grouped into government activities and business-type activities. The entire amount in the *Statement of Net Position* and the *Statement of Activities* are also required to be separated into governmental activities or business-type activities in order to distinguish between these two types of activities of the City.

Fund Financial Statements report the City's operations in more detail than the government-wide statements and focus primarily on the short-term activities of the City's general fund and other major funds. 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.

Major funds account for the major financial activities of the City and are presented individually, while the activities of non-major funds are presented in summary, with subordinate schedules presenting the detail for each of these other funds. Major funds are explained below.

The Government-Wide Financial Statements

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. The *Statement of Net Position* 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 general government, community development, public safety, public works, and, culture and leisure. These services are supported by general City revenues such as taxes, and by specific program revenues such as development and recreation program fees.

Business-Type Activities – This category includes enterprise activities such as the cemetery, golf course operations, the local water project, and sewer. Unlike governmental services, these services are fully supported by charges paid by users based on the amount of services they use.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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 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 fiscal year, and may change from year to year as a result of changes in the pattern of the City's activities. The City's funds are segregated into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds – The City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances available at year-end. Financial statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Carrying amounts for capital assets and other long-lived assets, along with long-term liabilities are not presented on the balance sheet in the governmental fund financial statements. Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Proprietary Funds – When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds are the same as the business type activities reported in the Government-Wide statements. Proprietary funds provide the same type of information as Government-Wide statements but only in more detail, with additional information, such as cash flows. The City uses internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the City's other programs and activities such as the City's self-insurance, workers compensation, health insurance and OPEB. The internal services funds are reported with governmental activities in the Government-Wide Financial Statements.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reported in the Government-Wide financial statements because the resources of these funds are not available to support the City of Pacific Grove's own programs. The accounting for fiduciary funds is much like that used for business type activities. The City did not maintain any fiduciary funds during 2015/16.

NOTES TO THE FINANCIAL STATEMENTS

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found immediately following the fund financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information other than through the MD&A follows the Notes and includes a budgetary comparison for the General Fund and other major funds as presented in the governmental fund financial statements.

SUPPLEMENTARY INFORMATION

Combining and individual fund statements and schedules are included to provide additional information on non-major governmental funds including special revenue, debt service, capital project funds, proprietary internal service fund information and agency funds. An un-audited statistical section provides historical and current data on financial trends, revenue and debt capacity, demographic and economic information, and operating information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position may serve as an indicator of the City's financial position. The City's Total Net Position decreased \$8.07, from \$18.2 million in fiscal year 2014/15 to \$10.1 million in fiscal year 2015/16. A significant portion of the City's net position (\$35.27 million) was net investment in capital assets, (e.g., land, buildings, general government infrastructure, equipment, etc.) which is capital assets net of accumulated depreciation and reduced by any related debt used to acquire or construct those assets. Capital assets represent infrastructure which provide services to citizens and are not available for future spending.

GASB 68 requires local governments to report their fair share of net pension liabilities from pension plans. The City participates in the miscellaneous and safety plans with CalPERS. In 2006, the City issued pension obligation bonds in order to pre-fund these pension plans. However, adjustments were made by CalPERS in the last few years during the implementation of GASB 67 (required for pension plan administrators such as CalPERS) which negatively impacted the net position of the plans. With the implementation of GASB 68, the City reports its proportionate share of the plans' net pension liabilities. See note 8 for detailed information related to the Plans and GASB 68.

The following table summarized the City's ending net position:

Table 1 - Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets						
Current and other assets	\$ 20,754,211	\$ 18,080,861	\$ 7,526,481	\$ 6,584,503	\$ 28,280,692	\$ 24,665,364
Capital assets	22,999,440	22,721,516	17,441,369	16,329,840	40,440,809	39,051,356
Total Assets	<u>\$ 43,753,651</u>	<u>\$ 40,802,377</u>	<u>\$ 24,967,850</u>	<u>\$ 22,914,343</u>	<u>\$ 68,721,501</u>	<u>\$ 63,716,720</u>
Deferred Outflows of Resources	<u>\$ 1,716,601</u>	<u>\$ 11,828,349</u>	<u>\$ 92,132</u>	<u>\$ -</u>	<u>\$ 1,808,733</u>	<u>\$ 11,828,349</u>
Liabilities						
Current and other liabilities	\$ 4,601,661	\$ 4,092,517	\$ 486,812	\$ 679,725	\$ 5,088,473	\$ 4,772,242
Noncurrent liabilities	42,848,181	41,362,329	5,985,633	3,992,812	48,833,814	45,355,141
Total Liabilities	<u>\$ 47,449,842</u>	<u>\$ 45,454,846</u>	<u>\$ 6,472,445</u>	<u>\$ 4,672,537</u>	<u>\$ 53,922,287</u>	<u>\$ 50,127,383</u>
Deferred Inflows of Resources	<u>\$ 6,084,491</u>	<u>\$ 7,244,401</u>	<u>\$ 422,464</u>	<u>\$ -</u>	<u>\$ 6,506,955</u>	<u>\$ 7,244,401</u>
Net Position						
Net investment in capital assets	\$ 22,741,849	\$ 22,263,317	\$ 12,525,066	\$ 12,181,977	\$ 35,266,915	\$ 34,445,294
Restricted	6,193,527	6,023,419	-	-	6,193,527	6,023,419
Unrestricted	(36,999,457)	(28,355,257)	5,640,007	6,059,829	(31,359,450)	(22,295,428)
Total Net Position	<u>\$ (8,064,081)</u>	<u>\$ (68,521)</u>	<u>\$ 18,165,073</u>	<u>\$ 18,241,806</u>	<u>\$ 10,100,992</u>	<u>\$ 18,173,285</u>

Governmental Activities

As shown in the above *Statement of Changes in Net Position* schedule, the net change in program revenues from the prior fiscal year for governmental activities is an increase of \$1.84 million. The net change in general revenues from the prior year is an increase of \$916,645, for a total increase in revenues of \$2.76 million. The net change in expenses from the prior year was an increase of \$4.25 million.

With total program and general revenues for fiscal year 2015/16 at \$23.98 million and total expenses at \$21.91 million, the change in net position for current activity was an increase of \$2.07, excluding prior period adjustments totaling \$10.06 million related to GASB 68.

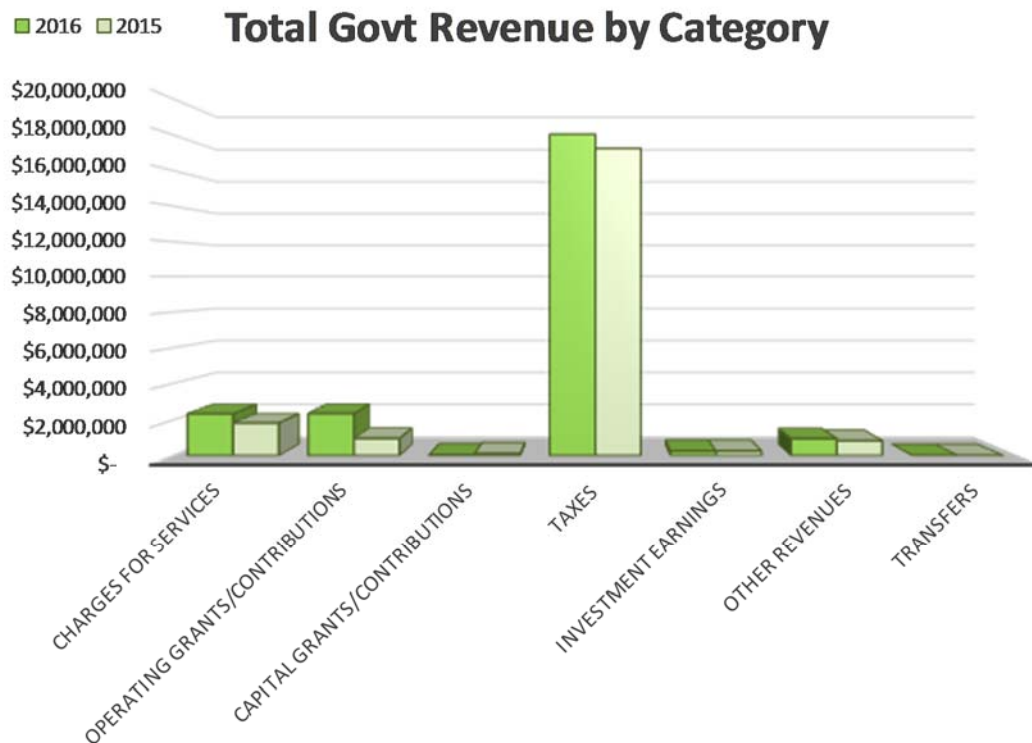
An analysis of the changes in revenues and expenses by type of significant events follows:

Table 2 - Statement of Changes in Net Position

Functions/Programs	Governmental Activities		Increase (Decrease)	Business-Type Activities		Increase (Decrease)
	2016	2015		2016	2015	
Program Revenues						
Charges for services	\$ 2,346,421	\$ 1,826,283	\$ 520,138	\$ 3,545,487	\$ 3,514,586	\$ 30,901
Operating grants and contributions	2,354,025	960,553	1,393,472	-	-	-
Capital grants and contributions	36,050	104,677	(68,627)	152,830	48,405	104,425
Total Program Revenues	4,736,496	2,891,513	1,844,983	3,698,317	3,562,991	135,326
General Revenues						
Taxes	18,040,205	17,235,039	805,166	-	-	-
Investment earnings	253,846	257,602	(3,756)	67,318	26,693	40,625
Other revenues	947,392	837,458	109,934	113,560	102,878	10,682
Transfers	5,301	-	5,301	(5,301)	-	(5,301)
Total General Revenues	19,246,744	18,330,099	916,645	175,577	129,571	46,006
Expenses						
General government	2,768,729	2,320,217	448,512	-	-	-
Public safety	8,675,956	7,144,172	1,531,784	-	-	-
Public works	4,057,715	3,357,831	699,884	-	-	-
Recreation	586,436	439,368	147,068	-	-	-
Library	844,521	662,076	182,445	-	-	-
Museum	258,591	195,868	62,723	-	-	-
Community development	3,512,657	2,246,289	1,266,368	-	-	-
Interest on fiscal charges	1,209,972	1,323,094	(113,122)	-	-	-
Cemetery operating	-	-	-	295,388	231,261	64,127
Sewer operating	-	-	-	1,703,290	1,761,965	(58,675)
Golf course	-	-	-	420,788	811,666	(390,878)
Total Expenses	21,914,577	17,688,915	4,225,662	2,419,466	2,804,892	(385,426)
Increase / (Decrease) in Net Position	2,068,663	3,532,697	(1,464,034)	1,454,428	887,670	566,758
Prior Period Adjustments	(10,064,222)	(30,291,783)	20,227,561	(1,531,161)	-	(1,531,161)
Net Position, Beginning of Year	(68,522)	26,690,565	(26,759,087)	18,241,806	17,354,136	887,670
Net Position, End of Year	\$ (8,064,081)	\$ (68,521)	\$ (7,995,560)	\$ 18,165,073	\$ 18,241,806	\$ (76,733)

Governmental Revenues

The following chart summarizes the changes in revenues by category during 2015/16:

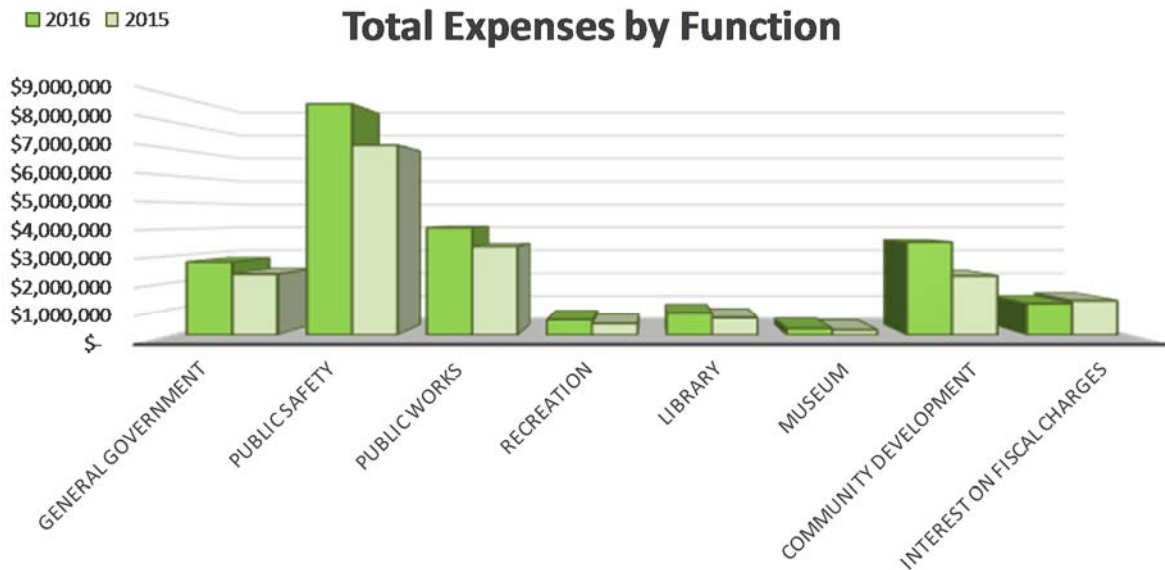


Significant changes in governmental revenues consisted of the following:

- Charge for Services increased by 28% most of which was related to general government operations.
- Taxes increased by 5% from increased in property values, transient tax and sales tax.
- Other revenues increased by 13%.
- Operating grants and contributions increased by 145% because of environmental and other grant programs during the year.

Governmental Expenses

The 2015/16 expenses for Governmental Activities decreased by \$1 million as illustrated in the chart below:



Significant changes in governmental expenses consisted of the following:

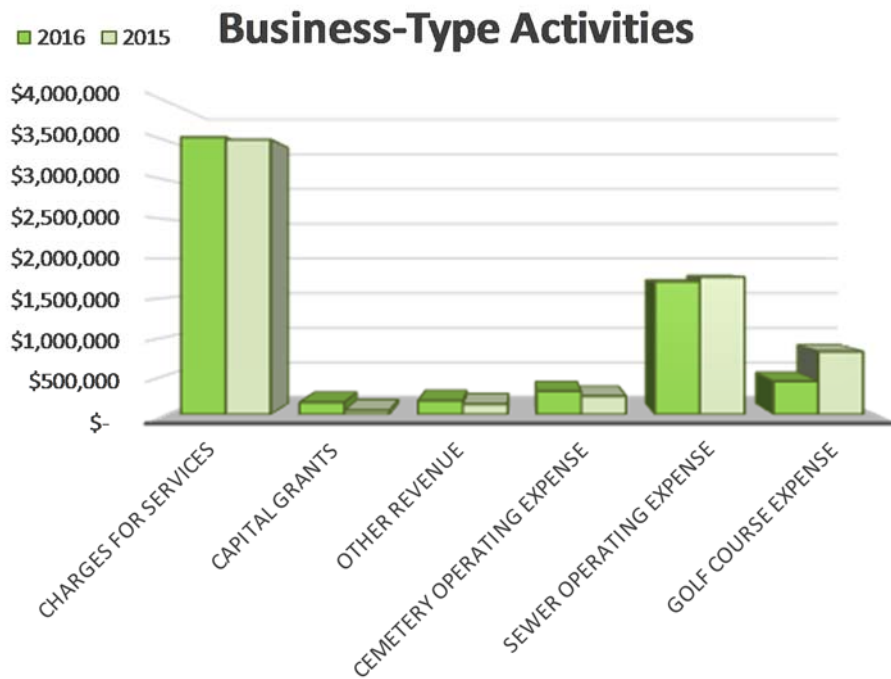
- General Government expenses increased by 19% partly because of an increase to pension expense related adjustments required by GASB 68 in 15/16.
- Public Safety increased by 21% because of pension expense adjustments.
- Public Works, Recreation and Library expenses increased by 21%, 33% and 28%, respectively, mostly due to pension expense adjustments.
- Community development expenses increased by 32% because of housing program needs and other community programs sponsored by the City.
- Interest expense decreased by 8.5% because debt maturities generally require less interest at debt matures. Also, the accretion of interest is on a sliding scale and is decreasing each year.

Business-Type Activities

The City's net position for business type activities decreased by \$76,733.

Total expenses for business type activities was \$2.42 million during the year, which was a decrease of \$385,426 from prior year. Golf Course expenses decreased by \$390,878 from 14/15 as the contracted management company continues to streamline operations.

The following chart is a summary of the changes in revenues and expenses for the City's business-type activities from 2014/15 to 2015/16:



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

A summary of the changes in fund balance of the Major Funds and Other Governmental Funds is presented below:

Table 3 - Summary of Changes in Fund Balance - Governmental Funds

	Major Funds					Total
	General Fund	Housing Fund	CDBG Grant Fund	2013 CDBG Grant Fund	Other Governmental Funds	
Total Revenues	\$ 20,814,062	\$ 69,323	\$ 4,286	\$ 515,796	\$ 2,478,624	\$ 23,882,091
Total Expenditures	18,766,527	72,369	43,715	358,830	2,590,849	21,832,290
Revenues Over (Under) Expenditures	2,047,535	(3,046)	(39,429)	156,966	(112,225)	2,049,801
Transfers in	486,763	41,860	-	-	378,164	906,787
Transfers out	(835,512)	-	-	(41,860)	(24,114)	(901,486)
Net change in fund balances	1,698,786	38,814	(39,429)	115,106	241,825	2,055,102
Beginning of year	8,223,737	307,049	39,429	(115,106)	5,313,604	13,768,713
End of year	\$ 9,922,523	\$ 345,863	\$ -	\$ -	\$ 5,555,429	\$ 15,823,815

The total change in fund balance during the year, including Major Funds and Other Governmental Funds, was an increase of \$2.05 million. Total ending fund balance was \$15.82 million.

Governmental Funds

The fund balance of the City's General Fund increased by \$1.7 million. Total revenues increased by \$2.92 million while total expenditures increased by \$2.72 million from prior year. Housing fund expenditures decreased by \$2,298 while revenue increased by \$13,809. The CDBG grant fund had a decrease in revenue of \$116,257 and a decrease in expenditures of \$59,146. The 2013 CDBG grant fund had an increase in revenue of \$515,796 and an increase in expenditures of \$243,724. Revenue from nonmajor funds increased by \$881,772 and while expenditures increased by \$417,854.

