

CITY OF PACIFIC GROVE  
CALIFORNIA

COMPREHENSIVE ANNUAL  
FINANCIAL REPORT

YEAR ENDED JUNE 30, 2010



**Vargas and Company**  
certified public accountants



# **CITY OF PACIFIC GROVE, CALIFORNIA**

**300 Forest Avenue, Pacific Grove, California 93950**

## **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**Year Ended June 30, 2010**

**Prepared by the Finance Department**

**James L. Becklenberg  
Deputy City Manager**

**Anthony S. McFarlane  
Senior Accountant**



**CITY OF PACIFIC GROVE, CALIFORNIA**  
**Comprehensive Annual Financial Report**  
**Year Ended June 30, 2010**

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# **INTRODUCTORY SECTION**







## CITY OF PACIFIC GROVE

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

February 2, 2011

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

The Charter of the City of Pacific Grove requires an annual financial report. Various financing covenants and rules associated with restricted funding sources require the City of Pacific Grove to publish a complete set of financial statements presented in conformance with generally accepted accounting principles (GAAP) and audited by a firm of licensed certified public accountants. Pursuant to these requirements, we hereby issue the *Comprehensive Annual Report (CAFR) for the City of Pacific Grove, California for the fiscal year ended June 30, 2010*.

The report consists of management's representations concerning the City's financial position as of June 30, 2010. Consequently, management assumes full responsibility for the information presented in the report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City has contracted with Vargas and Company, a firm of licensed certified public accountants, to audit the City of Pacific Grove's financial statements. The goal of the independent audit is to provide reasonable assurance about whether the basic financial statements for the fiscal year ended June 30, 2010 are free from material misstatement. **The enclosed auditors' opinion indicates that the financial statements present fairly, in all material respects, the financial position of the City of Pacific Grove as of June 30, 2010.** This "unqualified," or clean, opinion represents the optimal type of report received from any external auditor and continues the on-going improvement in financial management and reporting the City has undertaken since the "adverse" opinion was rendered in FY 2005/06.

### Profile of the Government

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

## **Factors Affecting Financial Condition**

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

During FY 2009/10, the City continued to operate within a balanced budget as a result of the cost-cutting measures implemented since FY 2007/08 and the passage of the June 2008 ballot measure that implemented a new local sales tax which generated \$1.5 million in tax revenue in FY 2009/10. This amount exceeded the expected additional \$1.2 million in revenue for general services.

Despite significant improvements in the financial outlook for ongoing services, the City continues to combat the effects of deferred infrastructure maintenance, service levels that fall short of citizens' expectations, and a significant unfunded liability for workers' compensation claims. City staff are currently developing a capital improvement program to better quantify the shortfall in maintenance funding and begin to make necessary improvements. Efforts continue to improve service delivery within existing resource constraints through such measures as sharing services with other agencies and private sector providers. The City has made significant progress toward reducing workers' compensation liabilities.

Since the amount of net assets in the fund hit a low point of -\$2.4 million as of June 30, 2004, the City has worked to reduce the liability to -\$0.962 million; an additional \$0.4 million was reduced during FY 2009/10. Reducing this unfunded liability is a priority for the City and, as resources are available, additional transfers from the General Fund will be made. Please refer to Management's Discussion and Analysis for further details on the impact of this unfunded liability and the Audit Report.

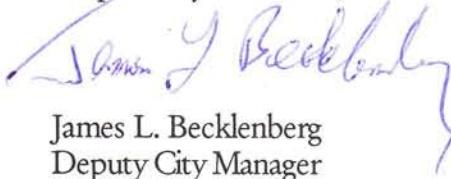
Another of the ongoing financial realities that poses a major threat to the City's long-term financial stability is the California Public Employees Retirement System (CalPERS). CalPERS is a defined-benefit retirement program that relies heavily on investments in financial markets for the assets required 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. In December 2010, CalPERS reported an increase of 10.28% of their asset value from the prior year's decline of 27.8%, the largest one year decline in their history. Although this is a positive increase from the prior year, CalPERS' investment portfolio is still down -4.58% over the past three fiscal years. Member agencies expect employer contribution rate increases beginning in FY 2010/11, which could limit the funding available for services in order to pay for increasing employee retirement costs.

In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement 45, *Accounting and Financial Reporting by Employers for Other Post Employment Benefits Other Than Pensions*. The City provides post-employment medical benefits to retirees who meet plan eligibility requirements. This statement requires governmental entities to begin accounting for post-employment benefits on an accrual basis. Please refer to Management's Discussion and Analysis for further information on the impact of implementation of GASB 45.

### Acknowledgements

The preparation of this report would not have been possible without the accounting leadership of Senior Accountant Anthony McFarlane, with support and cooperation from other members of the Finance Department and other city departments. We would like to express our appreciation to the City Council for its unyielding support and demand for improvements in financial information quality and transparency.

Respectfully submitted,

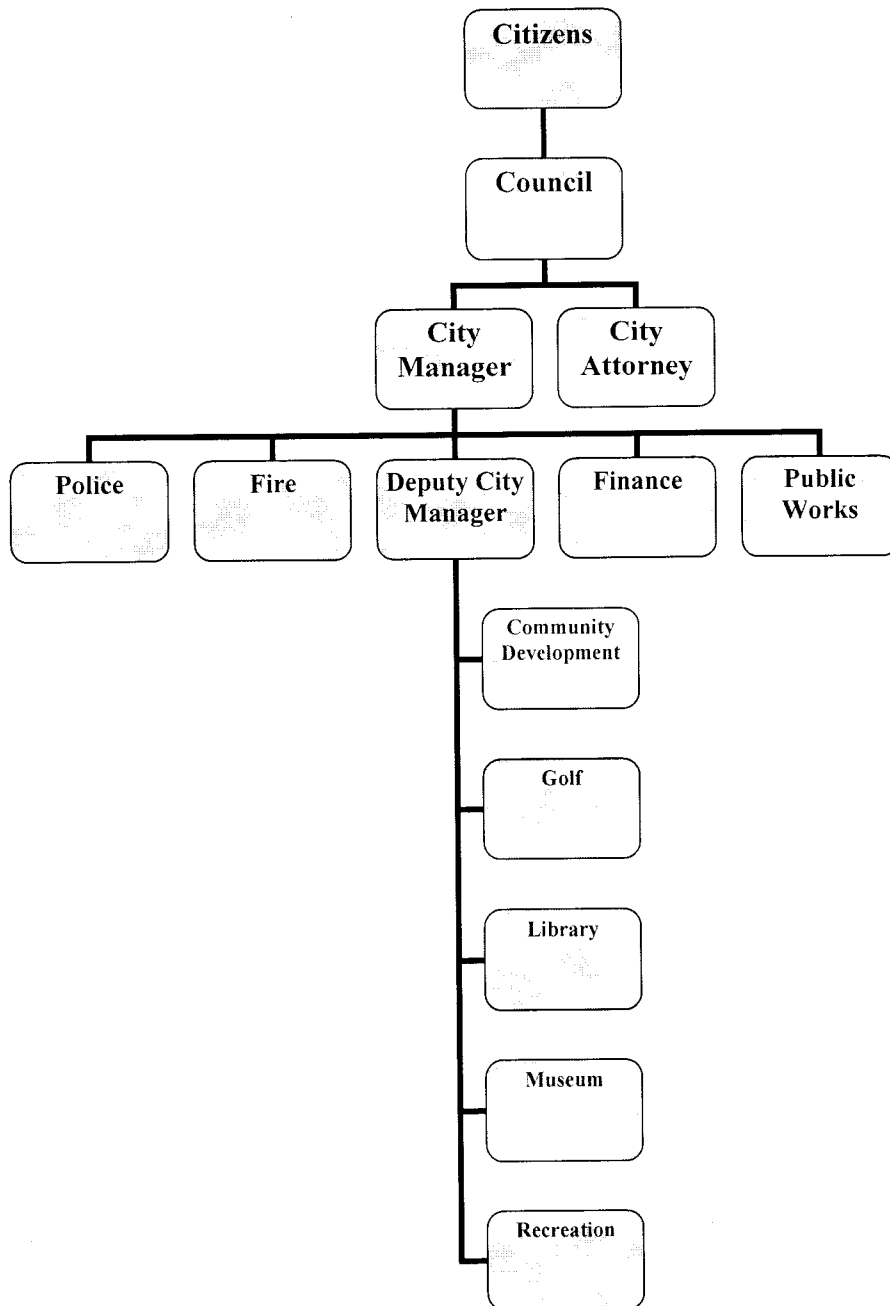


James L. Becklenberg  
Deputy City Manager



Thomas Frutchey  
City Manager

**CITY OF PACIFIC GROVE**  
**Organizational Chart**  
**June 30, 2010**



**CITY OF PACIFIC GROVE**  
**List of Elected and Appointed Officials**  
**June 30, 2010**

Elected Officials

Mayor	Carmelita Garcia
Mayor Pro-Tempore	William Kampe
Council Member	Lisa Bennett
Council Member	Alan Cohen
Council Member	Ken Cuneo
Council Member	Robert Huitt
Council Member	Daniel Miller

Appointed Officials

City Manager	Thomas Frutchey
City Attorney	David Laredo
Chief – Police	Darius Engles
Chief – Fire	Sam Mazza (Monterey)
Deputy City Manager	James Becklenberg
Director – Community Development	Lynn Burgess
Director – Library	Elisa Maddalena
Head Professional – Golf Course	Joe Riekema
Superintendent – Golf Course	Daniel Gho
Coordinator – Recreation	Donald Mothershead



## **FINANCIAL SECTION**







# Vargas and Company

certified public accountants

## INDEPENDENT AUDITORS' REPORT

To the City Council  
Pacific Grove, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pacific Grove (the "City"), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City of Pacific Grove's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pacific Grove, as of June 30, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2011, on our consideration of the City of Pacific Grove's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule, and schedules of funding progress 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.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise City of Pacific Grove's financial statements as a whole. The introductory section and supplementary information are presented for purposes of additional analysis and are not a required part of the financial statements. The supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

  
Vargas and Company  
San Jose, California  
January 21, 2011

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



**CITY OF PACIFIC GROVE**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2010**

Our discussion and analysis of the City of Pacific Grove's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2010. Please read it in conjunction with the accompanying notes to the financial statements. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

**FINANCIAL HIGHLIGHTS**

- The City's total net assets at June 30, 2010 totaled \$36.1 million, a \$2.6 million increase from the prior year.
- Total City revenues, including program and general revenues, were \$22.0 million, a \$.56 million decrease from the prior year, primarily due to declining interest rates and a decrease in grant monies received from other governmental agencies.
- Total expenses were \$19.5 million, a \$.75 million decrease from the prior year primarily due to salary savings from furloughs and other budget reduction strategies.
- Net Assets in Governmental activities increased \$1.2 million for a total of \$24.2 million, while net assets in business activities increased \$1.4 million for a total of \$11.9 million.
- Total Governmental Revenues decreased \$.64 million from last year to \$16.7 million attributable to a decrease operating grants and contribution revenue and interest income.
- Total Governmental Expenses decreased \$.68 million to \$15.5 million attributable to a decrease in salary costs as a result of the implementation of furloughs and other budget reduction strategies.
- Program revenues from Business-type activities increased \$.08 million to \$5.3 million.
- Expenses of Business-type activities decreased \$.06 million to \$3.9 million.
- In July 2004, the Governmental Accounting Standards Board (GASB) issued Statement 45. This statement requires governmental entities to begin accounting for other post-employment benefits, such as health care to eligible retirees, on an accrual basis. For fiscal year 2010, the City reduced its OPEB liability by \$.04 million to \$87,039.
- The Transactions and Use District Tax adding an additional 1% to the local sales tax rate approved by the citizens of Pacific Grove in June 2008 generated \$1.5 million in general revenue for the fiscal year, an increase of \$.4 million from the previous year.
- The City revised its short term rental policy and generated \$69,536 in additional license and tax revenue.
- The City used funds received from the American Recovery and Reinvestment Act of 2009 for infrastructure projects in the amount of \$.3 million.

**CITY OF PACIFIC GROVE**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2010**

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This Comprehensive Annual Financial Report is presented in five parts:

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

**The Basic Financial Statements**

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

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

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

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

**CITY OF PACIFIC GROVE**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2010**

**Government-wide Financial Statements**

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

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

Government-wide Financial Statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the City as a whole. In other words, revenue is recognized when earned and expenses are recognized when incurred unlike cash basis when revenue and expenses are recognized when cash is received or paid.

**Fund Financial Statements**

The Fund Financial Statements provide detailed information about each of the City's most significant funds, called major funds. The concept of major funds, and the criteria for determination of which are major funds, was established by GASB Statement 34 and replaces the concept of combining like funds and presenting them in total. Instead, each major fund is presented individually, with all non-major funds summarized and presented only in a single column. Subordinate schedules present the detail of these non-major funds. Major funds present the major activities of the City for the year, and may change from year to year as a result of changes in pattern of City's activities. For fiscal year 2010, other than the General fund, no governmental fund met the requirements for major fund classification established by GASB Statement 34.

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

**CITY OF PACIFIC GROVE**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2010**

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

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

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

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>		<u>Variance</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	
Assets:							
Current and other assets	\$28,380,760	\$27,922,978	\$ 5,473,997	\$ 4,460,410	\$33,854,757	\$32,383,388	4.5%
Capital assets	<u>23,221,330</u>	<u>22,853,330</u>	<u>12,198,777</u>	<u>11,815,390</u>	<u>35,420,107</u>	<u>34,668,720</u>	2.2%
Total assets	<u>51,602,090</u>	<u>50,776,308</u>	<u>17,672,774</u>	<u>16,275,800</u>	<u>69,274,864</u>	<u>67,052,108</u>	3.3%
Liabilities:							
Current and other liabilities	1,815,554	1,334,112	577,134	409,330	2,392,688	1,743,442	37.2%
Long-term liabilities	<u>25,553,498</u>	<u>26,391,733</u>	<u>5,208,891</u>	<u>5,356,993</u>	<u>30,762,389</u>	<u>31,748,726</u>	(3.1%)
Total liabilities	<u>27,369,052</u>	<u>27,725,845</u>	<u>5,786,025</u>	<u>5,766,323</u>	<u>33,155,077</u>	<u>33,492,168</u>	(1.0%)
Net assets:							
Invested in capital assets, net of related debt	16,777,252	16,946,262	7,175,799	6,626,372	23,953,051	23,572,634	1.6%
Restricted	102,057	91,553	273,841	273,840	375,898	365,393	2.9%
Unrestricted	<u>7,353,729</u>	<u>6,012,648</u>	<u>4,437,109</u>	<u>3,609,265</u>	<u>11,790,838</u>	<u>9,621,913</u>	22.5%
Total net assets	<u>\$24,233,038</u>	<u>\$23,050,463</u>	<u>\$11,886,749</u>	<u>\$10,509,477</u>	<u>\$36,119,787</u>	<u>\$33,559,940</u>	7.6%



**CITY OF PACIFIC GROVE**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2010**

**Analysis of Net Assets**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For the city, assets exceeded liabilities by \$36,119,787 at the close of the current fiscal year. This represents an increase of approximately of \$2.56 million, or 7.6% from the previous year.

