

**FINANCIAL SECTION**

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BEVERLY HILLS, CALIFORNIA  
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## INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Pacifica  
Pacifica, California

We have audited the accompanying financial statements of the government activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pacifica (the "City"), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the City'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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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.

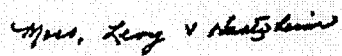
In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 of the notes to the basic financial statements, the City adopted Governmental Accounting Standards Board Statements, No. 44, Economic Condition Reporting: The Statistical Section, No. 46, Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34, effective July 1, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2006, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 read in conjunction with this report in considering the results of our audit.

The accompanying required supplementary information, management's discussion and analysis, PERS schedule of funding progress, and general fund budgetary comparison schedule is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The general capital improvement capital projects fund budgetary comparison schedule, redevelopment agency - Rockaway Beach capital projects fund budgetary comparison schedule, combining and individual nonmajor fund financial statements and schedules, introductory section, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The general capital improvement capital projects fund budgetary comparison schedule, redevelopment agency - Rockaway Beach capital projects fund budgetary comparison schedule, and the combining and individual nonmajor fund financial statements and schedules, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



Moss, Levy & Hartzheim LLP  
Beverly Hills, California  
December 11, 2006

## CITY OF PACIFICA, CALIFORNIA MANAGEMENT'S DISCUSSION AND ANALYSIS

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The following discussion and analysis of the financial performance of the City of Pacifica provides an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the transmittal letter and financial statements identified in the accompanying table of contents.

### Using the Accompanying Financial Statements

This annual Comprehensive Annual Financial Report (CAFR) consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Also included in the accompanying report are fund financial statements. For governmental activities, the fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

### OVERVIEW OF THE FINANCIAL STATEMENTS

After the introductory section, the annual report consists of five parts – *the independent auditor's report and management's discussion and analysis* (this section), *basic financial statements including notes, required supplementary information*, an optional section that presents *combining statements* for non-major governmental funds and internal service funds, and *statistical information section*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the City government, reporting the City's operations in *more detail* than the government-wide statements.
  - The *governmental fund* statements tell how *general government* services like public safety were financed in the *short term* as well as what remains for future spending.
  - *Proprietary fund* statements offer *short-term* and *long-term* financial information about the activities the government operates like businesses, such as the sewer system.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that provides additional financial and budgetary information.

### Reporting the City as a Whole

The accompanying **government-wide financial statements** include two statements that present financial data for the City as a whole. One of the most important questions asked about the City's finances is, "Is the City, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities & Changes in Net Assets report information about the City as a whole and about its activities in a way that helps answer this question.

These statements include *all* assets and liabilities using the *full accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. You can think of the City's net assets – the difference between assets and liabilities – as one way to measure the City's financial health, or *financial position*. Over time, *increases and decreases* in the City's net assets is one indicator of

**CITY OF PACIFICA, CALIFORNIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

whether the City's *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall health* of the City.

In the Statement of Net Assets and the Statement of Activities & Changes in Net Assets, we divide the City's services into two kinds of activities:

- Governmental activities – Most of the City's basic services are reported here. Sales taxes, property taxes, state subventions, and other revenues, which finance most of the governmental activities.
- Business-type activities – The City charges a user fee to customers to help it cover all or most of the cost of the services accounted for in these funds.

**Reporting the City's Most Significant Funds**

The **fund financial statements** provide detailed information about the City's most significant funds – not the City as a whole. Some funds are required to be established by State law or by bond covenants. However, City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting administrative responsibilities for using certain taxes, grants, or other money. The City's two kinds of funds – *governmental and proprietary* – use different accounting approaches.

- *Governmental funds* – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of these funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *current financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship or differences between *governmental activities* (reported in the Statement of Net Assets and the Statement of Activities & Changes in Net Assets) and *governmental funds* as a reconciliation.

*The governmental funds financial statements may be found on pages 20 of this report.*

- *Proprietary funds* – When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities & Changes in Net Assets. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for the proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide services and supplies for only the City's other programs and activities. These revenues are eliminated in the City-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.

*The proprietary fund financial statements may be found on pages 27 of this report.*

**CITY OF PACIFICA, CALIFORNIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Notes to the Financial Statements**

Notes to the Financial Statements provide additional information that is essential to the full understanding of the information provided in the government-wide and fund financial statements.

The notes to the Financial Statements may be found on pages 31 of this report.

The City, along with most other California cities, is in the early stages of recovery from a very difficult economic environment over the past six years, brought on by impacts from reduced retail sales, reduced transient occupancy tax, rising unemployment, an overvalued stock market, corporate accounting scandals, geopolitical uncertainties, lower interest yields, and a massive California State budget deficit. While the City has benefited from property tax assessments and sales of homes, there are economic indicators reflecting a slow down due to rising interest rates. Property taxes are the City's highest revenue source. Sales tax has remained basically flat for the past decade because the City has a very minimal retail base and most large purchases are done in neighboring communities. All California cities have benefited from the voters support of Proposition 1A, passed in November 2004, which limits the Legislature's ability to take local government revenues, such as vehicle license fees and additional property tax through Educational Relief Augmentation Fund (ERAF). Through these difficult economic times, the City has been able to maintain its fiscal stability primarily through a combination of using conservative budget practices, performing budget cuts, issuing short term debt, and the sale of surplus real estate. Near term revenue growth expectations are projected to be minimal, with personnel health and benefits costs escalating. The City will address these potential structural imbalances as needed.

Governmental Accounting Standards Board (GASB) Statement No. 45 requires that Cities account for post retirement health benefits on our annual financial statements with implementation required in fiscal year 2008-2009. The City has contracted with an actuarial firm that will conduct the actuarial study in the early part of 2007. The City is currently on a "pay as you go" budgeting method of accounting for retiree health costs. The City does not anticipate an unmanageable result of the study because the City, unlike many cities, does not pay the full cost of health insurance for retired employees.

Highlights of the past year are as follows:

- Total City assets exceeded its liabilities by \$71 million. Of this amount, \$1.7 million represents unrestricted net assets that the City has designated for various purposes including reserves for emergencies, operations, economic uncertainty and approved capital projects.
- Statement of governmental activities show revenues at \$30.9 million compared with total expenditures of \$28.9 million resulting in an increase in total net assets from operations only for the current fiscal year of approximately \$2 million.
- Total Governmental Fund balances were \$7.8 million at fiscal year-end, a decrease of \$2 million from the previous year, mainly as a result of a GASB mandated prior period adjustment of approximately \$3 million, as shown on page 25 of this report.
- General fund revenues were \$23.5 million compared with general fund expenditures of \$24.3 million, transfers in of \$1.8 million compared with transfers out of \$1.7 million, resulting in a net decrease in fund balance of \$599,640 plus a prior year adjustment of \$43,804, for an ending fund balance of \$5,998,951, as shown on page 24 of this report.

**CITY OF PACIFICA, CALIFORNIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Analysis of Net Assets**

Net assets are a measure of a government's financial position and, over time, a trend of increasing or decreasing net assets is an indicator of the financial health of the organization. The City of Pacifica's assets exceeded liabilities by \$71,070,193. A statement of net assets is presented in the following table.

**Statement of Net Assets**  
**June 30, 2006**

**Table 1**

	Governmental Activities	Governmental Activities	Business - Type Activities	Business - Type Activities		Primary Government	Primary Government
	2005	2006	2005	2006		2005	2006
Current and other Assets	\$ 13,647,069	\$ 16,633,517	\$ 8,698,783	\$ 2,843,427		\$ 22,345,852	\$ 19,476,944
Capital Assets	57,838,985	64,848,651	51,232,734	51,177,950		109,071,719	116,026,601
<b>Total Assets</b>	<b>71,486,054</b>	<b>81,482,168</b>	<b>59,931,517</b>	<b>54,021,377</b>		<b>131,417,571</b>	<b>135,503,545</b>
Long-term Debt Outstanding	16,553,335	21,875,165	42,433,151	39,366,898		58,986,486	61,242,063
Other Liabilities	4,018,321	2,155,174	2,936,753	1,036,115		6,955,074	3,191,289
<b>Total Liabilities</b>	<b>20,571,656</b>	<b>24,030,339</b>	<b>45,369,904</b>	<b>40,403,013</b>		<b>65,941,560</b>	<b>64,433,352</b>
Net Assets:							-
Invested in Capital , Net of Debt	45,118,985	48,249,125	7,143,196	13,514,529		52,262,181	61,763,654
Restricted	486,190	6,738,596	7,064,036	946,455		7,550,226	7,685,051
Unrestricted	5,309,223	2,464,108	354,381	(842,620)		5,663,604	1,621,488
<b>Total Net Assets</b>	<b>\$ 50,914,398</b>	<b>\$ 57,451,829</b>	<b>\$ 14,561,613</b>	<b>\$ 13,618,364</b>		<b>\$ 65,476,011</b>	<b>\$ 71,070,193</b>

Net assets invested in capital assets (e.g., land, buildings, equipment and infrastructure) of \$61,763,654 represents the cost of these assets less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt must be provided from other sources other than the related assets, because the capital assets themselves cannot be used to repay these debts.

Restricted net assets of \$7,685,051 represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$1,621,488 may be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

The increase in net assets provides an indication that the overall financial position of the City improved during the year by a total of \$1,015,904 plus a prior period adjustment of \$4,578,278, as indicated in the Changes in Net Assets Table 2 below. This growth in the City's net assets is principally from the governmental activities. Governmental Activities net assets increased 3% from an adjusted \$55,457,463 at June 30, 2005 to \$57,451,829 at the end of June 2006. The net assets of the City's business-type activities decreased 6.5% (\$943,249) from \$14,561,613 in 2005 to \$13,618,364 in 2006, as shown in Table 2 below. Net assets of Total Primary Government activities, which includes both Business-Type Activities and Governmental Activities moved from \$65,476,011 in 2005, to \$71,070,193 in 2006, resulting in an increase in total net assets of 9% or \$5,594,182.



**CITY OF PACIFICA, CALIFORNIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The net assets (financial position) of the City changed as a result of the revenue and expense fluctuations by \$1,015,904, including the prior year adjustment of \$4,578,278 as shown in the table below for the governmental and business-type activities of the City.

A summary of the Government-wide Statement of Activities & Changes in Net Assets follows:

**Activities & Changes in Net Assets - Year Ended June 30, 2006**

**Table 2**

	Governmental	Governmental	Business-Type	Business-Type	Total Primary	Total Primary	Total
	Activities	Activities	Activities	Activities	Government	Government	%
	2005	2006	2005	2006	2005	2006	Change
<b>Program Revenues:</b>							
Charges for Services	\$ 3,056,542	\$ 4,638,286	\$ 8,108,045	\$ 8,721,125	\$ 11,164,587	\$ 13,359,411	20%
Operating Grants	871,075	2,626,473			871,075	2,626,473	202%
Capital Grants	2,272,460	3,338,214			2,272,460	3,338,214	47%
<b>General Revenues:</b>					-	-	
Property Taxes	7,409,350	8,126,936			7,409,350	8,126,936	10%
Sales and Use Taxes	1,330,597	1,116,191			1,330,597	1,116,191	-16%
Franchise taxes	1,131,838	1,458,418			1,131,838	1,458,418	29%
Other Taxes	5,310,469	3,824,787			5,310,469	3,824,787	-28%
Licenses & Permits	400,197	-			400,197	-	-100%
Fines & Forfeitures	144,315	-			144,315	-	-100%
Use of Money & Property	233,313	321,272	54,158	26,569	287,471	347,841	21%
Intergovernmental revenues - unrestricted	2,809,846	-			2,809,846	-	-100%
Motor Vehicle in Lieu-unrestricted		3,522,799			-	3,522,799	100%
Intergovernmental revenues -restricted	1,349	-			1,349	-	-100%
Other General Revenues	3,028,201	868,120	100,126	17,116	3,128,327	885,236	-72%
Transfers		1,017,500		(1,017,500)	-	-	0%
<b>Total Revenues</b>	<b>27,999,552</b>	<b>30,858,996</b>	<b>8,262,329</b>	<b>7,747,310</b>	<b>36,261,881</b>	<b>38,606,306</b>	<b>6%</b>
<b>Program Expenditures</b>							
General Government	3,949,441	5,923,892			3,949,441	5,923,892	50%
Finance and Central Services	814,138	-			814,138	-	-100%
Planning & Development	1,300,773	1,799,035			1,300,773	1,799,035	38%
Public Safety	12,929,514	13,639,116			12,929,514	13,639,116	5%
Public Works	2,941,376	3,606,841			2,941,376	3,606,841	23%
Parks, Beaches & Recreation	1,469,780	3,084,327			1,469,780	3,084,327	110%
Sewer Operations			8,922,794	8,725,772	8,922,794	8,725,772	-2%
Debt Services	900,171	811,419			900,171	811,419	-10%
Special Projects & Non-Departmental	2,158,215	-			2,158,215	-	-100%
<b>Total Expenditures</b>	<b>26,463,408</b>	<b>28,864,630</b>	<b>8,922,794</b>	<b>8,725,772</b>	<b>35,386,202</b>	<b>37,590,402</b>	<b>6%</b>
Prior period adjustment	(241,300)	4,543,065	593,533	35,213	352,233	4,578,278	
Increase(Decrease) Net Assets	1,536,144	1,994,366	(660,465)	(978,462)	875,679	1,015,904	16%
Beginning Net Assets	49,378,254	55,457,463	14,628,545	14,561,613	64,006,799	64,248,099	0%
Ending Net Assets	\$ <b>50,914,398</b>	\$ <b>57,451,829</b>	\$ <b>14,561,613</b>	\$ <b>13,618,364</b>	\$ <b>65,476,011</b>	\$ <b>71,070,193</b>	<b>9%</b>