CAPITAL ASSETS

The capital assets of the City are those assets which are used in the performance of the City's functions including infrastructure assets. At June 30, 2016, net capital assets from governmental activities totaled \$23 million and net capital assets from business type activities totaled \$16.5 million. Depreciation on capital assets is recognized in the Government-Wide Financial Statements and the proprietary fund statements. The City has elected to use straight line depreciation as defined by GASB Statement No. 34 for calculation of depreciation. The following table summarizes the City's capital assets at the end of the year:

Table 4 - Capital Assets at Year End - Net

	Governmental Activities		Business-type Activities		Total		% Change
	2016	2015	2016	2015	2016	2015	
Land	\$ 2,338,270	\$ 2,338,270	\$ 362,973	\$ 362,973	\$ 2,701,243	\$ 2,701,243	0.00%
Buildings and improvement	5,475,442	5,368,942	5,554,642	5,665,522	11,030,084	11,034,464	-0.04%
Infrastructure	14,619,929	14,545,645	10,405,280	10,156,661	25,025,209	24,702,306	1.31%
Machinery and equipment	565,799	468,659	157,951	144,684	723,750	613,343	18.00%
Total Capital Assets, Net	\$ 22,999,440	\$ 22,721,516	\$ 16,480,846	\$ 16,329,840	\$ 39,480,286	\$ 39,051,356	1.10%

Additional detail and information on capital asset activity is described in the notes to the financial statements.

DEBT ADMINISTRATION

During the year, Long-Term Debt from governmental activities decreased by \$1 million primarily due to regular debt service payments. Long-Term Debt attributable to business type activities increased by \$768,442 during 2015/16 due to the loans from the State Water Resources Control Board for the Local Water Project (the California Clean Water State Revolving Fund).

The following table summarizes the City's debt at the end of the year:

Table 5 - Outstanding Long-Term Debt at Year End

	Governmental Activities		
	2016	2015	% Change
2003 Refunding Butterfly Habitat Note	\$ 175,057	\$ 257,439	-32.00%
Pierce Dash 2000 Pumper	-	48,398	-100.00%
PNC Equipment Lease	82,534	152,363	-45.83%
Pension Obligation Bonds	9,196,023	10,252,079	-10.30%
Accreted Interest	7,429,116	7,179,479	3.48%
Total outstanding long-term debt	<u>\$ 16,882,730</u>	<u>\$ 17,889,758</u>	-5.63%
	Business-type Activities		
	2016	2015	% Change
2013 Wastewater Revenue Refunding Bonds	\$ 1,052,184	\$ 1,103,096	-4.62%
Golf Course COP Refunding	2,903,599	3,044,767	-4.64%
Clean Water State Revolving Fund Loan	960,522	-	100.00%
Total outstanding long-term debt	<u>\$ 4,916,305</u>	<u>\$ 4,147,863</u>	18.53%

Additional detail and information on long-term debt activity is described in the notes to the financial statements.

GENERAL FUND BUDGETARY HIGHLIGHTS

Changes from the City's General Fund original budget to the final budget are detailed in the Required Supplementary Information Section along with a comparison to actual activity for the year ended. Changes to the City's budget that increase or decrease appropriations in a fund must be approved by a resolution of the City Council. Modifications to the budget that are a realignment of fiscal activities with no impact to the fund's bottom line may be approved by the City Manager. Appropriations were decreased by \$1.31 million during the year. The General Fund adopted revenue budget was \$18.94 million. The General Fund adopted expenditure budget was \$20.57 million.

ECONOMIC FACTORS AND OUTLOOK

Statewide local sales and use tax receipts were up 1.9% over last year's spring quarter and, as previously indicated, the City's sales and use tax revenues exceeded the Statewide numbers. Increases in the City's property and transient occupancy taxes may increase projected revenue forecasts for the upcoming fiscal year. However, the revenue gains will likely be insufficient to offset the rising benefit and pension costs, and deferred infrastructure and technology projects. For FY 2016-17, the Council has authorized a spending plan to utilize a portion of the City's reserves for capital and infrastructure projects that had previously been deferred. Additionally, the Council has placed an admission tax measure on the November 2016 General Election ballot. Voter approval of an admission tax could provide a new revenue source to further offset increasing operational costs.

REQUEST FOR FINANCIAL INFORMATION

This financial report is designed to provide a general overview of the City of Pacific Grove's finances for all of Pacific Grove's residents, taxpayers, customers, investors, and creditors. This financial report seeks to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Department of Finance at 300 Forest Avenue, Pacific Grove, CA 93950, or visit the City of Pacific Grove webpage at www.cityofpacificgrove.org.

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BASIC FINANCIAL STATEMENTS

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City of Pacific Grove
Statement of Net Position
June 30, 2016

	Governmental Activities	Business- Type Activities
ASSETS		
Current Assets:		
Cash and investments	\$ 15,508,758	\$ 6,837,077
Restricted cash and investments	450,000	-
Receivables:		
Taxes	1,486,711	-
Accounts	797,244	863,036
Due from other governments	40,322	-
Interest	12,336	-
Interfund receivables (payables)	328,917	(328,917)
Other assets	27,904	-
Total Current Assets	<u>18,652,192</u>	<u>7,371,196</u>
Noncurrent Assets:		
Loans receivable	2,102,019	155,285
Capital Assets:		
Nondepreciable	2,338,270	362,973
Depreciable, net of accumulated depreciation	20,661,170	17,078,396
Total Capital Assets - Net	<u>22,999,440</u>	<u>17,441,369</u>
Total Noncurrent Assets	<u>25,101,459</u>	<u>17,596,654</u>
Total Assets	<u>\$ 43,753,651</u>	<u>\$ 24,967,850</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension Contributions	\$ 1,716,601	\$ 92,132
Total Deferred Outflows of Resources	<u>\$ 1,716,601</u>	<u>\$ 92,132</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 1,547,561	\$ 183,182
Payroll related liabilities	262,397	20,840
Deposits and other liabilities	16,470	-
Interest payable	382,000	61,440
Unearned revenues	24,576	1,385
Compensated absences - current portion	282,046	19,451
Long-term debt - due within one year	2,086,611	200,514
Total Current Liabilities	<u>4,601,661</u>	<u>486,812</u>
Noncurrent Liabilities:		
Long-term debt - due in more than one year	14,796,119	4,715,789
Claims payable	1,010,923	-
Compensated absences	846,139	58,352
Net pension obligation	25,324,148	1,211,492
Net OPEB obligation	870,852	-
Total Noncurrent Liabilities	<u>42,848,181</u>	<u>5,985,633</u>
Total Liabilities	<u>\$ 47,449,842</u>	<u>\$ 6,472,445</u>
DEFERRED INFLOWS OF RESOURCES		
Differences Between Projected and Actual Earning from Pensions	\$ 6,084,491	\$ 422,464
NET POSITION		
Net investment in capital assets	\$ 22,741,849	\$ 12,525,066
Restricted for:		
Insurance	450,000	-
Social service programs	622,022	-
Public safety	482,400	-
Community development	4,547,789	-
Street improvements	570	-
Debt service	90,746	-
Total Restricted	<u>6,193,527</u>	<u>-</u>
Unrestricted	<u>(36,999,457)</u>	<u>5,640,007</u>
Total Net Position	<u>\$ (8,064,081)</u>	<u>\$ 18,165,073</u>

The accompanying notes are an integral part of these financial statements.

City of Pacific Grove
Statement of Activities
For the Year Ended June 30, 2016

Functions/Programs	Program Revenues					Net (Expense) Revenue and Change in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total	Governmental Activities	Business-Type Activities	Total
Primary Government:								
Governmental Activities:								
General government	\$ 2,768,729	\$ 1,398,707	\$ 51,324	\$ -	\$ 1,450,031	\$ (1,318,698)		\$ (1,318,698)
Public safety	8,675,956	10,405	1,213,605	-	1,224,010	(7,451,946)		(7,451,946)
Public works	4,057,715	45,792	323,451	-	369,243	(3,688,472)		(3,688,472)
Recreation	586,436	295,341	220,397	-	515,738	(70,698)		(70,698)
Library	844,521	17,601	29,452	-	47,053	(797,468)		(797,468)
Museum	258,591	-	-	-	-	(258,591)		(258,591)
Community development	3,512,657	578,575	515,796	36,050	1,130,421	(2,382,236)		(2,382,236)
Interest and fiscal charges	1,209,972	-	-	-	-	(1,209,972)		(1,209,972)
Total Governmental Activities	<u>\$ 21,914,577</u>	<u>\$ 2,346,421</u>	<u>\$ 2,354,025</u>	<u>\$ 36,050</u>	<u>\$ 4,736,496</u>	<u>(17,178,081)</u>		<u>(17,178,081)</u>
Business-Type Activities:								
Cemetery	\$ 295,388	\$ 191,497	\$ -	\$ -	\$ 191,497		\$ (103,891)	(103,891)
Sewer	1,703,290	2,967,074	-	152,830	3,119,904		1,416,614	1,416,614
Golf	420,788	386,916	-	-	386,916		(33,872)	(33,872)
Total Business-Type Activities	<u>\$ 2,419,466</u>	<u>\$ 3,545,487</u>	<u>\$ -</u>	<u>\$ 152,830</u>	<u>\$ 3,698,317</u>		<u>1,278,851</u>	<u>1,278,851</u>
General Revenues:								
Taxes:								
Property taxes						6,226,267	-	6,226,267
Sales and use taxes						3,325,809	-	3,325,809
Franchise and other taxes						1,041,653	-	1,041,653
Transient occupancy taxes						5,364,317	-	5,364,317
Utility users taxes						1,594,143	-	1,594,143
Business license tax						341,071	-	341,071
Other taxes						146,945	-	146,945
Total taxes						18,040,205	-	18,040,205
Investment earnings						253,846	67,318	321,164
Other revenues						947,392	113,560	1,060,952
Transfers						5,301	(5,301)	-
Total General Revenues						19,246,744	175,577	19,422,321
Change in Net Position						2,068,663	1,454,428	3,523,091
Net Position - Beginning of Year						(68,522)	18,241,806	18,173,284
Prior Period Adjustments - GASB 68						(10,064,222)	(1,531,161)	(11,595,383)
Net Position - Beginning of Year, As Adjusted						(10,132,744)	16,710,645	6,577,901
Net Position - End of Year						<u>\$ (8,064,081)</u>	<u>\$ 18,165,073</u>	<u>\$ 10,100,992</u>

The accompanying notes are an integral part of these financial statements.

City of Pacific Grove
Balance Sheet
Governmental Funds
June 30, 2016

	Major Funds					
	General Fund	Housing Fund	CDBG Grant Fund	2013 CDBG Grant Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments	\$ 8,693,599	\$ 348,243	\$ -	\$ 22,565	\$ 5,901,591	\$ 14,965,998
Receivables:						
Taxes	1,418,428	-	-	-	68,283	1,486,711
Accounts	137,340	-	-	377,435	282,469	797,244
Due from other governments	40,322	-	-	-	-	40,322
Interest	12,336	-	-	-	-	12,336
Due from other funds	728,917	-	-	-	-	728,917
Loans receivable	-	573,198	794,822	468,714	265,285	2,102,019
Other assets	27,904	-	-	-	-	27,904
Total assets	\$ 11,058,846	\$ 921,441	\$ 794,822	\$ 868,714	\$ 6,517,628	\$ 20,161,451
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 844,044	\$ -	\$ -	\$ -	\$ 691,462	\$ 1,535,506
Payroll related liabilities	251,233	2,380	-	-	5,452	259,065
Deposits and other liabilities	16,470	-	-	-	-	16,470
Due to other funds	-	-	-	400,000	-	400,000
Unearned revenues	24,576	573,198	794,822	468,714	265,285	2,126,595
Total liabilities	1,136,323	575,578	794,822	868,714	962,199	4,337,636
Fund Balances:						
Nonspendable						
Prepaid assets	27,904	-	-	-	-	27,904
Permanent funds	-	-	-	-	2,761,263	2,761,263
Restricted:						
Social service programs	-	345,863	-	-	276,159	622,022
Public safety	-	-	-	-	482,400	482,400
Community development	-	-	-	-	1,786,526	1,786,526
Street improvements	-	-	-	-	570	570
Debt service	-	-	-	-	90,746	90,746
Assigned:						
Social service programs	261,771	-	-	-	-	261,771
Unassigned	9,632,848	-	-	-	157,765	9,790,613
Total fund balances	9,922,523	345,863	-	-	5,555,429	15,823,815
Total liabilities and fund balances	\$ 11,058,846	\$ 921,441	\$ 794,822	\$ 868,714	\$ 6,517,628	\$ 20,161,451

The accompanying notes are an integral part of these financial statements.

City of Pacific Grove
Reconciliation of the Government Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2016

Total Fund Balances - Total Governmental Funds \$ 15,823,815

Amounts reported for governmental activities in the statement of net position were different because:

Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet. The capital assets were adjusted as follows:

Capital assets	42,507,331
Less: accumulated depreciation	(19,507,891)
Total Capital Assets	<u>22,999,440</u>

Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in Governmental Funds Balance Sheet. (382,000)

Internal service funds are used by management to charge the costs of stores, vehicle maintenance and various insurance costs to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position. (422,220)

Contributions made to pension plans will not be included in the calculation of the City's net pension liability of the plan year included in this report and have been deferred and reported as deferred outflows of resources. 1,696,187

The difference between projected and actual earnings from pension plan assets is not included in the plan's actuarial study until the next fiscal year and are reported as deferred inflows of resources in the statement of net position. (5,990,881)

Liabilities were reported for certain revenues that were not available to pay current period expenditures and were reported as unearned in the fund statements. 2,102,019

Long-term obligations were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet. The long-term liabilities were adjusted as follows:

Long-term debt	(16,882,730)
Compensated absences	(1,081,143)
Net pension obligation	(25,055,716)
Net OPEB obligation	(870,852)
Total Long-Term Obligations	<u>(43,890,441)</u>

Net Position of Governmental Activities \$ (8,064,081)

The accompanying notes are an integral part of these financial statements.

City of Pacific Grove
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
June 30, 2016

	Major Funds					
	General	Housing	CDBG	2013 CDBG	Other	Total
	Fund	Fund	Grant	Grant	Governmental	Governmental
	Fund	Fund	Fund	Fund	Funds	Funds
REVENUES						
Taxes:						
Property taxes	\$ 6,107,498	\$ -	\$ -	\$ -	\$ 118,769	\$ 6,226,267
Sales and use taxes	3,325,809	-	-	-	-	3,325,809
Franchise and other taxes	995,540	-	-	-	46,113	1,041,653
Transient occupancy taxes	4,875,922	-	-	-	488,395	5,364,317
Utility users taxes	1,594,143	-	-	-	-	1,594,143
Business license tax	313,057	-	-	-	28,014	341,071
Other taxes	146,945	-	-	-	-	146,945
Intergovernmental revenues	229,671	-	-	515,796	1,383,599	2,129,066
License, permits and impact fees	481,304	-	-	-	-	481,304
Fines and forfeitures	127,740	-	-	-	-	127,740
Charges for services	1,367,494	136	-	-	87,306	1,454,936
Interest, rents and concessions	355,293	30,562	-	-	81,769	467,624
Other revenues	893,646	38,625	4,286	-	244,659	1,181,216
Total Revenues	20,814,062	69,323	4,286	515,796	2,478,624	23,882,091
EXPENDITURES						
Current:						
General government	2,517,639	-	-	-	5,179	2,522,818
Public safety:						
Police	4,885,990	-	-	-	459,451	5,345,441
Fire	2,642,296	-	-	-	5,508	2,647,804
Public works	2,700,072	-	-	-	598,088	3,298,160
Recreation	475,567	-	-	-	40,919	516,486
Library	780,714	-	-	-	561	781,275
Museum	226,953	-	-	-	2,100	229,053
Community development	1,851,130	72,369	43,715	358,830	932,049	3,258,093
Capital outlay	693,171	-	-	-	454,989	1,148,160
Debt service						
Principal	1,168,017	-	-	-	82,382	1,250,399
Interest and fiscal charges	824,978	-	-	-	9,623	834,601
Total Expenditures	18,766,527	72,369	43,715	358,830	2,590,849	21,832,290
Excess (Deficiency) of Revenues over Expenditures	2,047,535	(3,046)	(39,429)	156,966	(112,225)	2,049,801
OTHER FINANCING SOURCES (USES)						
Transfers in	486,763	41,860	-	-	378,164	906,787
Transfers out	(835,512)	-	-	(41,860)	(24,114)	(901,486)
Total Other Financing Sources (Uses)	(348,749)	41,860	-	(41,860)	354,050	5,301
Net Change in Fund Balances	1,698,786	38,814	(39,429)	115,106	241,825	2,055,102
Fund Balances Beginning	8,223,737	307,049	39,429	(115,106)	5,313,604	13,768,713
Fund Balances Ending	<u>\$ 9,922,523</u>	<u>\$ 345,863</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,555,429</u>	<u>\$ 15,823,815</u>

The accompanying notes are an integral part of these financial statements.

City of Pacific Grove

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities For the Year Ended June 30, 2016

Net Change in Fund Balances - Total Governmental Funds	\$ 2,055,102
Amounts reported for governmental activities in the Statement of Activities and Changes in net position were different because:	
Governmental Funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in net position, the cost of those assets was allocated over their estimated useful lives as depreciation expense.	
Capital outlay	1,006,089
Depreciation expense	(728,164)
Internal service funds are used by management to charge the costs of stores, vehicle maintenance, and various insurance costs to individual funds. The net revenue or (excess expenses) of the internal service funds is reported with government activities.	(12,050)
Certain revenues were not recorded or recorded as unearned revenue in the governmental funds because they did not meet the revenue recognition criteria of availability. However, they were included as revenue in the Government-Wide Statement of Activities under the full accrual basis.	82,929
Long-term compensated absences and claims payables were reported in the Government-Wide Statement of Activities, but they did not require the use of current financial resources and were not reported as expenditures in governmental funds.	
Compensated absences	19,983
In governmental funds, actual contributions to pension plans are reported as expenditures in the year incurred. However, in the government-wide statement of activities, only the current year pension expense as noted in the plans' valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources.	(912,545)
Repayment of long-term debt was an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of net position.	1,256,665
Certain expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in the fund statements as follows:	
Other postemployment benefits	(317,709)
Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Changes in net position, but it did not require the use of current financial resources. Therefore, interest expense was not reported as expenditures in governmental funds. The following amount represented the net change in accrued interest from and accreted interest from prior year.	(381,637)
Change in Net Position of Governmental Activities	\$ 2,068,663

The accompanying notes are an integral part of these financial statements.