The largest portion of the City's net assets \$23,953,051 (66.3%) reflects its investment in capital assets (e.g. land, building and structures, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these assets to provide services; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Invested in Capital Assets net of related debt increased \$.38 million, or 1.6%, from the prior year. The increase is due to the reduction of principal in long-term debt for the fiscal year and depreciation expense exceeding the cost of additions to capital assets. The City did not take on any additional long-term debt during the year.

An additional portion of the City's net assets of \$375,898 (1.0%) represents resources that are subject to external restrictions on how they may be used. This amount increased \$10,505 or 2.9% from the prior year. \$102,057 is reserved for the Butterfly Bond debt service and \$273,841 is reserved for the Golf Course Certificates of Participation bond debt service.

The remaining (32.6%) represents the unrestricted net assets of \$11,790,838, which may be used to meet the city's ongoing obligations for services. This amount increased \$2.2 million, or 22.5%, from the prior year. The increase is attributable to a combination of factors, mainly reductions in discretionary spending across all divisions as a result of furloughs and a lower investment in capital outlay expenditures from the prior year.

**CITY OF PACIFIC GROVE**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2010**

**Changes in Net Assets**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>		
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>% Change</u>
Revenues:							
Program revenues							
Charges for services	\$ 2,155,958	\$ 2,117,005	\$ 5,283,013	\$ 5,191,552	\$ 7,438,971	\$ 7,308,557	1.8%
Operating grants & contri.	1,326,874	1,715,992	-	-	1,326,874	1,715,992	(22.7%)
General revenues							
Taxes	12,684,922	12,532,659	-	-	12,684,922	12,532,659	1.2%
Interest & invest. income	257,586	372,534	37,082	74,884	294,668	447,418	(34.1%)
Miscellaneous	250,958	519,858	38,965	69,908	289,923	589,766	(50.8%)
Transfers	<u>51,725</u>	<u>110,318</u>	<u>(51,725)</u>	<u>(110,318)</u>	<u>-</u>	<u>-</u>	na
Total revenues	<u>16,728,023</u>	<u>17,368,366</u>	<u>5,307,335</u>	<u>5,226,026</u>	<u>22,035,358</u>	<u>22,594,392</u>	(2.5%)
Expenses:							
Public safety							
Police	4,921,378	4,634,522	-	-	4,921,378	4,634,522	6.2%
Fire	2,908,849	2,449,038	-	-	2,908,849	2,449,038	18.8%
General administration	2,339,217	2,651,095	-	-	2,339,217	2,651,095	(11.8%)
Public works	1,773,319	1,975,888	-	-	1,773,319	1,975,888	(10.3%)
Recreation	319,776	359,269	-	-	319,776	359,269	(11.0%)
Library	554,877	653,150	-	-	554,877	653,150	(15.0%)
Comm. dev't & bldg insp.	1,164,714	1,202,868	-	-	1,164,714	1,202,868	(3.2%)
Museum	260,876	367,303	-	-	260,876	367,303	(29.0%)
Interest on long-term debt	1,302,442	1,939,596	-	-	1,302,442	1,939,596	(32.8%)
Cemetery Operating	-	-	229,019	275,559	229,019	275,559	(16.9%)
Sewer Operating	-	-	1,158,397	1,180,209	1,158,397	1,180,209	(1.8%)
Golf Course	<u>-</u>	<u>-</u>	<u>2,542,647</u>	<u>2,537,993</u>	<u>2,542,647</u>	<u>2,537,993</u>	0.2%
Total expenses	<u>15,545,448</u>	<u>16,232,729</u>	<u>3,930,063</u>	<u>3,993,761</u>	<u>19,475,511</u>	<u>20,226,490</u>	(3.7%)
Change in net assets	1,182,575	1,135,637	1,377,272	1,232,265	2,559,847	2,367,902	8.1%
Net assets, beginning	23,050,463	21,616,860	10,509,477	9,277,212	33,559,940	30,894,072	8.6%
Prior period adjustment	<u>-</u>	<u>297,966</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>297,966</u>	(100.0%)
Net asset, ending	<u>\$24,233,038</u>	<u>\$23,050,463</u>	<u>\$11,886,749</u>	<u>\$10,509,477</u>	<u>\$36,119,787</u>	<u>\$33,559,940</u>	7.6%

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

**CITY OF PACIFIC GROVE**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2010**

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

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

**Governmental Funds**

The primary purpose of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the City include the General Fund, Special Revenue Funds, Capital Project Fund, Debt Service Fund and Permanent Funds.

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

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

	<u>General</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Revenues	\$17,010,435	\$2,454,431	\$19,464,866
Expenditures	( 15,782,018)	( 2,855,415)	( 18,637,433)
Net other financing sources (uses)	( 494,840)	546,565	51,725
Net Change in Fund Balances	733,577	145,581	879,158
Fund Balances, Beginning	<u>1,978,092</u>	<u>6,886,227</u>	<u>8,864,319</u>
Fund Balances, Ending	\$ <u>2,711,669</u>	\$ <u>7,031,808</u>	\$ <u>9,743,477</u>

At June 30, 2010, the City's governmental funds reported combined ending fund balances of \$9,743,477, an increase of \$879,158 in comparison with the prior year. Approximately 81% or \$7,934,002 of the combined ending fund balances constitutes unreserved fund balance, which is available to meet the City's current and future needs, of which \$2,711,669 is available to the City's General Fund. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has been committed to pay debt service of \$102,057 for the Butterfly Bond and a long-term debt receivable of \$1,707,418 for Housing Rehabilitation loans.

**CITY OF PACIFIC GROVE**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2010**

The General Fund is the primary operating fund of the City. At June 30, 2010 the unreserved fund balance of the General Fund was \$2,711,669, an increase of \$.73 million from the prior year. As a measure of the General Fund's liquidity, it may be useful to compare both the unreserved fund balance and total fund balance to total fund expenditures. Unreserved and total General Fund Balance represents 17.2% of total general fund expenditures of \$15,782,018. The unreserved portion of the General Fund balance reflects the measure of currently available financial resources and is the cumulative difference between recorded assets and liabilities of the General Fund.

The City Council has established a designated General Fund reserve policy of 10% of General Fund revenues for contingencies, or \$1,706,216, as well as a tax interim reserve of \$750,000 totaling \$2.46 million. The ending unreserved fund balance for the general fund of \$2,711,669 does meet the required minimum levels of the General Fund reserve policy and the City is now in compliance with the City Council's designated General Fund reserves policy.

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

**Revenues Classified by Source**  
**Governmental Funds**

	<u>FY 2010</u>		<u>FY 2009</u>		<u>Increase/(Decrease)</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Change</u>
<u>Revenues by Source</u>						
Taxes	\$12,684,922	65.2%	\$12,532,659	62.6%	\$152,263	1.2%
Licenses and permits	424,659	2.2%	364,923	1.8%	59,736	16.4%
Fines, forfeitures and penalties	41,706	0.2%	35,671	0.2%	6,035	16.9%
Intergovernmental	2,567,153	13.2%	2,984,186	14.9%	( 417,033)	(14.0%)
Charges for current services	1,689,593	8.7%	1,716,411	8.6%	( 26,818)	(1.6%)
Use of money and property	257,586	1.3%	372,534	1.8%	( 114,948)	(30.9%)
Interdepartmental charges	1,548,289	7.9%	1,498,103	7.5%	50,186	3.3%
Other	<u>250,958</u>	<u>1.3%</u>	<u>519,858</u>	<u>2.6%</u>	<u>( 268,900)</u>	<u>(51.7%)</u>
Totals	<u>\$19,464,866</u>	<u>100.0%</u>	<u>\$20,024,345</u>	<u>100.0%</u>	<u>(\$559,479)</u>	<u>(2.8%)</u>

Revenues for governmental functions totaled \$19,464,866 in fiscal year 2010, which represents a decrease of \$559,479 or 2.8% from the prior year. The biggest declines were seen in contributions from other governmental agencies in the form of grants and a decrease in investment earnings as a result of declining interest rates. The City did spend \$.29 million in stimulus money to fund an infrastructure project.

**CITY OF PACIFIC GROVE**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2010**

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

**Expenditures Classified by Function**  
**Governmental Funds**

<u>Expenditures by Function</u>	<u>FY 2010</u>		<u>FY 2009</u>		<u>Increase/(Decrease)</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Change</u>
Public safety						
Police	\$ 5,454,952	29.3%	\$ 5,215,311	26.1%	\$ 239,641	4.6%
Fire	3,277,873	17.6%	3,413,500	17.1%	( 135,627)	(4.0%)
General administration	2,249,557	12.1%	2,563,041	12.9%	( 313,484)	(12.2%)
Public works	2,001,561	10.7%	2,104,628	10.6%	( 103,067)	(4.9%)
Recreation	340,107	1.8%	381,719	1.9%	( 41,612)	(10.9%)
Library	645,940	3.5%	700,066	3.5%	( 54,126)	(7.7%)
Comm. dev't & bldg insp.	1,348,018	7.2%	1,320,258	6.6%	27,760	2.1%
Museum	290,256	1.5%	381,550	1.9%	( 91,294)	(23.9%)
Capital outlay	1,024,435	5.5%	2,002,658	10.0%	( 978,223)	(48.8%)
Debt service						
Principal	1,620,609	8.7%	1,561,384	7.8%	59,225	3.8%
Interest and fiscal charges	<u>384,125</u>	<u>2.1%</u>	<u>316,748</u>	<u>1.6%</u>	<u>67,377</u>	21.3%
Totals	<u>\$18,637,433</u>	<u>100.0%</u>	<u>\$19,960,863</u>	<u>100.0%</u>	<u>(\$1,323,430)</u>	<u>(6.6%)</u>

Expenditures for governmental functions in fiscal year 2010 totaled \$18,637,433, a decrease of \$1,323,430, or 6.6% from the previous fiscal year. The decrease is primarily attributed to the significant decrease in capital outlay expenditures from the previous year and decreases in nearly all of the divisions as a result of the implementation of furloughs and other budget reductions throughout the year.

**CITY OF PACIFIC GROVE**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2010**

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

**Other Financing Sources (Uses)**  
**Governmental Funds**

	<u>FY 2010</u>		<u>FY 2009</u>		<u>Increase/(Decrease)</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Change</u>
Proceeds from capital lease	\$ -	- %	\$ 31,570	22.2%	(\$31,570)	(100.0%)
Transfers in	613,327	1185.7%	769,026	542.0%	(155,699)	(20.2%)
Transfers out	( 561,602)	(1085.7%)	( 658,708)	(464.2%)	97,106	14.7%
Totals	<u>\$51,725</u>	<u>100.0%</u>	<u>\$141,888</u>	<u>100.0%</u>	<u>(\$90,163)</u>	<u>(63.5%)</u>

Net Other Financing Sources and Uses for fiscal year 2010 totaled \$51,725 which is a decrease of \$90,163, or 63.5%, from the previous fiscal year.

As a result of governmental fund activities, the net change in fund balance totaled \$733,577 in the General fund and \$145,581 in all of the other governmental funds for a total increase of \$879,158.

**Proprietary Funds**

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

**CITY OF PACIFIC GROVE**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2010**

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

	Major Funds			
	<u>Sewer Operating</u>	<u>Golf Course</u>	<u>Cemetery Operating</u>	<u>Total</u>
Operating revenues	\$2,522,150	\$2,637,074	\$162,754	\$ 5,321,978
Operating expenses	( 1,086,762)	( 2,342,867)	( 226,613)	( 3,656,242)
Operating income (loss)	1,435,388	294,207	( 63,859)	1,665,736
Net non-operating revenues (expenses)	( 54,517)	( 191,096)	8,874	( 236,739)
Net income (loss) before transfers	1,380,871	103,111	( 54,985)	1,428,997
Transfers out	-	( 51,725)	-	( 51,725)
Change in net assets	1,380,871	51,386	( 54,985)	1,377,272
Net Assets, Beginning	<u>6,427,740</u>	<u>3,566,024</u>	<u>515,713</u>	<u>10,509,477</u>
Net Assets, Ending	<u>\$7,808,611</u>	<u>\$3,617,410</u>	<u>\$460,728</u>	<u>\$11,886,749</u>

The Sewer fund expended \$793,743 in sewer line improvements, including \$8,065 in sewer lateral replacements. Please refer to Note 5 in the Notes to the Basic Financial Statements for more information on the sewer lateral loan program and Note 6 for more information on capital asset additions.

The Golf Fund transferred \$51,725 during the current fiscal year into the General Fund to support general services, per City ordinance. Please refer to Note 5 in the Notes to the Basic Financial Statements for more information regarding the Golf Course Kitchen Equipment Lease.

There were no significant events in the Cemetery Fund during the fiscal year. See Note 7 in the Notes to the Basic Financial Statements for more information regarding the turf mower capital lease.

**CITY OF PACIFIC GROVE**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2010**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The City's capital assets for its governmental and business-type activities as of June 30, 2010, totaled \$35,420,107 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, infrastructure, buildings, improvements, machinery and equipment, and sewer lines. Significant capital asset acquisitions during the current fiscal year included the following; acquisition of a new turf mower for the golf course, a new roof was installed on both the Library and Museum and improvements to city infrastructure for street improvements.

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

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>		<u>% of Change</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	
Land	\$ 2,338,270	\$ 2,338,270	\$ 362,973	\$ 362,973	\$ 2,701,243	\$ 2,701,243	0.0%
Construction							
in progress	77,138	77,138	-	-	77,138	77,138	0.0%
Infrastructure	22,021,767	21,217,753	-	-	22,021,767	21,217,753	3.8%
Building	11,208,594	11,117,346	6,093,798	6,093,798	17,302,392	17,211,144	0.5%
Improvements	277,687	242,192	3,124,494	3,028,540	3,402,181	3,270,732	4.0%
Machinery & equipment	3,843,663	3,751,705	1,883,392	1,862,066	5,727,055	5,613,771	2.0%
Sewer lines	<u>-</u>	<u>-</u>	<u>5,968,264</u>	<u>5,174,791</u>	<u>5,968,264</u>	<u>5,174,791</u>	15.3%
Total cost	<u>\$39,767,119</u>	<u>\$38,744,404</u>	<u>\$17,432,921</u>	<u>\$16,522,168</u>	<u>\$57,200,040</u>	<u>\$55,266,572</u>	3.5%

During the year, the City completed an infrastructure project that was funded through the American Recovery and Reinvestment Act of 2009. Please refer to the Note 6 in the Notes to the Basic Financial Statements for more detailed information regarding Capital Assets.



