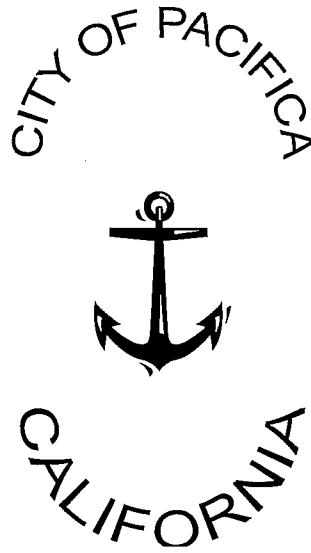


COMPREHENSIVE ANNUAL

FINANCIAL REPORT

For Fiscal Year Ended June 30, 2006



PREPARED BY

THE FINANCE DEPARTMENT

MAUREEN LENNON
Director of Finance

GILLIAN CADGENE MANUEL FERRER
PAULA FORENCICH
CAROL LUEBBEN SANDRA MCCLELLAN
VIVIAN PENAREDONDO ED VANDEHEY

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January 30, 2007

Honorable Mayor, Members of the City Council,
City Manager and Citizens of the City of Pacifica, California

I am pleased to submit the Comprehensive Annual Financial Report (CAFR) for the City of Pacifica, California, for the fiscal year ended June 30, 2006 as prepared by the City's Finance Department.

State law requires that the accounts and fiscal affairs of each municipal corporation be examined annually by an independent certified public accountant. We have complied with this requirement, and the auditor's report as provided by Moss, Levy & Hartzheim, along with the basic financial statements of the City, is herein submitted.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Report to the City of Pacifica for its comprehensive annual financial report for the fiscal year ended June 30, 2005. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The report consists of management's representations concerning the finances of the City of Pacifica. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the government'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 generally accepted accounting principles (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, I assert that, to the best of my knowledge and belief, this financial report is complete and reliable in all material respects. Further, every attempt has been made to conform to the highest standards of public financial reporting as set forth by the following organizations:

- Governmental Accounting Standards Board (GASB);
- American Institute of Certified Public Accountants and its Committee on Governmental Accounting and Auditing;
- Government Finance Officers Association of the United States and Canada; and
- California Society of Municipal Finance Officers.

The City's independent audit was meant to provide reasonable assurance that its financial statements are free of material misstatement. This audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The auditor has issued an unqualified opinion of the City's financial statements indicating they are fairly presented in conformity with GAAP.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

In addition to meeting the requirements set forth by State law, the audit was also designed to meet the requirements of the Single Audit Act of 1984 and U.S. Office of Management and Budget Circular A-133. The standards governing Single Audit engagements require the auditor to report on the City's internal controls and compliance with certain legal requirements with special emphasis on the administration of federal awards. These reports are available in the City's separately issued Single Audit Report. However, the City was not required to perform the Single Audit Report for fiscal year 2005-2006 because the grants received from the Federal government did not meet the threshold requirement.

The CAFR is presented in three basic sections as follows:

- A. **INTRODUCTORY SECTION:** Includes this transmittal letter, the City's organization chart, and a list of principal officials.
- B. **FINANCIAL SECTION:** Includes the independent auditors' report, management's discussion and analysis, basic financial statements, notes to basic financial statements, and supplemental information.
- C. **STATISTICAL SECTION:** Contains a broad range of trend data covering key financial indicators for the past 10 fiscal years including revenues and expenditures, property assessments, debt obligations and demographic statistics useful in assessing the City's financial condition.

CITY OF PACIFICA PROFILE

The City of Pacifica is a full service city located on the Pacific Coast in San Mateo County directly south of San Francisco. Located within the Bay Area Peninsula, it is framed by the ridges of the Coast Range on the east, Montara Mountain on the south, and the Pacific Ocean on the west. The City of Pacifica encompasses roughly 12.6 square miles (of which approximately one third is publicly owned open space), is largely built out, and serves a population of approximately 39,000. A combination of residential, office and commercial retail businesses, and natural open space, comprise the makeup of the City.