**CITY OF PACIFICA, CALIFORNIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Governmental Activities**

Revenues for the City's governmental activities increased from \$27,999,552 in 2005 to \$30,858,996 in 2006. Total Primary Government revenue increased by 6% from \$36,261,881 in the previous fiscal year to \$38,606,306 in 2006. Total governmental program expenditures increased by 8% from \$26,463,408 to \$28,864,630 in 2006. The cost of all primary *governmental activities* in fiscal year 2004-2005 was \$35.4 million compared to \$37.6 million this year, an increase of six percent. The amount that taxpayers ultimately financed for these activities through City taxes was only \$18.9 million, as some of the costs were paid by those who directly benefited from the programs (\$13.4 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$5.9 million). The net changes in assets for both governmental and business type activities from the previous fiscal year amounted to a \$1,015,904 increase in total net assets.

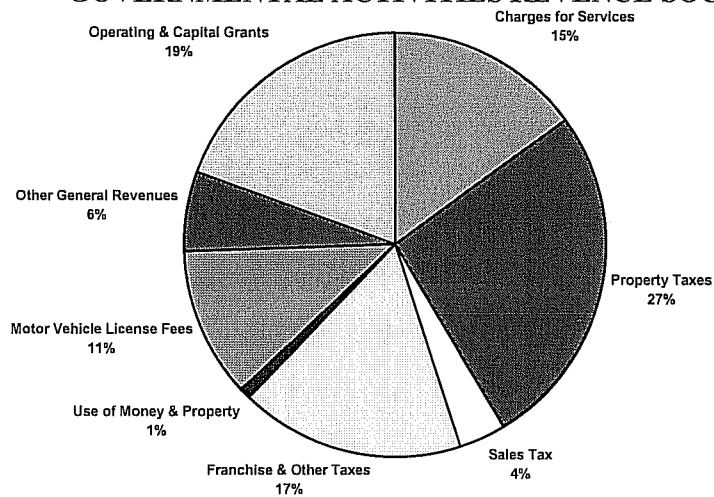
The reasons for significant changes in the revenues and expenses of the City's governmental activities presented above are as follows:

- The City's "Property Taxes" and "Motor Vehicle License Fees" came in \$717,600 and \$1,000,000 respectively higher than the previous year. The City received an ERAF refund from the State in the amount of \$770,000 and a loan repayment from the State for Motor Vehicle License Fee in the amount of \$662,000.
- Capital Grant revenues were higher than the previous year by \$1,066,000.
- Operating Grant revenues were \$1,755,000 more than the previous year.
- Other Taxes revenue came in at \$1,486,000 lower than the previous year.
- Public safety expenditures came in \$710,000 higher than the previous fiscal year, mainly due to fire emergency services overtime and benefits.
- Planning/Public Works program expenditures were higher than the previous year by \$498,000 and \$665,500 respectively.
- Parks, beaches & recreation program expenditures were higher than the previous year by \$1,615,000, due to a reclassification of special projects into this category from the Non-departmental category.
- General Government expenditures, which includes General, with the addition of Finance and Central Services, and Non-Departmental, was lower in total than the previous year by \$997,902 because last year Special Projects was in this category and has now been reclassified to the Parks, beaches & recreation category. The Non-Departmental portion of this category had an increase of \$500,000 due to purchase of the Esplanade property.
- The Sewer Operations expenses came in lower than the previous year by \$212,400.

**CITY OF PACIFICA, CALIFORNIA**  
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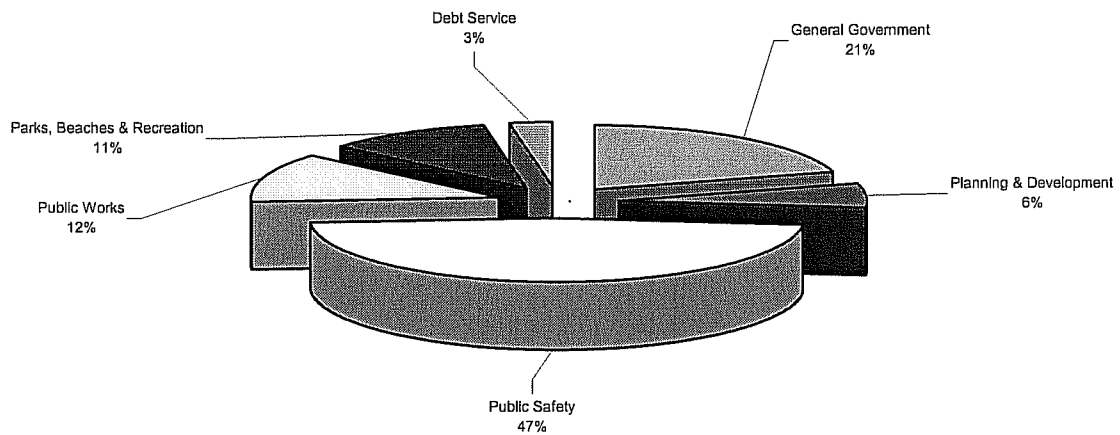
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**GOVERNMENTAL ACTIVITIES REVENUE SOURCES**



The chart of revenues by source above, illustrates that property taxes at 27% of total governmental activity revenue are the single largest source of operating revenue for the City. It is also one of the most stable and consistent growth revenues. The major components of this revenue category are: Property taxes, vehicle in-lieu, sales and use tax, franchise fees, utility user fees, charges for services, and grants and intergovernmental revenues.

**GOVERNMENTAL ACTIVITIES EXPENDITURES**



The chart of expenses graphically portrayed above shows the relative proportion of expenditures by function, as listed in the Statement of Activities and Changes in Net Assets on page 7 of the MD&A.

**CITY OF PACIFICA, CALIFORNIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Business-Type Activities**

The decrease in business-type activities' net assets of \$978,462 represents activity in the Sewer Enterprise Fund. The principal source of revenue for this fund is from charges for usage, which are assessed on the basis of equivalent residential units (ERU). Revenues from the City's sewer operations (see Table 3) increased by 6.2 percent (\$512,954) from \$8,208,171 in June 2005 to \$8,721,125 in 2006. There was a 5.7 percent increase in the sewer charge rate approved by Council in June 2006. Sewer expenses, including both operating and non-operating expenses, increased from \$8,922,794 in 2005 to \$9,743,272 in 2006. The approximately \$820,000 increase in expenses is primarily attributable to higher personnel and administrative expenses. Changes in revenues and expenditures resulted from decreased consumption driving sewer rates up. There is an inverse relationship between the level of consumption of water and the sewer rates. Bond interest expense and major maintenance expenses are recorded in this fund.

**Enterprise Sewer Fund**

**Table 3**

	2005	2006	Difference
Operating Revenues	\$8,208,171	\$8,721,125	\$512,954
Operating Expenses	\$7,609,695	\$7,397,335	\$212,360
Income(Loss)	\$ 598,476	\$1,323,790	\$725,314

The internal service funds consist of motor pool and self-insurance general government costs.

**Internal Service Funds**

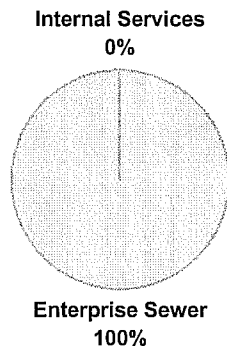
**Table 4**

	2005	2006	Difference
Operating Revenues	\$1,453,713	\$1,668,027	\$214,314
Operating Expenses	\$2,295,320	\$2,054,562	(\$240,758)
Income(Loss)	(\$ 841,607)	(\$ 386,535)	\$455,072

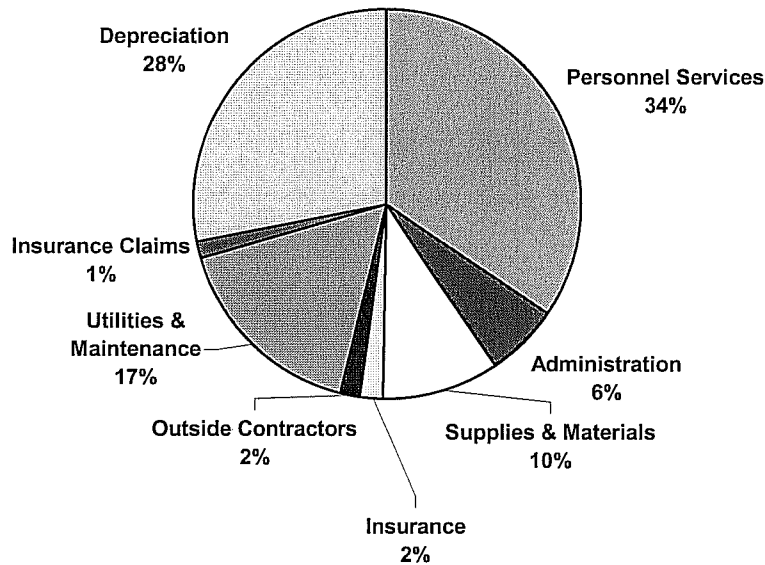
**CITY OF PACIFICA, CALIFORNIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Revenues for Business-Type Activities**



**Expenditures for Business-Type Activities**



**MAJOR FUNDS**

As noted earlier, the City uses fund accounting to provide proper financial management of the City's resources and to demonstrate compliance with finance-related legal requirements.

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

**CITY OF PACIFICA, CALIFORNIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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At the end of the fiscal year 2005-2006, the City's governmental funds reported combined ending fund balances of \$7,814,389, including reserved and undesignated funds.

**General Fund**

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, total fund balance of the general fund was \$5,998,951, representing a net change in general fund balance of (\$599,640), plus a prior year adjustment of \$43,804. As a measure of the general fund's liquidity, it is useful to compare the total fund balance to total fund expenditure, which shows that fund balance is 24.7 percent of general fund expenditures. Total "General Fund" revenue, as shown on page 24, this year was \$23,535,851 compared to \$20,982,351 in the prior year, a significant \$2,553,500 increase/difference. Some Program Function reporting accounting changes were made from last year to this year, but the major contributors of the increase/difference are described below:

- Property Taxes increased \$700,000 -- increase primarily due to a rebate by the County for the City's share of the Educational Revenue Augmentation Fund (ERAF), which actually is a return to the Cities of a prior year's redirect of City monies to the Education Fund.
- Motor Vehicle License Fees increased \$1,000,000.
- Charges for Services decreased by \$1,650,000 – mainly due to an accounting change, Recreation Program Fees pulled out and listed separately in the current year, and Parks, Beaches, and Recreation (PB&R) programs listed here last year are listed under Other Revenue in the current year.
- Recreation Program Fees, increase of \$550,000 – new line item, pulled out of Charges for Services.
- Other Revenues, increase of \$1,500,000 – accounting change, PB&R programs listed here that were listed under Charges for Services last year.
- Intergovernmental Revenues increased by \$1,400,000.