**CITY OF PACIFIC GROVE**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2010**

**Long-term Debt**

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

	<u>2010</u>	<u>2009</u>	<u>% Change</u>
<u>Governmental Activities</u>			
General Obligation Refunding Note	\$ 616,748	\$ 680,294	(9.3%)
Bank Loans	-	75,000	(100.0%)
Capital Lease	1,097,049	1,338,833	(18.1%)
Pension Obligation Bond	<u>20,716,420</u>	<u>21,039,359</u>	(1.5%)
Total Governmental Activities	<u>\$22,430,217</u>	<u>\$23,133,486</u>	(3.0%)
<u>Business-type Activities</u>			
Sewer Revenue Bonds	\$1,241,583	\$1,270,719	(2.3%)
Capital Lease	156,395	223,299	(30.0%)
Golf Certificates of Participation	<u>3,625,000</u>	<u>3,695,000</u>	(1.9%)
Total Business-type Activities	<u>\$5,022,978</u>	<u>\$5,189,018</u>	(3.2%)

The City did not take on any new long-term debt during the current year. Please refer to Note 7 in the Notes to the Basic Financial Statements for more detailed information regarding long-term debt.

**FACTORS AFFECTING ECONOMIC STATUS**

In fiscal year 2010, The City continued the budgeting priorities of balancing the budget while restoring reserves and correcting long-standing budget deficit issues. The City also entered into a public-private partnership with the Museum Foundation of Pacific Grove for management services at the Museum of Natural History. In June 2008, the citizens of Pacific Grove passed a tax measure implementing a new local sales tax. This new tax generated \$1.5 million of revenue for general services during the fiscal year.

Even with the balanced budget in place for 2010, and additional revenues being generated from the new local sales tax and short term rentals, the City still faces a risk with its sizeable unfunded liability in Worker's Compensation claims. Although the City has been able to reduce this liability by over \$1.5 million in the past five fiscal years, the amount of the unfunded liability is still \$ .96 million and poses a risk to current resources available to fund services in the future. Reducing the liability is a priority for the City and as resources become available, additional transfers from the General Fund will be made to further reduce the liability.

**CITY OF PACIFIC GROVE**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2010**

Another item that poses a risk to the City's long-term financial stability is the California Public Employees Retirement System, or CalPERS. CalPERS is a defined-benefit retirement program that relies heavily on investment returns to pay benefits to retirees. With significant losses due to the collapse of the Stock Market, CalPERS announced that member agencies should plan for employer contribution rate increases equal to 2 to 5 percent of employee salary costs beginning in fiscal year 2011-2012. The City sees no certainty that the CalPERS portfolio will stabilize or rebound in the coming years and is expecting contribution rates to increase limiting the resources available to fund services in order to pay for increasing employee retirement costs. Please refer to Note 10 in the Notes to the Basic Financial Statements for more detailed information regarding the City's pension plan through CalPERS.

In July 2004, the Government Accounting Standards Board, GASB, issued Statement 45. This statement requires the City to begin accounting for other post-employment benefits, OPEB, on an accrual basis. The City provides post-employment medical benefits to eligible retirees and has been operating under a "pay as you go" system. The primary objective of GASB 45 is to require recognition of post-employment healthcare expense systematically over periods approximating employees' years of service. This statement also requires disclosure of information regarding funding, costs and provisions of the post-employment plans in the financial statements. Please refer to Note 12 in the Notes to the Basic Financial Statements for more detailed information regarding other post-employment benefit obligations.

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

**REQUESTS FOR INFORMATION**

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

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



**CITY OF PACIFIC GROVE, CALIFORNIA**  
**Statement of Net Assets**  
**June 30, 2010**

	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Cash and investments			
Available for operations	\$ 7,267,471	\$ 4,287,717	\$ 11,555,188
Held in trust	873,338	323,841	1,197,179
Receivables			
Taxes	1,801,082	-	1,801,082
Accounts	668,486	442,427	1,110,913
Interest and other	22,613	2,072	24,685
Loans	1,706,631	263,337	1,969,968
Inventory	-	89,051	89,051
Prepaid expenses	55,000	4,107	59,107
Deferred charges	15,986,139	61,445	16,047,584
Capital assets			
Land	2,338,270	362,973	2,701,243
Infrastructure	22,021,767	-	22,021,767
Building	11,208,594	6,093,798	17,302,392
Improvements	277,687	3,124,494	3,402,181
Machinery and equipment	3,843,663	1,883,392	5,727,055
Sewer lines	-	5,968,264	5,968,264
Construction in progress	77,138	-	77,138
Accumulated depreciation	<u>(16,545,789)</u>	<u>(5,234,144)</u>	<u>(21,779,933)</u>
 Total Assets	 <u>\$ 51,602,090</u>	 <u>\$ 17,672,774</u>	 <u>\$ 69,274,864</u>
<u>Liabilities</u>			
Accounts payable	\$ 1,423,035	\$ 419,428	\$ 1,842,463
Interest payable	65,923	97,932	163,855
Accrued wages and benefits	321,796	-	321,796
Deferred revenue	4,800	59,774	64,574
Due within one year			
Claims payable	183,631	-	183,631
Long-term debt	1,522,493	151,189	1,673,682
Due beyond one year			
Claims payable	1,535,056	-	1,535,056
Compensated absences	1,317,555	185,913	1,503,468
Long-term debt	20,907,724	4,871,789	25,779,513
Net OPEB obligation	<u>87,039</u>	<u>-</u>	<u>87,039</u>
 Total Liabilities	 <u>27,369,052</u>	 <u>5,786,025</u>	 <u>33,155,077</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	16,777,252	7,175,799	23,953,051
Restricted			
Debt service	102,057	273,841	375,898
Unrestricted	<u>7,353,729</u>	<u>4,437,109</u>	<u>11,790,838</u>
 Total Net Assets	 <u>24,233,038</u>	 <u>11,886,749</u>	 <u>36,119,787</u>
 Total Liabilities and Net Assets	 <u>\$ 51,602,090</u>	 <u>\$ 17,672,774</u>	 <u>\$ 69,274,864</u>

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

**CITY OF PACIFIC GROVE, CALIFORNIA**  
**Statement of Activities**  
**Year Ended June 30, 2010**

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities						
Public safety						
Police	\$ 4,921,378	\$ 753,489	\$ 463,731	\$ (3,704,158)	\$ -	\$ (3,704,158)
Fire	2,908,849	452,770	278,655	(2,177,424)	-	(2,177,424)
General administration	2,339,217	310,730	191,237	(1,837,250)	-	(1,837,250)
Public works	1,773,319	276,474	170,155	(1,326,690)	-	(1,326,690)
Recreation	319,776	46,979	28,913	(243,884)	-	(243,884)
Library	554,877	89,223	54,912	(410,742)	-	(410,742)
Community development & building inspection	1,164,714	186,201	114,596	(863,917)	-	(863,917)
Museum	260,876	40,092	24,675	(196,109)	-	(196,109)
Interest on long-term debt	1,302,442	-	-	(1,302,442)	-	(1,302,442)
Total Governmental Activities	15,545,448	2,155,958	1,326,874	(12,062,616)	-	(12,062,616)
Business-type Activities						
Cemetery Operating	229,019	154,817	-	-	(74,202)	(74,202)
Sewer Operating	1,158,397	2,516,888	-	-	1,358,491	1,358,491
Golf Course	2,542,647	2,611,308	-	-	68,661	68,661
Total Business-type Activities	3,930,063	5,283,013	-	-	1,352,950	1,352,950
Total	\$ 19,475,511	\$ 7,438,971	\$ 1,326,874	(12,062,616)	1,352,950	(10,709,666)
General Revenues						
Taxes				12,684,922	-	12,684,922
Interest and investment income				257,586	37,082	294,668
Miscellaneous				250,958	38,965	289,923
Transfers				51,725	(51,725)	-
Total General Revenues and Transfers				13,245,191	24,322	13,269,513
Change in Net Assets				1,182,575	1,377,272	2,559,847
Net Assets, Beginning				23,050,463	10,509,477	33,559,940
Net Asset, Ending				\$ 24,233,038	\$ 11,886,749	\$ 36,119,787

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

## **Basic Financial Statements - Fund Financial Statements**





**CITY OF PACIFIC GROVE, CALIFORNIA**  
**Balance Sheet - Governmental Funds**  
**June 30, 2010**

	<u>General</u>	Nonmajor Governmental Funds	<u>Total</u>
<u>Assets</u>			
Cash and investments			
Available for operations	\$ 1,516,644	\$ 4,863,292	\$ 6,379,936
Held in trust	-	873,338	873,338
Receivables			
Taxes	1,801,082	-	1,801,082
Accounts	179,989	466,818	646,807
Interest and other	18,615	3,998	22,613
Loans	-	1,706,631	1,706,631
Prepaid expenses	-	55,000	55,000
	<u>-</u>	<u>55,000</u>	<u>55,000</u>
Total Assets	\$ 3,516,330	\$ 7,969,077	\$ 11,485,407
	<u><u>3,516,330</u></u>	<u><u>7,969,077</u></u>	<u><u>11,485,407</u></u>
<u>Liabilities</u>			
Accounts payable	\$ 479,865	\$ 935,469	\$ 1,415,334
Accrued wages and benefits	321,796	-	321,796
Deferred revenue	3,000	1,800	4,800
	<u>3,000</u>	<u>1,800</u>	<u>4,800</u>
Total Liabilities	804,661	937,269	1,741,930
	<u>804,661</u>	<u>937,269</u>	<u>1,741,930</u>
<u>Fund Balances</u>			
Reserved for			
Long-term loan receivable	-	1,707,418	1,707,418
Debt service	-	102,057	102,057
Unreserved, reported in			
General fund			
Designated for			
Contingencies	1,706,216	-	1,706,216
Tax interim	750,000	-	750,000
Undesignated	255,453	-	255,453
Special revenue funds	-	2,043,525	2,043,525
Capital projects funds	-	549,686	549,686
Permanent funds	-	2,629,122	2,629,122
	<u>-</u>	<u>2,629,122</u>	<u>2,629,122</u>
Total Fund Balance	2,711,669	7,031,808	9,743,477
	<u>2,711,669</u>	<u>7,031,808</u>	<u>9,743,477</u>
Total Liabilities and Fund Balances	\$ 3,516,330	\$ 7,969,077	\$ 11,485,407
	<u><u>3,516,330</u></u>	<u><u>7,969,077</u></u>	<u><u>11,485,407</u></u>

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

**CITY OF PACIFIC GROVE, CALIFORNIA**  
**Reconciliation of the Governmental Funds Balance Sheet to the**  
**Government-wide Statement of Net Assets - Governmental Activities**  
**June 30, 2010**

<b>Fund Balances - Total Governmental Funds</b>	\$ 9,743,477
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	23,221,330
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Deferred charges in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	15,986,139
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Internal service funds are used by management to charge the costs of health, workers' compensation, and liability self-insurances to individual funds. The assets and liabilities are included in governmental activities in the statement of net assets.	(817,174)
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.

Long-term debt	\$ (22,430,217)	
Net OPEB obligation	(87,039)	
Compensated absences	(1,317,555)	(23,834,811)

Interest payable on long-term debt does not require the use of current financial resources and, therefore, is not accrued as a liability in the governmental funds.

(65,923)

<b>Net Assets of Governmental Activities</b>	<b>\$ <u>24,233,038</u></b>
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*The notes to the basic financial statements are an integral part of this statement.*

**CITY OF PACIFIC GROVE, CALIFORNIA**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended June 30, 2010**

	General	Nonmajor Governmental Funds	Total
<u>Revenues</u>			
Taxes	\$ 12,297,855	\$ 387,067	\$ 12,684,922
Licenses and permits	424,659	-	424,659
Fines, forfeitures and penalties	41,706	-	41,706
Intergovernmental	1,302,203	1,264,950	2,567,153
Charges for current services	1,198,865	490,728	1,689,593
Use of money and property	170,843	86,743	257,586
Interdepartmental charges	1,548,289	-	1,548,289
Other	26,015	224,943	250,958
	<u>17,010,435</u>	<u>2,454,431</u>	<u>19,464,866</u>
Total Revenues			
	<u>17,010,435</u>	<u>2,454,431</u>	<u>19,464,866</u>
<u>Expenditures</u>			
Current			
Public safety			
Police	5,269,362	185,590	5,454,952
Fire	3,179,394	98,479	3,277,873
General administration	1,963,968	285,589	2,249,557
Public works	1,584,719	416,842	2,001,561
Recreation	330,442	9,665	340,107
Library	493,270	152,670	645,940
Community development & building inspection	1,142,474	205,544	1,348,018
Museum	205,898	84,358	290,256
Capital outlay	59,368	965,067	1,024,435
Debt service			
Principal	1,247,750	372,859	1,620,609
Interest and fiscal charges	305,373	78,752	384,125
	<u>15,782,018</u>	<u>2,855,415</u>	<u>18,637,433</u>
Total Expenditures			
	<u>15,782,018</u>	<u>2,855,415</u>	<u>18,637,433</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,228,417</u>	<u>(400,984)</u>	<u>827,433</u>
<u>Other Financing Sources (Uses)</u>			
Transfers in	51,725	561,602	613,327
Transfers out	(546,565)	(15,037)	(561,602)
	<u>(494,840)</u>	<u>546,565</u>	<u>51,725</u>
Net other financing sources (uses)			
	<u>(494,840)</u>	<u>546,565</u>	<u>51,725</u>
Net Change in Fund Balances	733,577	145,581	879,158
Fund Balances, Beginning	1,978,092	6,886,227	8,864,319
Fund Balances, Ending	<u>\$ 2,711,669</u>	<u>\$ 7,031,808</u>	<u>\$ 9,743,477</u>

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

**CITY OF PACIFIC GROVE, CALIFORNIA**  
**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,**  
**and Changes in Fund Balances to the Government-wide Statement of Activities -**  
**Governmental Activities**  
**Year Ended June 30, 2010**

**Net Change in Fund Balances - Total Governmental Funds** **\$ 879,158**

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

Governmental funds report capital outlay as expenditures. However, in the  
statement of activities, the cost of those assets is allocated over their  
estimated useful lives and reported as depreciation expense. This is the  
amount by which capital outlays exceeded depreciation in the current period.

Expenditures for general capital assets and other related  
capital assets adjustment

	\$ 1,022,715	
Less current year depreciation	<u>(654,715)</u>	368,000

Repayments of debt principal is an expenditure in the governmental funds,  
but the repayment reduces the long-term liabilities in the statement of net assets.

Principal repayments on long-term debt		1,620,609
--	--	-----------

Some expenses reported in the statement of activities do not require the use  
of current financial resources and, therefore, are not reported as expenditures  
in governmental funds.

Accretion of capital appreciation bonds

(917,340)

Amortization of deferred charges relating to the P.O.B.