The City of Pacifica, while located in the midst of a major metropolitan region, is a unique family-oriented coastal community that prides itself on fostering a "small town" feel. The City's geographic setting; its proximity to San Francisco and the San Francisco International Airport, along with its natural open space and coastal beauty, make it a desirable place to live and work.

The City of Pacifica is a General Law City incorporated in 1957 and operates under the Council-Manager form of government. Legislative authority is vested in a five-member City Council elected at large for four-year overlapping terms. The Mayor is selected each year by majority vote of the other Council members. The City Council members also serve as the governing board members of the Pacifica Redevelopment Agency, and the City Manager serves as its Executive Director. The Council appoints the City Manager and the City Attorney. Key advisory commissions include Health and Safety, Parks, Beaches and Recreation, and Planning.

The City provides the following services to its residents: public safety (police and fire), highways and streets, wastewater sanitation, parks, beaches, recreation, social services, planning and zoning, and leadership through general administrative services. The City is part of a countywide paramedic program that became fully operational during Fiscal Year 1998-99. Water, garbage, gas and electric utilities are provided directly through private agencies not under City operations.

FACTORS AFFECTING FINANCIAL CONDITION

Local economy--Pacifica's coastal location on the Bay Area Peninsula with its natural open space and coastal beauty, along with its proximity to the San Francisco International Airport and its visitor-serving resources, continue to be a major economic asset for development in the City. The Bay Area continues to be one of the major growth areas of the country. Due to its diverse economic base and geographically contained commerce, the City of Pacifica has weathered the economic uncertainties sufficiently and is primed for recovery as indicators show the economy to be well into an economic growth period.

While residential development has reached near build out conditions, several new projects are being constructed and planned. Commercial development potential is high in Pacifica as several commercially zoned sites are in various phases of the permit process; other commercial sites remain undeveloped or underdeveloped. The City and the Pacifica Chamber of Commerce are active in encouraging resident and visitor-serving business startups.

The Pacifica Redevelopment Area in West Rockaway Beach is complete within the Phase I area. All infrastructure improvements have been completed including streetscape, underground utilities, public plaza, landscaping and a public art piece. One of the major sites has been fully developed and is now on line as a revenue producing enterprise.

Phase II of the redevelopment area consists of the Rockaway Quarry. With the completion of the new wastewater treatment plant, and rehabilitated wetlands, the City Council is now turning its attention to the commercial development of the quarry land, which has recently been purchased by a developer, making this the first time that the property has been owned by the same entity wishing to develop it. The owner/developer of the Quarry placed Measure L on the November 2006 ballot asking the community to vote on the development of the Quarry including a maximum of 355 residences. Measure L was defeated by the voters. It is uncertain at this time as to whether the owner/developer will proceed with commercial development of the land. The wastewater treatment plant is a state-of-the-art sewage treatment facility providing high quality reusable water at a rate of 4 million gallons per day. The discharge is being used to nourish a new wetlands area and provide irrigation for public benefit.

State government has temporarily discontinued its dependency on local dollars since the passage of Proposition 1A. The region is anticipating benefits from the transportation bonds approved by the voters in November 2006.

Cash management—The City adheres to the provisions of the California Government Code section 53601 regarding investment of idle cash. The City Council annually reviews the investment policy and any changes thereto. The City of Pacifica's Investment Policy has received official certification by the Association of Public Treasurers, United States & Canada (APT US & C). The City maximizes its yield on short-term/low risk investments by pooling the cash of all funds. The Investment Policy allows any cash temporarily idle during the year to be invested in U.S. Government Agency securities and the State Local Agency Investment Fund. The portfolio yield at June 30, 2006 fiscal year end was approximately 4%.

In addition, the City maintains budgetary controls, the objective of which is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City's governing body. Activities of the general fund, special revenue funds, debt service fund, and internal service funds are included in the annual appropriated budget. The Capital Projects budget reflects new projects only, existing projects do not lapse at year-end and are carried forward until completion of the project.