City of Pacific Grove
Statement of Net Position
Proprietary Funds
June 30, 2016

	Business-type Activities - Enterprise Funds					Governmental
	Cemetery Fund	Local Water Project Fund	Sewer Fund	Golf Course Fund	Total Enterprise Funds	Activities - Internal Service Funds
ASSETS						
Current assets:						
Cash and investments	\$ 31,695	\$ -	\$ 6,675,113	\$ 130,269	\$ 6,837,077	\$ 542,760
Restricted cash and investments	-	-	-	-	-	450,000
Accounts receivable	-	355,522	501,907	5,607	863,036	-
Other assets	-	-	-	-	-	-
Total current assets	31,695	355,522	7,177,020	135,876	7,700,113	992,760
Non-current assets:						
Loans receivable	-	-	101,885	53,400	155,285	-
Property, plant and equipment - net	572,793	960,522	10,449,746	5,458,308	17,441,369	-
Total non-current assets	572,793	960,522	10,551,631	5,511,708	17,596,654	-
Total assets	\$ 604,488	\$ 1,316,044	\$ 17,728,651	\$ 5,647,584	\$ 25,296,767	\$ 992,760
DEFERRED OUTFLOWS OF RESOURCES	\$ 16,930	\$ -	\$ 75,202	\$ -	\$ 92,132	\$ 20,414
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 15,450	\$ 26,605	\$ 116,332	\$ 24,795	\$ 183,182	\$ 12,055
Payroll and related liabilities	4,148	-	16,692	-	20,840	3,332
Unearned revenue	-	-	-	1,385	1,385	-
Due to other funds	-	328,917	-	-	328,917	-
Accrued interest	-	-	8,812	52,628	61,440	-
Compensated absences - current portion	2,225	-	17,226	-	19,451	11,760
Long-term debt - due within one year	-	-	53,138	147,376	200,514	-
Total current liabilities	21,823	355,522	212,200	226,184	815,729	27,147
Non-current liabilities:						
Long-term debt - due in more than one year	-	960,522	999,045	2,756,222	4,715,789	-
Claims payable	-	-	-	-	-	1,010,923
Net pension liabilities	222,625	-	988,867	-	1,211,492	268,432
Compensated absences	6,676	-	51,676	-	58,352	35,282
Total non-current liabilities	229,301	960,522	2,039,588	2,756,222	5,985,633	1,314,637
Total liabilities	\$ 251,124	\$ 1,316,044	\$ 2,251,788	\$ 2,982,406	\$ 6,801,362	\$ 1,341,784
DEFERRED INFLOWS OF RESOURCES	\$ 77,632	\$ -	\$ 344,832	\$ -	\$ 422,464	\$ 93,610
NET POSITION						
Net Investment in capital assets	\$ 572,793	\$ -	\$ 9,397,563	\$ 2,554,710	\$ 12,525,066	\$ -
Restricted for insurance reserve	-	-	-	-	-	450,000
Unrestricted	(280,131)	-	5,809,670	110,468	5,640,007	(872,220)
Total net position	\$ 292,662	\$ -	\$ 15,207,233	\$ 2,665,178	\$ 18,165,073	\$ (422,220)

The accompanying notes are an integral part of these financial statements.

City of Pacific Grove
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2016

	Business-type Activities - Enterprise Funds					Governmental
	Cemetery	Local	Sewer	Golf	Total	Activities -
	Fund	Water	Fund	Course	Enterprise	Internal
	Fund	Project	Fund	Fund	Funds	Service Funds
OPERATING REVENUES						
Charges for services	\$ 183,697	\$ -	\$ 2,967,074	\$ -	\$ 3,150,771	\$ 1,603,256
Rents and concessions	7,800	-	-	386,916	394,716	-
Other	99,728	-	9,600	4,232	113,560	-
Total operating revenues	291,225	-	2,976,674	391,148	3,659,047	1,603,256
OPERATING EXPENSES						
Contractual services and utilities	92,874	-	534,365	87,662	714,901	1,330,243
Personnel	135,710	-	538,179	3,600	677,489	297,982
Supplies and materials	37,408	-	280,506	33,513	351,427	-
Depreciation	29,396	-	314,123	167,643	511,162	-
Total operating expenses	295,388	-	1,667,173	292,418	2,254,979	1,628,225
Operating income (loss)	(4,163)	-	1,309,501	98,730	1,404,068	(24,969)
NONOPERATING REVENUES(EXPENSES)						
Intergovernmental	-	-	152,830	-	152,830	-
Investment earnings	69	-	65,388	1,861	67,318	12,919
Interest expense	-	-	(36,117)	(128,370)	(164,487)	-
Total nonoperating revenues(expenses)	69	-	182,101	(126,509)	55,661	12,919
Income (loss) before operating transfers	(4,094)	-	1,491,602	(27,779)	1,459,729	(12,050)
Transfers in	-	-	13,258	-	13,258	-
Transfers out	-	-	(18,559)	-	(18,559)	-
Change in net position	(4,094)	-	1,486,301	(27,779)	1,454,428	(12,050)
Total net position - beginning	578,123	-	14,970,726	2,692,957	18,241,806	(70,909)
Prior period adjustment	(281,367)	-	(1,249,794)	-	(1,531,161)	(339,261)
Total net position - beginning , as adjusted	296,756	-	13,720,932	2,692,957	16,710,645	(410,170)
Total net position - ending	\$ 292,662	\$ -	\$ 15,207,233	\$ 2,665,178	\$ 18,165,073	\$ (422,220)

The accompanying notes are an integral part of these financial statements.

City of Pacific Grove
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2016

	Business-type Activities - Enterprise Funds					Governmental
	Cemetery Fund	Local Water Project Fund	Sewer Fund	Golf Course Fund	Total Enterprise Funds	Activities - Internal Service Funds
Cash flows from operating activities:						
Receipts from customers and users	\$ 291,225	\$ -	\$ 2,995,408	\$ 386,926	\$ 3,673,559	\$ -
Receipts from interfund services provided	-	-	-	-	-	1,603,256
Payments for contractual services and utilities	(61,629)	-	(779,702)	(80,670)	(922,001)	(1,331,315)
Payments to suppliers	(37,408)	-	(280,506)	(33,513)	(351,427)	-
Payments to employees	(124,308)	-	(504,260)	(3,600)	(632,168)	(291,585)
Net cash provided (used) by operating activities	67,880	-	1,430,940	269,143	1,767,963	(19,644)
Cash flows from noncapital financing activities:						
Payments from other governments	-	-	152,830	-	-	-
Interfund transactions	-	328,917	(5,301)	-	-	-
Net cash provided (used) by noncapital financing activities	-	328,917	147,529	-	-	-
Cash flows from capital financing activities:						
Purchases (sales) of property, plant and equipment - net	(48,700)	(960,522)	(587,657)	(25,812)	(1,622,691)	-
Proceeds from long-term debt	-	631,605	-	3,130,505	3,762,110	-
Principal payments on long-term debt - net	-	-	(50,913)	(3,271,674)	(3,322,587)	-
Interest paid on long-term debt	-	-	(36,543)	(130,928)	(167,471)	-
Net cash provided (used) by capital financing activities	(48,700)	(328,917)	(675,113)	(297,909)	(1,350,639)	-
Cash flows from investing activities:						
Receipts from (payments on) loans receivable	-	-	(4,898)	17,800	12,902	-
Investment income received	69	-	65,388	1,861	67,318	12,919
Net cash provided (used) by investing activities	69	-	60,490	19,661	80,220	12,919
Net increase (decrease) in cash and cash equivalents	19,249	-	963,846	(9,105)	973,990	(6,725)
Cash and cash equivalents - beginning	12,446	-	5,711,267	139,374	5,863,087	999,485
Cash and cash equivalents - ending	\$ 31,695	\$ -	\$ 6,675,113	\$ 130,269	\$ 6,837,077	\$ 992,760
Reconciliation of operating income to net cash provided (used)						
by operating activities:						
Operating income (loss)	\$ (4,163)	\$ -	\$ 1,309,501	\$ 98,730	\$ 1,404,068	\$ (24,969)
Adjustments to reconcile operating income (loss)						
to net cash provided (used) by operating activities:						
Depreciation	29,396	-	314,123	167,643	511,162	-
Pension adjustments	(281,367)	-	(1,249,794)	-	(1,531,161)	(339,261)
Change in operating assets and liabilities:						
Accounts receivables	-	-	18,734	(5,607)	13,127	-
Other assets	32,201	-	387	-	32,588	-
Deferred outflows of resources	(16,930)	-	(75,202)	-	(92,132)	(20,414)
Accounts payable	(956)	-	(245,724)	6,992	(239,688)	(1,072)
Payroll related liabilities	1,331	-	4,633	-	5,964	740
Unearned revenue	-	-	-	1,385	1,385	-
Deferred inflows of resources	222,625	-	988,867	-	1,211,492	93,610
Net pension liabilities	77,632	-	344,832	-	422,464	268,432
Compensated absences	8,111	-	20,583	-	28,694	3,290
Net cash provided (used) by operating activities	\$ 67,880	\$ -	\$ 1,430,940	\$ 269,143	\$ 1,767,963	\$ (19,644)

The accompanying notes are an integral part of these financial statements.

City of Pacific Grove
Notes to the Basic Financial Statements
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Pacific Grove, California, (the City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Boards (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Financial Reporting Entity

The City of Pacific Grove, California is primarily a 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 by the State on April 22, 1927. The city operates under 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, a golf course, a cemetery, sewer services, a monarch butterfly sanctuary and habitat preserve and general administration services.

As required by GAAP, these basic financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The City Council acts as the governing board. In addition, the City staff performs all administrative and accounting functions for these entities and these entities provide their services entirely to the City. Blended component units, although legally separate entities are, in substance, part of the City's operations and data from these units are combined with data of the City. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize their legal separateness from the City. Each blended component unit has a June 30 year-end. The City had no component units as of June 30, 2016.

The City applies all applicable GASB pronouncements for certain accounting and financial reporting guidance. In December of 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates pronouncements issued on or before November 30, 1989 into GASB authoritative literature. In June of 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB 76 supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB 76 also amends GASB 62 and AICPA Pronouncements paragraphs 64, 74, and 82. The GAAP hierarchy sets forth what constitutes GAAP for all state and local governmental entities. It establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a governmental entity should apply. The sources of authoritative GAAP are categorized in descending order of authority as follows:

- a. Officially established accounting principles—Governmental Accounting Standards Board (GASB) Statements (Category A)
- b. GASB Technical Bulletins; GASB Implementation Guides; and literature of the AICPA cleared by the GASB (Category B).

City of Pacific Grove
Notes to the Basic Financial Statements
June 30, 2016

If the accounting treatment for a transaction or other event is not specified by a pronouncement in Category A, a governmental entity should consider whether the accounting treatment is specified by a source in Category B.

Basis of Accounting and Measurement Focus

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The City's government-wide financial statements include a *Statement of Net Position* and a *Statement of Activities and Changes in Net Position*. These statements present summaries of governmental and business-type activities for the City. Fiduciary activities of the City are not included in these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets, deferred outflows of resources, liabilities, deferred inflows of resources (including capital assets, as well as infrastructure assets, and long-term liabilities), are included in the accompanying *Statement of Net Position*. The *Statement of Activities* presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those clearly identifiable with a specific function or segment. In conformity with the City's indirect cost allocation plan, certain indirect costs are included in the program expense reported for individual functions and activities.

Certain types of transactions are reported as program revenues for the City in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables, and receivables. All internal balances in the *Statement of Net Position* have been eliminated. The following interfund activities have been eliminated:

- Transfers in/Transfers out
- Internal Service Fund charges

City of Pacific Grove
Notes to the Basic Financial Statements
June 30, 2016

Governmental Fund Financial Statements

Governmental fund financial statements include a *Balance Sheet* and a *Statement of Revenues, Expenditures and Changes in Fund Balances* for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net position as presented in these statements to the net position presented in the government-wide financial statements. The City has presented all major funds that met the applicable criteria.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources are included on the balance sheets. The *Statement of Revenues, Expenditures and Changes in Fund Balances* present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (up to 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, special assessments, intergovernmental revenues, other taxes, interest revenue, rental revenue and certain charges for services. Fines, forfeitures, licenses and permits and parking meter revenues are not susceptible to accrual because they are usually not measurable until received in cash. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Unearned revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the government has a legal claim to the resources, the unearned revenue is removed from the combined balance sheet and revenue is recognized.

The following funds are major funds:

General Fund

The General Fund is the general operating fund of the City. It is used for all financial resources except those required legally, or by sound financial management to be accounted for in another fund. Generally, the General Fund is used to account for those traditional governmental services of the City, such as police and fire protection, planning and general administrative services.

Housing Program Fund

This special revenue fund accounts for the administration and operation of the City's low and moderate income housing program. Principal revenues consist of payments received from loans extended to low and moderate income housing citizens, proceeds from the sale of housing properties and federal grants.

Community Development Block Grant Fund

This special revenue fund was established to account for amounts received from Community Development Block Grants and for the loan and administrative activities of the City's various CDBG grants.

City of Pacific Grove
Notes to the Basic Financial Statements
June 30, 2016

2013 Community Development Block Grant Fund

This special revenue fund was established in fiscal year 2013 to account for amounts received from Community Development Block Grants and for the loan and administrative activities of the City's various CDBG grants.

Additionally, the City reports the following nonmajor fund types of governmental funds:

Special Revenue Funds

Special revenue funds account for and report the proceeds of specific revenue sources that are restricted, committed or assigned to specific purposes other than debt service or capital projects.

Debt Service Funds

Debt service funds account for the accumulation of resources for, and payment on, long-term obligation debt principal and interest.

Capital Project Funds

Capital project funds account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets in governmental funds.

Permanent Funds

Permanent funds account for and report financial resources for the principal corpus of endowments where only the investment earnings can be spent on specified purposes. The City is the beneficiary of several trusts for its citizens that are classified as permanent funds as follows:

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.

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 fair value balance held by the Trustee at June 30, 2016 was \$873,451.

Proprietary Funds

In the fund financial statements, proprietary funds are presented using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, proprietary funds are presented using the "economic resources measurement focus". This means all assets, deferred outflows of resources,

City of Pacific Grove
Notes to the Basic Financial Statements
June 30, 2016

liabilities (whether current or noncurrent) and deferred inflows of resources associated with their activities are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net position.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal value. Non-operating revenues, such as subsidies, taxes, and investment earnings result from nonexchange transactions or ancillary activities. Amounts paid to acquire capital assets are capitalized as assets in the internal service funds financial statements.

The City has the following enterprise funds that have been reported as major:

Cemetery Fund

The Cemetery Fund accounts for revenues and expenses of the City's cemetery.

Local Water Project Fund

The Local Water Project Fund accounts for revenues and expenses related to water treatment and reclamation projects in the City and operations and services related to those projects.

Sewer Fund

The Sewer Fund accounts for revenues and expenses of the City's sewer operations.

Golf Course Fund

The Golf Course Fund accounts for the revenues and expenses of the City's golf course operations, including the pro shop, clubhouse and driving range.

The City's internal service funds are proprietary funds. Internal service funds account for charges to City departments for services provided, on a cost reimbursement basis, in the following areas: health insurance, workers compensation, insurance, liability insurance and other postemployment benefits.

B. Cash, Cash Equivalents and Investments

The City pools its available cash for investment purposes. The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturity of three months or less from the date of acquisition. Cash and cash equivalents are combined with investments and displayed as Cash and Investments.

Deposit and Investment Risk Disclosures - In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures* (Amendment of GASB Statement No. 3), certain disclosure requirements, if applicable, for Deposits and Investment Risks in the following areas:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentrations of Credit Risk
- Foreign Currency Risk

City of Pacific Grove
Notes to the Basic Financial Statements
June 30, 2016

Other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

The City participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in Structured Notes and Asset Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to change in interest rates.

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. This statement changed the definition of fair value and is effective for periods beginning after June 15, 2015.

The following is a summary of the definition of fair value:

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining this amount, three valuation techniques are available:

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.
- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.
- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

Each of these valuation techniques requires inputs to calculate a fair value. Observable inputs have been maximized in fair value measures, and unobservable inputs have been minimized.

C. Interfund Receivables and Payables

Items classified as interfund receivables/payables are referred to as “advances to/advances from other funds” or as “due to/from other funds”. Due to/from other funds include short-term lending/borrowing transactions between funds. This classification also includes the current portion of an advance to or from another fund. Advances to/advances from other funds represents non-current portions of any long-term lending/borrowing transactions between funds. This amount will be equally offset by a reserve of fund balance which indicates that it does not represent available financial resources and therefore, is not available for appropriation.

D. Receivables

Billed, but unpaid, services provided to individuals or non-governmental entities are recorded as accounts receivable. The 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. No allowance for uncollectible accounts receivable has been provided as management has determined that uncollectible accounts have historically been immaterial and the direct write-off method does not result in a material difference from the allowance method.

City of Pacific Grove
Notes to the Basic Financial Statements
June 30, 2016

E. Loans Receivable

Under the City's housing assistance program, loans are made to qualified individuals and businesses within prescribed project areas for the purpose of housing acquisition, housing rehabilitation and/or economic development. The majority of these loans are on a deferred payback program. Repayments of the outstanding loans are classified as a revenue source in the applicable funds. The long-term portion of loans receivable has been offset by *Unearned Revenues* in the accompanying financial statements, as applicable. The City also offers Sewer Lateral Replacement Loans to homeowners. The disbursement of loans are recorded as expenditures at the time of a loan and the repayment of principal and interest is deferred until the property is sold.

F. Capital Assets

Capital outlays are recorded as expenditures of the General, Special Revenue, and Capital Projects Funds and as assets in the Government-Wide Financial Statements to the extent the City's capitalization threshold is met.

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the governmental-wide financial statements. All assets, including land, buildings, machinery and equipment, with an original cost in excess of \$5,000 and a useful life of three years or more will be subject to capitalization. Capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Interest is capitalized on the construction or acquisition of major assets using debt proceeds. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. No interest was capitalized during the year ended June 30, 2016.

Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings	100 Years
Machinery and equipment	5 Years
Furniture and fixtures	5 Years
Improvements other than buildings	3 Years
Sidewalks, curb, gutters and streets	20-50 Years
Traffic signals	15 Years
Street signs	15 Years
Storm Drains	20-50 Years
Park equipment	10-50 Years

G. Deferred Outflows/Deferred Inflows

Deferred outflows of resources is a consumption of net assets by the City that is applicable to a future reporting period; for example, prepaid items and deferred charges.

City of Pacific Grove
Notes to the Basic Financial Statements
June 30, 2016

Deferred inflows of resources is an acquisition of net assets by the City that is applicable to a future reporting period; for example, unearned revenue and advance collections.

The City is a member of the California Public Employees' Retirement System (PERS). In fiscal year 2006/07, the City issued \$19,365,355 in Pension Obligation Bonds in order to pay the City's unfunded actuarial accrued liability with PERS. The payment to PERS was a deferred charge reported as a deferred outflow of resources in the government-wide financial statement and was being amortized on a straight-line basis over the 24 year life of the bonds. In fiscal year 2015/16, the City decreased beginning net position in order to remove the deferred charge from its books as required by GASB 68. The total prior period adjustment was \$10,220,710.

H. Interest Payable

In the government-wide financial statements, interest payable of long-term debt is recognized as an incurred liability for governmental fund types. The City has not allocated the interest on long-term debt to departments.

In the fund financial statements, governmental fund types do not recognize the interest payable when the liability is incurred. Interest on long-term debt is recorded in the fund statements when payment is made.

I. Claims Payable

The City records a liability to reflect an actuarial estimate of ultimate uninsured losses for general liability and workers' compensation claims. The estimated liability for these claims include "incurred but not reported" (IBNR) claims. There is no fixed payment schedule to pay these liabilities.

J. 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.

K. 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 in fund liabilities. The long-term portion is recorded in the Statement of Net Position and represents a reconciling item between the fund and government-wide presentations.

City of Pacific Grove
Notes to the Basic Financial Statements
June 30, 2016

The following is a summary of the changes in compensated absences for the fiscal year ended June 30, 2016:

Description	Balance June 30, 2015	Additions	Retirements	Balance June 30, 2016	Due Within One Year
Compensated Absences					
Government Activities	\$ 1,144,878	\$ -	\$ 16,693	\$ 1,128,185	\$ 282,046
Business-Type Activities	49,109	28,694	-	77,803	19,451
Total Compensated Absences	<u>\$ 1,193,987</u>	<u>\$ 28,694</u>	<u>\$ 16,693</u>	<u>\$ 1,205,988</u>	<u>\$ 301,497</u>

Compensated absences and the net OPEB obligation are generally liquidated by the General Fund or Proprietary Funds.

L. Long-Term Obligations

In the government-wide financial statements and proprietary fund statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Debt issuance costs are expensed in year incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financial sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

M. Pension Expense

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

N. Fund Balances

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the City classifies governmental fund balances as follows:

Nonspendable

Nonspendable fund balance includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted

Restricted fund balance includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

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Committed

Committed fund balance includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. Committed fund balances are imposed by the City Council.

Assigned

Assigned fund balance includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balances may be assigned by the City Council.

Unassigned

The Unassigned Fund Balance category represents fund balance which may be held for specific types of uses or stabilization purposes, but is not yet directed to be used for a specific purpose. The detail of amounts reported for each of the above defined fund balance categories is reported in the governmental funds balance sheet and in the combining nonmajor fund balance sheets.

Flow Assumption / Spending Order Policy

When expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to be spent first. When expenditures are incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to be spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has directed otherwise.

Deficit Fund Balances

The City reported deficit fund balances in the combined internal service funds totaling \$422,220. The deficit fund balances are expected to be eliminated via a Council adopted refunding plan, future service charges and interfund transfers. Management will continue to monitor the activities within these funds.

O. Net Position

In the government-wide financial statements, net position is classified in the following categories:

Net Investment in Capital Assets

This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that are attributed to the acquisition, construction, or improvement of the assets. In addition, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also are included in the net investment in capital assets component of net position

Restricted Net Position

This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Position

This amount is all net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

The detail of amounts reported for each of the above defined net position categories is reported in the government-wide Statement of Net Position.

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Use of Restricted/Unrestricted Net Position

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the City's policy is to apply restricted net position first.

Deficit Net Position – Governmental Activities

The implementation of GASB 68 required the City to decrease beginning net position by \$30.1 million and record a net pension liability of \$23.1 million as of June 30, 2015 for its CalPERS pension plans. The net pension liabilities as of June 30, 2016 totaled \$26.5 million (both governmental and business-type activities). As a result, the City's unrestricted net position for governmental activities was a deficit \$37 million and the City's total net position for governmental activities was a deficit of \$8 million as of June 30, 2016. Total net position for both governmental and business-type activities combined was a positive \$10.1 million. The City's financial health and evaluation of its going concern has been based on its fund statements, ending fund balance and future budgets instead of the government-wide statements and net position. The City also decreased beginning net position in its proprietary funds and business-type activities to account for the respective allocation of net pension liabilities, deferred inflows of resources and deferred outflows of resources totaling \$1,531,161, as required by GASB 68.

Interfund Transactions

Interfund services provided and used are accounted for as revenue, expenditures or expenses, as appropriate. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursed fund. All other interfund transactions, except for interfund services provided and used and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as transfers.

P. Property Taxes and Special Assessments

County tax assessments include secured and unsecured property taxes and special assessments. "Unsecured" refers to taxes on personal property. These tax assessments are secured by liens on the property being taxed.

Monterey County is responsible for the assessment, collection and apportionment of property taxes for all taxing jurisdictions. Property taxes are levied in equal installments on November 1 and February 1. They become delinquent on December 10 and April 10, respectively. The lien date is January 1 of each year.

Property taxes are accounted for in the General Fund. Property tax revenues are recognized when they become measurable and available to finance current liabilities. The City considers property taxes as available if they are collected within 60 days after year end. Property tax on the unsecured roll are due on the January 1 lien date and become delinquent if unpaid on August 31. However, unsecured property taxes are not susceptible to year end accrual.

The City is permitted by Article XIII A of the State of California Constitution (known as Proposition 13) to levy a maximum tax of \$1.00 per \$100 of full cash value.

Q. Budgetary Information

In accordance with applicable sections of the California Government Code and the Pacific Grove Municipal Code, the City prepares and legally adopts an annual balanced budget on a basis consistent

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with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund, specific Special Revenue Funds, and specific Capital Projects Funds.

Budget plans are adopted for Proprietary Funds. A proposed budget is presented to the City Council during May of each year for review. The Council holds public hearings and may add to, subtract from, or change appropriations within the revenues and reserves estimated as available. Expenditures may not legally exceed budgeted appropriations at the fund level. Supplementary appropriations which alter the total expenditures of any fund, or expenditures in excess of total budgeted fund appropriations, must be approved by the City Council.

All annual appropriations lapse at fiscal year end to the extent they have not been expended or encumbered.

Excess of Expenditures over Appropriations

Expenditures exceeded budget in the 2013 CDBG Grant fund by \$203,936 for the year ended June 30, 2016. However, revenues exceeded budget by \$395,796 resulting in an increase in fund balance of \$115,106 after transfers.

R. Encumbrances

Under encumbrance accounting, purchase orders, contract and other commitments for expenditures are recorded in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary integration in all funds. All appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

S. Unearned Revenue

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows from unearned revenue. In the governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have been recorded as deferred inflows from unearned revenue.

T. Use of 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.

U. Subsequent Events

Management has considered subsequent events through October 30, 2016, the date which the financial statements were available to be issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure.

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V. Implemented New GASB Pronouncements

GASB Statement No. 72 – In February, 2015, GASB issued Statement No 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015 (fiscal year ending June 30, 2016). The implementation of GASB 72 did not have a significant impact on the City’s financial statements and did not result in any prior period restatements or adjustments.

GASB Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Effective date: the provisions in Statement 76 are effective for reporting periods beginning after June 15, 2015. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. The implementation of this statement did not have a significant impact on the City’s financial statements and did not result in any prior period restatements or adjustments.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* – GASB 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in GASB 79. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in GASB 79 and measures all of its investments at amortized cost, the pool’s participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in GASB 79, the pool’s participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement 31, as amended.

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GASB 79 establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

The requirements of GASB 79 are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

The implementation of GASB 79 did not have a significant impact on the City's financial statements and did not result in any prior period restatements or adjustments.

W. Upcoming New Accounting Pronouncements

GASB Statement No. 74 – Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. Effective date: the provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. Management anticipates that this statement will not have a direct impact on the City's financial statements.

GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Effective date: the provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified

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criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity. The City is in the process of determining the impact this statement will have on the financial statements.

GASB Statement No. 77 – Tax Abatement Disclosures. Effective date: the requirements of this Statement are effective for reporting periods beginning after December 15, 2015. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

Management anticipates that this statement will not have a material impact on the City's financial statements.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* – The objective of this Statement is to address a practice issue regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this GASB 78, the requirements of GASB 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that statement.

GASB 78 amends the scope and applicability of GASB 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

Management does not anticipate a material impact on its financial statements from the implementation of this standard.

GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73* – The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are*

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Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement is effective for financial statements for fiscal years beginning after December 15, 2016. The City is currently evaluating the impact on the financial statements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

NOTE 2 - CASH AND INVESTMENTS

As of June 30, 2016, cash and investments were reported in the financial statements as follows:

	Statement of Net Position		Total	GASB 72
	Unrestricted	Restricted	Cash and Investments	Input Levels
Cash on hand	\$ 685	\$ -	\$ 685	n/a
Deposits with financial institutions	1,921,878	450,000	2,371,878	n/a
Local Agency Investment Fund	10,655,268	-	10,655,268	Level 2
Certificates of deposit	5,397,409	-	5,397,409	Level 1
Government Securities	4,370,595	-	4,370,595	Level 1
Total cash and investments	<u>\$ 22,345,835</u>	<u>\$ 450,000</u>	<u>\$ 22,795,835</u>	

A. Cash Deposits

The California Government Code requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest, and places the City ahead of general creditors of the institution.

The market value of pledged securities must equal at least 110 percent of the City's cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes that have a value of 150 percent of the City's total cash deposits. The City has waived the collateral requirements for cash deposits which are fully insured to \$250,000 by the Federal Deposit Insurance Corporation (FDIC).

The bank balances before reconciling items totaled \$2,606,704 at June 30, 2016 and were different from carrying amounts due to deposits in transit and outstanding checks. The amount uninsured was \$2,106,704 which was collateralized by securities held by pledging financial institutions.

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B. Fair Value Measurements

GASB 72 established a hierarchy of inputs to the valuation techniques above. This hierarchy has three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable
- Level 3 inputs are unobservable inputs, such as a property valuation or an appraisal.

C. Investment Policies

City Investment Policy

Under the provisions of the City's investment policy, and in accordance with California Government Code, the following investments are authorized:

- **Certificates of Deposit** - Non-Negotiable Certificates of Deposits will be made only in FDIC or FSLIC insured accounts. For deposits in excess of the insured maximum of \$250,000, approved collateral shall be required in accordance with Government Code 53652 and/or 53651 (m) (1). Investment in these instruments shall be limited to financial institutions that in the Treasurer's judgment are of high quality, and shall not have a term exceeding five years from the date of purchase.
- **Securities of the U.S. Government or its Agencies** - Includes obligations issued by Federal Home Loan Banks, Government National Mortgage Association, Farm Credit System, the Federal Home Loan Bank, Federal Home Loan Mortgage Association, Federal National Mortgage Association, or obligations or other instruments of or issued by a federal agency or a United States Government sponsored enterprise. Investment in these instruments shall not have a term exceeding five years from the date of purchase.
- **Treasury Bills and Notes** - U.S. Treasury Bills, Notes, Bonds, or Certificates of Indebtedness, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest. The term of such securities shall not exceed five years from the date of purchase.
- **Local Agency Investment Fund (LAIF)** - Investment of funds in the California LAIF which allows the State Treasurer to invest through the Pooled Money Investment Account (PMIA). Maximum investment is subject to state regulation. LAIF investments are available for City use.
- **Repurchase Agreements** - A purchase of securities by the City pursuant to an agreement by which the seller will repurchase such securities on or before a specified date, or on demand of either party, and for a specified amount. Investments in repurchase agreements will be used solely as short-term investments not to exceed 30 days.
- **Other** - Other investments that are, or may become, legal investments through the State of California Government Code, only with prior approval of the City Council.

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Authorized Investments - Debt Trustee Agreements

Investments held by bond fiscal agents (trustees) are governed by the provisions of the underlying indenture agreements rather than the general provisions of the City's investment policy or California Government Code.

The indenture agreements do identify the following permitted investments:

Authorized Investment Type	Maximum Maturity (1)	Maximum Total of Portfolio	Maximum Investment in Anyone Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180	None	None
Commercial Paper	270	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	None	None	None
Certificates of Deposits	1 year	None	None
Repurchase Agreements	30 days	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Municipal Bonds	None	None	None

D. External Investment Pool

The City's investments with LAIF at June 30, 2016, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

Structured Notes

These are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities

The bulk of asset-backed securities are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMO's) or credit card receivables.

LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute. The approved investments policy is listed on the LAIF website, located at <http://www.treasurer.ca.gov/pmia-laif/>.

D. Risk Disclosures

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the term of an investment's maturity, the greater the sensitivity to changes in market interest rates. It is the City's practice to manage its exposure to interest rate risk by purchasing a combination of shorter and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for City's operations.

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Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of June 30, 2016, the City's investments were in compliance with the ratings required by the City's investment policy, indenture agreements and Government Code.

Concentrations of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2016, the City had no investments in any one issuer (other than U.S. Treasury securities, mutual funds and external investment pools) that represented 5% or more of the total City investments.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

As of June 30, 2016, the City's investments had the following maturities and ratings:

Cash or Investment Type	Investment Maturities in Years			Year End Rating		Fair Value
	12 months or less	13 to 36 Months	37 to 60 Months	AA/AAA	Not Rated	
Local Agency Investment Fund (LAIF)	\$ 10,655,268	\$ -	\$ -	\$ -	\$ 10,655,268	\$ 10,655,268
Certificates of deposit	1,114,242	2,901,587	1,381,580	-	5,126,615	5,397,409
Government Securities	1,597,410	653,510	2,119,675	4,370,595	-	4,370,595
Total Investments	<u>\$ 13,366,920</u>	<u>\$ 3,555,097</u>	<u>\$ 3,501,255</u>	<u>\$ 4,370,595</u>	<u>\$ 15,781,883</u>	20,423,272
Cash in banks and on hand						2,372,563
Total Cash and Investments						<u>\$ 22,795,835</u>

NOTE 3 - INTERFUND TRANSACTIONS

A. Inter-fund Receivables and Payables

Amounts due to or due from other funds reflect inter-fund balances for services rendered or short-term loans expected to be repaid in the next fiscal year. Advances to or from other funds are long-term loans between funds that are to be repaid in their entirety over several years. As of June 30, 2016, inter-fund receivables and payables consisted of the following \$400,000 due to the General Fund from the 2013 CDBG fund and \$328,917 due from the Local Water Project Fund to the General Fund.

B. Transfers In/Out

With Council approval resources may be transferred from one fund to another. Transfers routinely reimburse funds that have made an expenditure on behalf of another fund. Transfers may also be made to pay for capital projects or capital outlays, lease or debt service payments, operating expenses and low and moderate-income housing projects.

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The following summarizes transfers between funds during the fiscal year ended June 30, 2016:

<u>Fund</u>	<u>Transfer in</u>	<u>Transfer out</u>
General Fund	\$ 486,763	\$ 835,512
Housing Fund	41,860	-
2013 CDBG Fund	-	41,860
Nonmajor Funds	378,164	24,114
Proprietary Funds	13,258	18,559
Total Transfers	<u>\$ 920,045</u>	<u>\$ 920,045</u>

NOTE 4 - LOANS RECEIVABLE

Loans receivable consisted of the following as of June 30, 2016:

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 balances are offset by deferred revenue in the respective governmental funds as they are not expected to be repaid during the current fiscal year. The balance of the loans receivable arising from these programs was \$2,102,019 as of June 30, 2016.

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 was \$101,885 as of June 30, 2016.

Golf Course Equipment Loans

In September of 2014, the City leased its golf course to Pacific Grove Golf, LLC (the Tenant) whereas the Tenant would operate and manage the golf course and pay the City rent. Certain equipment owned by the City was sold to the Tenant as a part of the lease establishing a loan receivable totaling \$84,550. The balance of the loan receivable from this transaction was \$53,400 as of June 30, 2016.