General Fund expenditures of \$24,282,226 increased by \$3,778,519 over the previous year, primarily due to increased wage and benefit costs. Differences shown below:

- Public Safety expenditures increased by \$1,023,745
- Public Works expenditures increased by \$615,500
- Parks, Beaches & Recreation expenditures increased by \$1,738,000
- Capital outlay increased by \$652,800
- General Government expenditures, including Special Projects, decreased by \$104,200
- Planning & Development expenditures decreased by \$146,000

Total General Fund Expenditures exceeded Revenues by \$18,875.

**Enterprise Fund**

Total net assets for the Sewer Fund at the end of the fiscal year were \$13,618,364. The total change in net assets for the Sewer Fund was (\$943,249), including prior period adjustment of \$35,213. Unrestricted net assets of the Enterprise Sewer Fund at the end of the year amounted to (\$842,620). Restricted assets, which were specific to debt service, were \$946,455. Additional factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

**RDA – Rockaway Beach**

This fund accounts for the revenues and expenditures related to redevelopment projects in the RDA project area of Rockaway Beach. The Redevelopment Area consists of 600 square acres. The Quarry is approximately 85 square acres of the RDA, and has recently been purchased by an owner/developer with

**CITY OF PACIFICA, CALIFORNIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

the intent of developing a mixed use project on this commercially zoned property. The community voted down the project on the November 2006 ballot.

**Debt Service Fund**

All governmental activities debt service costs are budgeted in the fund responsible for the debt and transferred to the Debt Service Fund for payment. Total governmental activities debt is \$17,450,000 with \$1,725,000 of Redevelopment Agency debt and \$15,725,000 of general fund debt.

**General Fund Budget Modifications**

- Differences between the original fiscal year 2005-2006 budget and the final amended fiscal year 2005-2006 budget of the General Fund were relatively minor with a net decrease of \$125,000. This net decrease is a combination of costs for the separation cash-out of a former City Manager as well as a reclassification of the purchase of vehicles into the Motor Pool Replacement Fund. For comparison purposes, all budgeted Capital Outlay amounts have been pulled from individual program line items and listed as Capital Outlay.

Major deviations between the final budget of the General Fund and its actual operating results were as follows:

- General Government, including Non-Departmental Services - Budgeted \$4,205,650, expended \$5,319,000, over budget by \$1,110,000, mainly due to non-departmental property purchase and extra legal expenditures
- Public Safety - Budget \$12,634,000, expended \$13,029,000, over budget by \$400,000, mainly due to Fire Emergency services overtime and benefits
- Total Community Development - Budgeted \$863,000, expended \$941,000, over budget by \$78,000
- Public Works - Budget \$1,245,000, expended \$1,332,000, over budget by \$87,000
- Parks & Recreation - Budget \$2,961,000, expended \$3,009,000, over budget by \$48,000
- Capital Outlay - Budget \$229,000, expended \$653,000, over budget by 424,000.

Total general fund revenue final budget was \$22,114,175 but came in at \$24,263,251, \$2,149,000 over budget. Total general fund final expenditure budget was \$22,137,505 with actual expenditures of \$24,282,226. Over budget expenditure deviation was \$2,144,721, for a net deficit of expenditures over revenue of \$18,875 before Transfers In and Out as shown on page 62 and 63 of this report.

**Transfers**

Transfers to the General Fund are generally made to match restricted revenue with related costs that have been recorded in the General Fund. An example of this type of transfer could be transfers-out of the General Fund to the Internal Service Fund for insurance costs or to the Debt Fund for general obligation debt payments.

**CITY OF PACIFICA, CALIFORNIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**CAPITAL ASSETS**

	Capital Assets (in thousands)					
	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Land and Improvements	\$ 35,540	\$40,136	\$ 4,500	\$4,014	\$ 40,040	\$44,150
Buildings and Improvements	14,872	15,592	70,255	73,449	86,127	89,041
Collection System	-	-	3,405	3,520	3,405	3,520
Machinery and Equipment	493	574	433	636	926	1,210
Vehicles and Equipment	4,324	4,516	-	-	4,324	4,516
Infrastructure	9,527	11,862	-	-	9,527	11,862
Construction in Progress	596	688	-	-	596	688
Depreciation	<u>(7,512)</u>	<u>(8,519)</u>	<u>(28,359)</u>	<u>(30,441)</u>	<u>(35,871)</u>	<u>(38,960)</u>
Total	<u>\$ 57,840</u>	<u>\$64,849</u>	<u>\$ 51,234</u>	<u>\$51,178</u>	<u>\$109,074</u>	<u>\$116,027</u>

Major additions to capital assets during the year ended June 30, 2006 included:

- Continued progress toward completion of the San Pedro Flood Control Project
- San Pedro Creek Urban Stream
- Capistrano Fish Passage
- Capistrano Bridge
- Damage Recovery Incentive

For more detailed information on the City's capital assets, refer to the Notes to the Financial Statements, Note 5.

**Long-Term Debt**

At the end of the current fiscal year, Governmental Activities had bonded debt outstanding in the amount of \$17,450,000, all backed by the full faith and credit of the government. For more detailed information on long-term debt activity, refer to the Notes to the Financial Statements, Note 6.

**Outstanding Debt**

2006 Certificate of Participation	\$15,725,000
2004 RDA Tax Allocation Bond	<u>1,725,000</u>
 Total Bonded Debt Outstanding	 <u>\$17,450,000</u>

The City's total debt increased by \$3,005,000 during the fiscal year. The 1999 Street COP for \$4,505,000, the 2000 Public Safety COP for \$5,470,000, and the 2003 Public Safety COP for \$2,500,000 were retired during the fiscal year, and refinanced under a new 2006 COP. New debt of \$2,000,000 was issued during the refinancing of the older COP's. The refunding resulted in an increase of the total debt service by \$3,232,710 which resulted in an economic gain of \$1,070,200. A five year Fire Assessment was added to the tax rolls during fiscal year 2003-2004 in the amount of approximately \$1,000,000, with the first distribution received in December 2004. The RDA issue Tax Allocation Bonds in 2004 to partially repay a loan from the General Fund.



**CITY OF PACIFICA, CALIFORNIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The City maintains an "A" rating from Standard & Poor's on the General Obligation debt.

State statutes limit the amount of general obligation debt a city may issue to 25 percent of its total assessed valuation. The governmental debt obligation balance at the end of 2006 is \$15,725,000. Based on the total assessed valuation of \$3,663,133,000 the current debt limitation for the City is \$915,783,250 (25% of \$3,663,133,000), which is significantly more than the City's outstanding general obligation debt. The City has incurred additional non-bond related Note Payable in the amount of \$1,034,348; \$250,000 for second deed of trust due August 25, 2035; and \$350,000 for fourth deed of trust due August 28, 2035.

**Economic Outlook and Next Year's Budget**

The City has a number of issues to address in the future which are dependent, in large part, upon how the economy fares over the next couple of years. Among the issues are:

- Significantly higher retirement costs for current and past employees, especially public safety employees.
- Remaining possibility of revenue takeaways by the State with a 2/3 majority vote from the State Legislature as it attempts to resolve a massive budget deficit.
- Significantly increased workers' compensation premiums and increased self-insured retention limits.
- Increasing cost of employee health care benefits and liability for post retirement health benefits.
- Securing continued and ongoing revenue sources, which are not subject to depletion by the State.

**Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Director's Office, City of Pacifica, 170 Santa Maria Avenue, Pacifica, CA 94044, 650/738-7395.

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**CITY OF PACIFICA**  
**Statement of Net Assets**  
**June 30, 2006**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>
<b>ASSETS</b>			
Cash and investments	\$ 10,473,646	\$ 60,094	\$ 10,533,740
Cash and investments with fiscal agents	212,524	1,118,185	1,330,709
Taxes receivable	950,495		950,495
Accounts receivable	384,178	1,401	385,579
Interest receivable	200,483		200,483
Grants receivable	1,096,786		1,096,786
Notes receivable, net	600,000		600,000
Prepaid items	9,373	57	9,430
Deposits receivable	783,506		783,506
Inventories	37,704	157,871	195,575
Deferred charges - net of accumulated amortization	501,683	862,054	1,363,737
Deferred loss on refunding - net of accumulated amortization	1,383,139	643,765	2,026,904
Capital assets not being depreciated	40,824,068	4,014,412	44,838,480
Capital assets, net of accumulated depreciation	<u>24,024,583</u>	<u>47,163,538</u>	<u>71,188,121</u>
 Total assets	 <u>81,482,168</u>	 <u>54,021,377</u>	 <u>135,503,545</u>
<b>LIABILITIES</b>			
Accounts payable	1,146,919	567,975	1,714,894
Accrued liabilities	363,410	42,728	406,138
Interest payable	97,296	171,730	269,026
Refundable deposits	519,956		519,956
Unearned revenue	27,593	253,682	281,275
Noncurrent liabilities:			
Due within one year	2,509,458	176,225	2,685,683
Due in more than one year	<u>19,365,707</u>	<u>39,190,673</u>	<u>58,556,380</u>
 Total liabilities	 <u>24,030,339</u>	 <u>40,403,013</u>	 <u>64,433,352</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	48,249,125	13,514,529	61,763,654
Restricted for:			
Restricted for construction of capital assets	1,529,803		1,529,803
Restricted for debt service	244,703	946,455	1,191,158
Restricted for streets, highways, and other related purposes	4,292,332		4,292,332
Restricted for low/mod housing	434,518		434,518
Restricted for public safety	237,240		237,240
Unrestricted	<u>2,464,108</u>	<u>(842,620)</u>	<u>1,621,488</u>
 Total net assets	 <u>\$ 57,451,829</u>	 <u>\$ 13,618,364</u>	 <u>\$ 71,070,193</u>

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

**CITY OF PACIFICA**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2006**

	Expenses	Program Revenues		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Governmental activities:				
General government	\$ 5,923,892	\$ 80,269	\$ 165,000	\$ 250,000
Public safety	13,639,116	922,034	228,892	
Community development	1,799,035	599,540	460,838	
Public works	3,606,841	1,529,607	951,887	2,910,117
Parks, beaches, and recreation	3,084,327	1,506,836	819,856	178,097
Interest on long-term debt	811,419			
Total governmental activities	<u>28,864,630</u>	<u>4,638,286</u>	<u>2,626,473</u>	<u>3,338,214</u>
Business-type activities:				
Sewer	<u>8,725,772</u>	<u>8,721,125</u>		
Total business-type activities	<u>8,725,772</u>	<u>8,721,125</u>		
Total government	<u>\$ 37,590,402</u>	<u>\$ 13,359,411</u>	<u>\$ 2,626,473</u>	<u>\$ 3,338,214</u>

General Revenues  
Taxes  
    Property taxes  
    Sales and use taxes  
    Franchise taxes  
    Other taxes  
Motor vehicle in lieu - unrestricted  
Investment earnings  
Miscellaneous  
Transfers  
  
Total general revenues and transfers

Change in net assets

Net Assets, July 1, 2005  
Prior Period Adjustments  
Net Assets, July 1, 2005, Restated,  
  
Net Assets, June 30, 2006

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

Net (Expense) Revenue and  
Changes in Net Assets

Governmental Activities	Business-type Activities	Totals
\$ (5,428,623)	\$ -	\$ (5,428,623)
(12,488,190)		(12,488,190)
(738,657)		(738,657)
1,784,770		1,784,770
(579,538)		(579,538)
(811,419)		(811,419)
<u>(18,261,657)</u>		<u>(18,261,657)</u>
	(4,647)	(4,647)
	(4,647)	(4,647)
<u>(18,261,657)</u>	<u>(4,647)</u>	<u>(18,266,304)</u>
8,126,936		8,126,936
1,116,191		1,116,191
1,458,418		1,458,418
3,824,787		3,824,787
3,522,799		3,522,799
321,272	26,569	347,841
868,120	17,116	885,236
<u>1,017,500</u>	<u>(1,017,500)</u>	
<u>20,256,023</u>	<u>(973,815)</u>	<u>19,282,208</u>
<u>1,994,366</u>	<u>(978,462)</u>	<u>1,015,904</u>
50,914,398	14,561,613	65,476,011
4,543,065	35,213	4,578,278
<u>55,457,463</u>	<u>14,596,826</u>	<u>70,054,289</u>
<u>\$ 57,451,829</u>	<u>\$ 13,618,364</u>	<u>\$ 71,070,193</u>