(1,240,279)

Change in accrued interest payable

(977)

Change in net OPEB obligation

43,831

Change in compensated absences

	<u>(18,977)</u>	(2,133,742)
--	-----------------	-------------

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

448,550

<b>Change in Net Assets of Governmental Activities</b>		<b>\$ <u><u>1,182,575</u></u></b>
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*The notes to the basic financial statements are an integral part of this statement.*

**CITY OF PACIFIC GROVE, CALIFORNIA**  
**Statement of Fund Net Assets - Proprietary Funds**  
**June 30, 2010**

	Business-type Activities - Enterprise Funds				Governmental Activities
	Cemetery Operating	Sewer Operating	Golf Course	Total	Internal Service Funds
<u>Assets</u>					
Current Assets					
Cash and investments					
Available for operations	\$ (218,442)	\$ 3,709,974	\$ 796,185	\$ 4,287,717	\$ 887,535
Held in trust	-	50,001	273,840	323,841	-
Receivables					
Accounts	1,771	415,617	25,039	442,427	21,679
Interest and other	-	-	2,072	2,072	-
Inventory	-	-	89,051	89,051	-
Prepaid expenses	1,091	3,016	-	4,107	-
Total Current Assets	(215,580)	4,178,608	1,186,187	5,149,215	909,214
Noncurrent Assets					
Capital assets					
Land	20	-	362,953	362,973	-
Building	709,611	-	5,384,187	6,093,798	-
Improvements	396,173	-	2,728,321	3,124,494	-
Machinery and equipment	198,405	751,000	933,987	1,883,392	-
Sewer lines	-	5,968,264	-	5,968,264	-
Accumulated depreciation	(617,393)	(1,579,639)	(3,037,112)	(5,234,144)	-
Other assets					
Loans receivable	-	136,532	126,805	263,337	-
Deferred charges	-	61,445	-	61,445	-
Total Noncurrent Assets	686,816	5,337,602	6,499,141	12,523,559	-
Total Assets	\$ 471,236	\$ 9,516,210	\$ 7,685,328	\$ 17,672,774	\$ 909,214
<u>Liabilities</u>					
Current Liabilities					
Accounts payable	\$ 9,617	\$ 324,108	\$ 85,703	\$ 419,428	\$ 7,701
Interest payable	-	15,278	82,654	97,932	-
Deferred revenue	-	-	59,774	59,774	-
Claims payable	-	-	-	-	183,631
Long-term debt	891	66,221	84,077	151,189	-
Total Current Liabilities	10,508	405,607	312,208	728,323	191,332
Noncurrent Liabilities					
Claims payable	-	-	-	-	1,535,056
Compensated absences	-	-	185,913	185,913	-
Long-term debt	-	1,301,992	3,569,797	4,871,789	-
Total Noncurrent Liabilities	-	1,301,992	3,755,710	5,057,702	1,535,056
Total Liabilities	10,508	1,707,599	4,067,918	5,786,025	1,726,388
<u>Net Assets</u>					
Invested in capital assets, net of related debt	685,925	3,771,412	2,718,462	7,175,799	-
Restricted					
Debt service	-	1	273,840	273,841	-
Unrestricted	(225,197)	4,037,198	625,108	4,437,109	(817,174)
Total Net Assets	460,728	7,808,611	3,617,410	11,886,749	(817,174)
Total Liabilities and Net Assets	\$ 471,236	\$ 9,516,210	\$ 7,685,328	\$ 17,672,774	\$ 909,214

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

**CITY OF PACIFIC GROVE, CALIFORNIA**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds**  
**Year Ended June 30, 2010**

	Business-type Activities - Enterprise Funds				Governmental Activities
	Cemetery Operating	Sewer Operating	Golf Course	Total	Internal Service Funds
<u>Operating Revenues</u>					
Charges for current services	\$ 154,817	\$ 2,516,888	\$ 2,611,308	\$ 5,283,013	\$ 1,279,989
Other	7,937	5,262	25,766	38,965	23,954
Total Operating Revenues	<u>162,754</u>	<u>2,522,150</u>	<u>2,637,074</u>	<u>5,321,978</u>	<u>1,303,943</u>
<u>Operating Expenses</u>					
Personnel services	127,145	244,945	1,036,262	1,408,352	84,326
Operating services	56,990	643,472	1,020,062	1,720,524	594,849
Insurance, claims and settlements	-	-	-	-	176,218
Depreciation	<u>42,478</u>	<u>198,345</u>	<u>286,543</u>	<u>527,366</u>	<u>-</u>
Total Operating Expenses	<u>226,613</u>	<u>1,086,762</u>	<u>2,342,867</u>	<u>3,656,242</u>	<u>855,393</u>
Operating Income (Loss)	<u>(63,859)</u>	<u>1,435,388</u>	<u>294,207</u>	<u>1,665,736</u>	<u>448,550</u>
<u>Non-operating Revenues (Expenses)</u>					
Interest and investment income	11,280	17,118	8,684	37,082	-
Interest expense	<u>(2,406)</u>	<u>(71,635)</u>	<u>(199,780)</u>	<u>(273,821)</u>	<u>-</u>
Total Non-operating Revenues (Expenses)	<u>8,874</u>	<u>(54,517)</u>	<u>(191,096)</u>	<u>(236,739)</u>	<u>-</u>
Net Income (Loss) Before Transfers	(54,985)	1,380,871	103,111	1,428,997	448,550
Transfers out	<u>-</u>	<u>-</u>	<u>(51,725)</u>	<u>(51,725)</u>	<u>-</u>
Change in Net Assets	<u>(54,985)</u>	<u>1,380,871</u>	<u>51,386</u>	<u>1,377,272</u>	<u>448,550</u>
Net Assets, Beginning	<u>515,713</u>	<u>6,427,740</u>	<u>3,566,024</u>	<u>10,509,477</u>	<u>(1,265,724)</u>
Net Assets, Ending	<u>\$ 460,728</u>	<u>\$ 7,808,611</u>	<u>\$ 3,617,410</u>	<u>\$ 11,886,749</u>	<u>\$ (817,174)</u>

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

**CITY OF PACIFIC GROVE, CALIFORNIA**  
**Statement of Cash Flows - Proprietary Funds**  
**Year Ended June 30, 2010**

	Business-type Activities - Enterprise Funds				Governmental Activities
	Cemetery Operating	Sewer Operating	Golf Course	Total	Internal Service Funds
Cash Flows from Operating Activities					
Receipts from customers	\$ 154,817	\$ 2,560,855	\$ 2,605,943	\$ 5,321,615	\$ 1,342,584
Payments to suppliers	(73,926)	(393,243)	(740,088)	(1,207,257)	(744,785)
Payments to employees	(94,609)	(253,959)	(1,074,998)	(1,423,566)	-
Internal activity - payments to other funds	(20,836)	(77,796)	(255,290)	(353,922)	-
Claims paid	-	-	-	-	(128,316)
Other receipts (payments)	7,855	(20)	18,549	26,384	-
Net Cash Provided (Used) by Operating Activities	<u>(26,699)</u>	<u>1,835,837</u>	<u>554,116</u>	<u>2,363,254</u>	<u>469,483</u>
Cash Flows from Noncapital Financing Activities					
Transfers paid	-	-	(51,725)	(51,725)	-
Net Cash Used by Noncapital Financing Activities	<u>-</u>	<u>-</u>	<u>(51,725)</u>	<u>(51,725)</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities					
Purchase of capital assets	-	(733,639)	(117,228)	(850,867)	-
Principal paid on long-term debt	(10,681)	(77,847)	(78,328)	(166,856)	-
Interest paid on long-term debt	(2,406)	(67,880)	(202,552)	(272,838)	-
Net Cash Used by Capital and Related Financing Activities	<u>(13,087)</u>	<u>(879,366)</u>	<u>(398,108)</u>	<u>(1,290,561)</u>	<u>-</u>
Cash Flows from Investing Activities					
Interest received	11,280	27,122	8,684	47,086	-
Net Cash Provided by Investing Activities	<u>11,280</u>	<u>27,122</u>	<u>8,684</u>	<u>47,086</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(28,506)	983,593	112,967	1,068,054	469,483
Cash and Cash Equivalents, Beginning	<u>(189,936)</u>	<u>2,776,382</u>	<u>957,058</u>	<u>3,543,504</u>	<u>418,052</u>
Cash and Cash Equivalents, Ending	<u>\$ (218,442)</u>	<u>\$ 3,759,975</u>	<u>\$ 1,070,025</u>	<u>\$ 4,611,558</u>	<u>\$ 887,535</u>
Cash Flows from Operating Activities					
Operating income (loss)	\$ (63,859)	\$ 1,435,388	\$ 294,207	\$ 1,665,736	\$ 448,550
Adjustments to reconcile operating income to net cash provided (used) by operating activities					
Depreciation	42,478	198,345	286,543	527,366	-
Decrease (increase) in operating assets					
Accounts receivable	(1,771)	43,976	(5,365)	36,840	133,278
Loans receivable	-	(5,262)	-	(5,262)	-
Prepaid items	54	-	-	54	-
Other assets	-	91,274	(8,000)	83,274	-
Increase (decrease) in operating liabilities					
Accounts payable	2,209	81,130	7,529	90,868	(2,233)
Wages payable	(5,810)	(9,014)	(38,736)	(53,560)	-
Claims payable	-	-	-	-	(110,112)
Compensated absences	-	-	17,938	17,938	-
Net Cash Provided (Used) by Operating Activities	<u>\$ (26,699)</u>	<u>\$ 1,835,837</u>	<u>\$ 554,116</u>	<u>\$ 2,363,254</u>	<u>\$ 469,483</u>

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





**Basic Financial Statements -**  
**Notes to the Basic Financial Statements**



**CITY OF PACIFIC GROVE**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2010**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

The City's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The most significant of the City's accounting policies are described below:

**A. Reporting Entity**

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

**B. Basis of Presentation**

***Government-wide Financial Statements***

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

**CITY OF PACIFIC GROVE**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2010**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

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

***Fund Financial Statements***

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

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

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

The City reports the following major governmental fund:

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

**CITY OF PACIFIC GROVE**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2010**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

The City reports the following major enterprise funds:

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

Additionally, the City reports the following fund type:

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

**C. Measurement Focus and Basis of Accounting**

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

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

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

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

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

**CITY OF PACIFIC GROVE**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2010**

**NOTE 1.      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

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

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

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

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

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

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

**D.      Utility Service Billings**

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

**CITY OF PACIFIC GROVE**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2010**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**E. Budgets and Budgetary Accounting**

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

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

**F. Deferred Compensation Plan**

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

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

**CITY OF PACIFIC GROVE**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2010**

**NOTE 1.      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**G.      Compensated Absences**

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

**H.      Property Tax**

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

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

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

**I.      Long-term Liabilities**

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

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



**CITY OF PACIFIC GROVE**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2010**

**NOTE 1.      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**J.          Interfund Activity**

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

**K.          Estimates**

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

**L.          Subsequent Events**

Management has evaluated subsequent events through January 21, 2011.

**NOTE 2.      CASH AND INVESTMENTS**

**A.          Policies**

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

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

**CITY OF PACIFIC GROVE**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2010**

**NOTE 2.      CASH AND INVESTMENTS - Continued**

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

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

**B.      Classification**

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

Statement of Net Assets:	
Cash and investments available for operations	\$11,555,188
Cash and investments held in trust	<u>1,197,179</u>
 Total City cash and investments	 <u>\$12,752,367</u>

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

Investments	\$ 8,075,301
Cash in banks	4,674,481
Petty cash	<u>2,585</u>
 Total City cash and investments	 <u>\$12,752,367</u>

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

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

**CITY OF PACIFIC GROVE**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2010**

**NOTE 2. CASH AND INVESTMENTS - Continued**

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

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

**D. Investments Authorized by Debt Agreements**

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

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

**CITY OF PACIFIC GROVE**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2010**

**NOTE 2. CASH AND INVESTMENTS - Continued**

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

**E. Interest Rate Risk**

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

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

<u>Investment Type</u>	<u>12 Months or less</u>	<u>13 to 36 Months</u>	<u>37 to 60 Months</u>	<u>Total</u>
Investments				
U.S. Agency Securities				
Gov't Bonds - Callable	\$ -	\$500,156	\$504,370	\$ 1,004,526
Gov't Bonds - Non-Callable	483,362	383,266	-	866,628
Certificates of Deposit	50,000	-	-	50,000
Money Market Funds	273,841	-	-	273,841
Cash or Equivalent	6,710	-	-	6,710
California Local Agency Investment Fund	<u>5,873,596</u>	<u>-</u>	<u>-</u>	<u>5,873,596</u>
Total Investments	<u>\$6,687,509</u>	<u>\$883,422</u>	<u>\$504,370</u>	8,075,301
Cash				
Cash in banks				4,674,481
Petty cash				<u>2,585</u>
Total Cash and Investments				<u>\$12,752,367</u>

**CITY OF PACIFIC GROVE**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2010**

**NOTE 2. CASH AND INVESTMENTS - Continued**

**F. Credit Risk**

Credit risk is the risk that an insurer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the City's investment policy, or debt agreements and the actual rating as of June 30, 2010 for each investment type as provided by Moody's:

<u>Investment Type</u>	<u>AAA</u>	<u>Not Rated</u>	<u>Total</u>
Investments			
U.S. Agency Securities			
Gov't Bonds - Callable	\$1,004,526	\$ -	\$ 1,004,526
Gov't Bonds - Non-Callable	866,628	-	866,628
Certificates of Deposit	-	50,000	50,000
Money Market Funds	273,841	-	273,841
Cash or Equivalent	-	6,710	6,710
California Local Agency Investment Fund	-	5,873,596	5,873,596
 Total Investments	 \$2,144,995	 \$5,930,306	 8,075,301
Cash			
Cash in banks			4,674,481
Petty cash			2,585
 Total Cash and Investments			 \$12,752,367

**G. Concentration Risk**

The City's investment policy contain limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code for investments in a County Agency Investment Fund, Negotiable Certificates of Deposit, Repurchase Agreements and Reverse Repurchase Agreements. The City does not have any investments in any one issuer, other than U.S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of total City-wide investments are as follows at June 30, 2010.

**CITY OF PACIFIC GROVE**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2010**

**NOTE 2.      CASH AND INVESTMENTS - Continued**

**H.          Custodial Credit Risk**

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

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

**I.          Cash Equivalents**

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

**NOTE 3.      PERMANENT FUNDS**

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

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

**CITY OF PACIFIC GROVE**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2010**

**NOTE 3. PERMANENT FUNDS - Continued**

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

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

	<u>June 30, 2009</u>	<u>June 30, 2010</u>
Balance held by Trustee at end of year, at fair value	\$ <u>806,037</u>	\$ <u>857,463</u>

**NOTE 4. INTERFUND TRANSFER**

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

	<u>Transfer In</u>	<u>Transfer Out</u>
Governmental Activities		
Governmental funds		
Major funds		
General fund	\$ 51,725	\$546,565
Nonmajor funds	<u>561,602</u>	<u>15,037</u>
Total Governmental Activities	<u>613,327</u>	<u>561,602</u>
Business-type Activities		
Golf Course	-	<u>51,725</u>
Total Business-type funds	<u>-</u>	<u>51,725</u>
Total	<u>\$613,327</u>	<u>\$613,327</u>

**CITY OF PACIFIC GROVE**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2010**

**NOTE 5.      LOANS RECEIVABLE**

**A.          Housing Assistance Loans**

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

Although these loans and notes are expected to be repaid in full, their balance has offset by a reservation of fund balance, as they are not expected to be repaid during the current fiscal year. The balance of the loans receivable arising from these programs at June 30, 2010 was \$1,706,631.