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NOTE 5 - CAPITAL ASSETS

Capital assets for governmental activities consisted of the following as of June 30, 2016:

	Balance July 01, 2015	Additions	Deletions/ Adjustments	Balance June 30, 2016
Governmental activities:				
Non-depreciable:				
Land	\$ 2,338,270	\$ -	\$ -	\$ 2,338,270
Total Non-Depreciable	2,338,270	-	-	2,338,270
Depreciable:				
Buildings and Improvements	12,067,585	258,722	216	12,326,523
Infrastructure	23,924,542	488,155	-	24,412,697
Machinery and Equipment	3,295,291	266,835	(132,285)	3,429,841
Total Depreciable	39,287,418	1,013,712	(132,069)	40,169,061
Less Accumulated Depreciation for:				
Buildings and Improvements	(6,698,644)	(152,221)	(216)	(6,851,081)
Infrastructure	(9,378,896)	(413,872)	-	(9,792,768)
Machinery and Equipment	(2,826,632)	(162,071)	124,661	(2,864,042)
Total Accumulated Depreciation	(18,904,172)	(728,164)	124,445	(19,507,891)
Total Depreciable Capital Assets - Net	20,383,246	285,548	(7,624)	20,661,170
Total Capital Assets - Net	\$ 22,721,516	\$ 285,548	\$ (7,624)	\$ 22,999,440

Depreciation expense for governmental activities was charged to the following programs during 2015/16:

General Government	\$ 59,090
Public Safety	90,792
Public Works	515,318
Recreation	31,702
Library	5,390
Museum	12,576
Community Development	13,296
Total depreciation expense	<u>\$ 728,164</u>

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Capital assets for governmental activities consisted of the following as of June 30, 2016:

	Balance July 01, 2015	Additions	Deletions/ Adjustments	Balance June 30, 2016
Business-Type Activities:				
Non-depreciable:				
Land	\$ 362,973	\$ -	\$ -	\$ 362,973
Total Non-Depreciable	362,973	-	-	362,973
Depreciable:				
Buildings and Improvements	9,482,715	74,509	-	9,557,224
Infrastructure	12,259,086	550,730	-	12,809,816
Machinery and Equipment	885,197	36,927	-	922,124
Total Depreciable	22,626,998	662,166	-	23,289,164
Less Accumulated Depreciation for:				
Buildings and Improvements	(3,817,191)	(185,391)	-	(4,002,582)
Infrastructure	(2,102,426)	(302,110)	-	(2,404,536)
Machinery and Equipment	(740,512)	(23,661)	-	(764,173)
Total Accumulated Depreciation	(6,660,129)	(511,162)	-	(7,171,291)
Total Depreciable Capital Assets - Net	15,966,869	151,004	-	16,117,873
Total Capital Assets - Net	\$ 16,329,842	\$ 151,004	\$ -	\$ 16,480,846

NOTE 6 - LONG-TERM DEBT

The City's long-term debt consisted of the following as of June 30, 2016:

Description	Balance June 30, 2015	Additions	Retirements	Balance June 30, 2016	Due Within One Year
Governmental Activity Long Term Debt					
2003 Refunding Butterfly Habitat GOB	\$ 257,439	\$ -	\$ 82,382	\$ 175,057	\$ 85,863
Pierce Dash 2000 Pumper Capital Lease	48,398	-	48,398	-	-
PNC Equipment Finance Capital Lease	152,363	-	69,829	82,534	65,748
Taxable Pension Obligation Bond	10,252,079	-	1,056,056	9,196,023	1,018,816
Accreted Interest	7,179,479	249,637	-	7,429,116	916,184
Total Governmental Activities Debt	\$ 17,889,758	\$ 249,637	\$ 1,256,665	\$ 16,882,730	\$ 2,086,611
Business-Type Activity Long Term Debt					
2013 Wastewater Revenue Refunding Bond	\$ 1,103,096	\$ -	\$ 50,912	\$ 1,052,184	\$ 53,138
2014 Golf Course Site Lease	3,044,767	-	141,168	2,903,599	147,376
Clean Water State Revolving Fund Loan	-	960,522	-	960,522	-
Total Business-type Activities Debt	\$ 4,147,863	\$ 960,522	\$ 192,080	\$ 4,916,305	\$ 200,514

2003 General Obligation Refunding Note

The City issued the Butterfly Habitat Bonds on the principal amount of \$1,230,000 in 1990 to acquire and improve an ancient wintering site for Monarch Butterflies consisting of a 2.2 acres parcel. On November 1, 2003, the City entered into a \$963,793 General Obligation Refunding Note. This note was issued to refund the remaining principal amount and accrued interest from the 1990 Butterfly Habitat Bonds. Semi-annual principal and interest are due February 1 and August 1. Interest on the Refunding Note is 4.45 percent and matures on August 1, 2017.

City of Pacific Grove

Notes to the Basic Financial Statements

June 30, 2016

Pierce Dash 2000 Pumper Capital Lease

The City entered into an agreement to finance a pumper. Annual principal and interest payments are due on August 15 of each year. Interest on the lease is 3.885 percent and matures on August 15, 2015.

PNC Equipment Finance Capital Lease

The City entered into an agreement to finance equipment for public works and police vehicles. Principal and interest payments of \$16,929 are due quarterly. Interest on the lease is 3.393 percent and matures on September 13, 2017.

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. Interest on the bonds ranges from 5.67 percent to 6.12 percent and they mature on June 1, 2029.

2013 Wastewater Revenue Refunding Bond

On May 6, 2013, the City issued the 2013 Wastewater Revenue Refunding Bonds in the principal amount of \$1,220,588. The purpose of the bond is to refinance the California State Community Development Authority Series 2001B Revenue Bonds. Semi-annual interest payments are due on April 1 and October 1. Repayments are secured by future sewer service revenues. Interest on the bonds is 3.35 percent and matures on October 1, 2031.

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 percent to 5.75 percent. The Certificates mature on August 1, 2034. The 2004 Certificates of Participation were refunded in fiscal year 2014/15.

2014 Golf Course Site Lease

The City entered into a \$3,130,505 Site Lease dated September 1, 2014 with Umpqua Bank to Refund the 2014 Golf Course Certificate of Participation. The lease bears interest at 4.35% with debt service payments due on February 1st and August 1st through 2030. The lease is secured by the transfer of property rights to Umpqua Bank and includes a prepayment penalty 1% if paid before February 1, 2020 and .5% if paid before February 1, 2021.

Clean Water State Revolving Fund Loan

In November 2015, the City secured SWRCB funding for the construction of a recycled water treatment plant, sewer diversion structure, waste pump and force main station, user connections and site retrofits. The SWRCB reimbursed the City for project-related expenditures as incurred, and the outstanding liability was \$960,522 as of June 30, 2016. The total loan available is \$7.7 million with \$2.4 million convertible to a grant once the first \$5.3 million is repaid. Payments commence in 2019 and end in 2048.

City of Pacific Grove
Notes to the Basic Financial Statements
June 30, 2016

The annual debt service requirements on the bonds are as follows:

Year Ending June 30	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2017	\$ 1,170,427	\$ 924,033	\$ 200,514	\$ 159,519	\$ 2,454,493
2018	1,097,821	1,010,287	209,089	151,261	2,468,458
2019	958,325	1,106,675	217,860	142,607	2,425,467
2020	927,700	1,202,300	226,773	133,632	2,490,405
2021	901,362	1,298,638	235,972	124,241	2,560,213
2022-2026	3,120,514	5,854,486	1,332,222	466,727	10,773,949
2027-2031	1,277,465	3,512,535	1,490,783	166,970	6,447,753
2032-2036	-	-	42,570	713	43,283
Total	<u>\$ 9,453,614</u>	<u>\$ 14,908,953</u>	<u>\$ 3,955,783</u>	<u>\$ 1,345,670</u>	<u>\$ 29,664,020</u>

NOTE 7 - RISK MANAGEMENT

The City is a member of the Public Agency Risk Sharing Authority of California (P ARSAC), 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 \$150,000 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.

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.

An estimated liability has been accrued for unpaid claims, including the effects of specific, incremental claim adjustments expenditures/expenses; salvage or subrogation; and allocated claim adjustment expenditures/expenses. There was no change in the estimated liability during the fiscal year ended June 30, 2016.

City of Pacific Grove
Notes to the Basic Financial Statements
June 30, 2016

NOTE 8 - RETIREMENT PLANS

General Information about the Pension Plans

Plan Description - All qualified permanent and probationary employees are eligible to participate in the City's Miscellaneous and Safety Employee Pension Plans (the Plans); cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. The cost of living adjustments for the Plans are applied as specified by the Public Employees' Retirement Law. The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous			Safety
	Tier 1	Tier 2	PEPRA	
Hire date	Before June 27, 2011	After June 27, 2011; Before January 1, 2013	On or after January 1, 2013	N/A
Benefit formula	2% @ 55	2% @ 60	2% @ 62	3% @ 50
Benefit vesting schedule	5 Years	5 Years	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life	Monthly for Life	Monthly for Life
Retirement age	55	60	62	50
Monthly benefits as a % of eligible compensation	2.0% to 2.5%	2.00%	2.00%	2.00%
Required employee contribution rates	8.00%	7.00%	6.25%	9.00%
Required employer contribution rates	11.44%	8.00%	6.25%	27.35%

Employees Covered - At June 30, 2016, the following employees were covered by the benefit terms for the Plans:

	Miscellaneous	Safety
Active	55	19
Transferred	25	32
Separated	47	8
Retired	132	111
Total Employees Covered	259	170

Contributions - Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rates are the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

City of Pacific Grove
Notes to the Basic Financial Statements
June 30, 2016

For the year ended June 30, 2016, the contributions recognized as part of pension expense for the Plans were as follows:

	<u>Total</u>	<u>Safety</u>
Contributions - employer	\$ 287,104	\$ 476,773
Contributions - employee	198,563	137,316
Total contributions	<u>\$ 485,667</u>	<u>\$ 614,089</u>

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

As of June 30, 2016, the City reported net pension liabilities for its proportionate shares of the net pension liability as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous	\$ 9,918,905
Safety	<u>16,616,736</u>
Total Net Pension Liability	<u>\$ 26,535,641</u>

The City's net pension liability for the Plans is measured as the proportionate share of the net pension liability. The net pension liability of the Plans are measured as of June 30, 2015, and the total pension liability for the Plans used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The City's proportionate share of the net pension liability for the Plans as of June 30, 2014 and 2015 was as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Proportion - June 30, 2014	0.3797%	0.3663%
Proportion - June 30, 2015	<u>0.3615%</u>	<u>0.4033%</u>
Change	<u>-0.0182%</u>	<u>0.0370%</u>

For the year ended June 30, 2016, the City recognized pension expense of \$2,710,018.

City of Pacific Grove
Notes to the Basic Financial Statements
June 30, 2016

At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Miscellaneous		Safety	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 730,030	\$ -	\$ 1,054,413	\$ -
Changes in assumptions	-	(229,810)	-	(253,469)
Differences between expected and actual experiences	24,290	-	-	(55,110)
Change in employer's proportion and differences the employer's contributions and the employer's proportionate share of contributions	-	(3,113,843)	-	(2,611,054)
Net differences between projected and actual earnings on plan investments	-	(115,207)	-	(128,460)
Total	<u>\$ 754,320</u>	<u>\$ (3,458,859)</u>	<u>\$ 1,054,413</u>	<u>\$ (3,048,092)</u>

The City reported \$1,784,443 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

	Deferred Outflows/(inflows) of Resources	
Measurement Periods Ended June 30:	Miscellaneous	Safety
2016	\$ (583,059)	\$ (133,433)
2017	(1,290,626)	(1,159,994)
2018	(978,115)	(857,946)
2019	147,262	157,693
Total	<u>\$ (2,704,539)</u>	<u>\$ (1,993,679)</u>

Actuarial Assumptions - The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expenses, including inflation
- (3) Derived using CalPERS' membership data for all funds

City of Pacific Grove
Notes to the Basic Financial Statements
June 30, 2016

Discount Rate - The discount rate used to measure the total pension liability was 7.50 percent for the Plans. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plans, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website. According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year.

CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach.

Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

City of Pacific Grove
Notes to the Basic Financial Statements
June 30, 2016

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	<u>100.00%</u>		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount

Rate - The following presents the City's proportionate share of the net pension liability for the Plans, calculated using the discount rate for the Plans, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Miscellaneous	Safety
1% Decrease	6.65%	6.65%
Net Pension Liability	\$16,634,696	\$ 26,642,333
Current Discount Rate	7.65%	7.65%
Net Pension Liability	\$ 9,918,905	\$ 16,616,736
1% Increase	8.65%	8.65%
Net Pension Liability	\$ 4,374,240	\$ 8,395,929

Pension Plan Fiduciary Net Position - Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

City of Pacific Grove
Notes to the Basic Financial Statements
June 30, 2016

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS PLAN

Plan Description

The City of Pacific Grove Retiree Healthcare Plan (Plan) is a single-employer defined benefit healthcare plan administered by the City.

Eligibility and Contribution Requirements

The City participates in the CalPERS 3%@50 Police and Fire pension plans and the 2%@55 Public Agency Miscellaneous Employees pension plan.

Employees hired on or after January 1, 2013 participate in the CalPERS 2.7%@57 Police and Fire pension plans and the 2%@62 Public Agency Miscellaneous Employees pension plan.

Employees are eligible for postretirement medical benefits upon reaching age 50 with a minimum of 5 years of service.

The City contributes the minimum amount provided under Government Code Section 22825 of the Public Employees Medical and Hospital Care Act (\$125 per month in 2016, increasing to \$128 in 2017.) The City also pays an additional \$150 per month for the first five years after retirement, or until age 65 or date of death, whichever is sooner (Police officers require 20 years of service to receive the 5-year benefit.)

Retirees must contribute any premium amounts in excess of the City contributions described above.

Medical Plans

Retirees can enroll in any of the available CalPERS medical plans.

Duration of Benefits

City provided benefits (except for the \$150 supplement described above) continue for the life of the retiree and surviving spouse.

Funding Policy

The City contributes to the OPEB plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit cost (expense) is calculated based on the annual required contribution (ARC) of the employer. The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

City of Pacific Grove
Notes to the Basic Financial Statements
June 30, 2016

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the Plan, and the changes in the City's net OPEB obligation:

Annual required contribution	\$ 438,439
Interest on net OPEB obligation	22,126
Adjustment to annual required contribution	(27,053)
Annual OPEB cost (expense)	433,512
Contributions made	(115,803)
Increase in net OPEB obligation	317,709
Net OPEB obligation - beginning of year	553,143
Net OPEB obligation - end of year	<u>\$ 870,852</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the fiscal year 2016 and the two preceding fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 192,830	48%	\$ 440,427
2015	214,713	48%	553,143
2016	433,512	27%	870,852

Funded Status and Funding Progress

The funded status of the Plan was as follows as of June 30, 2016:

Actuarial accrued liability (AAL)	\$ 5,093,587
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 5,093,587</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Projected covered payroll (active Plan members)	\$ 7,766,371
UAAL as a percentage of covered payroll	66%

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan participants) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing costs between the employer and plan participants to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial

City of Pacific Grove
Notes to the Basic Financial Statements
June 30, 2016

value of assets, consistent with the long-term perspective of the calculations.

For the July 1, 2015, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses) and a 3.25% general inflation assumption. The Medicare medical cost increase rates were 5-8% per year. The initial unfunded actuarial accrued liability was amortized as a level percentage of projected payroll over a fixed 30-year period, of which 22 years remain.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

A. Lawsuits

The City is presently involved in certain matters of litigation that have arisen in the normal course of conducting City business. City management believes, based upon consultation with the City Attorney, that these cases, in the aggregate, are not expected to result in a material adverse financial impact on the City. Additionally, City management believes that the City's insurance programs are sufficient to cover any potential losses should an unfavorable outcome materialize.

B. Federal and State Grant Programs

The City participates in Federal and State grant programs. These programs are audited by the City's independent accountants if required by and in accordance with the provisions of the Federal Single Audit Act Amendments of 1996 and applicable State requirements. For Federal programs, the City did not reach the level of qualifying expenditures during the current fiscal year that would require a single audit. Expenditures which may be disallowed, if any, by the granting agencies, cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

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REQUIRED SUPPLEMENTARY INFORMATION

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City of Pacific Grove
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (GAAP Basis)
General Fund
June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Property taxes	\$ 5,834,000	\$ 5,834,000	\$ 6,107,498	\$ 273,498
Sales and use taxes	3,704,000	3,704,000	3,325,809	(378,191)
Franchise and other taxes	809,000	809,000	995,540	186,540
Transient occupancy taxes	3,831,125	3,855,825	4,875,922	1,020,097
Utility users taxes	1,475,000	1,475,000	1,594,143	119,143
Business license tax	350,000	350,000	313,057	(36,943)
Other taxes	70,000	70,000	146,945	76,945
Intergovernmental revenues	505,000	110,000	229,671	119,671
License, permits and impact fees	413,000	413,000	481,304	68,304
Fines and forfeitures	72,000	72,000	127,740	55,740
Charges for services	1,086,675	1,086,675	1,367,494	280,819
Interest, rents and concessions	159,750	159,750	355,293	195,543
Other revenues	630,400	630,400	893,646	263,246
Total Revenues	18,939,950	18,569,650	20,814,062	2,244,412
EXPENDITURES				
Current:				
General government	2,841,771	2,594,758	2,517,639	77,119
Public safety:				
Police	5,698,885	5,222,350	4,885,990	336,360
Fire	2,734,255	2,677,553	2,642,296	35,257
Public works	2,741,173	2,693,342	2,700,072	(6,730)
Recreation	515,466	485,340	475,567	9,773
Library	916,049	898,041	780,714	117,327
Museum	184,685	184,685	226,953	(42,268)
Community development	1,663,797	1,577,469	1,851,130	(273,661)
Capital outlay	1,016,852	1,071,852	693,171	378,681
Debt service				
Principal retirement	1,168,017	1,168,017	1,168,017	-
Interest and fiscal charges	1,085,587	681,587	824,978	(143,391)
Total Expenditures	20,566,537	19,254,994	18,766,527	488,467
Excess (Deficiency) of Revenues over Expenditures	(1,626,587)	(685,344)	2,047,535	2,732,879
OTHER FINANCING SOURCES (USES)				
Transfers in	474,000	874,000	486,763	(387,237)
Transfers out	(404,221)	(808,221)	(835,512)	(27,291)
Total Other Financing Sources (Uses)	69,779	65,779	(348,749)	(414,528)
Net Change in Fund Balances	(1,556,808)	(619,565)	1,698,786	2,318,351
Fund Balances Beginning	8,223,737	8,223,737	8,223,737	-
Fund Balances Ending	<u>\$ 6,666,929</u>	<u>\$ 7,604,172</u>	<u>\$ 9,922,523</u>	<u>\$ 2,318,351</u>

City of Pacific Grove

Schedule of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual (GAAP Basis)

Housing Fund

June 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
REVENUES				
Intergovernmental revenues	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	136	136
Interest, rents and concessions	-	-	30,562	30,562
Other revenues	20,500	20,500	38,625	18,125
Total Revenues	20,500	20,500	69,323	48,823
EXPENDITURES				
Current:				
Community development	180,176	175,000	72,369	102,631
Total Expenditures	180,176	175,000	72,369	102,631
Excess (Deficiency) of Revenues over Expenditures	(159,676)	(154,500)	(3,046)	151,454
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	41,860	41,860
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	41,860	41,860
Net Change in Fund Balances	(159,676)	(154,500)	38,814	193,314
Fund Balances Beginning	307,049	307,049	307,049	-
Fund Balances Ending	\$ 147,373	\$ 152,549	\$ 345,863	\$ 193,314

City of Pacific Grove

Schedule of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual (GAAP Basis)