The City Council conducts public hearings at the Council Chambers before adopting the budget, thus giving the public an opportunity to be heard. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is maintained at the department level by the encumbrance of estimated purchase amounts prior to the release of purchase orders to vendors. Purchase orders which result in an overrun of department balances are not released until additional appropriations are made available.

Open encumbrances are reported as reservations of fund balance at June 30, 2006. These encumbrances are re-approved by the Council and added to the budget for the upcoming fiscal year. Unexpended budget appropriations lapse at the end of the fiscal year with the exception of capital improvement projects.

The City Manager is responsible for the preparation of the budget and the Director of Finance is responsible for monitoring the budget for legal compliance.

Risk management--The city is exposed to numerous risks of loss related to tort claims, theft, damage and destruction of City assets and property, errors and omissions, injuries to employees and the public and natural disasters. A combination of self-insurance and commercial coverage is used by the City to manage its risk. During FY 2005-2006, the City maintained a risk management program for Workers' Compensation, general liability and property damage. As part of the comprehensive plan, resources have been accumulated in the self-insurance (Internal Service) fund to meet potential losses. In addition, a safety committee of City employees meets and reviews all accidents and recommends preventive measures to minimize future accident-related losses. Further details on the types and amounts of coverage are addressed in Notes 9 and 10 of the notes to the financial statements.

Pension benefits--The City provides for retirement benefits to its employees through participation in the California Public Employees Retirement System (PERS), an agent multiple-employer defined benefit pension plan. Each year, an independent actuary is engaged by PERS to calculate the amount of annual contribution the City must make to ensure the plan will meet its obligations to pay retired employees on a timely basis. As a matter of policy, the City fully funds its annual required contribution as determined by the actuary. Due to a combination of enhanced retirement benefits and significant investment losses by PERS early in the decade, the City will be absorbing a significant ongoing annual unfunded liability contribution for the foreseeable future. Additional detail and trend information is explained in Note 8 of the notes to the financial statements.

ACKNOWLEDGEMENTS

Preparation of the Comprehensive Annual Financial Report was made possible by the dedicated service of the entire staff of the City of Pacifica Finance Department, including: Sandra McClellan, Assistant Finance Director; Ed Vandehey, Information Technology Manager; Gillian Cadgene, Administrative Assistant; Carol Luebben, Account Technician III, Vivian Penaredondo, Account Technician III, Paula Forencich, Account Technician II and Manuel Ferrer, Systems Specialist. Each member of the department has my sincere appreciation for the contributions made in the preparation of this report.

I would also like to thank the members of the Pacifica City Council and City Manager for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner in the best interests of the Citizens of Pacifica.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Maureen M. Lennon". The signature is fluid and cursive, with the first name being the most prominent.

Maureen M. Lennon
Director of Finance/City Treasurer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Pacifica
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