**B.          Sewer Lateral Replacement Loans**

The City has a Sewer Lateral Repair/Replacement Loan Program to improve sewer lateral lines connected to homeowners' residences. These loans carry an interest rate of three percent per annum. Repayment on loan principal and interest are deferred until the property is sold. All loans are secured by a deed of trust on the property. The balance of these loans receivables from this program at June 30, 2010 was \$136,532.

**C.          Golf Course Kitchen Equipment Purchase Lease**

The City entered into a kitchen equipment purchase lease agreement with the food and beverage concessionaire at the Golf Course. The City purchased and installed the kitchen equipment during the construction of the new clubhouse and sold interest and title to the fixtures and equipment to the concessionaire. The principal amount of the loan is \$152,000 and carries an interest rate of six percent per annum. The term of the loan is fifteen years and payments of \$1,282.66 are due monthly. The balance of this loan receivable at June 30, 2010 was \$126,805.



**CITY OF PACIFIC GROVE**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2010**

**NOTE 6.      CAPITAL ASSETS**

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

GASB Statement 34 allowed the City up to four years to record infrastructure assets acquired in prior years. With the implementation of GASB 34 the City has recorded historical values for infrastructure assets since 1980 as adjustments to capital assets in the fiscal year ended June 30, 2008.

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

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

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

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

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

**CITY OF PACIFIC GROVE**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2010**

**NOTE 6. CAPITAL ASSETS – Continued**

Capital assets activity for the year ended June 30, 2010 was as follows:

	Balance July 1, 2009	Additions/ Adjustments	Retirements/ Adjustments	Balance June 30, 2010
<b><u>Governmental activities</u></b>				
Capital assets, not being depreciated:				
Land	\$ 2,338,270	\$ -	\$ -	\$ 2,338,270
Construction in progress	<u>77,138</u>	<u>-</u>	<u>-</u>	<u>77,138</u>
Total capital assets, not being depreciated	<u>2,415,408</u>	<u>-</u>	<u>-</u>	<u>2,415,408</u>
Capital assets, being depreciated:				
Infrastructure	21,217,753	804,014	-	22,021,767
Buildings	11,117,346	91,248	-	11,208,594
Improvements	242,192	35,495	-	277,687
Machinery and equipment	<u>3,751,705</u>	<u>91,958</u>	<u>-</u>	<u>3,843,663</u>
Total capital assets, being depreciated	<u>36,328,996</u>	<u>1,022,715</u>	<u>-</u>	<u>37,351,711</u>
Less accumulated depreciation for:				
Infrastructure	7,240,368	305,153	-	7,545,521
Buildings	5,807,098	110,577	-	5,917,675
Improvement	86,284	10,963	-	97,247
Machinery and equipment	<u>2,757,324</u>	<u>228,022</u>	<u>-</u>	<u>2,985,346</u>
Total accumulated depreciation	<u>15,891,074</u>	<u>654,715</u>	<u>-</u>	<u>16,545,789</u>
Total capital assets, being depreciated, net	<u>20,437,922</u>	<u>368,000</u>	<u>-</u>	<u>20,805,922</u>
Governmental activities capital assets, net	<u>\$22,853,330</u>	<u>\$368,000</u>	<u>\$ -</u>	<u>\$23,221,330</u>
<b><u>Business-type activities</u></b>				
Capital assets, not being depreciated:				
Land	\$ 362,973	\$ -	\$ -	\$ 362,973
Total capital assets, not being depreciated	<u>362,973</u>	<u>-</u>	<u>-</u>	<u>362,973</u>
Capital assets, being depreciated:				
Buildings	6,093,798	-	-	6,093,798
Improvements	3,028,540	95,954	-	3,124,494
Machinery and equipment	1,862,066	21,326	-	1,883,392
Sewer line	<u>5,174,791</u>	<u>793,473</u>	<u>-</u>	<u>5,968,264</u>
Total capital assets, being depreciated	<u>16,159,195</u>	<u>910,753</u>	<u>-</u>	<u>17,069,948</u>
Less accumulated depreciation for:				
Buildings	876,552	83,123	-	959,675
Improvements	1,471,574	204,389	-	1,675,963
Machinery and equipment	1,474,165	114,157	-	1,588,322
Sewer line	<u>884,487</u>	<u>125,697</u>	<u>-</u>	<u>1,010,184</u>
Total accumulated depreciation	<u>4,706,778</u>	<u>527,366</u>	<u>-</u>	<u>5,234,144</u>
Total capital assets, being depreciated, net	<u>11,452,417</u>	<u>383,387</u>	<u>-</u>	<u>11,835,804</u>
Business-type activities capital assets, net	<u>\$11,815,390</u>	<u>\$383,387</u>	<u>\$ -</u>	<u>\$12,198,777</u>

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

**CITY OF PACIFIC GROVE**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2010**

**NOTE 6. CAPITAL ASSETS – Continued**

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

Governmental activities:	
Police	\$ 74,456
Fire	77,557
General administration	357,861
Public works	85,768
Recreation	20,368
Library	8,300
Community development & building inspection	15,687
Museum	<u>14,718</u>
Total depreciation expense – governmental activities	<u>\$654,715</u>
Business-type activities:	
Cemetery operating	\$ 42,478
Sewer operating	198,345
Golf course	<u>286,543</u>
Total depreciation expense – business-type activities	<u>\$527,366</u>

**NOTE 7. LONG-TERM DEBT**

Long-term liabilities at June 30, 2010 included the following:

<u>Type of obligation</u>	<u>Original Issue Amount</u>	<u>Balance July 1, 2009</u>	<u>Additions/ Adjustment</u>	<u>Retirements</u>	<u>Balance June 30, 2010</u>	<u>Due within one year</u>
<b><u>Governmental Activities</u></b>						
<u>Governmental funds</u>						
<b><i>General Obligation Refunding Note</i></b>						
2003 Refunding Butterfly						
Habitat Note; 4.45%;						
maturity 8/1/17	\$ 963,793	\$ 680,294	\$ -	\$ 63,546	\$ 616,748	\$ 67,773
<b><i>Housing Rehabilitation bank loan</i></b>						
No interest; maturity 5/18/10	150,000	75,000	-	75,000	-	-
<b><i>Capital Lease</i></b>						
2003 Civic Center financing						
lease: 3.85%; maturity						
2/8/14	1,909,387	1,004,567	-	185,889	818,678	193,115
Pierce Dash 2000 Pumper;						
3.885% maturity 8/15/15	410,134	303,050	-	38,503	264,547	39,999

**CITY OF PACIFIC GROVE**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2010**

**NOTE 7. LONG-TERM DEBT**

<u>Type of obligation</u>	<u>Original Issue Amount</u>	<u>Balance July 1, 2009</u>	<u>Additions/ Adjustment</u>	<u>Retirements</u>	<u>Balance June 30, 2010</u>	<u>Due within one year</u>
2009 Police vehicles; 5.95%; maturity 11/21/10	\$ 31,570	\$ 20,433	\$ -	\$ 9,921	\$ 10,512	\$ 10,512
Stromberg Time & Attendance; 8.803% maturity 11/21/10	20,830	10,783	-	7,471	3,312	3,312
<b><i>Pension Obligation Bond</i></b>						
Taxable Pension Obligation Bonds; 5.67%-6.12%; maturity 6/1/29	19,365,355	17,226,418	-	1,240,279	15,986,139	1,207,782
Accreted Interest		<u>3,812,941</u>	<u>917,340</u>	<u>-</u>	<u>4,730,281</u>	<u>-</u>
Total Governmental Activities		<u>\$23,133,486</u>	<u>\$917,340</u>	<u>\$1,620,609</u>	<u>\$22,430,217</u>	<u>\$1,522,493</u>
<b><u>Business-type Activities</u></b>						
<b><u>Enterprise fund – Cemetery</u></b>						
<b><i>Capital Lease</i></b>						
Mower; 4.47%; due monthly until 7/15/10	\$ 52,273	\$ 11,572	\$ -	\$ 10,681	\$ 891	\$ 891
<b><u>Enterprise fund – Sewer</u></b>						
<b><i>Revenue bonds</i></b>						
California Statewide Community Dev. Auth. Series 2000B; 3.25%- 5.125%; due 10/1/31	1,475,000	1,290,000	-	30,000	1,260,000	35,000
Less: unamortized discount		(19,281)	-	(864)	(18,417)	(864)
<b><i>Capital Lease</i></b>						
Backhoe; 2.75%-5.75%; due annually until 11/16/09	85,650	17,780	-	17,780	-	-
Vactor truck; due monthly until 3/30/14	165,624	157,562	-	30,932	126,630	32,085
<b><u>Enterprise fund – Golf</u></b>						
<b><i>Certificates of Participation</i></b>						
2004 Golf Course Project; 2.75%-5.75%; maturity 8/1/34	3,960,000	3,695,000	-	70,000	3,625,000	75,000
<b><i>Capital Lease</i></b>						
Mower; 5.756%; annually until 3/2/13	46,196	<u>37,445</u>	<u>-</u>	<u>8,571</u>	<u>28,874</u>	<u>9,077</u>
Total Business-type Activities		<u>\$5,190,078</u>	<u>\$-</u>	<u>\$167,100</u>	<u>\$5,022,978</u>	<u>\$151,189</u>

**CITY OF PACIFIC GROVE**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2010**

**NOTE 7. LONG-TERM DEBT - Continued**

*2003 General Obligation Refunding Note*

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

On November 1, 2003, the City entered into a \$963,793 General Obligation Refunding Note. This note was issued to refund the remaining principal amount and accrued interest from the 1990 Butterfly Habitat Bonds. Semi-annual principal and interest are due February 1 and August 1. At June 30, 2010, annual debt service requirements to maturity are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 67,773	\$ 25,937
2012	66,889	22,941
2013	70,966	19,874
2014	74,923	16,628
2015	78,758	13,208
2016-2018	<u>257,439</u>	<u>17,488</u>
Totals	<u>\$616,748</u>	<u>\$116,076</u>

*Housing Rehabilitation Bank Loan*

On March 28, 2000, the City entered into a \$150,000 no-interest loan agreement with a bank. The loan agreement requires the loan proceeds to be used only to fund the City's housing rehabilitation loan program. At the end of 5 years, the loan agreement calls for \$75,000 of the loan balances to be forgiven, with the remaining \$75,000 due and payable at the end of 10 years. During the 2006 fiscal year, forgiveness of the \$75,000 had occurred and recorded as a decrease in long-term debt. At June 30, 2010, the loan balance had been paid off.

*2003 Civic Center Financing Leases*

On November 18, 1998, the City entered into a financing lease agreement for \$1,500,000 to fund the Civic Center site improvement project. Included in the project are the construction of a civic plaza, parking lot and new building, rehabilitation of the exiting City hall building, demolition of some existing building and landscaping. On August 1, 2003, the City refinanced the lease by entering into a new Civic Center Financing lease in the amount of \$1,909,387. Semi-annual principal and interest are due on February 8 and August 8. At June 30, 2010, annual debt service requirements to maturity are as follows:

**CITY OF PACIFIC GROVE**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2010**

**NOTE 7. LONG-TERM DEBT - Continued**

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2011	\$193,115	\$29,678
2012	200,622	22,171
2013	208,420	14,373
2014	<u>216,521</u>	<u>6,272</u>
Totals	<u>\$818,678</u>	<u>\$72,494</u>

*Capital Lease Obligations – governmental activities*

Capital lease obligations are repayable from future revenues of the fund to which they have been assigned. At June 30, 2010, annual debt service requirements to maturity are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 53,823	\$10,976
2012	41,553	8,724
2013	43,167	7,110
2014	44,844	5,433
2015	46,587	3,690
2016	<u>48,397</u>	<u>1,880</u>
Totals	<u>\$278,371</u>	<u>\$37,813</u>

*Pension Obligation Bond*

On June 1, 2006, the City issued Taxable Pension Obligation Bond in the principal amount of \$19,365,355. The bonds were part of the California Statewide Communities Development Authority Taxable Pension Obligation Bonds Program. The purpose of the bond is to provide monies to meet the unfunded accrued actuarial liability ("UAAL") to the California Public Employee's Retirement System ("PERS"). Semi-annual payments are due on June 1 and December 1. At June 30, 2010, annual debt service requirements to maturity are as follows:

**CITY OF PACIFIC GROVE**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2010**

**NOTE 7. LONG-TERM DEBT - Continued**

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest Accretion</u>	<u>Interest</u>
2011	\$ 1,207,782	\$ 342,781	\$ 387,218
2012	1,180,806	335,115	469,194
2013	1,145,902	328,372	554,098
2014	1,115,470	323,365	644,530
2015	1,084,100	315,483	730,901
2016-2020	4,952,738	1,472,973	5,052,262
2021-2025	3,570,526	1,084,028	6,104,474
2026-2029	<u>1,728,815</u>	<u>528,164</u>	<u>4,561,184</u>
Totals	<u>\$15,986,139</u>	<u>\$4,730,281</u>	<u>\$18,503,861</u>

*California State Community Development Authority Series 2001B Revenue Bond*

On August 1, 2001, the City issued Wastewater Revenue Bond in the principal amount of \$1,475,000. The bonds were part of the California Statewide Communities Development Authority Water and Wastewater Revenue Bond pooled financing program. The purpose of the bond is to construct certain improvements to the City of Pacific Grove's sewer system. Semi-annual interest payments are due on April 1 and October 1 and annual principal payments are due on October 1. Repayments are secured by future sewer service revenues. Interest rates on the bonds range from 3.25% to 5.125%. At June 30, 2010, annual debt service requirements to maturity are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 35,000	\$ 61,113
2012	35,000	59,695
2013	35,000	58,225
2014	40,000	56,573
2015	40,000	54,753
2016-2020	230,000	242,505
2021-2025	295,000	175,950
2026-2030	375,000	92,125
2031-2032	<u>175,000</u>	<u>8,874</u>
Totals	<u>\$ 1,260,000</u>	<u>\$809,813</u>

**CITY OF PACIFIC GROVE**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2010**

**NOTE 7. LONG-TERM DEBT - Continued**

*Capital Lease Obligations – business-type activities*

Capital lease obligations are repayable from future revenues of the fund to which they have been assigned. At June 30, 2010, annual debt service requirements to maturity are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 42,053	\$ 5,564
2012	42,897	3,629
2013	44,708	1,818
2014	<u>26,737</u>	<u>409</u>
Totals	<u>\$156,395</u>	<u>\$11,420</u>

*2004 Certificates of Participation (Golf Course Project)*

On August 1, 2004, the City issued 2004 Certificates of Participation (Golf Course Project) in the principal amount of \$3,960,000. Proceeds were used to finance capital improvements to the City's municipal golf course. Semi-annual interest payments are due on February 1 and August 1 and annual principal payments are due on August 1. Repayments are secured by future revenues from the operation of the City's Golf Course Enterprise fund. Interest rates range from 2.75% to 5.75%. At June 30, 2010, annual debt service requirements to maturity are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 75,000	\$ 195,779
2012	75,000	192,516
2013	80,000	188,988
2014	85,000	185,109
2015	90,000	180,840
2016-2020	520,000	828,875
2021-2025	670,000	668,970
2026-2030	875,000	455,206
2031-2035	<u>1,155,000</u>	<u>170,206</u>
Totals	<u>\$3,625,000</u>	<u>\$3,066,489</u>



**CITY OF PACIFIC GROVE**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2010**

**NOTE 8.     NET ASSETS AND FUND BALANCES**

*Net Assets*

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

- Invested in capital assets, net of related debt – Consists of the current net book value of the City’s capital assets less the outstanding balances of any debt issued to finance these assets.
- Restricted net assets – Consists of net assets constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. A legally enforceable enabling legislation restriction is one that a party external to a government – such as citizens, public interest groups, or the judiciary – can compel a government to honor.
- Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt” and are not restricted for any project or purpose.