CDBG Grant Fund

June 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
REVENUES				
Intergovernmental revenues	\$ -	\$ -	\$ -	\$ -
Interest, rents and concessions	200	200	-	(200)
Other revenues	-	-	4,286	4,286
Total Revenues	<u>200</u>	<u>200</u>	<u>4,286</u>	<u>4,086</u>
EXPENDITURES				
Current:				
Community development	77,913	77,913	43,715	34,198
Total Expenditures	<u>77,913</u>	<u>77,913</u>	<u>43,715</u>	<u>34,198</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(77,713)</u>	<u>(77,713)</u>	<u>(39,429)</u>	<u>38,284</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(77,713)	(77,713)	(39,429)	38,284
Fund Balances Beginning	39,429	39,429	39,429	-
Fund Balances Ending	<u>\$ (38,284)</u>	<u>\$ (38,284)</u>	<u>\$ -</u>	<u>\$ 38,284</u>

City of Pacific Grove
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (GAAP Basis)
2013 CDBG Grant Fund
June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental revenues	\$ 120,000	\$ 120,000	\$ 515,796	\$ 395,796
Interest, rents and concessions	-	-	-	-
Other revenues	-	-	-	-
Total Revenues	<u>120,000</u>	<u>120,000</u>	<u>515,796</u>	<u>395,796</u>
EXPENDITURES				
Current:				
Community development	154,894	154,894	358,830	(203,936)
Total Expenditures	<u>154,894</u>	<u>154,894</u>	<u>358,830</u>	<u>(203,936)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(34,894)</u>	<u>(34,894)</u>	<u>156,966</u>	<u>191,860</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	(41,860)	(41,860)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(41,860)</u>	<u>(41,860)</u>
Net Change in Fund Balances	(34,894)	(34,894)	115,106	150,000
Fund Balances Beginning	<u>(115,106)</u>	<u>(115,106)</u>	<u>(115,106)</u>	<u>-</u>
Fund Balances Ending	<u>\$ (150,000)</u>	<u>\$ (150,000)</u>	<u>\$ -</u>	<u>\$ 150,000</u>

City of Pacific Grove

Schedule of Pension Contributions (GASB 68)

June 30, 2016

	Fiscal Year	
	2016	2015
Miscellaneous Plan		
Contractually Required Contributions (Actuarially Determined)	\$ 287,104	\$ 381,362
Contributions in Relation to Actuarially Determined Contributions	287,104	381,362
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
Covered Employee Payroll	\$ 4,324,343	\$ 3,827,852
Contributions as a Percentage of Covered Payroll	6.64%	9.96%
	2016	2015
Safety Plan		
Contractually Required Contributions (Actuarially Determined)	\$ 476,773	\$ 440,323
Contributions in Relation to Actuarially Determined Contributions	476,773	440,323
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
Covered Employee Payroll	\$ 1,924,292	\$ 1,813,830
Contributions as a Percentage of Covered Payroll	24.78%	24.28%

Notes to Schedule:

Valuation Date: June 30, 2014

Assumptions Used: Entry Age Method used fro Actuarial Cost Method
Level Percentage of Payroll (Closed) Used Amortization Method
3.8 Years Remaining Amortization Period
Inflation Assumed at 2.75%
Investment Rate of Returns set at 7.5%
CalPERS mortality table using 20 years of membership data for all funds

** Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

City of Pacific Grove

Schedule of Proportionate Share of Net Pension Liability (GASB 68) June 30, 2016

	Fiscal Year	
	2016	2015
Miscellaneous Plan		
District's Proportion of Net Pension Liability	0.36155%	0.37974%
District's Proportionate Share of Net Pension Liability	\$ 9,918,905	\$ 9,385,211
District's Covered Employee Payroll	\$ 4,324,343	\$ 3,827,852
District's Proportionate Share of NPL as a % of Covered Employee Payroll	229.37%	245.18%
Plan Fiduciary's Net Position as a % of the TPL	81.69%	82.89%
	2016	2015
Safety Plan		
District's Proportion of Net Pension Liability	0.40328%	0.22078%
District's Proportionate Share of Net Pension Liability	\$ 16,616,736	\$ 13,738,132
District's Covered Employee Payroll	\$ 1,924,292	\$ 1,813,830
District's Proportionate Share of NPL as a % of Covered Employee Payroll	863.52%	757.41%
Plan Fiduciary's Net Position as a % of the TPL	77.49%	81.32%

** Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

City of Pacific Grove
Retiree Healthcare Plan
Schedule of Funding Progress
June 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a/c))
7/1/2009	\$ -	\$ 2,753,014	\$ 2,753,014	0.00%	\$ 8,627,274	31.91%
7/1/2012	\$ -	\$ 2,676,969	\$ 2,676,969	0.00%	\$ 7,521,909	35.59%
7/1/2015	\$ -	\$ 5,093,587	\$ 5,093,587	0.00%	\$ 7,766,371	65.59%

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SUPPLEMENTARY INFORMATION

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COMBINING SCHEDULES - GENERAL FUND

Fund Title	Fund Description
GENERAL FUND	The General Fund is the general operating fund of the City. It is used for all financial resources except those required legally, or by sound financial management to be accounted for in another fund. Generally, the General Fund is used to account for those traditional governmental services of the City, such as police and fire protection, planning and general administrative services. The City utilized multiple sub-funds within the General Fund to account for various types of transactions.

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City of Pacific Grove**Combining Balance Sheet****General Fund****June 30, 2016**

	General Operating Fund	Consolidated Investment Fund	Hyperbaric Chamber Fund
ASSETS			
Cash and investments	\$ 7,784,915	\$ (12,336)	\$ 30,396
Receivables:			
Taxes	1,418,428	-	-
Accounts	137,340	-	-
Due from other governments	40,322	-	-
Interest	-	12,336	-
Due from other funds	728,917	-	-
Other assets	27,904	-	-
Total assets	10,137,826	-	30,396
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	819,846	-	794
Payroll related liabilities	251,233	-	-
Deposits and other liabilities	16,470	-	-
Unearned revenues	24,576	-	-
Total liabilities	1,112,125	-	794
Fund Balances:			
Nonspendable			
Prepaid assets	27,904	-	-
Restricted:			
Social service programs	-	-	-
Unassigned	8,997,797	-	29,602
Total fund balances	9,025,701	-	29,602
Total liabilities and fund balances	\$ 10,137,826	\$ -	\$ 30,396

Cont'd

City of Pacific Grove**Combining Balance Sheet****General Fund****June 30, 2016**

	Civic Center Fund	People's Desalinization Project Fund	Drug Awareness Fund
ASSETS			
Cash and investments	\$ 159,601	\$ -	\$ 12,526
Receivables:			
Taxes	-	-	-
Accounts	-	-	-
Due from other governments	-	-	-
Interest	-	-	-
Due from other funds	-	-	-
Other assets	-	-	-
Total assets	159,601	-	12,526
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	100	-	-
Payroll related liabilities	-	-	-
Deposits and other liabilities	-	-	-
Unearned revenues	-	-	-
Total liabilities	100	-	-
Fund Balances:			
Nonspendable			
Prepaid assets	-	-	-
Restricted:			
Social service programs	159,501	-	12,526
Unassigned	-	-	-
Total fund balances	159,501	-	12,526
Total liabilities and fund balances	\$ 159,601	\$ -	\$ 12,526

Cont'd

City of Pacific Grove

Combining Balance Sheet

General Fund

June 30, 2016

	Asset Seizure Fund	Lovers Point Fund	Recreation Donation Fund	Operating Donation Fund
ASSETS				
Cash and investments	\$ 2,784	\$ 57,954	\$ 31,790	\$ 273,366
Receivables:				
Taxes	-	-	-	-
Accounts	-	-	-	-
Due from other governments	-	-	-	-
Interest	-	-	-	-
Due from other funds	-	-	-	-
Other assets	-	-	-	-
Total assets	2,784	57,954	31,790	273,366
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	-	-	-	-
Payroll related liabilities	-	-	-	-
Deposits and other liabilities	-	-	-	-
Unearned revenues	-	-	-	-
Total liabilities	-	-	-	-
Fund Balances:				
Nonspendable				
Prepaid assets	-	-	-	-
Restricted:				
Social service programs	-	57,954	31,790	-
Unassigned	2,784	-	-	273,366
Total fund balances	2,784	57,954	31,790	273,366
Total liabilities and fund balances	\$ 2,784	\$ 57,954	\$ 31,790	\$ 273,366

Cont'd

City of Pacific Grove**Combining Balance Sheet****General Fund****June 30, 2016**

	Vehicle Replacement Fund	Storm Water Fund	Koo Donation Fund	Total General Fund
ASSETS				
Cash and investments	\$ -	\$ -	\$ 352,603	\$ 8,693,599
Receivables:				
Taxes	-	-	-	1,418,428
Accounts	-	-	-	137,340
Due from other governments	-	-	-	40,322
Interest	-	-	-	12,336
Due from other funds	-	-	-	728,917
Other assets	-	-	-	27,904
Total assets	-	-	352,603	11,058,846
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	-	-	23,304	844,044
Payroll related liabilities	-	-	-	251,233
Deposits and other liabilities	-	-	-	16,470
Unearned revenues	-	-	-	24,576
Total liabilities	-	-	23,304	1,136,323
Fund Balances:				
Nonspendable				
Prepaid assets	-	-	-	27,904
Restricted:				
Social service programs	-	-	-	261,771
Unassigned	-	-	329,299	9,632,848
Total fund balances	-	-	329,299	9,922,523
Total liabilities and fund balances	\$ -	\$ -	\$ 352,603	\$ 11,058,846

Concluded

City of Pacific Grove

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

General Fund

June 30, 2016

	General Operating Fund	Consolidated Investment Fund	Hyperbaric Chamber Fund
REVENUES			
Taxes:			
Property taxes	\$ 6,107,498	\$ -	\$ -
Sales and use taxes	3,325,809	-	-
Franchise and other taxes	995,540	-	-
Transient occupancy taxes	4,875,922	-	-
Utility users taxes	1,594,143	-	-
Business license tax	313,057	-	-
Other taxes	146,945	-	-
Intergovernmental revenues	229,671	-	-
License and permits	481,304	-	-
Fines and forfeitures	127,740	-	-
Charges for services	1,367,494	-	-
Interest, rents and concessions	272,533	54,066	364
Other revenues	652,402	-	14,684
Total Revenues	20,490,058	54,066	15,048
EXPENDITURES			
Current:			
General government	2,477,045	-	-
Public safety:			
Police	4,880,234	-	-
Fire	2,628,573	-	13,723
Public works	2,468,515	-	-
Recreation	475,190	-	-
Library	780,714	-	-
Museum	226,953	-	-
Community development	1,851,130	-	-
Capital outlay	531,820	130,844	-
Debt service			
Principal	1,119,620	-	-
Interest and fiscal charges	823,098	-	-
Total Expenditures	18,262,892	130,844	13,723
Excess (Deficiency) of Revenues over Expenditures	2,227,166	(76,778)	1,325
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	(797,621)	-	-
Total Other Financing Sources (Uses)	(797,621)	-	-
Net Change in Fund Balances	1,429,545	(76,778)	1,325
Fund Balances Beginning	7,596,156	76,778	28,277
Fund Balances Ending	\$ 9,025,701	\$ -	\$ 29,602

Cont'd

City of Pacific Grove

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

General Fund

June 30, 2016

	Civic Center Fund	People's Desalinization Project Fund	Drug Awareness Fund
REVENUES			
Taxes:			
Property taxes	\$ -	\$ -	\$ -
Sales and use taxes	-	-	-
Franchise and other taxes	-	-	-
Transient occupancy taxes	-	-	-
Utility users taxes	-	-	-
Business license tax	-	-	-
Other taxes	-	-	-
Intergovernmental revenues	-	-	-
License and permits	-	-	-
Fines and forfeitures	-	-	-
Charges for services	-	-	-
Interest, rents and concessions	19,708	-	159
Other revenues	-	-	2,000
Total Revenues	19,708	-	2,159
EXPENDITURES			
Current:			
General government	594	-	-
Public safety:			
Police	-	-	5,756
Fire	-	-	-
Public works	-	-	-
Recreation	-	-	-
Library	-	-	-
Museum	-	-	-
Community development	-	-	-
Capital outlay	-	-	-
Debt service			
Principal	-	-	-
Interest and fiscal charges	-	-	-
Total Expenditures	594	-	5,756
Excess (Deficiency) of Revenues over Expenditures	19,114	-	(3,597)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	37,891	-
Transfers out	-	-	-
Total Other Financing Sources (Uses)	-	37,891	-
Net Change in Fund Balances	19,114	37,891	(3,597)
Fund Balances Beginning	140,387	(37,891)	16,123
Fund Balances Ending	\$ 159,501	\$ -	\$ 12,526

Cont'd

City of Pacific Grove

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

General Fund

June 30, 2016

	Asset Seizure Fund	Lovers Point Fund	Recreation Donation Fund	Operating Donation Fund
REVENUES				
Taxes:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Sales and use taxes	-	-	-	-
Franchise and other taxes	-	-	-	-
Transient occupancy taxes	-	-	-	-
Utility users taxes	-	-	-	-
Business license tax	-	-	-	-
Other taxes	-	-	-	-
Intergovernmental revenues	-	-	-	-
License and permits	-	-	-	-
Fines and forfeitures	-	-	-	-
Charges for services	-	-	-	-
Interest, rents and concessions	21	644	349	2,527
Other revenues	1,084	-	4,716	211,653
Total Revenues	1,105	644	5,065	214,180
EXPENDITURES				
Current:				
General government	-	-	-	40,000
Public safety:				
Police	-	-	-	-
Fire	-	-	-	-
Public works	-	-	-	-
Recreation	-	-	377	-
Library	-	-	-	-
Museum	-	-	-	-
Community development	-	-	-	-
Capital outlay	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total Expenditures	-	-	377	40,000
Excess (Deficiency) of Revenues over Expenditures	1,105	644	4,688	174,180
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	1,105	644	4,688	174,180
Fund Balances Beginning	1,679	57,310	27,102	99,186
Fund Balances Ending	\$ 2,784	\$ 57,954	\$ 31,790	\$ 273,366

Cont'd

City of Pacific Grove

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

General Fund

June 30, 2016

	Vehicle Replacement Fund	Storm Water Fund	Koo Donation Fund	Total General Fund
REVENUES				
Taxes:				
Property taxes	\$ -	\$ -	\$ -	\$ 6,107,498
Sales and use taxes	-	-	-	3,325,809
Franchise and other taxes	-	-	-	995,540
Transient occupancy taxes	-	-	-	4,875,922
Utility users taxes	-	-	-	1,594,143
Business license tax	-	-	-	313,057
Other taxes	-	-	-	146,945
Intergovernmental revenues	-	-	-	229,671
License and permits	-	-	-	481,304
Fines and forfeitures	-	-	-	127,740
Charges for services	-	-	-	1,367,494
Interest, rents and concessions	-	956	3,966	355,293
Other revenues	-	-	7,107	893,646
Total Revenues	-	956	11,073	20,814,062
EXPENDITURES				
Current:				
General government	-	-	-	2,517,639
Public safety:				
Police	-	-	-	4,885,990
Fire	-	-	-	2,642,296
Public works	-	231,557	-	2,700,072
Recreation	-	-	-	475,567
Library	-	-	-	780,714
Museum	-	-	-	226,953
Community development	-	-	-	1,851,130
Capital outlay	-	-	30,507	693,171
Debt service				
Principal	48,397	-	-	1,168,017
Interest and fiscal charges	1,880	-	-	824,978
Total Expenditures	50,277	231,557	30,507	18,766,527
Excess (Deficiency) of Revenues over Expenditures	(50,277)	(230,601)	(19,434)	2,047,535
OTHER FINANCING SOURCES (USES)				
Transfers in	50,277	398,595	-	486,763
Transfers out	-	(37,891)	-	(835,512)
Total Other Financing Sources (Uses)	50,277	360,704	-	(348,749)
Net Change in Fund Balances	-	130,103	(19,434)	1,698,786
Fund Balances Beginning	-	(130,103)	348,733	8,223,737
Fund Balances Ending	\$ -	\$ -	\$ 329,299	\$ 9,922,523

Concluded

COMBINING NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

(See Page 95)

DEBT SERVICE FUNDS

Fund Title	Fund Description
BUTTERFLY HABITAT BOND FUND	This fund accounts for payment of City bonds issued for the purchase of the properly known as the Butterfly Habitat.

CAPITAL PROJECTS FUNDS

Fund Title	Fund Description
BUILDING AND FACILITIES IMPROVEMENT FUND	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.