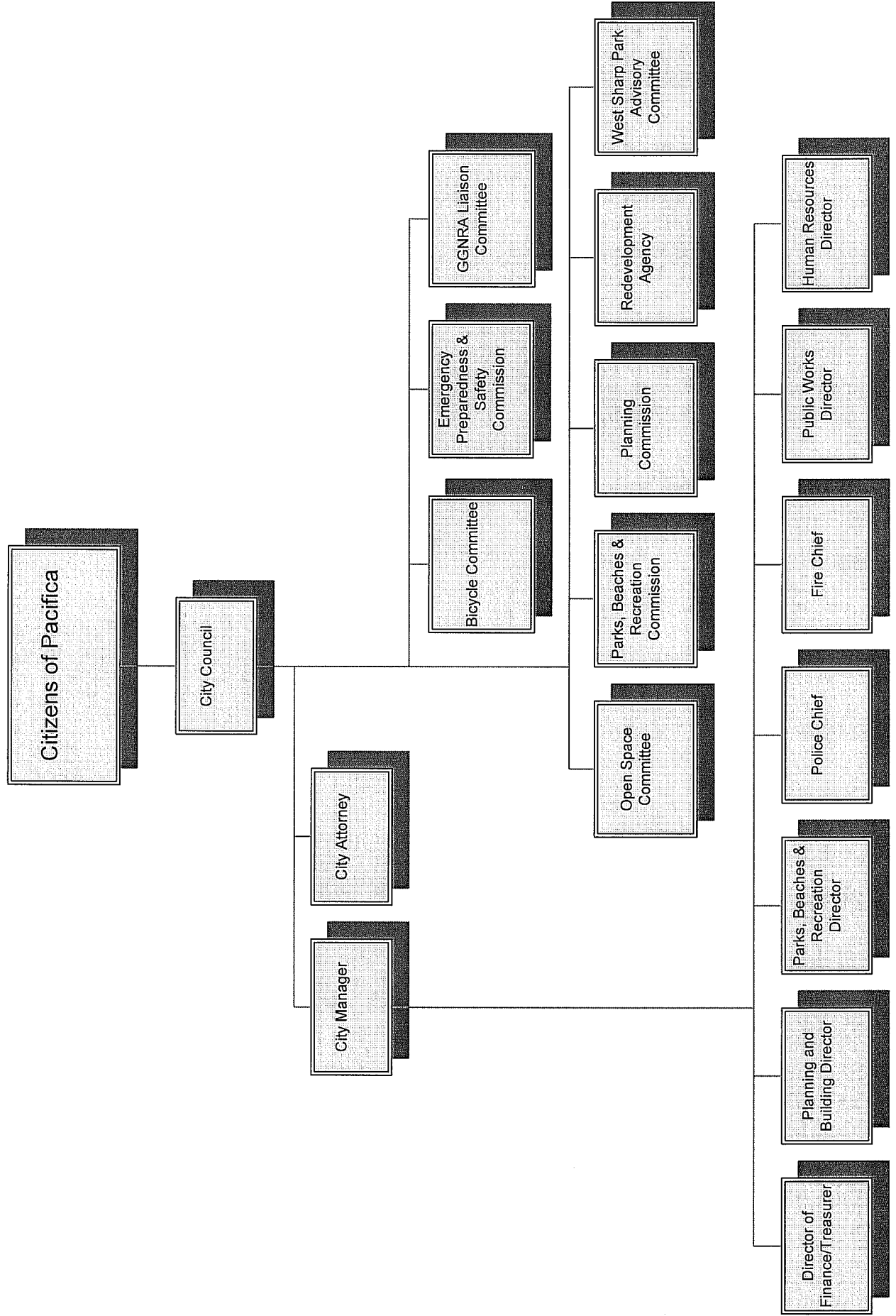


President

Executive Director

City of Pacifica, California

◀ Fiscal Year 2005-2006 ▶



CITY OF PACIFICA, CALIFORNIA

HONORABLE SUE DIGRE.
Mayor

PETER DEJARNATT
Mayor Pro Tem

CALVIN HINTON JULIE LANCELLE
JAMES M. VREELAND, JR.
Members of City Council

* * * * *

JOSEPH TANNER
City Manager

* * * * *

OTHER ADMINISTRATIVE OFFICERS

CECILIA QUICK	City Attorney
MAUREEN LENNON	Director of Finance/Treasurer
JAMES SAUNDERS	Police Chief
RON MYERS	Fire Chief
MICHAEL CRABTREE	Director of Planning & Building
SCOTT HOLMES	Director of Public Works
MARI BRUMM-MERRILL	Director of Parks, Beaches & Recreation

* * * * *

OFFICIAL BOARDS AND COMMISSIONS

DISASTER PREPAREDNESS COMMISSION

PARKS, BEACHES AND RECREATION COMMISSION

PLANNING COMMISSION

HEALTH AND SAFETY COMMISSION

OPEN SPACE COMMITTEE

AIRPORT NOISE ABATEMENT COMMITTEE

WEST SHARP PARK ADVISORY COMMITTEE