**CITY OF PACIFICA**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2006**

	<u>Capital Projects Funds</u>			<u>Debt Service Fund</u>
	<u>General</u>	<u>Redevelopment</u>		<u>Debt Service</u>
		<u>Improvement</u>	<u>Agency Rockaway Beach</u>	
<b>Assets</b>				
Cash and investments	\$ 2,651,619	\$ 2,840,886	\$ 196,230	\$ 340,855
Cash and investments with fiscal agents			211,380	1,144
Receivables:				
Taxes	715,293	6,250		
Accounts	344,898			
Interest	92,918	11,253		
Grants	63,819	700,935		
Notes, net				
Due from other funds	271,409			
Prepaid items	9,253			
Deposits receivable	783,506			
Inventories	16,699			
Advances receivable	5,607,094			
	<u>5,607,094</u>			
Total Assets	<u>\$ 10,556,508</u>	<u>\$ 3,559,324</u>	<u>\$ 407,610</u>	<u>\$ 341,999</u>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 610,024	\$ 99,354	\$ 15,741	\$ -
Accrued liabilities	336,733	1,062		
Refundable deposits	519,956			
Due to other funds		2,218,700		
Unearned revenues	3,090,844			
Advances payable			5,338,896	
	<u>3,090,844</u>		<u>5,338,896</u>	
Total Liabilities	<u>4,557,557</u>	<u>2,319,116</u>	<u>5,354,637</u>	
Fund Balances:				
Reserved for encumbrances	4,164			
Reserved for prepaid items	9,253			
Reserved for medical equipment	5,000			
Reserved for inventories	16,699			
Reserved for notes and loans				
Reserved for advances	2,776,050			
Reserved for general operations	2,244,231			
Reserved for NARC forfeiture	47,773			
Reserved for capital projects		1,240,208		
Reserved for debt service				341,999
Unreserved	895,781		(4,947,027)	
Unreserved, reported in nonmajor:				
Special revenue funds				
Capital projects funds				
	<u>895,781</u>		<u>(4,947,027)</u>	
Total Fund Balances	<u>5,998,951</u>	<u>1,240,208</u>	<u>(4,947,027)</u>	<u>341,999</u>
Total Liabilities and Fund Balances	<u>\$ 10,556,508</u>	<u>\$ 3,559,324</u>	<u>\$ 407,610</u>	<u>\$ 341,999</u>

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

Other Governmental Funds	Totals
\$ 2,620,185	\$ 8,649,775
	212,524
228,952	950,495
	344,898
96,312	200,483
332,032	1,096,786
600,000	600,000
2,218,700	2,490,109
120	9,373
	783,506
	16,699
	5,607,094
<u>\$ 6,096,301</u>	<u>\$ 20,961,742</u>
\$ 253,812	\$ 978,931
23,519	361,314
	519,956
271,409	2,490,109
99,105	3,189,949
268,198	5,607,094
<u>916,043</u>	<u>13,147,353</u>
	4,164
120	9,373
	5,000
	16,699
600,000	600,000
	2,776,050
	2,244,231
	47,773
	1,240,208
	341,999
	(4,051,246)
3,215,534	3,215,534
1,364,604	1,364,604
<u>5,180,258</u>	<u>7,814,389</u>
<u>\$ 6,096,301</u>	<u>\$ 20,961,742</u>

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**CITY OF PACIFICA**  
**Reconciliation of the Governmental Funds**  
**Balance Sheet to the Statement of Net Assets**  
**June 30, 2006**

Fund Balances - Governmental Funds \$ 7,814,389

Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds because of the following:

Capital assets used in Governmental Activities are not current resources and, therefore, are not reported in the Governmental Funds Balance Sheet.

Capital assets	\$ 68,168,629	
Less: accumulated depreciation	<u>(5,048,827)</u>	63,119,802

Interest accrued on notes and advances are not available to pay for current expenditures and, therefore are offset by deferred revenue in the Governmental Funds. 3,162,356

Deferred charges represent costs associated with the issuance of long-term debts which are deferred and amortized over the period which the debts are outstanding. The costs are reported as expenditures of the current period in the Governmental Funds.

Deferred charges - 2004 Tax Allocation Bond - net of accumulated amortization	89,816	
Deferred charges - 2006 Certificates of Participation - net of accumulated amortization	<u>411,867</u>	501,683

Deferred loss on refunding, net of accumulated amortization has not been reported in the Governmental Funds. This was capitalized and amortized over the life of the new debt or old debt whichever is shorter in the Statement of Net Assets. 1,383,139

Interest payable on long-term debt is not require current financial resources. Therefore, interest payable is not reported as a liability in the Governmental Funds Balance Sheet. (97,296)

The liabilities below are not due and payable in the current period and, therefore, are not reported in the Governmental Funds Balance Sheet.

Compensated absences	(1,286,858)	
2002 CHFA Loan	(1,034,348)	
2004 Tax Allocation Bond	(1,725,000)	
2006 Certificates of Participation	<u>(15,725,000)</u>	(19,771,206)

Internal service funds are used by management to charge costs of certain activities, such as equipment replacement, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.

1,338,962

Net Assets of Governmental Activities \$ 57,451,829

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

**CITY OF PACIFICA**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2006**

	<u>Capital Projects Funds</u>		
	<u>General</u>	<u>General Capital Improvement</u>	<u>Redevelopment Agency Rockaway Beach</u>
Revenues			
Taxes	\$ 13,789,083	\$ -	\$ 188,528
Licenses and permits	310,587	24,467	
Fines and forfeitures	138,662		
Use of money and property	170,743	6,279	15,241
Intergovernmental	5,029,559	1,799,023	474
Charges for current services	1,420,372		
Recreation programs	565,454		
Other	2,111,391	75,200	10,000
Total Revenues	<u>23,535,851</u>	<u>1,904,969</u>	<u>214,243</u>
Expenditures			
Current			
General government	5,318,938		37,511
Public safety	13,028,511		
Community development	941,097	51,060	
Public works	1,331,978		
Parks, beaches, and recreation	3,008,962		
Capital outlay	652,740	2,182,847	
Debt service			
Principal			
Interest and fiscal charges			281,564
Total Expenditures	<u>24,282,226</u>	<u>2,233,907</u>	<u>319,075</u>
Excess (Deficit) of Revenues over Expenditures	<u>(746,375)</u>	<u>(328,938)</u>	<u>(104,832)</u>
Other Financing Sources (Uses)			
Certificates of participation issued			
Certificates of participation discount			
Payment to refunded debt escrow agent			
Transfers in	1,827,500	2,467,000	
Transfers out	(1,680,765)		
Total Other Financing Sources (Uses)	<u>146,735</u>	<u>2,467,000</u>	
Net Changes in Fund Balances	<u>(599,640)</u>	<u>2,138,062</u>	<u>(104,832)</u>
Fund Balances, July 1, 2005	6,554,787	(844,987)	(2,077,827)
Prior Period Adjustments	43,804	(52,867)	(2,764,368)
Fund Balances, July 1, 2005, Restated	<u>6,598,591</u>	<u>(897,854)</u>	<u>(4,842,195)</u>
Fund Balances, End of the Fiscal Year	<u>\$ 5,998,951</u>	<u>\$ 1,240,208</u>	<u>\$ (4,947,027)</u>

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

**Debt Service  
Fund**

<b>Debt Service</b>	<b>Other Governmental Funds</b>	<b>Totals</b>
\$ -	\$ 47,132	\$ 14,024,743
		335,054
		138,662
20,355	103,934	316,552
	2,364,814	9,193,870
	1,209,566	2,629,938
		565,454
<u>165,000</u>	<u>238,985</u>	<u>2,600,576</u>
<u>185,355</u>	<u>3,964,431</u>	<u>29,804,849</u>
		5,356,449
	153,209	13,181,720
	758,919	1,751,076
	1,951,757	3,283,735
		3,008,962
	467,182	3,302,769
375,068		375,068
<u>1,095,738</u>	<u>15,990</u>	<u>1,393,292</u>
<u>1,470,806</u>	<u>3,347,057</u>	<u>31,653,071</u>
<u>(1,285,451)</u>	<u>617,374</u>	<u>(1,848,222)</u>
15,725,000		15,725,000
(106,144)		(106,144)
(13,298,931)		(13,298,931)
929,000	134,765	5,358,265
<u>(2,000,000)</u>	<u>(1,250,000)</u>	<u>(4,930,765)</u>
<u>1,248,925</u>	<u>(1,115,235)</u>	<u>2,747,425</u>
<u>(36,526)</u>	<u>(497,861)</u>	<u>899,203</u>
378,525	5,777,423	9,787,921
	(99,304)	(2,872,735)
<u>378,525</u>	<u>5,678,119</u>	<u>6,915,186</u>
<u>\$ 341,999</u>	<u>\$ 5,180,258</u>	<u>\$ 7,814,389</u>

**CITY OF PACIFICA**  
**Reconciliation of the Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Fiscal Year Ended June 30, 2006**

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances, which measure only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES \$ 899,203

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over over their estimated lives and reported as depreciation expense.

Capital outlay expenditures are therefore added back to fund balances	\$ 3,320,146	
Depreciation expense not reported in governmental funds	<u>(979,479)</u>	
		2,340,667

Interest in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		221,284
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In Governmental Funds, the entire proceeds from disposal of capital assets are reported as revenues. In the Statement of Activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is		(57,188)
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Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Costs associated with the issuance of long-term debt are reported as expenditures in the governmental funds, but in the Statement of Net Assets, the costs are deferred and amortized throughout the period during which the related debt is outstanding. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.

Issuance of long term debt	(15,725,000)	
Issuance cost and discount incurred during the period	426,069	
Issuance cost and discount amortized during the period	(37,439)	
Repayment of debt principal	<u>375,068</u>	
		(14,961,302)

In Governmental Funds, payments to refunded debt escrow are recognized as other financing uses. In the Government-wide Statements, payments to refunded debt escrow are reported as reduction to long-term debt.		13,298,931
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The amounts below included in the Statement of Activities do not provide (require) the use of current financial resources and, therefore, are not reported as revenues or expenditures in governmental funds (net change):

Deferred loss on refunding amortized during the period	(10,806)	
Interest payable	106,909	
Compensated absences	<u>(143,911)</u>	
		(47,808)

The internal service fund is used by management to charge costs of certain activities such as, equipment replacement, to individual funds. The net revenues (expenses) of the internal service fund is reported with governmental activities.		<u>300,579</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u>\$ 1,994,366</u>
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The accompanying notes are an integral part of these basic financial statements.

**CITY OF PACIFICA**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2006**

	<b>Business-types Activities</b>	<b>Governmental Activities</b>
	<b>Enterprise Fund</b>	<b>Internal Service Funds</b>
	<b>Sewer Utility</b>	
<b>Assets</b>		
Current Assets:		
Cash and investments	\$ 60,094	\$ 1,823,871
Cash and investments with fiscal agents	1,118,185	
Receivables:		
Accounts	1,401	39,280
Prepaid items	57	
Inventories	157,871	21,005
Total Current Assets	1,337,608	1,884,156
Noncurrent Assets:		
Deferred charges (net of accumulated amortization)	862,054	
Deferred loss on refunding (net of accumulated amortization)	643,765	
Capital assets, not being depreciated	4,014,412	258,774
Capital assets, being depreciated (net of accumulated depreciation)	47,163,538	1,470,075
Total Noncurrent Assets	52,683,769	1,728,849
Total Assets	54,021,377	3,613,005
<b>Liabilities</b>		
Current Liabilities:		
Accounts payable	567,975	167,988
Accrued liabilities	42,728	2,096
Interest payable	171,730	
Unearned revenue	253,682	
Claims payable		1,893,822
Bonds payable	140,000	
Total Current Liabilities	1,176,115	2,063,906
Noncurrent Liabilities:		
Claims payable		206,334
Compensated absences	197,658	3,803
Loans payable	25,359,240	
Bonds payable	13,670,000	
Total Noncurrent Liabilities	39,226,898	210,137
Total Liabilities	40,403,013	2,274,043
<b>Net Assets</b>		
Invested in capital assets, net of related debt	13,514,529	1,728,849
Restricted for debt service	946,455	
Unrestricted	(842,620)	(389,887)
Total Net Assets	\$ 13,618,364	\$ 1,338,962