PERMANENT FUNDS

(See Page 111)

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City of Pacific Grove
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2016

		Debt Service	Capital Projects		
	Total Special Revenue Funds	Butterfly Habitat Bond Fund	Building Facilities & Improvement Fund	Total Permanent Funds	Total Nonmajor Governmental Funds
ASSETS					
Cash and investments	\$ 2,507,074	\$ 90,746	\$ 542,508	\$ 2,761,263	\$ 5,901,591
Receivables:					
Taxes	68,283	-	-	-	68,283
Accounts	282,469	-	-	-	282,469
Loans receivable	265,285	-	-	-	265,285
Total assets	\$ 3,123,111	\$ 90,746	\$ 542,508	\$ 2,761,263	\$ 6,517,628
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 679,971	\$ -	\$ 11,491	\$ -	\$ 691,462
Payroll related liabilities	5,452	-	-	-	5,452
Due to other funds	-	-	-	-	-
Unearned revenues	265,285	-	-	-	265,285
Total liabilities	950,708	-	11,491	-	962,199
Fund Balances:					
Nonspendable					
Permanent Funds	-	-	-	2,761,263	2,761,263
Restricted:					
Social service programs	276,159	-	-	-	276,159
Public safety	482,400	-	-	-	482,400
Community development	1,255,509	-	531,017	-	1,786,526
Street improvements	570	-	-	-	570
Debt service	-	90,746	-	-	90,746
Unassigned	157,765	-	-	-	157,765
Total fund balances	2,172,403	90,746	531,017	2,761,263	5,555,429
Total liabilities and fund balances	\$ 3,123,111	\$ 90,746	\$ 542,508	\$ 2,761,263	\$ 6,517,628

City of Pacific Grove
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
June 30, 2016

		Debt Service	Capital Projects		
	Total Special Revenue Funds	Butterfly Habitat Bond Fund	Building Facilities & Improvement Fund	Total Permanent Funds	Total Nonmajor Governmental Funds
REVENUES					
Taxes:					
Property taxes	\$ -	\$ 118,769	\$ -	\$ -	\$ 118,769
Franchise and other taxes	46,113	-	-	-	46,113
Transient occupancy taxes	488,395	-	-	-	488,395
Business license tax	28,014	-	-	-	28,014
Intergovernmental revenues	1,383,599	-	-	-	1,383,599
Charges for services	-	-	-	87,306	87,306
Interest, rents and concessions	41,849	540	6,271	33,109	81,769
Other revenues	244,659	-	-	-	244,659
Total Revenues	2,232,629	119,309	6,271	120,415	2,478,624
EXPENDITURES					
Current:					
General government	4,872	137	-	170	5,179
Public safety:					
Police	459,451	-	-	-	459,451
Fire	5,508	-	-	-	5,508
Public works	598,088	-	-	-	598,088
Recreation	40,919	-	-	-	40,919
Library	561	-	-	-	561
Museum	2,100	-	-	-	2,100
Community development	932,049	-	-	-	932,049
Capital outlay	415,922	-	39,067	-	454,989
Debt service					
Principal	-	82,382	-	-	82,382
Interest and fiscal charges	-	9,623	-	-	9,623
Total Expenditures	2,459,470	92,142	39,067	170	2,590,849
Excess (Deficiency) of Revenues over Expenditures	(226,841)	27,167	(32,796)	120,245	(112,225)
OTHER FINANCING SOURCES (USES)					
Transfers in	378,164	-	-	-	378,164
Transfers out	(21,481)	-	-	(2,633)	(24,114)
Total Other Financing Sources (Uses)	356,683	-	-	(2,633)	354,050
Net Change in Fund Balances	129,842	27,167	(32,796)	117,612	241,825
Fund Balances Beginning	2,042,561	63,579	563,813	2,643,651	5,313,604
Fund Balances Ending	<u>\$ 2,172,403</u>	<u>\$ 90,746</u>	<u>\$ 531,017</u>	<u>\$ 2,761,263</u>	<u>\$ 5,555,429</u>

NONMAJOR SPECIAL REVENUE FUNDS

Fund Title	Fund Description
CARILLON FUND	This fund is for donations designated for the maintenance of the tower clock and chimes system at City Hall.
ENVIRONMENTAL ENHANCEMENT	This fund accounts for revenues associated with Coastal Area Planning grants, coastal area land use, and Environmental Impact Report deposit funds.
STATE FRANCHISE PEG	This fund is for the deposit of funds received from the City's cable franchisee to fund Public, Educational and Governmental programming on local Public Access television and equipment expenditures to aid in broadcasting per the terms of the Digital Infrastructure and Video Competition Act of 2006.
LIBRARY BLDG & EQUIP FUND	This fund is for donations designated for improvements to the City Library.
MUSEUM IMPROVEMENT FUND	This fund is for donations designated for improvements to the Museum facility.
DOWNTOWN BUSINESS DISTRIC	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 IMPRVMT DIST.	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 FUND	This fund accounts for donations designated for the purchase of books for the City Library.
FIRE EMERG EQUIP FUND	This fund accounts for grants, fees and donations in support of Fire Department safety programs.
TRAFFIC CONG RELIEF FUND	This fund accounts for the expenditures of traffic congestion monies received.
GAS TAX FUND	This fund accounts for the expenditures of State Gas Tax monies received.
CHAUTAUQUA HALL FUND	This fund accounts for revenues designated for the maintenance and improvement of the historic Chautauqua Hall building.
LIGHTHOUSE MAINT. & IMPV.	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 FUND	This fund accounts for senior housing activities.
CALHOME REUSE ACCOUNT	This fund accounts for the deposit of revenue received from the repayment of CalHOME Housing rehabilitation loans.
2013 CDBG GRANT FUND	This fund accounts for grants and revolving loan funds used in the City's Housing Rehabilitation Loan Program managed by the Community Development Department.
CLEAN BEACHES FUND	This fund accounts for expenditures of grant revenues related to poor water quality and significant bacterial indicators on California beaches.
GREENING GRANT FUND	This fund accounts for grant proceeds and expenditures related to greening projects and plans that reduce energy consumption, conserve water, improve air and water quality, in addition to other community benefits.
POETRY PROMOTION FUND	This fund accounts for the income from a bequest to the City designated for the promotion of poetry in the community.
YOUNT INCOME FUND	This fund accounts for income from the expendable portion of the Yount Trust.
PUB SAFETY AUG FUND	This fund accounts for revenue resulting from the passage of Proposition 172, designated for Public Safety related programs.
SLESF FUND	This fund accounts for grants designated for the improvement of the law enforcement program.
VEHICLE ABANDONMENT	This fund accounts for the expenditures related to vehicle abandonment.
STRONG FUND DISBURSEMENTS	This fund accounts for the expenditures of interest earned from the Stong endowment.
ASBS GRANT FUND	This fund accounts for grants from the State Water Resources Control Board and expenditures related to discharge prohibition in and around the ocean.
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.

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City of Pacific Grove

Combining Balance Sheet

Special Revenue Nonmajor Governmental Funds

June 30, 2016

	Carillion Fund	Environmental Enhancement Fund	State Franchise PEG Fund	Library Building & Equipment Fund
ASSETS				
Cash and investments	\$ 9,455	\$ 159,628	\$ 344,122	\$ 42,516
Receivables:				
Taxes	-	-	14,248	-
Accounts	-	-	-	-
Loans receivable	-	-	-	-
Total assets	\$ 9,455	\$ 159,628	\$ 358,370	\$ 42,516
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ 1,863	\$ -	\$ -
Payroll related liabilities	-	-	-	-
Due to other funds	-	-	-	-
Unearned revenues	-	-	-	-
Total liabilities	-	1,863	-	-
Fund Balances:				
Restricted:				
Social service programs	-	-	-	-
Public safety	-	-	-	-
Community development	9,455	-	358,370	42,516
Street improvements	-	-	-	-
Unassigned	-	157,765	-	-
Total fund balances	9,455	157,765	358,370	42,516
Total liabilities and fund balances	\$ 9,455	\$ 159,628	\$ 358,370	\$ 42,516

Cont'd

City of Pacific Grove

Combining Balance Sheet

Special Revenue Nonmajor Governmental Fund

June 30, 2016

	Museum Improvement Fund	Downtown Business District Fund	Hospitality Improvement District Fund	Library Book Fund
ASSETS				
Cash and investments	\$ 470,164	\$ 1,957	\$ 83,509	\$ 14,302
Receivables:				
Taxes	-	-	45,702	-
Accounts	-	-	-	-
Loans receivable	-	-	-	-
Total assets	\$ 470,164	\$ 1,957	\$ 129,211	\$ 14,302
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ 164	\$ 127,132	\$ 3,913
Payroll related liabilities	-	-	-	-
Due to other funds	-	-	-	-
Unearned revenues	-	-	-	-
Total liabilities	-	164	127,132	3,913
Fund Balances:				
Restricted:				
Social service programs	-	-	-	10,389
Public safety	-	-	-	-
Community development	470,164	1,793	2,079	-
Street improvements	-	-	-	-
Unassigned	-	-	-	-
Total fund balances	470,164	1,793	2,079	10,389
Total liabilities and fund balances	\$ 470,164	\$ 1,957	\$ 129,211	\$ 14,302

Cont'd

City of Pacific Grove

Combining Balance Sheet

Special Revenue Nonmajor Governmental Fund

June 30, 2016

	Fire Emergency Equipment Fund	Traffic Congestion Relief Fund	Gas Tax Fund	Chautauqua Hall Fund
ASSETS				
Cash and investments	\$ 159,104	\$ -	\$ 36,026	\$ 24,021
Receivables:				
Taxes	-	-	-	-
Accounts	-	-	-	-
Loans receivable	-	-	-	-
Total assets	\$ 159,104	\$ -	\$ 36,026	\$ 24,021
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ 30,110	\$ -
Payroll related liabilities	-	-	5,346	-
Due to other funds	-	-	-	-
Unearned revenues	-	-	-	-
Total liabilities	-	-	35,456	-
Fund Balances:				
Restricted:				
Social service programs	-	-	-	-
Public safety	159,104	-	-	-
Community development	-	-	-	24,021
Street improvements	-	-	570	-
Unassigned	-	-	-	-
Total fund balances	159,104	-	570	24,021
Total liabilities and fund balances	\$ 159,104	\$ -	\$ 36,026	\$ 24,021

Cont'd

City of Pacific Grove

Combining Balance Sheet

Special Revenue Nonmajor Governmental Fund

June 30, 2016

	Lighthouse Maintenance & Improvement Fund	Senior Housing Fund	CalHome Reuse Fund	Clean Beaches Fund
ASSETS				
Cash and investments	\$ 82,907	\$ 9,831	\$ 192,970	\$ 5,491
Receivables:				
Taxes	-	-	-	-
Accounts	-	-	-	133,473
Loans receivable	-	-	265,285	-
Total assets	\$ 82,907	\$ 9,831	\$ 458,255	\$ 138,964
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 2,284	\$ -	\$ -	\$ 138,964
Payroll related liabilities	-	-	-	-
Due to other funds	-	-	-	-
Unearned revenues	-	-	265,285	-
Total liabilities	2,284	-	265,285	138,964
Fund Balances:				
Restricted:				
Social service programs	-	9,831	192,970	-
Public safety	-	-	-	-
Community development	80,623	-	-	-
Street improvements	-	-	-	-
Unassigned	-	-	-	-
Total fund balances	80,623	9,831	192,970	-
Total liabilities and fund balances	\$ 82,907	\$ 9,831	\$ 458,255	\$ 138,964

Cont'd

City of Pacific Grove

Combining Balance Sheet

Special Revenue Nonmajor Governmental Fund

June 30, 2016

	Greening Grant Fund	Poetry Promotion Fund	Yount Income Fund	Public Safety Augmentation Fund
ASSETS				
Cash and investments	\$ (21,888)	\$ 63,054	\$ 87,649	\$ 597,845
Receivables:				
Taxes	-	-	-	-
Accounts	31,995	-	-	20,237
Loans receivable	-	-	-	-
Total assets	\$ 10,107	\$ 63,054	\$ 87,649	\$ 618,082
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 10,107	\$ 85	\$ -	\$ 363,070
Payroll related liabilities	-	-	106	-
Due to other funds	-	-	-	-
Unearned revenues	-	-	-	-
Total liabilities	10,107	85	106	363,070
Fund Balances:				
Restricted:				
Social service programs	-	62,969	-	-
Public safety	-	-	-	255,012
Community development	-	-	87,543	-
Street improvements	-	-	-	-
Unassigned	-	-	-	-
Total fund balances	-	62,969	87,543	255,012
Total liabilities and fund balances	\$ 10,107	\$ 63,054	\$ 87,649	\$ 618,082

Cont'd

City of Pacific Grove

Combining Balance Sheet

Special Revenue Nonmajor Governmental Fund

June 30, 2016

	Supplement Law Enforcement Fund	Vehicle Abandonment Fund	Strong Disbursements Fund
ASSETS			
Cash and investments	\$ 51,618	\$ -	\$ 77,887
Receivables:			
Taxes	8,333	-	-
Accounts	8,333	-	-
Loans receivable	-	-	-
Total assets	\$ 68,284	\$ -	\$ 77,887
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Payroll related liabilities	-	-	-
Due to other funds	-	-	-
Unearned revenues	-	-	-
Total liabilities	-	-	-
Fund Balances:			
Restricted:			
Social service programs	-	-	-
Public safety	68,284	-	-
Community development	-	-	77,887
Street improvements	-	-	-
Unassigned	-	-	-
Total fund balances	68,284	-	77,887
Total liabilities and fund balances	\$ 68,284	\$ -	\$ 77,887

Cont'd

City of Pacific Grove

Combining Balance Sheet

Special Revenue Nonmajor Governmental Fund

June 30, 2016

	ASBS Grant Fund	McIndoo Donation Fund	Total Special Revenue Nonmajor Governmental Funds
ASSETS			
Cash and investments	\$ (86,152)	\$ 101,058	\$ 2,507,074
Receivables:			
Taxes	-	-	68,283
Accounts	88,431	-	282,469
Loans receivable	-	-	265,285
Total assets	\$ 2,279	\$ 101,058	\$ 3,123,111
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 2,279	\$ -	\$ 679,971
Payroll related liabilities	-	-	5,452
Due to other funds	-	-	-
Unearned revenues	-	-	265,285
Total liabilities	2,279	-	950,708
Fund Balances:			
Restricted:			
Social service programs	-	-	276,159
Public safety	-	-	482,400
Community development	-	101,058	1,255,509
Street improvements	-	-	570
Unassigned	-	-	157,765
Total fund balances	-	101,058	2,172,403
Total liabilities and fund balances	\$ 2,279	\$ 101,058	\$ 3,123,111

Concluded

City of Pacific Grove

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Special Revenue Nonmajor Governmental Funds

June 30, 2016

	Carillion Fund	Environmental Enhancement Fund	State Franchise PEG Fund	Library Building & Equipment Fund
REVENUES				
Taxes:				
Franchise and other taxes	\$ -	\$ -	\$ 46,113	\$ -
Transient occupancy taxes	-	-	-	-
Business license tax	-	-	-	-
Intergovernmental revenues	-	-	-	20,000
Interest, rents and concessions	105	1,809	3,856	391
Other revenues	-	2,706	-	-
Total Revenues	<u>105</u>	<u>4,515</u>	<u>49,969</u>	<u>20,391</u>
EXPENDITURES				
Current:				
General government	-	-	4,872	-
Public safety:				
Police	-	-	-	-
Fire	-	-	-	-
Public works	-	-	-	-
Recreation	-	-	-	-
Library	-	-	-	-
Museum	-	-	-	-
Community development	-	8,314	44,338	-
Capital outlay	-	-	-	-
Total Expenditures	<u>-</u>	<u>8,314</u>	<u>49,210</u>	<u>-</u>
Excess (Deficiency) of Revenues over Expenditures	<u>105</u>	<u>(3,799)</u>	<u>759</u>	<u>20,391</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	105	(3,799)	759	20,391
Fund Balances Beginning	<u>9,350</u>	<u>161,564</u>	<u>357,611</u>	<u>22,125</u>
Fund Balances Ending	<u>\$ 9,455</u>	<u>\$ 157,765</u>	<u>\$ 358,370</u>	<u>\$ 42,516</u>

Cont'd

City of Pacific Grove

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Special Revenue Nonmajor Governmental Funds

June 30, 2016

	Museum Improvement Fund	Downtown Business District Fund	Hospitality Improvement District Fund	Library Book Fund
REVENUES				
Taxes:				
Franchise and other taxes	\$ -	\$ -	\$ -	\$ -
Transient occupancy taxes	-	-	488,395	-
Business license tax	-	28,014	-	-
Intergovernmental revenues	-	-	-	-
Interest, rents and concessions	5,204	44	1,056	165
Other revenues	3,998	-	-	34,715
Total Revenues	<u>9,202</u>	<u>28,058</u>	<u>489,451</u>	<u>34,880</u>
EXPENDITURES				
Current:				
General government	-	-	-	-
Public safety:				
Police	-	-	-	-
Fire	-	-	-	-
Public works	-	-	-	-
Recreation	-	-	-	-
Library	-	-	-	-
Museum	2,100	-	-	-
Community development	-	29,952	545,148	64,491
Capital outlay	-	-	-	-
Total Expenditures	<u>2,100</u>	<u>29,952</u>	<u>545,148</u>	<u>64,491</u>
Excess (Deficiency) of Revenues over Expenditures	<u>7,102</u>	<u>(1,894)</u>	<u>(55,697)</u>	<u>(29,611)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	45,386
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,386</u>
Net Change in Fund Balances	7,102	(1,894)	(55,697)	15,775
Fund Balances Beginning	<u>463,062</u>	<u>3,687</u>	<u>57,776</u>	<u>(5,386)</u>
Fund Balances Ending	<u>\$ 470,164</u>	<u>\$ 1,793</u>	<u>\$ 2,079</u>	<u>\$ 10,389</u>

Cont'd

City of Pacific Grove

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Special Revenue Nonmajor Governmental Funds

June 30, 2016

	Fire Emergency Equipment Fund	Traffic Congestion Relief Fund	Gas Tax Fund	Chautauqua Hall Fund
REVENUES				
Taxes:				
Franchise and other taxes	\$ -	\$ -	\$ -	\$ -
Transient occupancy taxes	-	-	-	-
Business license tax	-	-	-	-
Intergovernmental revenues	-	-	323,451	-
Interest, rents and concessions	1,777	-	1,190	256
Other revenues	19,235	-	196	4,630
Total Revenues	21,012	-	324,837	4,886
EXPENDITURES				
Current:				
General government	-	-	-	-
Public safety:				
Police	-	-	-	-
Fire	5,508	-	-	-
Public works	-	-	223,637	-
Recreation	-	-	-	3,000
Library	-	-	-	-
Museum	-	-	-	-
Community development	-	-	-	-
Capital outlay	-	-	275,874	-
Total Expenditures	5,508	-	499,511	3,000
Excess (Deficiency) of Revenues over Expenditures	15,504	-	(174,674)	1,886
OTHER FINANCING SOURCES (USES)				
Transfers in	-	8,223	-	-
Transfers out	-	-	(8,223)	-
Total Other Financing Sources (Uses)	-	8,223	(8,223)	-
Net Change in Fund Balances	15,504	8,223	(182,897)	1,886
Fund Balances Beginning	143,600	(8,223)	183,467	22,135
Fund Balances Ending	\$ 159,104	\$ -	\$ 570	\$ 24,021

Cont'd

City of Pacific Grove

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Special Revenue Nonmajor Governmental Funds

June 30, 2016

	Lighthouse Maintenance & Improvement Fund	Senior Housing Fund	CalHome Reuse Fund	Clean Beaches Fund
REVENUES				
Taxes:				
Franchise and other taxes	\$ -	\$ -	\$ -	\$ -
Transient occupancy taxes	-	-	-	-
Business license tax	-	-	-	-
Intergovernmental revenues	-	-	-	268,548
Interest, rents and concessions	963	110	9,902	-
Other revenues	40,177	-	94,097	-
Total Revenues	41,140	110	103,999	268,548
EXPENDITURES				
Current:				
General government	-	-	-	-
Public safety:				
Police	-	-	-	-
Fire	-	-	-	-
Public works	-	-	-	-
Recreation	37,919	-	-	-
Library	-	-	-	-
Museum	-	-	-	-
Community development	-	-	-	142,404
Capital outlay	-	-	-	131,445
Total Expenditures	37,919	-	-	273,849
Excess (Deficiency) of Revenues over Expenditures	3,221	110	103,999	(5,301)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	18,559
Transfers out	-	-	-	(13,258)
Total Other Financing Sources (Uses)	-	-	-	5,301
Net Change in Fund Balances	3,221	110	103,999	-
Fund Balances Beginning	77,402	9,721	88,971	-
Fund Balances Ending	\$ 80,623	\$ 9,831	\$ 192,970	\$ -