*Fund Balances*

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

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

As of June 30, 2010, reservations of fund balance are described below:

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

**CITY OF PACIFIC GROVE**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2010**

**NOTE 8.      NET ASSETS AND FUND BALANCES - Continued**

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

As of June 30, 2010, designations of fund balance are described below:

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

**NOTE 9.      DEFICIT NET ASSETS**

The following funds had deficit net assets at June 30, 2010:

Governmental Activities	
Internal Service funds	
Workers' Compensation Insurance	\$961,938

The Workers' Compensation Insurance fund deficit is a carry-over from a historical mismatch between claims activity and aggregate charges to departments based on claims activity. The City has made additional operating transfers and long-standing open claims have been closed during the current year reducing the fund deficit from \$1,305,713 in fiscal year 2008-2009 to \$961,938 in fiscal year 2009-2010.

**NOTE 10.     PENSION PLANS**

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

**CITY OF PACIFIC GROVE**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2010**

**NOTE 10. PENSION PLANS – Continued**

The Plans' provisions and benefits are summarized as follows:

	<u>Safety</u>	<u>Miscellaneous</u>
Benefit vesting schedule (credited service)	5 years	5 years
Benefit payments	Monthly for life	Monthly for life
Retirement age	50	55
Monthly benefit, as a % of annual salary	3%	2%
Required employee contribution rates	9%	7%
Required employer contribution rates	19.166%	9.167%

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

CALPERS uses the entry age normal cost method as the actuarial cost method. An investment rate of return of 7.75% (net of administrative expenses) is assumed, including inflation at 3.0%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll. Average remaining period is 18 years as of valuation date and asset valuation method is 15 year smoothed market.

Effective July 1, 2005, the City's Miscellaneous and Safety Plans were joined into State-wide risk pools. Audited annual financial statements are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

Actuarially required contributions for fiscal years 2010, 2009, and 2008 were \$740,710, \$921,267, and \$1,312,277, respectively. The current year's required contribution was determined as part of the June 30, 2007 actuarial valuation. The City made these contributions as required, together with certain immaterial amounts required as the result of the payment of overtime and other additional employee compensation. The City does not have a net pension obligation since it pays these actuarially required contributions monthly.

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

**CITY OF PACIFIC GROVE**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2010**

**NOTE 11. PUBLIC AGENCY RETIREMENT SYSTEM**

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

Under PARS, employees contribute 6.2% and the City contributes 6.2% of the employees' salary each pay period. For the fiscal year ending June 30, 2010, total contributions of \$35,696 were made.

**NOTE 12. NET OPEB OBLIGATION**

The City provides limited health care benefits through PERS to retired employees. Benefits provided require sharing of cost from retirees eligible to participate in the program. During the year ended June 30, 2010, the City paid \$143,155 for its share of benefits on behalf of 16 participants. The City budgets for the amounts to be paid on a "pay as you go" basis.

The actuarial valuation of postemployment medical benefits is available directly from the City. Based on the City's latest actuarial valuation (valuation date January 1, 2009 with valuation results rolled back to July 1, 2008):

Actuarial method	Entry age normal
Amortization method	Level percentage of future payroll
Amortization period	30 year
Discount rate	4%
Health care trend	5% per year after 2010

<u>Fiscal</u> <u>Year</u> <u>Ending</u>	<u>Normal</u> <u>Cost</u>	<u>Annual</u> <u>Required</u> <u>Contribution</u>	<u>Contributions</u> <u>during the</u> <u>year</u>	<u>Percentage</u> <u>of Annual</u> <u>OPEB Cost</u> <u>Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>
6/30/09	\$58,528	\$164,320	\$107,221*	65%*	\$59,099*
6/30/10	62,040	173,095	143,155	83%	87,039

\* includes adjustment for PEMCA payments of \$73,771.

**CITY OF PACIFIC GROVE**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2010**

**NOTE 13.     RISK MANAGEMENT**

**A.       Insurance Coverage**

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

**CITY OF PACIFIC GROVE**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2010**

**NOTE 13. RISK MANAGEMENT - Continued**

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

**B. Liability for Uninsured Claims**

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

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

	<u>Workers'</u> <u>Compensation</u>	<u>Liability</u> <u>Insurance</u>	<u>Total</u>
Ending balance, June 30, 2009	\$1,480,088	\$348,711	\$1,828,799
Incurred claims and changes in estimate	94,705	18,136	112,841
Claim payments	(110,180)	(112,773)	(222,953)
Ending balance, June 30, 2010	<u>\$1,464,613</u>	<u>\$254,074</u>	<u>\$1,718,687</u>
Due within one year	<u>\$94,705</u>	<u>\$88,926</u>	<u>\$183,631</u>

**NOTE 14. COMMITMENTS AND CONTINGENCIES**

**A. State and Federal Allowances, Awards, and Grants**

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

**B. Litigation**

The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney there are only some of these matters that may prove to be detrimental to the city. The total of these litigations, amounting to \$254,075 have been reserved by the City.

**CITY OF PACIFIC GROVE**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2010**

**NOTE 15.     SUBSEQUENT EVENTS**

The City pooled with California counties, cities and other local agencies to issue the California Communities Tax and Revenue Anticipation Note (TRAN), at 2.0% interest rate and re-offering yield of 0.8%, with the City's portion in the amount of \$2,850,000. The TRAN document closing date is July 1, 2010 with a maturity of June 30, 2011. Tax and Revenue Anticipation Notes are issued as part of a cash management policy to maintain the City's working capital until sufficient taxes or revenues are collected to fund the City's operations.

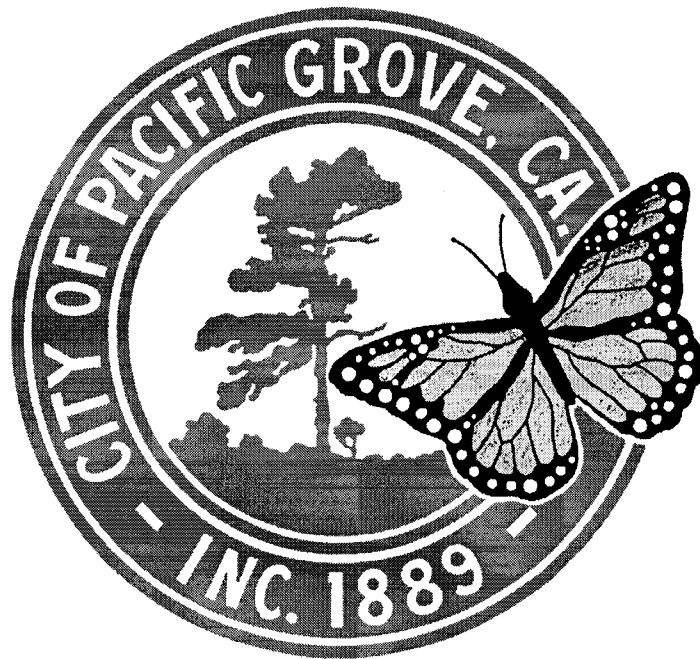
**NOTE 16.     PRIOR PERIOD ADJUSTMENTS**

During FY 2008/09, the City received reimbursements from the State of California Office of Traffic Safety for a crosswalk project that were incorrectly credited to the DARE fund instead of the Traffic Congestion Relief fund. This adjustment is necessary to properly reflect the reimbursement of costs related to the project that were charged to the Traffic Congestion Relief fund and restate the beginning fund balances of the effected funds. The total amount of the adjustment is approximately \$36 thousand.





**Required Supplementary Information**  
**(other than MD&A)**



**CITY OF PACIFIC GROVE, CALIFORNIA**  
**Budgetary Comparison Schedule - General Fund**  
**Year Ended June 30, 2010**

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
<b>Budgetary Balances, Beginning</b>	\$ 1,978,092	\$ 1,978,092	\$ 1,978,092	\$ -
<b>Resources (inflows)</b>				
Property tax	3,821,830	3,821,830	4,040,102	218,272
Sales tax	2,412,931	2,412,931	2,794,789	381,858
Transient occupancy tax	2,691,088	2,691,088	2,833,880	142,792
Franchise tax	873,878	873,878	805,820	(68,058)
Utility users	1,588,678	1,588,678	1,434,506	(154,172)
Business license	243,000	243,000	315,601	72,601
Real estate transfer tax	48,145	48,145	73,157	25,012
Licenses and permits	146,129	500,219	424,659	(75,560)
Fines, forfeitures and penalties	64,600	64,600	41,706	(22,894)
Intergovernmental	1,220,760	1,220,760	1,302,203	81,443
Charges for current services	1,100,022	1,100,022	1,198,865	98,843
Use of money and property	270,990	270,990	170,843	(100,147)
Interdepartmental charges	1,602,000	1,602,000	1,548,289	(53,711)
Other	15,000	15,000	26,015	11,015
Transfers in	360,000	360,000	51,725	(308,275)
Amounts Available for Appropriation	16,459,051	16,813,141	17,062,160	249,019
<b>Charges to appropriations (outflows)</b>				
Current				
Public safety				
Police	5,137,014	5,294,347	5,269,362	24,985
Fire	3,320,640	3,424,972	3,179,394	245,578
General administration	2,200,046	2,196,637	1,963,968	232,669
Public works	1,531,256	1,587,298	1,584,719	2,579
Recreation	347,732	356,315	330,442	25,873
Library	463,025	510,750	493,270	17,480
Community development & building inspection	874,252	1,258,665	1,142,474	116,191
Museum	151,641	198,901	205,898	(6,997)
Capital outlay	44,000	44,000	59,368	(15,368)
Debt service				
Principal	1,207,782	1,207,782	1,247,750	(39,968)
Interest and fiscal charges	392,218	392,218	305,373	86,845
Transfers out	753,415	557,566	546,565	11,001
Total Charges to Appropriation	16,423,021	17,029,451	16,328,583	700,868
<b>Budgetary Balances, Ending</b>	\$ 2,014,122	\$ 1,761,782	\$ 2,711,669	\$ 949,887

Continued

**CITY OF PACIFIC GROVE, CALIFORNIA**  
**Budgetary Comparison Schedule - General Fund**  
**Year Ended June 30, 2010**

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

Sources/Inflows of Resources

Actual amounts (budgetary basis) "available for appropriation" from the  
budgetary comparison schedule \$ 17,062,160

Differences - budget to GAAP:

Transfers from other funds are inflows of budgetary resources but are not  
revenues for financial reporting purposes (51,725)

Total Revenues as Reported on the Statement of Revenues, Expenditures, and  
Changes in Fund Balances - Governmental Funds \$ 17,010,435

Uses/Outflows of Resources

Actual amounts (budgetary basis) "total charges to appropriation" from the  
budgetary comparison schedule \$ 16,328,583

Differences - budget to GAAP:

Transfers to other funds are outflows of budgetary resources but are not  
expenditures for financial reporting purposes (546,565)

Total Expenditures as Reported on the Statement of Revenues, Expenditures, and  
Changes in Fund Balances - Governmental Funds \$ 15,782,018  
Concluded

**CITY OF PACIFIC GROVE, CALIFORNIA**  
**Schedules of Funding Progress**  
**June 30, 2010**

	(a)	(b)	(a)-(b)	(b)/(a) Funded Ratio	(c)	[(a)-(b)]/(c)
Valuation Date	Actuarial Liabilities (AL)	Actuarial Value of Assets (AVA)	Unfunded Liability (UL)	(AVA/AL)	Annual Covered Payroll	UL as a % of Payroll
<u>CalPERS Retirement Plan - Miscellaneous (Risk Pool):</u>						
6/30/2007	\$ 2,611,746,790	\$ 2,391,434,447	\$ 220,312,343	91.6%	\$ 665,522,859	33.1%
6/30/2008	\$ 2,780,280,768	\$ 2,547,323,278	\$ 232,957,490	91.6%	\$ 688,606,681	33.8%
6/30/2009	\$ 3,104,798,222	\$ 2,758,511,101	\$ 346,287,121	88.9%	\$ 742,981,488	46.6%
<u>CalPERS Retirement Plan - Safety (Risk Pool):</u>						
6/30/2007	\$ 7,986,055,176	\$ 6,826,599,459	\$ 1,159,455,717	85.5%	\$ 831,607,658	139.4%
6/30/2008	\$ 8,700,467,733	\$ 7,464,927,716	\$ 1,235,540,017	85.8%	\$ 914,840,596	135.1%
6/30/2009	\$ 9,721,675,347	\$ 8,027,158,724	\$ 1,694,516,623	82.6%	\$ 973,814,168	174.0%
<u>Other Postemployment Benefits - Health Benefit:</u>						
7/1/2008 *	\$ 2,753,014	\$ -	\$ 2,753,014	0%	\$ 8,627,274	32%

\* Valuation date: January 1, 2009 with valuation results rolled back to July 1, 2008.



## **Supplementary Information**





## **Nonmajor Governmental Funds**

**CITY OF PACIFIC GROVE, CALIFORNIA**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**June 30, 2010**

**SPECIAL REVENUE FUNDS**

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

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

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

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

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

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

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

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

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

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

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

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

**Local Streets & Roads.** This fund accounts for the receipt of bond proceeds from the State of California used to fund local transportation projects as a result of passage of the Transportation Bond Program of 2006, or Proposition 1B.

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

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

**CITY OF PACIFIC GROVE, CALIFORNIA**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**June 30, 2010**

**SPECIAL REVENUE FUNDS - Continued**

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

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

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

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

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

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

**Senior Housing.** This fund accounts for senior housing activities.

**Operating Grants.** This fund accounts for grant monies received to support general operations.

**Operating Donations.** This fund accounts for donations received to support general operations.

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

**ARRA.** This fund accounts for the expenditures related to infrastructure projects funded by the American Recovery and Reinvestment Act of 2009.