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

**CITY OF PACIFICA**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2006**

	<b>Business-types Activities</b>	<b>Governmental Activities</b>
	<b>Enterprise Fund</b>	<b>Internal Service Funds</b>
	<b>Sewer Utility</b>	
Operating Revenues		
Charges for services	\$ 8,708,004	\$ 1,201,688
Other operating income	13,121	466,339
	<hr/>	<hr/>
Total Operating Revenues	8,721,125	1,668,027
	<hr/>	<hr/>
Operating Expenses		
Personnel services	2,538,980	360,030
Administration	460,870	5,996
Supplies and materials	715,912	422,750
Insurance	153,824	88,288
Outside contractors	117,863	126,128
Maintenance	222,065	12,731
Utilities	1,005,017	
Insurance claims	101,175	686,407
Depreciation	2,081,629	352,232
	<hr/>	<hr/>
Total Operating Expenses	7,397,335	2,054,562
	<hr/>	<hr/>
Operating Income (Loss)	1,323,790	(386,535)
	<hr/>	<hr/>
Non-Operating Revenues (Expenses)		
Investment earnings	26,569	75,835
Recoveries and settlements	17,116	21,279
Interest and fiscal charges	(691,919)	
Amortization	(636,518)	
	<hr/>	<hr/>
Total Non-Operating Revenues (Expenses)	(1,284,752)	97,114
	<hr/>	<hr/>
Income (Loss) Before Transfers	39,038	(289,421)
	<hr/>	<hr/>
Transfers		
Transfers in		590,000
Transfers out	(1,017,500)	
	<hr/>	<hr/>
Changes in Net Assets	(978,462)	300,579
	<hr/>	<hr/>
Net Assets, July 1, 2005	14,561,613	1,023,511
Prior Period Adjustments	35,213	14,872
Net Assets, July 1, 2005, Restated	14,596,826	1,038,383
	<hr/>	<hr/>
Net Assets, June 30, 2006	<u>\$ 13,618,364</u>	<u>\$ 1,338,962</u>

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

**CITY OF PACIFICA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2006**

	<b>Business-types Activities</b>	<b>Governmental Activities</b>
	<b>Enterprise Fund</b>	<b>Internal Service Funds</b>
	<b>Sewer Utility</b>	
Cash Flows from Operating Activities		
Receipts from customers	\$ 9,201,154	\$ 1,629,431
Payments to suppliers and users	(2,339,333)	(517,339)
Payments for claims	(101,175)	(532,282)
Payments to employees	(2,507,494)	(375,490)
Net Cash Provided by Operating Activities	<u>4,253,152</u>	<u>204,320</u>
Cash Flows from Noncapital Financing Activities		
Recoveries and settlements	17,116	21,279
Interfund loans	(250,000)	
Transfers in		590,000
Transfers out	(1,017,500)	
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(1,250,384)</u>	<u>611,279</u>
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(2,509,792)	(603,691)
Principal payments on bonds and notes	(135,000)	
Interest paid	(694,047)	
Net Cash (Used) by Capital and Related Financing Activities	<u>(3,338,839)</u>	<u>(603,691)</u>
Cash Flows from Investing Activities		
Interest received	26,569	75,835
Net Cash Provided by Investing Activities	<u>26,569</u>	<u>75,835</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(309,502)	287,743
Cash and Cash Equivalents at the Beginning of the Fiscal Year	<u>1,487,781</u>	<u>1,536,128</u>
Cash and Cash Equivalents at the End of the Fiscal Year	<u>\$ 1,178,279</u>	<u>\$ 1,823,871</u>
Reconciliation of Cash and Cash Equivalents to Statement of Net Assets:		
Cash and investments	\$ 60,094	\$ 1,823,871
Cash and investments with fiscal agents	1,118,185	
Total Cash and Cash Equivalents	<u>\$ 1,178,279</u>	<u>\$ 1,823,871</u>

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

**CITY OF PACIFICA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2006**  
**(Continued)**

	<b>Business-types Activities Enterprise Fund Sewer Utility</b>	<b>Governmental Activities Internal Service Funds</b>
Reconciliation of Operating Income to Net Cash Provided by		
Operating Activities:		
Operating income (loss)	\$ 1,323,790	\$ (386,535)
Adjustments to Reconcile Operating Income (Loss) to Net Cash		
Provided by Operating Activities:		
Depreciation	2,081,629	352,232
(Increase) Decrease in Operating Assets:		
Accounts receivable	226,347	(38,596)
Prepaid items	(57)	
Inventories	7,031	(603)
Increase (Decrease) in Operating Liabilities:		
Accounts payable	329,244	139,157
Accrued liabilities	(7,249)	(5,565)
Unearned revenue	253,682	
Claims payable		154,125
Compensated absences	38,735	(9,895)
	<u>\$ 4,253,152</u>	<u>\$ 204,320</u>

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



**NOTES TO THE BASIC FINANCIAL STATEMENTS**

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**CITY OF PACIFICA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 - Summary of Significant Accounting Policies:**

The basic financial statements of the City of Pacifica (City), have been prepared in conformity with accounting principles generally accepted in the United States of America ("USGAAP") as applied to governmental agencies. The Governmental Accounting Standards Boards ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting principles are described below.

**A. Reporting Entity**

The City of Pacifica was incorporated November 22, 1957 under the general laws of the State of California and enjoys all the rights and privileges applicable to a General Law City. The City operates under a Council-Manager form of government. There are five Council Members who serve overlapping terms of four years, and the Council, in turn, elects one of the Council Members to serve as Mayor for one year. This legislative body selects a City Manager to administer the affairs of the City. The City provides the following services: public safety (police, fire, and civil defense), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

As required by accounting principles generally accepted in the United States of America, the accompanying financial statements include the financial activities of the City and its blended component unit, the Redevelopment Agency of the City of Pacifica (Redevelopment Agency). The City Council serves in separate session as the governing body of the Redevelopment Agency and is financially accountable, although the Agency is a legal entity apart from the City. The financial activities of the Redevelopment Agency are, in substance, a part of the City's operations and are included in the accompanying financial statements utilizing the "blending method".

The Redevelopment Agency was established September 24, 1979 pursuant to Ordinance Number 267-C.S. Its purpose is to prepare and carry out plans for the improvement, rehabilitation, and development of blighted areas within the territorial limits of the City of Pacifica. The Redevelopment Agency is reported as a Special Revenue Fund. Individual component unit financial statements can be obtained for the City's Redevelopment Agency from the City's Finance Department located in City Hall.

The City participates in the ABAG Plan Corporation, a public entity risk pool, whose financial activities are not included in the basic financial statements as it is administered by a board, separate from and independent, of the City (See Note 8).

**Discretely Presented Component Units.** There are no entities which meet the *Governmental Accounting Standards Board Statement No. 14* as amended by GASB Statement No. 39, criteria for discrete disclosure within these financial statements.

**B. Basis of Presentation**

The City's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the acknowledged standard-setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

**CITY OF PACIFICA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 - Summary of Significant Accounting Policies (Continued):**

**C. Government-wide Financial Statements**

The City's government-wide financial statements include a Statement of Net Assets, and a Statement of Activities. These statements present summaries of governmental activities and business-type activities for the City, accompanied by a total column. These financial statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities are financed generally through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities (Sewer Utility Enterprise Fund) are financed generally through user fees.

The Statement of Activities presents a comparison between direct expenses and program revenues 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 three categories: (1) charges for services, (2) operating grants and contributions and (3) capital grants and contributions. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Certain eliminations have been made as prescribed by Governmental Accounting Standards Board No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* ("GASB No. 34") in regards to interfund activities, payables and receivables.

**D. Governmental Fund Financial Statements**

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

The governmental fund financial statements provide information about the City's funds, including blended component units. Separate statements for each fund category—*governmental and proprietary*—are presented. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses, and Change in Net Assets, and a Statement of Cash Flows for all proprietary funds. Internal service fund is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the government-wide financial statements.

Proprietary funds are accounted for using the "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses, and Change in Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which liabilities are incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operation of the fund. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

**CITY OF PACIFICA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 - Summary of Significant Accounting Policies (Continued):**

**D. Governmental Fund Financial Statements (Continued)**

Fiduciary Fund Financial Statements include a statement of net assets and a statement of changes in fiduciary net assets. Fiduciary funds represent agency funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City does not have any fiduciary funds.

**E. Major Funds**

GASB 34 defines major funds and requires that the City's major governmental funds be identified and presented separately in the Fund financial statements. All other governmental funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type. Major funds are defined as governmental funds which have either assets, liabilities, revenues or expenditures equal to or greater than ten percent of their fund-type total and five percent of the grand total. The general fund is always a major fund. Although no such funds were selected in fiscal 2006, the City may select other governmental funds it believes should be presented as major funds. The major governmental funds of the City are:

- **General Fund** – The General Fund is used to account for the resources to carry out basic governmental activities of the City such as general government, public safety, public works, community development, and parks, beaches, and recreation, which are not required to be accounted for in another fund.
- **General Capital Improvement Capital Projects Fund** - This fund is used to account for revenues derived from fees and apportionments from General Fund to be used for the acquisition, construction, and improvement of major capital facilities of the City.
- **Redevelopment Agency Rockaway Beach Capital Project Fund** – This fund is used to account for expenditures and financing of various redevelopment agency projects.
- **Debt Service Fund** - This fund is used to account for the accumulation and the disbursement of monies need to comply with the interest and redemption requirements of the City's debt.

**F. Basis of Accounting**

The Government-wide, and Proprietary funds financial statements required by GASB 34 are reported using the *economic resources* measurement focus and the *accrual basis* of accounting. Accordingly, all of the City's assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recognized in the period in which the liability is incurred regardless of when the related cash flows take place.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both government-wide and proprietary funds financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

**CITY OF PACIFICA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 - Summary of Significant Accounting Policies (Continued):**

**F. Basis of Accounting (Continued)**

The Governmental fund financial statements are reported using the *current financial resources* measurement focus, and the *modified accrual basis* of accounting. Accordingly, only current assets and liabilities (except for long-term advances from the City) are included in the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

The City considers all revenues reported in the governmental funds to be available if the revenue are collected within sixty days after fiscal year end. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property taxes, sales taxes, intergovernmental revenues, other taxes and investment earnings. Expenditures are recorded in the accounting period in which the related fund liability is incurred, except for principal and interest on long-term debt and compensated absences, which are recognized as expenditures to the extent that they have matured. Capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving value in exchange, include taxes, grants, entitlements and donations. On the 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 is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Other revenues susceptible to accrual include other taxes, intergovernmental revenues, interest, and charges for services.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the City may fund certain 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.

**G. Cash and Cash Equivalents**

For purposes of the Statement of Cash Flows, the City considered cash and cash equivalents (investments with maturities of three months or less at the time of purchase) as short term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The City follows the practice of pooling the cash of all funds, including the City's Enterprise and Internal Service Funds.

**H. Investments**

Investments are reported at fair value, except for investments that are not transferable and have terms that are not affected by change in market rates are reported at cost.

Changes in fair value that occur during a fiscal year are recognized as revenues from use of money reported for that fiscal year. Revenues from use of money include interest earnings, change in fair value, gains or losses realized upon the liquidation, maturity, or sale of investment and rental income. Changes in the fair value of investments during this fiscal year were calculated and booked.

**CITY OF PACIFICA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 - Summary of Significant Accounting Policies (Continued):**

**I. Receivables and Payables**

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund receivables/interfund payables (i.e., the current portion of interfund loans) or advances to/from other funds (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as interfund receivables or interfund payables. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as internal balances.

All trade, tax, and note receivables are shown net of an allowance for uncollectible accounts if applicable, and estimated refunds due.

**J. Inventories and Prepaid Items**

General fund inventories are recorded as expenditures when consumed, rather than when purchased. These inventories are stated at cost, using the first-in, first-out (FIFO) method. Inventories in the proprietary funds are stated at the lower of cost or market, and consist of expendable materials and supplies.

Certain payments to vendors reflect costs applicable to future accounting periods, and are recorded as prepaid items in both the government-wide and fund financial statements.

Inventories and prepaid items, as reported in the fund financial statements, are offset by a reservation of fund balance for noncurrent assets in governmental funds, to indicate that they do not constitute resources available for appropriation.

**K. Deferred Charges and Deferred Loss on Refunding**

The costs of issuance of debt and discounts are being amortized on the straight line method over the life of the debt on the government-wide statements.

The City had incurred a loss on the refunding of its debt. The deferred loss is being amortized on the straight line method over the lesser of the remaining period of the old debt or the remaining period of the new debt on the government-wide statements.

**L. Capital Assets**

The City's assets are capitalized at historical cost or estimated historical cost. City policy has set the capitalization threshold for reporting capital assets at \$5,000. Gifts or contributions of capital assets are recorded at fair market value on the date donated. Depreciation of capital assets is charged as an expense each year, and the total amount of accumulated depreciation taken over the years, is reported on the Statement of Net Assets as a reduction in the book value of capital assets.