Cont'd

City of Pacific Grove

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Special Revenue Nonmajor Governmental Funds

June 30, 2016

	Greening Grant Fund	Poetry Promotion Fund	Yount Income Fund	Public Safety Augmentation Fund
REVENUES				
Taxes:				
Franchise and other taxes	\$ -	\$ -	\$ -	\$ -
Transient occupancy taxes	-	-	-	-
Business license tax	-	-	-	-
Intergovernmental revenues	97,402	-	-	132,406
Interest, rents and concessions	-	700	7,761	6,560
Other revenues	-	115	-	-
Total Revenues	97,402	815	7,761	138,966
EXPENDITURES				
Current:				
General government	-	-	-	-
Public safety:				
Police	-	-	-	420,407
Fire	-	-	-	-
Public works	-	-	4,949	-
Recreation	-	-	-	-
Library	-	561	-	-
Museum	-	-	-	-
Community development	97,402	-	-	-
Capital outlay	-	-	-	-
Total Expenditures	97,402	561	4,949	420,407
Excess (Deficiency) of Revenues over Expenditures	-	254	2,812	(281,441)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	2,633	303,000
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	2,633	303,000
Net Change in Fund Balances	-	254	5,445	21,559
Fund Balances Beginning	-	62,715	82,098	233,453
Fund Balances Ending	\$ -	\$ 62,969	\$ 87,543	\$ 255,012

Cont'd

City of Pacific Grove

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Special Revenue Nonmajor Governmental Funds

June 30, 2016

	Supplement Law Enforcement Fund	Vehicle Abandonment Fund	Strong Disbursements Fund
REVENUES			
Taxes:			
Franchise and other taxes	\$ -	\$ -	\$ -
Transient occupancy taxes	-	-	-
Business license tax	-	-	-
Intergovernmental revenues	172,290	-	-
Interest, rents and concessions	-	-	-
Other revenues	182	-	43,501
Total Revenues	172,472	-	43,501
EXPENDITURES			
Current:			
General government	-	-	-
Public safety:			
Police	39,044	-	-
Fire	-	-	-
Public works	-	-	-
Recreation	-	-	-
Library	-	-	-
Museum	-	-	-
Community development	-	-	-
Capital outlay	-	-	8,603
Total Expenditures	39,044	-	8,603
Excess (Deficiency) of Revenues over Expenditures	133,428	-	34,898
OTHER FINANCING SOURCES (USES)			
Transfers in	-	363	-
Transfers out	-	-	-
Total Other Financing Sources (Uses)	-	363	-
Net Change in Fund Balances	133,428	363	34,898
Fund Balances Beginning	(65,144)	(363)	42,989
Fund Balances Ending	\$ 68,284	\$ -	\$ 77,887

Cont'd

City of Pacific Grove

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Special Revenue Nonmajor Governmental Funds

June 30, 2016

	ASBS Grant Fund	McIndoo Donation Fund	Total Special Revenue Nonmajor Governmental Funds
REVENUES			
Taxes:			
Franchise and other taxes	\$ -	\$ -	\$ 46,113
Transient occupancy taxes	-	-	488,395
Business license tax	-	-	28,014
Intergovernmental revenues	369,502	-	1,383,599
Interest, rents and concessions	-	-	41,849
Other revenues	-	1,107	244,659
Total Revenues	369,502	1,107	2,232,629
EXPENDITURES			
Current:			
General government	-	-	4,872
Public safety:			
Police	-	-	459,451
Fire	-	-	5,508
Public works	369,502	-	598,088
Recreation	-	-	40,919
Library	-	-	561
Museum	-	-	2,100
Community development	-	-	932,049
Capital outlay	-	-	415,922
Total Expenditures	369,502	-	2,459,470
Excess (Deficiency) of Revenues over Expenditures	-	1,107	(226,841)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	378,164
Transfers out	-	-	(21,481)
Total Other Financing Sources (Uses)	-	-	356,683
Net Change in Fund Balances	-	1,107	129,842
Fund Balances Beginning	-	99,951	2,042,561
Fund Balances Ending	\$ -	\$ 101,058	\$ 2,172,403
			Concluded

NONMAJOR PERMANENT FUNDS

Fund Title	Fund Description
LIBRARY ENDOWMENT TRUST FUND	This fund was established to finance the purchase of additional books and materials for the library.
CEMETERY ENDOWMENT FUND	This fund accounts for "Endowment Care" revenues received in trust for the care of decedents' graves.
YOUNT TRUST FUND	This fund was 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.

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City of Pacific Grove
Combining Balance Sheet
Permanent Nonmajor Governmental Funds
June 30, 2016

	Library Endowment Trust Fund	Cemetery Endowment Trust Fund	Yount Trust Fund	Total Permanent Nonmajor Governmental Funds
ASSETS				
Cash and investments	\$ 539,090	\$ 1,372,496	\$ 849,677	\$ 2,761,263
Total assets	<u>\$ 539,090</u>	<u>\$ 1,372,496</u>	<u>\$ 849,677</u>	<u>\$ 2,761,263</u>
FUND BALANCES				
Nonspendable				
Permanent funds	\$ 533,108	\$ 1,270,279	\$ 840,264	\$ 2,643,651
Total fund balances	<u>\$ 539,090</u>	<u>\$ 1,372,496</u>	<u>\$ 849,677</u>	<u>\$ 2,761,263</u>

City of Pacific Grove

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Permanent Nonmajor Governmental Funds

June 30, 2016

	Library Endowment Trust Fund	Cemetery Endowment Trust Fund	Yount Trust Fund	Total Permanent Nonmajor Governmental Funds
REVENUES				
Charges for services	\$ -	\$ 87,306	\$ -	\$ 87,306
Interest, rents and concessions	5,982	14,911	12,216	33,109
Total Revenues	<u>5,982</u>	<u>102,217</u>	<u>12,216</u>	<u>120,415</u>
EXPENDITURES				
Current:				
General government	-	-	170	170
Total Expenditures	<u>-</u>	<u>-</u>	<u>170</u>	<u>170</u>
Excess (Deficiency) of Revenues over Expenditures	<u>5,982</u>	<u>102,217</u>	<u>12,046</u>	<u>120,245</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	(2,633)	(2,633)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(2,633)</u>	<u>(2,633)</u>
Net Change in Fund Balances	5,982	102,217	9,413	117,612
Fund Balances Beginning	<u>533,108</u>	<u>1,270,279</u>	<u>840,264</u>	<u>2,643,651</u>
Fund Balances Ending	<u>\$ 539,090</u>	<u>\$ 1,372,496</u>	<u>\$ 849,677</u>	<u>\$ 2,761,263</u>

INTERNAL SERVICE FUNDS

Fund Title	Fund Description
EMPLOYEE BENEFIT FUND	This fund accounts for health insurance provided to departments on a cost reimbursement basis.
WORKERS COMPENSATION FUND	This fund accounts for workers compensation insurance provided to departments on a cost reimbursement basis.
LIABILITY INSURANCE FUND	This fund accounts for liability insurance provided to departments on a cost reimbursement basis.
OPEB FUND	This fund accounts for other postemployment benefits provided to departments on a cost reimbursement basis.

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City of Pacific Grove
Combining Statement of Net Position
Internal Service Funds
June 30, 2016

	Employee Benefit Fund	Workers Compensation Fund	Liability Insurance Fund	Other Postemployment Benefits Fund	Total Governmental Activities - Internal Service Funds
ASSETS					
Current assets:					
Cash and investments	\$ 129,039	\$ 14,697	\$ 176,451	\$ 222,573	\$ 542,760
Restricted cash and investments	-	-	450,000	-	450,000
Total assets	\$ 129,039	\$ 14,697	\$ 626,451	\$ 222,573	\$ 992,760
DEFERRED OUTFLOWS OF RESOURCES					
	\$ -	\$ 10,207	\$ 10,207	\$ -	\$ 20,414
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 3,406	\$ 626	\$ 8,023	\$ -	\$ 12,055
Payroll related liabilities	-	1,666	1,666	-	3,332
Compensated absences - current	-	5,880	5,880	-	11,760
Total current liabilities	3,406	8,172	15,569	-	27,147
Noncurrent liabilities:					
Claims payable	-	1,010,923	-	-	1,010,923
Net pension liabilities	-	134,221	134,211	-	268,432
Compensated absences	-	17,641	17,641	-	35,282
Total noncurrent liabilities	-	1,162,785	151,852	-	1,314,637
Total liabilities	\$ 3,406	\$ 1,170,957	\$ 167,421	\$ -	\$ 1,341,784
DEFERRED INFLOWS OF RESOURCES					
	\$ -	\$ 46,805	\$ 46,805	\$ -	\$ 93,610
NET POSITION					
Restricted for insurance reserve	\$ -	\$ -	\$ 450,000	\$ -	\$ 450,000
Unrestricted	125,633	(1,192,858)	(27,568)	222,573	(872,220)
Total net position	\$ 125,633	\$ (1,192,858)	\$ 422,432	\$ 222,573	\$ (422,220)

City of Pacific Grove
Combining Statement of Revenues, Expenses and Changes in Fund Net Position
Internal Service Funds
For the Year Ended June 30, 2016

	Employee Benefit Fund	Workers Compensation Fund	Liability Insurance Fund	Other Postemployment Benefits Fund	Total Governmental Activities - Internal Service Funds
OPERATING REVENUES					
Charges for services	\$ 109,898	\$ 1,018,164	\$ 380,188	\$ 95,006	\$ 1,603,256
Total operating revenues	<u>109,898</u>	<u>1,018,164</u>	<u>380,188</u>	<u>95,006</u>	<u>1,603,256</u>
OPERATING EXPENSES					
Contractual services and utilities	210,079	890,769	229,395	-	1,330,243
Personnel	-	51,580	246,402	-	297,982
Total operating expenses	<u>210,079</u>	<u>942,349</u>	<u>475,797</u>	<u>-</u>	<u>1,628,225</u>
Operating income (loss)	<u>(100,181)</u>	<u>75,815</u>	<u>(95,609)</u>	<u>95,006</u>	<u>(24,969)</u>
NONOPERATING REVENUES(EXPENSES)					
Investment income	1,797	995	7,689	2,438	12,919
Total nonoperating revenues(expenses)	<u>1,797</u>	<u>995</u>	<u>7,689</u>	<u>2,438</u>	<u>12,919</u>
Change in net position	<u>(98,384)</u>	<u>76,810</u>	<u>(87,920)</u>	<u>97,444</u>	<u>(12,050)</u>
Total net position - beginning	224,017	(1,100,031)	679,976	125,129	(70,909)
Prior period adjustments	-	(169,637)	(169,624)	-	(339,261)
Total net position - beginning, as adjusted	<u>224,017</u>	<u>(1,269,668)</u>	<u>510,352</u>	<u>125,129</u>	<u>(410,170)</u>
Total net position - ending	<u>\$ 125,633</u>	<u>\$ (1,192,858)</u>	<u>\$ 422,432</u>	<u>\$ 222,573</u>	<u>\$ (422,220)</u>

City of Pacific Grove
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2016

	Employee Benefit Fund	Workers Compensation Fund	Liability Insurance Fund	Other Postemployment Benefits Fund	Total Governmental Activities - Internal Service Funds
Cash flows from operating activities:					
Receipts from interfund services provided	\$ 109,898	\$ 1,018,164	\$ 380,188	\$ 95,006	\$ 1,603,256
Payments for contractual services and utilities	(209,288)	(890,222)	(231,805)	-	(1,331,315)
Payments to employees	-	(48,383)	(243,202)	-	(291,585)
Net cash provided (used) by operating activities	<u>(99,390)</u>	<u>79,559</u>	<u>(94,819)</u>	<u>95,006</u>	<u>(19,644)</u>
Cash flows from investing activities:					
Investment income received	1,797	995	7,689	2,438	12,919
Net cash provided (used) by investing activities	<u>1,797</u>	<u>995</u>	<u>7,689</u>	<u>2,438</u>	<u>12,919</u>
Net increase (decrease) in cash and cash equivalents	(97,593)	80,554	(87,130)	97,444	(6,725)
Cash and cash equivalents - beginning	226,632	(65,857)	713,581	125,129	999,485
Cash and cash equivalents - ending	<u>\$ 129,039</u>	<u>\$ 14,697</u>	<u>\$ 626,451</u>	<u>\$ 222,573</u>	<u>\$ 992,760</u>
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating income (loss)	\$ (100,181)	\$ 75,815	\$ (95,609)	\$ 95,006	\$ (24,969)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Pension adjustments	-	(169,637)	(169,624)	-	(339,261)
Change in operating assets and liabilities:					
Deferred outflows of resources	-	(10,207)	(10,207)	-	(20,414)
Accounts payable	791	547	(2,410)	-	(1,072)
Payroll related liabilities	-	370	370	-	740
Deferred inflows of resources	-	46,805	46,805	-	93,610
Net pension liabilities	-	134,221	134,211	-	268,432
Compensated absences	-	1,645	1,645	-	3,290
Net cash provided (used) by operating activities	<u>\$ (99,390)</u>	<u>\$ 79,559</u>	<u>\$ (94,819)</u>	<u>\$ 95,006</u>	<u>\$ (19,644)</u>

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SCHEDULE OF FUND BALANCES

City of Pacific Grove

Schedule of Fund Balances June 30, 2016

FUND TYPE	FUND DESCRIPTION	NO.	Balance
GENERAL	GENERAL FUND	1	\$ 9,025,701
GENERAL	CONSOLIDATED INVESTMENT	2	-
GENERAL	HYPERBARIC CHAMBER	4	29,602
GENERAL	CIVIC CENTER FUND	14	159,501
GENERAL	PEOPLE'S DESAL PROJECT	19	-
GENERAL	DRUG AWARENESS (DARE)	21	12,526
GENERAL	ASSET SEIZURE FUND	22	2,784
GENERAL	LOVERS POINT POOL	24	57,954
GENERAL	RECREATION DONATION FUND	25	31,790
GENERAL	OPERATING DONATIONS	31	273,366
GENERAL	VEHICLE REPLACEMENT FUND	32	-
GENERAL	STORM WATER FUND	44	-
GENERAL	KOO ESTATE DONATION	93	329,299
	Subtotal		9,922,523
ENTERPRISE	CEMETERY FUND	75	292,662
ENTERPRISE	LOCAL WATER PROJECT FUND	74	-
ENTERPRISE	GOLF FUND	77	2,665,178
ENTERPRISE	SEWER FUND	76	15,005,452
ENTERPRISE	SEWER LATERAL LOANS	78	201,781
	Subtotal		15,207,233
INTERNAL SERVICE	EMPLOYEE BENEFIT FUND	70	125,633
INTERNAL SERVICE	WORKERS COMPENSATION FUND	71	(1,192,858)
INTERNAL SERVICE	LIABILITY INSURANCE FUND	72	422,432
INTERNAL SERVICE	OPEB FUND	73	222,573
	Subtotal		(422,220)
SPECIAL REVENUE	CARILLON FUND	3	9,455
SPECIAL REVENUE	ENVIRONMENTAL ENHANCEMENT	5	157,765
SPECIAL REVENUE	STATE FRANCHISE PEG	6	358,370
SPECIAL REVENUE	LIBRARY BLDG & EQUIP FUND	7	42,516
SPECIAL REVENUE	MUSEUM IMPROVEMENT FUND	8	470,164
SPECIAL REVENUE	DOWNTOWN BUSINESS DISTRICT	9	1,793
SPECIAL REVENUE	HOSPITALITY IMPRVMT DIST.	10	2,079
SPECIAL REVENUE	LIBRARY BOOK FUND	11	10,389
SPECIAL REVENUE	FIRE EMERG EQUIP FUND	12	159,104
SPECIAL REVENUE	HOUSING FUND	15	345,863
SPECIAL REVENUE	TRAFFIC CONG RELIEF FUND	16	-
SPECIAL REVENUE	GAS TAX FUND	18	570
SPECIAL REVENUE	CHAUTAUQUA HALL FUND	26	24,021
SPECIAL REVENUE	LIGHTHOUSE MAINT.& IMPV.	27	80,623
SPECIAL REVENUE	SENIOR HOUSING FUND	28	9,831

City of Pacific Grove

Schedule of Fund Balances

June 30, 2016

FUND TYPE	FUND DESCRIPTION	NO.	Balance
SPECIAL REVENUE	CDBG GRANT FUND	34	-
SPECIAL REVENUE	CALHOME REUSE ACCOUNT	36	192,970
SPECIAL REVENUE	2013 CDBG GRANT FUND	37	-
SPECIAL REVENUE	CLEAN BEACHES FUND	38	-
SPECIAL REVENUE	GREENING GRANT FUND	39	-
SPECIAL REVENUE	POETRY PROMOTION FUND	40	62,969
SPECIAL REVENUE	YOUNT INCOME FUND	41	87,543
SPECIAL REVENUE	PUB SAFETY AUG FUND	42	255,012
SPECIAL REVENUE	SLESF FUND	43	68,284
SPECIAL REVENUE	VEHICLE ABANDONMENT	45	-
SPECIAL REVENUE	STRONG FUND DISBURSEMENTS	46	77,887
SPECIAL REVENUE	ASBS GRANT FUND	79	-
SPECIAL REVENUE	MCINDOO DONATION	92	101,058
	Subtotal		<u>2,518,266</u>
CAPITAL	BUILDING AND FACILITIES IMPROVEMENT FUND	61	531,017
DEBT SERVICE	BUTTERFLY HABITAT BOND	54	90,746
PERMANENT	LIBRARY ENDOWMENT TRUST FUND	85	539,090
PERMANENT	CEMETERY ENDOWMENT TRUST FUND	86	1,372,496
PERMANENT	YOUNT TRUST FUND	90	849,677
PERMANENT	STRONG TRUST FUND	91	-
	TOTAL		<u><u>\$ 33,566,668</u></u>