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

**CalHOME Grant.** This fund accounts for housing rehabilitation loans funded by grants from the State of California Department of Housing and Community Development.

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

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

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

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

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

**CITY OF PACIFIC GROVE, CALIFORNIA**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**June 30, 2010**

**SPECIAL REVENUE FUNDS - Continued**

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

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

**CAPITAL PROJECT FUND**

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

**DEBT SERVICE FUND**

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

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

**PERMANENT FUNDS**

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

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

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

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



**CITY OF PACIFIC GROVE, CALIFORNIA**  
**Combining Balance Sheet - Nonmajor Governmental Funds**  
**June 30, 2010**

	Special Revenue			
	Carillon Acquisition & Maintenance	Ocean Rescue	Library Building & Equipment	Museum Improvement
<u>Assets</u>				
Cash and investments				
Available for operations	\$ 23,997	\$ 40,409	\$ 368,535	\$ 428,439
Held in trust	-	-	-	-
Receivables				
Accounts	-	-	-	-
Interest and other	-	-	-	-
Loans	-	-	-	-
Prepaid expenses	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 23,997</u>	<u>\$ 40,409</u>	<u>\$ 368,535</u>	<u>\$ 428,439</u>
<u>Liabilities</u>				
Accounts payable	\$ -	\$ -	\$ 11,264	\$ 20,127
Deferred revenue	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>11,264</u>	<u>20,127</u>
<u>Fund Balances</u>				
Reserved for				
Long-term loan receivable	-	-	-	-
Debt service	-	-	-	-
Unreserved, reported in				
Special revenue funds	23,997	40,409	357,271	408,312
Capital projects funds	-	-	-	-
Permanent funds	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balance	<u>23,997</u>	<u>40,409</u>	<u>357,271</u>	<u>408,312</u>
Total Liabilities and Fund Balances	<u>\$ 23,997</u>	<u>\$ 40,409</u>	<u>\$ 368,535</u>	<u>\$ 428,439</u>

Special Revenue

<u>Downtown Business District</u>	<u>Hospitality Improvement District</u>	<u>Library Book</u>	<u>Fire Dept. Emergency Equipment</u>	<u>Civic Center Site</u>	<u>Housing Program</u>	<u>Traffic Congestion Relief</u>
\$ 6,325	\$ 3,902	\$ 82,008	\$ 39,815	\$ 75,382	\$ 124,244	\$ 83,869
-	-	-	-	-	-	-
-	73,975	-	-	-	-	39,275
-	-	-	-	-	-	-
-	-	-	-	-	747,929	-
-	-	-	-	-	-	-
<u>\$ 6,325</u>	<u>\$ 77,877</u>	<u>\$ 82,008</u>	<u>\$ 39,815</u>	<u>\$ 75,382</u>	<u>\$ 872,173</u>	<u>\$ 123,144</u>
\$ 6,320	\$ 77,725	\$ 1,141	\$ 371	\$ -	\$ 385	\$ -
-	-	-	-	-	-	-
<u>6,320</u>	<u>77,725</u>	<u>1,141</u>	<u>371</u>	<u>-</u>	<u>385</u>	<u>-</u>
-	-	-	-	-	762,128	-
-	-	-	-	-	-	-
5	152	80,867	39,444	75,382	109,660	123,144
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>5</u>	<u>152</u>	<u>80,867</u>	<u>39,444</u>	<u>75,382</u>	<u>871,788</u>	<u>123,144</u>
<u>\$ 6,325</u>	<u>\$ 77,877</u>	<u>\$ 82,008</u>	<u>\$ 39,815</u>	<u>\$ 75,382</u>	<u>\$ 872,173</u>	<u>\$ 123,144</u>

Continued

**CITY OF PACIFIC GROVE, CALIFORNIA**  
**Combining Balance Sheet - Nonmajor Governmental Funds**  
**June 30, 2010**

	Special Revenue			
	Local Streets & Roads	State Gas Tax	RSTP (TAMC)	Drug Awareness (DARE)
<u>Assets</u>				
Cash and investments				
Available for operations	\$ 363,981	\$ 7,508	\$ -	\$ 16,746
Held in trust	-	-	-	-
Receivables				
Accounts	-	12,046	-	-
Interest and other	-	-	-	-
Loans	-	-	-	-
Prepaid expenses	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	\$ <u>363,981</u>	\$ <u>19,554</u>	\$ <u>-</u>	\$ <u>16,746</u>
<u>Liabilities</u>				
Accounts payable	\$ 358,225	\$ 16,034	\$ -	\$ 66
Deferred revenue	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>358,225</u>	<u>16,034</u>	<u>-</u>	<u>66</u>
<u>Fund Balances</u>				
Reserved for				
Long-term loan receivable	-	-	-	-
Debt service	-	-	-	-
Unreserved, reported in				
Special revenue funds	5,756	3,520	-	16,680
Capital projects funds	-	-	-	-
Permanent funds	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balance	<u>5,756</u>	<u>3,520</u>	<u>-</u>	<u>16,680</u>
Total Liabilities and Fund Balances	\$ <u>363,981</u>	\$ <u>19,554</u>	\$ <u>-</u>	\$ <u>16,746</u>



Special Revenue

<u>(LLEBG) Law Enforcement Block Grant</u>	<u>Environmental Enhancement</u>	<u>Recreation Donation</u>	<u>Chautauqua Hall Preservation</u>	<u>Lighthouse Maintenance &amp; Improvement</u>	<u>Senior Housing</u>	<u>Operating Grants</u>
\$ 68	\$ 21,453	\$ 8,511	\$ 22,961	\$ 70,645	\$ 9,495	\$ 12,678
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>68</u>	<u>21,453</u>	<u>8,511</u>	<u>22,961</u>	<u>70,645</u>	<u>9,495</u>	<u>12,678</u>
\$ -	\$ -	\$ -	\$ -	\$ 714	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	714	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
68	21,453	8,511	22,961	69,931	9,495	12,678
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>68</u>	<u>21,453</u>	<u>8,511</u>	<u>22,961</u>	<u>69,931</u>	<u>9,495</u>	<u>12,678</u>
<u>\$ 68</u>	<u>\$ 21,453</u>	<u>\$ 8,511</u>	<u>\$ 22,961</u>	<u>\$ 70,645</u>	<u>\$ 9,495</u>	<u>\$ 12,678</u>

Continued

**CITY OF PACIFIC GROVE, CALIFORNIA**  
**Combining Balance Sheet - Nonmajor Governmental Funds**  
**June 30, 2010**

	Special Revenue			
	Operating Donations	Vehicle Replacement	ARRA	Housing Rehabilitation (DPRL)
<u>Assets</u>				
Cash and investments				
Available for operations	\$ 52,817	\$ -	\$ (134,227)	\$ (22,481)
Held in trust	-	-	-	-
Receivables				
Accounts	-	-	291,207	20,619
Interest and other	-	-	-	-
Loans	-	-	-	916,661
Prepaid expenses	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 52,817</u>	<u>\$ -</u>	<u>\$ 156,980</u>	<u>\$ 914,799</u>
<u>Liabilities</u>				
Accounts payable	\$ -	\$ -	\$ 156,980	\$ 1,026
Deferred revenue	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>156,980</u>	<u>1,026</u>
<u>Fund Balances</u>				
Reserved for				
Long-term loan receivable	-	-	-	903,249
Debt service	-	-	-	-
Unreserved, reported in				
Special revenue funds	52,817	-	-	10,524
Capital projects funds	-	-	-	-
Permanent funds	-	-	-	-
	<u>52,817</u>	<u>-</u>	<u>-</u>	<u>913,773</u>
Total Fund Balance	<u>52,817</u>	<u>-</u>	<u>-</u>	<u>913,773</u>
Total Liabilities and Fund Balances	<u>\$ 52,817</u>	<u>\$ -</u>	<u>\$ 156,980</u>	<u>\$ 914,799</u>

Special Revenue						
CalHOME Grant	Yount Trust Income	Public Safety Augmentation	Supplemental Law Enforcement (SLES)	Storm Water Fund	Ocean Front Restoration	Poetry Promotion Fund
\$ 22,601	\$ 100,555	\$ 347,450	\$ 101,857	\$ 147,853	\$ 103	\$ 26,853
-	-	-	-	-	-	-
-	-	14,443	15,253	-	-	-
-	3,998	-	-	-	-	-
42,041	-	-	-	-	-	-
55,000	-	-	-	-	-	-
<u>\$ 119,642</u>	<u>\$ 104,553</u>	<u>\$ 361,893</u>	<u>\$ 117,110</u>	<u>\$ 147,853</u>	<u>\$ 103</u>	<u>\$ 26,853</u>
\$ -	\$ 21	\$ 274,771	\$ -	\$ 8,838	\$ -	\$ 48
-	-	-	-	-	-	1,800
-	21	274,771	-	8,838	-	1,848
42,041	-	-	-	-	-	-
-	-	-	-	-	-	-
77,601	104,532	87,122	117,110	139,015	103	25,005
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>119,642</u>	<u>104,532</u>	<u>87,122</u>	<u>117,110</u>	<u>139,015</u>	<u>103</u>	<u>25,005</u>
<u>\$ 119,642</u>	<u>\$ 104,553</u>	<u>\$ 361,893</u>	<u>\$ 117,110</u>	<u>\$ 147,853</u>	<u>\$ 103</u>	<u>\$ 26,853</u>

Continued

**CITY OF PACIFIC GROVE, CALIFORNIA**  
**Combining Balance Sheet - Nonmajor Governmental Funds**  
**June 30, 2010**

	<u>Special Revenue</u>	<u>Capital Project</u>	<u>Debt Service</u>	<u>Permanent</u>
	McIndoo Donation	Buildings & Facilities Improvement	1990 Butterfly Habitat Bond	Library Endowment Trust
<u>Assets</u>				
Cash and investments				
Available for operations	\$ 328,548	\$ 549,686	\$ 102,057	\$ 521,696
Held in trust	-	-	-	-
Receivables				
Accounts	-	-	-	-
Interest and other	-	-	-	-
Loans	-	-	-	-
Prepaid expenses	-	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Assets	\$ <u>328,548</u>	\$ <u>549,686</u>	\$ <u>102,057</u>	\$ <u>521,696</u>
<u>Liabilities</u>				
Accounts payable	\$ -	\$ -	\$ -	\$ 1,413
Deferred revenue	-	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities	-	-	-	1,413
<u>Fund Balances</u>				
Reserved for				
Long-term loan receivable	-	-	-	-
Debt service	-	-	102,057	-
Unreserved, reported in				
Special revenue funds	-	-	-	-
Capital projects funds	-	549,686	-	-
Permanent funds	328,548	-	-	520,283
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Fund Balance	328,548	549,686	102,057	520,283
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities and Fund Balances	\$ <u>328,548</u>	\$ <u>549,686</u>	\$ <u>102,057</u>	\$ <u>521,696</u>

Permanent		
Cemetery Endowment Trust	Yount Trust	Total
\$ 906,953	\$ -	\$ 4,863,292
-	873,338	873,338
-	-	466,818
-	-	3,998
-	-	1,706,631
-	-	55,000
<u>\$ 906,953</u>	<u>\$ 873,338</u>	<u>\$ 7,969,077</u>
\$ -	\$ -	\$ 935,469
-	-	1,800
-	-	937,269
-	-	1,707,418
-	-	102,057
-	-	2,043,525
-	-	549,686
<u>906,953</u>	<u>873,338</u>	<u>2,629,122</u>
<u>906,953</u>	<u>873,338</u>	<u>7,031,808</u>
<u>\$ 906,953</u>	<u>\$ 873,338</u>	<u>\$ 7,969,077</u>
		Concluded

**CITY OF PACIFIC GROVE, CALIFORNIA**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**Nonmajor Governmental Funds**  
**Year Ended June 30, 2010**

	Special Revenue			
	Carillon Acquisition & Maintenance	Ocean Rescue	Library Building & Equipment	Museum Improvement
<u>Revenues</u>				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-
Charges for current services	-	-	-	-
Use of money and property	111	2,861	1,789	2,049
Other	-	-	100	2,391
	<u>-</u>	<u>-</u>	<u>100</u>	<u>2,391</u>
Total Revenues	<u>111</u>	<u>2,861</u>	<u>1,889</u>	<u>4,440</u>
<u>Expenditures</u>				
Current				
Public safety				
Police	-	-	-	-
Fire	-	3,198	-	-
General administration	-	-	-	-
Public works	-	-	-	-
Recreation	-	-	-	-
Library	-	-	2,243	-
Community development & building inspection	-	-	-	-
Museum	-	-	-	13,162
Capital outlay	-	-	74,484	55,622
Debt service				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>-</u>	<u>3,198</u>	<u>76,727</u>	<u>68,784</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>111</u>	<u>(337)</u>	<u>(74,838)</u>	<u>(64,344)</u>
<u>Other Financing Sources (Uses)</u>				
Transfers in	-	-	-	15,037
Transfers out	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,037</u>
Net Change in Fund Balances	111	(337)	(74,838)	(49,307)
Fund Balances, Beginning	23,886	40,746	432,109	457,619
Prior Period Adjustments	-	-	-	-
Restated Fund Balances, Beginning	<u>23,886</u>	<u>40,746</u>	<u>432,109</u>	<u>457,619</u>
Fund Balances, Ending	<u>\$ 23,997</u>	<u>\$ 40,409</u>	<u>\$ 357,271</u>	<u>\$ 408,312</u>

Special Revenue						
Downtown Business District	Hospitality Improvement District	Library Book	Fire Dept. Emergency Equipment	Civic Center Site	Housing Program	Traffic Congestion Relief
\$ 25,776	\$ 259,389	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	140,862
-	-	-	-	-	-	-
-	-	376	4,268	16,500	6,662	515
-	-	34,335	186	36,228	1,350	1,590
<u>25,776</u>	<u>259,389</u>	<u>34,711</u>	<u>4,454</u>	<u>52,728</u>	<u>8,012</u>	<u>142,967</u>
-	-	-	-	-	-	-
-	-	-	4,607	-	-	-
25,776	259,389	-	-	424	-	-
-	-	-	-	-	-	882
-	-	-	-	-	-	-
-	-	37,272	-	-	-	-
-	-	-	-	-	116,093	-
-	-	-	-	-	-	-
-	-	-	-	-	-	153,550
-	-	-	-	185,889	75,000	-
-	-	-	-	36,904	-	-
<u>25,776</u>	<u>259,389</u>	<u>37,272</u>	<u>4,607</u>	<u>223,217</u>	<u>191,093</u>	<u>154,432</u>
-	-	(2,561)	(153)	(170,489)	(183,081)	(11,465)
-	-	-	-	212,000	-	-
-	-	-	-	-	-	-
-	-	-	-	212,000	-	-
-	-	(2,561)	(153)	41,511	(183,081)	(11,465)
5	152	83,428	39,597	33,871	1,054,869	98,650
-	-	-	-	-	-	35,959
<u>5</u>	<u>152</u>	<u>83,428</u>	<u>39,597</u>	<u>33,871</u>	<u>1,054,869</u>	<u>134,609</u>
\$ <u>5</u>	\$ <u>152</u>	\$ <u>80,867</u>	\$ <u>39,444</u>	\$ <u>75,382</u>	\$ <u>871,788</u>	\$ <u>123,144</u>