**M. Unearned Revenues**

Unearned revenues in governmental funds arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenue also arises when resources are received by the City before it has a legal claim to them (i.e., when grant monies are received prior to the incurrence of qualifying expenditures).

**CITY OF PACIFICA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 1 - Summary of Significant Accounting Policies (Continued):**

**N. Compensated Absences**

City employees accrue vacation, sick, holiday, and compensatory time off benefits. An employee may accumulate vacation time equal to an amount that can be earned in a two and a half year period. No cash compensation is payable for accrued vacations until the employee terminates employment. Sick leave is compensated in cash only upon an employee's retirement. Maximum limit per employee is \$3,000 or one quarter of employee's sick leave credit, whichever is lower. It is the City's policy to allow employees to accumulate compensatory time instead of drawing overtime. This accumulation may subsequently be translated into cash or time taken.

All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only when they have matured (such as vacation time, estimated to be paid upon retirement by the end of the fiscal year with expendable available financial resources). Each fiscal year, an adjustment to the liability is made based on pay rate changes and adjustments for the current portion. The General Fund is primarily responsible for the repayment of the governmental portion of compensated absences.

**O. Property Tax Revenues**

California Constitution Article XIII A, limits the combined property tax rate to one percent of a property's assessed valuation. Additional taxes may be imposed with voter approval. Assessed value is calculated at one hundred percent of a property's fair value, as defined by Article XIII A, and may be increased no more than two percent per year unless a change in ownership occurs. The County of San Mateo collects the taxes and distributes them to taxing jurisdictions on the basis of assessed valuations subject to adjustments for voter-approved debt. The City receives property taxes pursuant to an arrangement with the County known as the "Teeter Plan," whereby the County assumes responsibility for the collection of delinquent taxes and pays the full allocation to the City. The City recognizes property tax revenues (including tax increment revenues) to the extent of each year's tax allocation received or to be received within 60 days after the end of each fiscal year.

Incremental property tax revenues represent property taxes in a project area arising from increased assessed valuations over base valuations established at the inception of a project. Incremental property taxes from a project area accrue to the Agency until all liabilities of the project have been repaid (including cumulative funds provided by the City of Pacifica). After all such indebtedness has been repaid, all property taxes from a project area accrue to the various taxing authorities.

The County assesses properties, bills for, collects, and distributes property taxes per the following schedule:

	<u>Secured</u>	<u>Unsecured</u>
Valuation dates	January 1	January 1
Lien/Levy dates	July 1	July 1
Due dates	50% on November 1 50% on February 1	July 1
Delinquent as of	December 10 April 10	August 31

The term "Unsecured" refers to taxes on personal property other than real estate, land, and buildings. These taxes are secured by liens on property being taxed.



**CITY OF PACIFICA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 - Summary of Significant Accounting Policies (Continued):**

**P. Net Assets**

Government-wide Net Assets consist of the following:

Invested in capital assets, net of related debt – This amount consists of capital assets, net of accumulated depreciation and reduced by outstanding debt that was attributed to the acquisition, construction or improvement of the assets.

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

Unrestricted net assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets”.

Governmental Fund Balance consist of the following: Reservations of fund balances of governmental funds are created to either satisfy legal covenants, including State laws that require a portion of the fund balance to be segregated or identify the portion of the fund not available for future expenditures.

**Q. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

**R. New Accounting Pronouncements**

**Governmental Accounting Standards Board Statement No. 44**

For the fiscal year ended June 30, 2006, the City implemented GASB Statement No. 44, “Economic Condition Reporting: The Statistical Section”. This Statement is effective for the City for the fiscal period beginning after June 15, 2005. This Statement enhances and updates the statistical section that accompanies a local government’s basic financial statements to reflect the significant changes that have taken place in the government. The statistical section comprises schedules presenting trend information about revenues and expenses, trend information about the government’s significant revenue source, outstanding debt, economics and demographics, and operating information. Implementation of GASB Statement No. 44 did not have an impact on the City’s financial statements for the year ended June 30, 2006, but required additional disclosures in the statistical section of the Comprehensive Annual Financial Report.

**Governmental Accounting Standards Board Statement No. 46**

For the fiscal year ended June 30, 2006, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 46, “Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34”. This statement is effective for the fiscal periods beginning after June 15, 2005. This Statement requires that limitations on the use of net assets imposed by enabling legislation restriction be reported as restricted net assets. A legally enforceable enabling legislation restriction is one that a party external to the City such as citizens, public interest groups, or the judiciary – can compel a government to honor. Implementation of GASB Statement No. 46 did not have an impact on the City’s financial statements for the fiscal year ended June 30, 2006.

**CITY OF PACIFICA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 2 - Stewardship, Compliance, and Accountability:**

Budgetary information

The City operates under the general law of the State of California, and annually adopts a budget to be effective July 1 for the ensuing fiscal year. The City Manager submits a Preliminary Budget to the City Council on or about May 15 each year. This Preliminary Budget is the fiscal plan for the ensuing twelve months starting July 1, and includes proposals for expenditures for operations and capital improvement, and the resources to meet them. City Council conducts public hearings at Council Chambers before adopting the budget. The Council approves total appropriations at the department level in the General Fund, and at the fund level in other funds. The Budget is adopted by City resolution prior to June 30.

The appropriated budget is prepared by fund, function, and department. The City Manager is authorized to transfer budget appropriations within departments in conformance with the adopted policies set by the City Council. All other transfers must be approved by the City Council. Any revisions that alter the total expenditures of any department must be approved by the City Council. Expenditures are budgeted at, and may not legally exceed, the department level for the General Fund and the fund level for Special Revenue, Debt Service, Capital Projects and Internal Service Funds. Budgeted amounts shown are as originally adopted, or as amended by the City Council during the year. During the year, several supplementary appropriations were necessary.

Budgets for General, Special Revenue, Debt Service, Capital Projects, and Internal Service Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America (USGAAP). Except for Capital Project Funds, appropriations lapse at fiscal year end and are rebudgeted for the coming year. Capital Projects are budgeted for on a project basis rather than an annual basis; unexpended project authority is carried forward until the project is completed.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Encumbrances outstanding at year-end are recorded as reservations of fund balance and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

Excess of expenditures over appropriations

For the fiscal year ended June 30, 2006, expenditures exceeded the budgeted expenditures in the following funds:

Funds	Expenditures in excess of budget
Major Funds	
General Fund:	
General government	\$ 1,113,288
Public safety	\$ 394,966
Community development	\$ 77,906
Public works	\$ 87,416
Parks, beaches & recreation	\$ 47,780
Capital outlay	\$ 423,365
Rockaway Beach Capital Projects Fund:	
General government	\$ 511
Debt service: Interest and fiscal charges	\$ 189,464

**CITY OF PACIFICA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 2 - Stewardship, Compliance, and Accountability (Continued):**

Excess of expenditures over appropriations (Continued)

Funds	Expenditures in excess of budget
Major Funds	
Debt Service Fund:	
Debt service: Interest and fiscal charges	\$ 370,377
Nonmajor Funds	
Special Revenue Funds	
Supplemental Law Enforcement Services:	
Public safety	\$ 13,369
Gas Tax:	
Public works	\$ 300,543
Capital outlay	\$ 13,339
Redevelopment Agency Low/Mod Housing:	
Debt service: Interest and fiscal charges	\$ 15,990
Capital Project Funds	
Aircraft Noise Project:	
Community development	\$ 5,436
Parks and Playfield:	
Capital outlay	\$ 10,617

The excess expenditures were funded by available financial resources.

**NOTE 3 - Cash and Investments:**

Cash and investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 10,533,740
Cash and investments with fiscal agents	<u>1,330,709</u>
Total cash and investments	<u>\$ 11,864,449</u>

Cash and investments as of June 30, 2006 consist of the following:

Petty cash	\$ 3,545
Deposits with financial institutions	870,114
Investments	<u>10,990,790</u>
Total cash and investments	<u>\$ 11,864,449</u>

**CITY OF PACIFICA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 3 - Cash and Investments (Continued):**

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

The table below identifies the investment types that are authorized for the City by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee 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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Commercial Paper	270 days	25%	15%
Bankers Acceptances	180 days	30%	15%
U.S. Treasury Obligations	5 years	Unlimited	None
U.S. Government Agency Issues	5 years	Unlimited	None
Negotiable Certificates of Deposit	5 years	30%	15%
Medium Term Corporate Notes	5 years	30%	15%
Money Market Fund (U.S. Treasury)	N/A	Unlimited	None
San Mateo County Pooled Investment Funds	N/A	Unlimited	None
State of California Local Agency Investment Funds (State Pool)	N/A	\$ 40,000,000	\$ 40,000,000
Banks and Savings and Loan Time Deposits	N/A	25%	15%

**Investments Authorized by Debt Agreements**

Investment of debt proceeds held by trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the **investment types** that are authorized for investments held by trustee. The table also identifies certain provisions of these debt agreements that address **interest rate risk, credit risk, and concentration of credit risk.**

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issue
Municipal Bonds (AAA or AA)	None	None	None
Commercial Paper (A or better)	270 days	None	None
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Time Deposits	None	None	None
Time Deposits (Unsecured)	30 days	None	None
Money Market Funds (AAA or AA)	None	None	None
Investment Contracts (AAA or AA)	None	None	None
Local Agency Investment Fund	None	None	None
Certificates of Deposit (A or better)	1 year	None	None
Bankers Acceptances (A or better)	1 year	None	None

**CITY OF PACIFICA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 3 - Cash and Investments (Continued):**

**Disclosures Relating to Interest Rate Risk**

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

Information about the sensitivity of the fair values of the City's investments and those held by trustees to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

Investment Type	Totals	Remaining Maturity (in Months)	
		12 Months Or Less	13 Months Or More
State Investment Pool Held by Trustees:	\$ 9,660,081	\$ 9,660,081	\$ -
Money Market Funds	<u>1,330,709</u>	<u>1,330,709</u>	
Totals	<u>\$ 10,990,790</u>	<u>\$ 10,990,790</u>	<u>\$ -</u>

**Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations**

The City's investments (including investments held by bond trustees) include the following investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above). The City does not hold any specific investments that need to be reported here.

**Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer 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 (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

**CITY OF PACIFICA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 3 - Cash and Investments (Continued):**

**Disclosures Relating to Credit Risk (Continued)**

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End	
				AAA	Not Rated
State Investment Pool Held by Trustees:	\$ 9,660,081	N/A	\$ -	\$ -	\$ 9,660,081
Money Market Funds	<u>1,330,709</u>	N/A		<u>1,330,709</u>	
Totals	<u>\$ 10,990,790</u>		<u>\$ -</u>	<u>\$ 1,330,709</u>	<u>\$ 9,660,081</u>

**Concentration of Credit Risk**

The investment policy of the City contains limitations on the amount that can be invested in any one issuer. The City has no 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 investments.

**Custodial Credit Risk**

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government 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. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2006, \$568,656 of the City's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts.

**Investment in State Investment Pool**

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

**CITY OF PACIFICA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 4 - Notes Receivable:**

Notes receivable at June 30, 2006 consist of the following:

	Note Receivable Balance	Accrued Interest Balance
Senior note, secured by second deed of trust, due on August 25, 2035	\$ 250,000	\$ 40,130
Junior note, secured by fourth deed of trust, due on August 28, 2035	350,000	56,182
Total, secured	600,000	96,312
Note receivable, unsecured	1,034,348	
Less allowance for doubtful account	(1,034,348)	
Total, unsecured		
Total, net	\$ 600,000	\$ 96,312

The Agency has two notes due from National Church Residences of Pacifica Ca., an Ohio nonprofit corporation ("NCR"). The notes totaling \$600,000 are secured by Deeds of Trust and an assignment of rents, bear annual interest at 3% simple, and are repayable as defined.

In addition, the City has a note due from NCR totaling \$1,034,348. This note is unsecured, bears annual interest at 3% simple, and is repayable as defined. The City received \$165,000 during the current fiscal year. The City has recorded an allowance for the total amount of this note as of June 30, 2006.

**NOTE 5 - Capital Assets:**

All capital assets are valued at historical cost or estimated cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

The City has chosen to defer the recording of historical costs of infrastructure assets; GASB Statement No.34 allows up to four years to record the costs and depreciation on these assets. With the implementation of GASB Statement No.34, the City has begun recording costs and depreciation of current infrastructure assets.

GASB Statement No.34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. The purpose of the depreciation is to spread the cost of the 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 the cost of the capital assets. Depreciation is provided using the straight-line method over its expected useful life. Capital assets with a value over \$5,000 or more are capitalized.

The City has assigned the useful lives listed below to capital assets: Buildings and improvements (25-30 years); Police Vehicles (4 years); Other Vehicles (5-25 years); Machinery and Equipment (5-15 years); Collection System (20 years); and Infrastructure (15-30 years).

**CITY OF PACIFICA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 5 - Capital Assets (Continued):**

The following is a summary of capital assets for governmental activities as of June 30, 2006:

	Governmental Activities	Internal Service	Total
Capital assets not being depreciated:			
Land	\$ 39,877,205	\$ 258,774	\$ 40,135,979
Construction in progress	688,089		688,089
	<u>40,565,294</u>	<u>258,774</u>	<u>40,824,068</u>
Depreciable capital assets:			
Buildings and improvements	15,251,955	339,927	15,591,882
Vehicles		4,516,460	4,516,460
Machineries and equipments	489,304	84,359	573,663
Infrastructure	11,862,076		11,862,076
Total	<u>27,603,335</u>	<u>4,940,746</u>	<u>32,544,081</u>
Less: accumulated depreciation	<u>5,048,827</u>	<u>3,470,671</u>	<u>8,519,498</u>
Depreciable capital assets, net	<u>22,554,508</u>	<u>1,470,075</u>	<u>24,024,583</u>
Total capital assets, net	<u>\$ 63,119,802</u>	<u>\$ 1,728,849</u>	<u>\$ 64,848,651</u>

Combined Governmental capital asset activity for the fiscal year was as follows:

	June 30, 2005	Increases	Decreases	Restatements	June 30, 2006
Capital assets not being depreciated:					
Land	\$ 35,540,452	\$ 500,000	\$ (1,279)	\$ 4,096,806	\$ 40,135,979
Construction in progress	596,050	92,039			688,089
	<u>36,136,502</u>	<u>592,039</u>	<u>(1,279)</u>	<u>4,096,806</u>	<u>40,824,068</u>
Depreciable capital assets:					
Buildings and improvements	14,871,956	362,665	(55,909)	413,170	15,591,882
Vehicles	4,323,538	603,691	(441,783)	31,014	4,516,460
Machineries and equipments	492,588	30,295		50,780	573,663
Infrastructure	9,526,929	2,335,147			11,862,076
Total	<u>29,215,011</u>	<u>3,331,798</u>	<u>(497,692)</u>	<u>494,964</u>	<u>32,544,081</u>
Less: accumulated depreciation for					
Buildings and improvements	3,304,889	519,728		86,029	3,910,646
Vehicles	3,342,601	338,615	(441,783)	31,014	3,270,447
Machineries and equipments	230,799	77,964		(1)	308,762
Infrastructure	634,239	395,404			1,029,643
	<u>7,512,528</u>	<u>1,331,711</u>	<u>(441,783)</u>	<u>117,042</u>	<u>8,519,498</u>
Depreciable capital assets, net	<u>21,702,483</u>	<u>2,000,087</u>	<u>(55,909)</u>	<u>377,922</u>	<u>24,024,583</u>
Total capital assets, net	<u>\$ 57,838,985</u>	<u>\$ 2,592,126</u>	<u>\$ (57,188)</u>	<u>\$ 4,474,728</u>	<u>\$ 64,848,651</u>



**CITY OF PACIFICA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 5 - Capital Assets (Continued):**

Depreciation expense for governmental activities was charged to functions as follows:

Governmental activities:

General government	\$ 24,801
Public safety	554,146
Community development	50,977
Public works	642,282
Parks, beaches, and recreation	<u>59,505</u>
	<u>\$ 1,331,711</u>

The following is a summary of capital assets for business-type activities as of June 30, 2006:

	June 30, 2005	Increases	Decreases	Restatements	June 30, 2006
Capital assets not being depreciated:					
Land	\$ 4,500,000	\$ -	\$ -	\$ (485,588)	\$ 4,014,412
	<u>4,500,000</u>			<u>(485,588)</u>	<u>4,014,412</u>
Depreciable capital assets:					
Buildings and improvements	71,254,791	2,191,598		2,641	73,449,030
Collection system	3,404,775	114,908			3,519,683
Machineries and equipments	432,505	203,286			635,791
Total	<u>75,092,071</u>	<u>2,509,792</u>		<u>2,641</u>	<u>77,604,504</u>
Less: accumulated depreciation for:					
Buildings and improvements	26,524,689	1,926,445			28,451,134
Collection system	1,516,869	140,610			1,657,479
Machineries and equipments	317,779	14,574			332,353
	<u>28,359,337</u>	<u>2,081,629</u>			<u>30,440,966</u>
Depreciable capital assets, net	<u>46,732,734</u>	<u>428,163</u>		<u>2,641</u>	<u>47,163,538</u>
Total capital assets, net	<u>\$ 51,232,734</u>	<u>\$ 428,163</u>	<u>\$ -</u>	<u>\$ (482,947)</u>	<u>\$ 51,177,950</u>

**CITY OF PACIFICA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 6 - Long-Term Debt:**

The City generally incurs debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt. The City's debt issues and transactions related to both governmental and business-type activities are summarized below and discussed in detail subsequently.

<u>Governmental Activities</u>	Balance, June 30, 2005	Additions	Retirements	Balance, June 30, 2006	Due in One year
<u>Certificates of Participation:</u>					
1999 Street COP	\$ 4,595,000	\$ -	\$ 4,595,000	\$ -	\$ -
2000 Public Safety COP	5,575,000		5,575,000		
2003 Public Safety COP	2,550,000		2,550,000		
2006 COP		15,725,000		15,725,000	
Total COP payable	<u>12,720,000</u>	<u>15,725,000</u>	<u>12,720,000</u>	<u>15,725,000</u>	
<u>Tax allocation bonds:</u>					
2004 Tax allocation bonds	<u>1,725,000</u>			<u>1,725,000</u>	<u>35,000</u>
<u>Note payable:</u>					
2002 CHFA Loan	<u>1,164,416</u>		<u>130,068</u>	<u>1,034,348</u>	<u>158,970</u>
<u>Other liabilities:</u>					
Claims payable	1,946,031	799,035	644,910	2,100,156	1,893,822
Compensated absences	1,156,645	555,682	421,666	1,290,661	421,666
Total other liabilities	<u>3,102,676</u>	<u>1,354,717</u>	<u>1,066,576</u>	<u>3,390,817</u>	<u>2,315,488</u>
	<u>\$ 18,712,092</u>	<u>\$ 17,079,717</u>	<u>\$ 13,916,644</u>	<u>\$ 21,875,165</u>	<u>\$ 2,509,458</u>

<u>Business-type Activities</u>	Balance, June 30, 2005	Additions	Retirements	Restatements	Balance, June 30, 2006	Due in One year
<u>Revenue bonds:</u>						
2004 Wastewater						
Revenue Refunding	\$ 9,250,000	\$ -	\$ -	\$ -	\$ 9,250,000	\$ -
2001B Water & Wastewater						
Revenue Refunding	4,695,000		135,000		4,560,000	140,000
Total revenue bonds	<u>13,945,000</u>		<u>135,000</u>		<u>13,810,000</u>	<u>140,000</u>
<u>Note payable:</u>						
State Water Resources						
Control Board	<u>30,019,447</u>			<u>(4,660,207)</u>	<u>25,359,240</u>	
<u>Other liabilities:</u>						
Compensated absences	<u>158,923</u>	<u>74,960</u>	<u>36,225</u>		<u>197,658</u>	<u>36,225</u>
	<u>\$ 44,123,370</u>	<u>\$ 74,960</u>	<u>\$ 171,225</u>	<u>\$ (4,660,207)</u>	<u>\$ 39,366,898</u>	<u>\$ 176,225</u>

**CITY OF PACIFICA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 6 - Long-Term Debt (Continued):**

The following is a list of long-term debt issues outstanding at June 30, 2006:

**2006 Certificates of Participation:** On May 9, 2006, the City of Pacifica issued Certificates of Participation (COP) in the amount of \$15,725,000 (par value) payable annually beginning February 5, 2009 and with an interest rate of 3.875% payable each 35 days beginning June 15, 2006. The purpose of the COP is to provide funds to (i) refinance the City's 1999 COP (street improvement project), (ii) refinance the City's 2000 COP (public safety building project), (iii) refinance the City's 2003 COP (public safety building project), (iv) finance the construction of additional public capital improvements to be designated by the City Council in the amount of \$2,000,000, (v) acquire a debt service surety bond for the COP, and (vi) pay certain costs incurred in connection with the execution and delivery of the COP.

The lease payments, swap payments and additional payments due under the lease agreement are payable from any source of available funds of the City and the City has determined that 31.5488% of each lease payment is allocable to the refinancing of the City's obligations under the 1999 COP. The portion of lease payments and the corresponding portion of the swap payments which are allocable to the 1999 COP are payable from and are ratably secured by a pledge of and lien on the Gas Tax revenues.

\$13,298,931 from the 2006 COP were placed in an irrevocable trust that is to be used to service the future debt requirements of the 1999, 2000, and 2003 COPs. The refunding resulted in an increase of the total debt service by \$3,232,710 which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debts) of \$1,070,200.

The City defeased the 1999, 2000, and 2003 COPs by placing the proceeds of the new COP in an irrevocable trust to provide for all future debt service payments on the old COPs. Accordingly, the trust account assets and the liability for the defeased COPs are not include in the City's financial statements. At June 30, 2006, the 1999, 2000, and 2003 COPs outstanding balances which are considered defeased were \$4,505,000, \$5,470,000, and \$2,500,000 respectively.

Annual debt service requirements, to maturity, for the 2006 Certificates of Participation are as follows:

Fiscal year Ended	Principal	Interest	Total
2007	\$ -	\$ 585,647	\$ 585,647
2008		643,196	643,196
2009	325,000	579,093	904,093
2010	275,000	627,415	902,415
2011	350,000	558,024	908,024
2012 to 2016	1,800,000	2,692,020	4,492,020
2017 to 2021	2,200,000	2,315,429	4,515,429
2022 to 2026	2,650,000	1,879,460	4,529,460
2027 to 2031	3,275,000	1,268,866	4,543,866
2032 to 2036	3,975,000	578,098	4,553,098
2037	875,000	18,682	893,682
	<u>\$ 15,725,000</u>	<u>\$ 11,745,930</u>	<u>\$ 27,470,930</u>

**CITY OF PACIFICA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 6 - Long-Term Debt (Continued):**

**2004 Tax Allocation Bonds:** During August 2004, the Redevelopment Agency of the City of Pacifica issued \$1,725,000 in Rockaway Beach Redevelopment Project 2004 Tax Allocation Bonds at interest rates varying from 2.9% to 5.75%. The net proceeds of the bonds were issued to refinance redevelopment activities by repaying a portion of the loan made by the City to the Agency and to establish a reserve fund. Interest on the bonds will be payable semiannually on January 1 and July 1 each year, commencing January 1, 2005. The bonds mature on July 1, 2031.

Annual debt service requirements, to maturity, for the 2004 Tax Allocation Bonds are as follows:

Fiscal year Ended	Principal	Interest	Total
2007	\$ 35,000	\$ 91,589	\$ 126,589
2008	35,000	90,469	125,469
2009	35,000	89,191	124,191
2010	40,000	87,696	127,696
2011	40,000	86,026	126,026
2012 to 2016	230,000	400,183	630,183
2017 to 2021	295,000	332,969	627,969
2022 to 2026	385,000	238,174	623,174
2027 to 2031	510,000	111,550	621,550
2032	120,000	3,450	123,450
	<b>\$ 1,725,000</b>	<b>\$ 1,531,297</b>	<b>\$ 3,256,297</b>

**2001 CHFA Loan:** During August 2001, the City (along with State and County agencies) entered into an agreement to lend and borrow funds to assist with the purchase of land and buildings suitable for the utilization of low-income senior housing (Oceanview Apartments). The property was purchased by the City and immediately transferred to National Church Residences (NCR), a non-profit organization. The City loaned \$600,000 (see below), and also acted as the pass-through agency for a loan totaling \$1,450,000 from the California Housing Financing Agency (CHFA). The loan from CHFA is technically a loan to the City, and will be repaid by the City with payments received from NCR. Although all loans associated with this project will be repaid as surplus cash allows, the following reflects the anticipated repayment schedule:

Fiscal year Ended	Principal	Interest	Total
2007	\$ 158,970	\$ 31,030	\$ 190,000
2008	223,739	26,261	250,000
2009	215,451	19,549	235,000
2010	246,914	13,086	260,000
2011	189,274	5,678	194,952
	<b>\$ 1,034,348</b>	<b>\$ 95,604</b>	<b>\$ 1,129,952</b>

**CITY OF PACIFICA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 6 - Long-Term Debt (Continued):**

**2004 Wastewater Revenue Refunding Bonds:** During July 2004, the City of Pacifica issued \$9,250,000 in 2004 Wastewater Revenue Refunding Bonds at interest rates varying from 5% to 5.25%. The net proceeds of the bonds were issued to refund a portion of the State of California Water Resource Control Board Loan (payments due through July 31, 2007) and to establish a reserve fund. The bonds were issued with an original issue premium which is being amortized over the term of the bonds. Interest on the bonds will be payable semiannually on April 1 and October 1 each year, commencing April 1, 2005. The bonds mature on October 1, 2026.