Continued

**CITY OF PACIFIC GROVE, CALIFORNIA**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**Nonmajor Governmental Funds**  
**Year Ended June 30, 2010**

	Special Revenue			
	Local Streets & Roads	State Gas Tax	RSTP (TAMC)	Drug Awareness (DARE)
<u>Revenues</u>				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	251,807	-	-
Charges for current services	-	-	-	-
Use of money and property	1,465	17	-	243
Other	-	-	-	3,000
	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,000</u>
Total Revenues	<u>1,465</u>	<u>251,824</u>	<u>-</u>	<u>3,243</u>
<u>Expenditures</u>				
Current				
Public safety				
Police	-	-	-	1,493
Fire	-	-	-	-
General administration	-	-	-	-
Public works	2,106	282,705	-	-
Recreation	-	-	-	-
Library	-	-	-	-
Community development & building inspection	-	-	-	-
Museum	-	-	-	-
Capital outlay	338,738	11,600	-	-
Debt service				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>340,844</u>	<u>294,305</u>	<u>-</u>	<u>1,493</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(339,379)</u>	<u>(42,481)</u>	<u>-</u>	<u>1,750</u>
<u>Other Financing Sources (Uses)</u>				
Transfers in	-	-	23,151	-
Transfers out	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net other financing sources (uses)	<u>-</u>	<u>-</u>	<u>23,151</u>	<u>-</u>
Net Change in Fund Balances	(339,379)	(42,481)	23,151	1,750
Fund Balances, Beginning	345,135	46,001	(23,151)	50,889
Prior Period Adjustments	-	-	-	(35,959)
Restated Fund Balances, Beginning	<u>345,135</u>	<u>46,001</u>	<u>(23,151)</u>	<u>14,930</u>
Fund Balances, Ending	<u>\$ 5,756</u>	<u>\$ 3,520</u>	<u>\$ -</u>	<u>\$ 16,680</u>



Special Revenue						
(LLEBG) Law Enforcement Block Grant	Environmental Enhancement	Recreation Donation	Chautauqua Hall Preservation	Lighthouse Maintenance & Improvement	Senior Housing	Operating Grants
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	1,697	-	-
-	99	39	125	302	44	125
-	-	-	1,500	26,791	-	-
-	99	39	1,625	28,790	44	125
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	9,665	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	7,036	-	36,454
-	-	-	-	4,087	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	9,665	11,123	-	36,454
-	99	39	(8,040)	17,667	44	(36,329)
-	-	-	-	-	-	-
-	-	-	-	(15,037)	-	-
-	-	-	-	(15,037)	-	-
-	99	39	(8,040)	2,630	44	(36,329)
68	21,354	8,472	31,001	67,301	9,451	49,007
-	-	-	-	-	-	-
68	21,354	8,472	31,001	67,301	9,451	49,007
\$ 68	\$ 21,453	\$ 8,511	\$ 22,961	\$ 69,931	\$ 9,495	\$ 12,678

Continued

**CITY OF PACIFIC GROVE, CALIFORNIA**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**Nonmajor Governmental Funds**  
**Year Ended June 30, 2010**

	Special Revenue			
	Operating Donations	Vehicle Replacement	ARRA	Housing Rehabilitation (DPRL)
<u>Revenues</u>				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	291,207	271,991
Charges for current services	-	-	-	-
Use of money and property	413	-	-	-
Other	117,372	-	-	-
	<u>117,785</u>	<u>-</u>	<u>291,207</u>	<u>271,991</u>
Total Revenues	<u>117,785</u>	<u>-</u>	<u>291,207</u>	<u>271,991</u>
<u>Expenditures</u>				
Current				
Public safety				
Police	-	-	-	-
Fire	-	-	-	-
General administration	-	-	-	-
Public works	-	-	-	-
Recreation	-	-	-	-
Library	85,545	-	-	-
Community development & building inspection	-	-	-	75,209
Museum	27,706	-	-	-
Capital outlay	-	-	291,207	-
Debt service				
Principal	-	48,425	-	-
Interest and fiscal charges	-	12,989	-	-
	<u>-</u>	<u>12,989</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>113,251</u>	<u>61,414</u>	<u>291,207</u>	<u>75,209</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>4,534</u>	<u>(61,414)</u>	<u>-</u>	<u>196,782</u>
<u>Other Financing Sources (Uses)</u>				
Transfers in	-	61,414	-	-
Transfers out	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net other financing sources (uses)	<u>-</u>	<u>61,414</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	4,534	-	-	196,782
Fund Balances, Beginning	48,283	-	-	716,991
Prior Period Adjustments	-	-	-	-
Restated Fund Balances, Beginning	<u>48,283</u>	<u>-</u>	<u>-</u>	<u>716,991</u>
Fund Balances, Ending	<u>\$ 52,817</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 913,773</u>

Special Revenue						
CalHOME Grant	Yount Trust Income	Public Safety Augmentation	Supplemental Law Enforcement (SLES)	Storm Water Fund	Ocean Front Restoration	Poetry Promotion Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
120,000	-	82,626	105,748	-	-	-
-	-	476,641	-	-	-	-
142	36,553	-	-	-	3	151
-	-	-	-	-	100	-
<u>120,142</u>	<u>36,553</u>	<u>559,267</u>	<u>105,748</u>	<u>-</u>	<u>103</u>	<u>151</u>
-	-	184,097	-	-	-	-
-	-	90,674	-	-	-	-
-	-	-	-	-	-	-
-	18,938	-	-	96,548	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
500	-	-	-	-	-	13,742
-	-	-	-	-	-	-
-	-	-	33,733	-	2,046	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>500</u>	<u>18,938</u>	<u>274,771</u>	<u>33,733</u>	<u>96,548</u>	<u>2,046</u>	<u>13,742</u>
<u>119,642</u>	<u>17,615</u>	<u>284,496</u>	<u>72,015</u>	<u>(96,548)</u>	<u>(1,943)</u>	<u>(13,591)</u>
-	-	-	-	250,000	-	-
-	-	-	-	-	-	-
-	-	-	-	250,000	-	-
119,642	17,615	284,496	72,015	153,452	(1,943)	(13,591)
-	86,917	(197,374)	45,095	(14,437)	2,046	38,596
-	-	-	-	-	-	-
<u>-</u>	<u>86,917</u>	<u>(197,374)</u>	<u>45,095</u>	<u>(14,437)</u>	<u>2,046</u>	<u>38,596</u>
\$ <u>119,642</u>	\$ <u>104,532</u>	\$ <u>87,122</u>	\$ <u>117,110</u>	\$ <u>139,015</u>	\$ <u>103</u>	\$ <u>25,005</u>

Continued

**CITY OF PACIFIC GROVE, CALIFORNIA**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**Nonmajor Governmental Funds**  
**Year Ended June 30, 2010**

	<u>Special Revenue</u>	<u>Capital Project</u>	<u>Debt Service</u>	<u>Permanent</u>
	McIndoo Donation	Buildings & Facilities Improvement	1990 Butterfly Habitat Bond	Library Endowment Trust
<u>Revenues</u>				
Taxes	\$ -	\$ -	\$ 101,902	\$ -
Intergovernmental	-	-	709	-
Charges for current services	-	-	-	-
Use of money and property	1,523	7,600	297	2,471
Other	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>1,523</u>	<u>7,600</u>	<u>102,908</u>	<u>2,471</u>
<u>Expenditures</u>				
Current				
Public safety				
Police	-	-	-	-
Fire	-	-	-	-
General administration	-	-	-	-
Public works	-	-	-	-
Recreation	-	-	-	-
Library	-	-	-	27,610
Community development & building inspection	-	-	-	-
Museum	-	-	-	-
Capital outlay	-	-	-	-
Debt service				
Principal	-	-	63,545	-
Interest and fiscal charges	-	-	28,859	-
	<u>-</u>	<u>-</u>	<u>28,859</u>	<u>-</u>
Total Expenditures	<u>-</u>	<u>-</u>	<u>92,404</u>	<u>27,610</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,523</u>	<u>7,600</u>	<u>10,504</u>	<u>(25,139)</u>
<u>Other Financing Sources (Uses)</u>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	1,523	7,600	10,504	(25,139)
Fund Balances, Beginning	327,025	542,086	91,553	545,422
Prior Period Adjustments	-	-	-	-
Restated Fund Balances, Beginning	<u>327,025</u>	<u>542,086</u>	<u>91,553</u>	<u>545,422</u>
Fund Balances, Ending	<u>\$ 328,548</u>	<u>\$ 549,686</u>	<u>\$ 102,057</u>	<u>\$ 520,283</u>

Permanent		
Cemetery		
Endowment	Yount	
Trust	Trust	Total
\$ -	\$ -	\$ 387,067
-	-	1,264,950
12,390	-	490,728
-	-	86,743
-	-	224,943
12,390	-	2,454,431
-	-	185,590
-	-	98,479
-	-	285,589
-	15,663	416,842
-	-	9,665
-	-	152,670
-	-	205,544
-	-	84,358
-	-	965,067
-	-	372,859
-	-	78,752
-	15,663	2,855,415
12,390	(15,663)	(400,984)
-	-	561,602
-	-	(15,037)
-	-	546,565
12,390	(15,663)	145,581
894,563	889,001	6,886,227
-	-	-
894,563	889,001	6,886,227
\$ 906,953	\$ 873,338	\$ 7,031,808
		Concluded



## **Internal Service Funds**

**CITY OF PACIFIC GROVE, CALIFORNIA**  
**INTERNAL SERVICE FUNDS**  
**June 30, 2010**

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

**Health Insurance**

**Workers' Compensation Insurance**

**Liability Insurance**

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



**CITY OF PACIFIC GROVE, CALIFORNIA**  
**Combining Statement of Fund Net Assets - Proprietary Funds - Internal Service Funds**  
**June 30, 2010**

	Health Insurance	Workers' Compensation Insurance	Liability Insurance	Total
<u>Assets</u>				
Current Assets				
Cash and investments				
Available for operations	\$ 51,153	\$ 487,671	\$ 348,711	\$ 887,535
Receivables				
Accounts	<u>3,012</u>	<u>18,667</u>	<u>-</u>	<u>21,679</u>
Total Assets	<u>\$ 54,165</u>	<u>\$ 506,338</u>	<u>\$ 348,711</u>	<u>\$ 909,214</u>
<u>Liabilities</u>				
Current Liabilities				
Accounts payable	\$ 4,038	\$ 3,663	\$ -	\$ 7,701
Claims payable	<u>-</u>	<u>94,705</u>	<u>88,926</u>	<u>183,631</u>
Total Current Liabilities	<u>4,038</u>	<u>98,368</u>	<u>88,926</u>	<u>191,332</u>
Noncurrent Liabilities				
Claims payable	<u>-</u>	<u>1,369,908</u>	<u>165,148</u>	<u>1,535,056</u>
Total Noncurrent Liabilities	<u>-</u>	<u>1,369,908</u>	<u>165,148</u>	<u>1,535,056</u>
Total Liabilities	<u>4,038</u>	<u>1,468,276</u>	<u>254,074</u>	<u>1,726,388</u>
<u>Net Assets</u>				
Unrestricted	<u>50,127</u>	<u>(961,938)</u>	<u>94,637</u>	<u>(817,174)</u>
Total Net Assets	<u>50,127</u>	<u>(961,938)</u>	<u>94,637</u>	<u>(817,174)</u>
Total Liabilities and Net Assets	<u>\$ 54,165</u>	<u>\$ 506,338</u>	<u>\$ 348,711</u>	<u>\$ 909,214</u>

**CITY OF PACIFIC GROVE, CALIFORNIA**  
**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets -**  
**Proprietary Funds - Internal Service Funds**  
**Year Ended June 30, 2010**

	Health Insurance	Workers' Compensation Insurance	Liability Insurance	Total
<u>Operating Revenues</u>				
Charges for current services	\$ 152,296	\$ 771,259	\$ 356,434	\$ 1,279,989
Other	<u>22,891</u>	<u>-</u>	<u>1,063</u>	<u>23,954</u>
Total Operating Revenues	<u>175,187</u>	<u>771,259</u>	<u>357,497</u>	<u>1,303,943</u>
<u>Operating Expenses</u>				
Personnel services	84,326	-	-	84,326
Operating services	-	332,779	262,070	594,849
Insurance, claims and settlements	<u>63,377</u>	<u>94,705</u>	<u>18,136</u>	<u>176,218</u>
Total Operating Expenses	<u>147,703</u>	<u>427,484</u>	<u>280,206</u>	<u>855,393</u>
Change in Net Assets	27,484	343,775	77,291	448,550
Net Assets, Beginning	<u>22,643</u>	<u>(1,305,713)</u>	<u>17,346</u>	<u>(1,265,724)</u>
Net Assets, Ending	<u>\$ 50,127</u>	<u>\$ (961,938)</u>	<u>\$ 94,637</u>	<u>\$ (817,174)</u>

**CITY OF PACIFIC GROVE, CALIFORNIA**  
**Combining Statement of Cash Flows - Proprietary Funds - Internal Service Funds**  
**Year Ended June 30, 2010**

	Health Insurance	Workers' Compensation Insurance	Liability Insurance	Total
Cash Flows from Operating Activities				
Receipts from customers	\$ 175,515	\$ 832,852	\$ 334,217	\$ 1,342,584
Payments to suppliers	(153,600)	(329,116)	(262,069)	(744,785)
Claims paid	<u>-</u>	<u>(110,180)</u>	<u>(18,136)</u>	<u>(128,316)</u>
Net Increase in Cash and Cash Equivalents	21,915	393,556	54,012	469,483
Cash and Cash Equivalents, Beginning	<u>29,238</u>	<u>94,115</u>	<u>294,699</u>	<u>418,052</u>
Cash and Cash Equivalents, Ending	<u><u>\$ 51,153</u></u>	<u><u>\$ 487,671</u></u>	<u><u>\$ 348,711</u></u>	<u><u>\$ 887,535</u></u>
Cash Flows from Operating Activities				
Operating income	\$ 27,484	\$ 343,775	\$ 77,291	\$ 448,550
Adjustments to reconcile operating income to net cash provided (used) by operating activities				
Decrease (increase) in operating assets				
Accounts receivable	327	61,593	71,358	133,278
Increase (decrease) in operating liabilities				
Accounts payable	(5,896)	3,663	-	(2,233)
Claims payable	<u>-</u>	<u>(15,475)</u>	<u>(94,637)</u>	<u>(110,112)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 21,915</u></u>	<u><u>\$ 393,556</u></u>	<u><u>\$ 54,012</u></u>	<u><u>\$ 469,483</u></u>