Annual debt service requirements, to maturity, for the 2004 Wastewater Revenue Refunding Bonds are as follows:

Fiscal year Ended	Principal	Interest	Total
2007	\$ -	\$ 472,588	472,588
2008		472,588	472,588
2009		472,588	472,588
2010		472,588	472,588
2011		472,588	472,588
2012 to 2016		2,362,937	2,362,937
2017 to 2021		2,362,937	2,362,937
2022 to 2026	8,500,000	1,509,557	10,009,557
2027	750,000	18,750	768,750
	<u>\$ 9,250,000</u>	<u>\$ 8,617,121</u>	<u>\$ 17,867,121</u>

**2001B Sewer Revenue Bonds:** The City of Pacifica Financing Authority refinanced \$4,635,000 of outstanding 1996 Sewer Revenue Bonds by issuing \$4,970,000 in new bonds at interest rates varying from 3.00% to 5.125%. The economic gain realized on the refinancing had a net present value of \$342,973 or 7.2664% of par on the prior issue at the time of refinancing. The original bonds were issued to partly finance the City's new Wastewater Treatment Plant. The remaining long term financing was arranged through the State's Revolving Loan Fund. The bonds are totally callable, without premium, on any interest date on or after October 1, 2012.

Annual debt service requirements, to maturity, for the 2001B Sewer Revenue Bonds are as follows:

Fiscal year Ended	Principal	Interest	Total
2007	\$ 140,000	\$ 211,991	\$ 351,991
2008	140,000	207,161	347,161
2009	150,000	201,864	351,864
2010	155,000	196,106	351,106
2011	160,000	189,961	349,961
2012 to 2016	900,000	839,836	1,739,836
2017 to 2021	1,130,000	598,954	1,728,954
2022 to 2026	1,450,000	273,178	1,723,178
2026 to 2027	335,000	8,375	343,375
	<u>\$ 4,560,000</u>	<u>\$ 2,727,427</u>	<u>\$ 7,287,427</u>

**CITY OF PACIFICA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 6 - Long-Term Debt (Continued):**

**State of California Water Resource Control Board Loan:** On February 20, 1997, the State of California Water Resource Control Board allocated to the City of Pacifica Sewer Enterprise Fund a State Revolving Loan Fund commitment totaling \$41,304,818 for design and construction of a new wastewater treatment facility. Repayment of the loan began one year after completion of the project and will be repaid over a period of 20 years. This is a stated zero interest loan, with 83.333% of expenses reimbursed under the revolving loan fund and the remaining 16.667% paid by the City of Pacifica. Interest did not accrue during the construction phase.

During July 2004, the City issued \$9,250,000 in 2004 Wastewater Revenue Refunding Bonds to advance refund a portion of the State of California Water Resource Control Board Loan (payments due through July 1, 2007). The net proceeds were deposited in an irrevocable trust with an escrow agent to provide debt service payments.

For financial reporting purposes, the portion of loan payments that are due through July 1, 2007 has been considered defeased and therefore removed as a liability from the City. As of June 30, 2006, the amount of defeased debt outstanding but removed from the long-term debt amounted to \$3,134,403.

Annual debt service requirements, to maturity, for the State of California Water Resource Control Board Loan are as follows:

Fiscal year Ended	Principal	Interest	Total
2007	\$ -	\$ -	\$ -
2008			
2009	1,609,734	456,185	2,065,919
2010	1,637,501	428,418	2,065,919
2011	1,667,040	398,879	2,065,919
2012 to 2016	8,797,274	1,532,319	10,329,593
2017 to 2021	9,619,893	709,700	10,329,593
2022	2,027,798	38,121	2,065,919
	<u>\$ 25,359,240</u>	<u>\$ 3,563,622</u>	<u>\$ 28,922,862</u>

**NOTE 7 - Employee Retirement Plans:**

Plan Description:

The City of Pacifica has three defined benefit pension plans (Miscellaneous Plan, Safety Fire Plan and the Safety Police Plan, (the "Plans"). The Plans provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

The Plans are part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California.

A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office – 400 P Street – Sacramento, CA 95814.

**CITY OF PACIFICA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 7 - Employee Retirement Plans (Continued):**

Funding Policies:

Active plan members in the Miscellaneous Plan, the Safety Fire Plan and the Safety Police Plan are required to contribute 7%, 9% and 9%, respectively, of their annual covered salary. The City "picks up" the tax deferred contributions required of City employees on their behalf and for their account. The City is required to contribute the actuarially determined amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rates for fiscal 2005/06 are as follows: 18.354% for miscellaneous employees; 32.430% for fire employees and 35.811% for police employees. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost:

For fiscal year 2005/06, the City's combined annual pension cost was \$4,593,834, the City actually contributed \$3,447,853 and members contributed \$1,145,981. The required contribution for fiscal year 2005/06 was determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases of 3.25% to 14.45% depending on age, service, and type of employment for the miscellaneous members (for Safety Fire Plan and Safety Police Plan, salary increases range from 3.25% to 13.15%). Both (a) and (b) include an inflation component of 3.0% and a payroll growth factor of 3.25% for all three groups, but do not include any post retirement benefit increases. The actuarial value of the Plan's assets were determined using a technique that smoothes the effect of short-term volatility in the market value of investments over three year period. The Plan's unfunded actuarial excess assets are being amortized as a level percentage of projected payrolls on a closed basis. The amortization period varies between the three different plans of the City. For the fiscal year 2004/05, the average remaining amortization periods were 24 years for Miscellaneous Plan, 16 years for Safety Fire Plan, and 18 years for Safety Police Plan.

**Miscellaneous Plan:**

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2004	\$ 396,922	100%	\$ -
6/30/2005	\$ 1,048,583	100%	\$ -
6/30/2006	\$ 1,323,153	100%	\$ -

**Fire Safety Plan:**

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2004	\$ 608,164	100%	\$ -
6/30/2005	\$ 796,054	100%	\$ -
6/30/2006	\$ 1,003,805	100%	\$ -

**CITY OF PACIFICA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 7 - Employee Retirement Plans (Continued):**

**Police Safety Plan:**

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2004	\$ 403,034	100%	\$ -
6/30/2005	\$ 864,563	100%	\$ -
6/30/2006	\$ 1,120,895	100%	\$ -

**NOTE 8 - Public Entity Risk Pool:**

The City participates in one public entity risk pool through a formally organized and separate entity. As a separate legal entity, this entity exercises full power and authority within the scope of the related agreement including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Obligations and liabilities of the separate entity are not those of the City.

**ABAG PLAN CORPORATION**

On July 1, 1986, the City became a member of the Association of Bay Area Governments (ABAG) Pooled Liability Assurance Network (PLAN). PLAN is a not-for-profit organization established to provide certain levels of liability insurance coverage, claims and risk management services, and legal defense to thirty San Francisco Bay Area cities. PLAN is governed by a Board of Directors comprised of officials appointed by each participating member and is administered by the Association of Bay Area Governments (ABAG).

The City paid premiums of \$362,112 during fiscal year 2005-2006 for general liability and property coverage in excess of the City's self-insured retention as described in Note 9. Members may receive rebates when declared by ABAG or, in the event excess liability claims against ABAG exceed available resources, may be required to make additional contributions.

ABAG is considered a risk-sharing pool whereby all its members share in the cost of losses for other members. Condensed accrual basis audited financial information of PLAN as of and for the year ended June 30, 2005 is as follows (audited financial information as of and for the year ended June 30, 2006 is not available):

Total assets	\$ 41,866,497
Total liabilities	<u>18,790,003</u>
Net assets	<u>\$ 23,076,494</u>
Total revenues	\$ 9,533,589
Total expenses	<u>15,482,622</u>
Net income (loss)	<u>\$ (5,949,033)</u>



**CITY OF PACIFICA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 9 - Self Insurance Fund:**

On July 1, 1988, the City established a program of self insurance with respect to Employee's Dental Insurance, in accordance with the provisions of a Memorandum of Understanding between the City and all full-time employees. This program is administered by TLC Administrators and provides claims review and processing. The maximum benefit per employee per plan year varies between \$1,500 and \$2,000; the maximum benefit per dependent per plan year is also between \$1,500 and \$2,000.

The City's general liability, property damage, and workers' compensation claims are insured by either commercial insurance carriers or by participation in a public risk-sharing pool (ABAG PLAN Corporation, Note 8), both of which are subject to the City's self-insurance retention which varies by type of coverage. The coverages are as follows:

<u>Self-Insured Coverage</u>	<u>Policy Limit</u>	<u>Retention</u>
General Liability & Property Damage	\$ 10,000,000	\$ 50,000
Workers Compensation	*	*

\* Workers' Compensation coverage estimates are currently unavailable due to retention levels of \$1 million or higher, and premium increases of 100% or higher. The City has never experienced an excess claim but the City is currently exploring alternative excess coverage. Settled claims have not exceeded the City's policy limits in any of the past three fiscal years.

The City maintains an internal service fund to account for these insurance programs. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Accrued insurance losses of \$909,111 and \$1,191,045 were recorded at June 30, 2006 for the workers' compensation and general liability programs respectively.

Changes in the total reported liability resulted from the following:

	Fiscal Year Ended June 30,	
	<u>2006</u>	<u>2005</u>
July 1 liability	\$ 1,946,031	\$ 1,451,592
Claims & change in estimate	799,035	808,810
Payments for claims	(644,910)	(314,371)
June 30 Liability	<u>\$ 2,100,156</u>	<u>\$ 1,946,031</u>

**CITY OF PACIFICA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 10 - Interfund Transactions:**

Due To/From Other Funds

Current interfund balances arise in the normal course of business, to fund projects until the borrowing fund receives revenues to repay the lending fund and to assist funds with negative cash balance at the fiscal year end. The following is a summary of Interfund balances as of June 30, 2006:

<u>Funds</u>	<u>Due from other funds</u>	<u>Due to other funds</u>
Major Governmental Funds		
General Fund	\$ 271,409	\$ -
General Capital Improvement Fund		2,218,700
Nonmajor Governmental Funds		
Special Revenue Fund		
Gas Tax Fund	2,218,700	15,000
Capital Projects Funds		
Highway 1 Improvement Fund		220,000
Parks and Playfield Fund		36,409
Total	<u>\$ 2,490,109</u>	<u>\$ 2,490,109</u>

Advances Receivable/Payable

The City of Pacifica loans money to the Redevelopment Agency Rockaway Beach Fund to be used for any expenses necessary or incidental to carrying out the Redevelopment Plan. At June 30, 2006, outstanding loans totaling \$5,338,896 (\$2,341,185 in advances and \$2,997,711 of accrued interest) have been made from the General Fund and are to be repaid as practical to the City from incremental tax revenues of the project area and sales of redevelopment property. Interest accrues on the original advance at 8%.

The City of Pacifica participated in the financing of a low-cost senior apartment complex during fiscal year 2000-2001. The Agency made a \$600,000 long-term loan through the RDA Low/Mod Housing Fund to National Church Residences (see Note 4). Since the Housing Fund did not have the full \$600,000, the City's General Fund had loaned the Housing Fund \$258,000 at a variable simple interest rate dependent upon the State of California's investment pool rate. The current loan interest rate between the City's General Fund and the Housing Fund is 8%. The total balance at June 30, 2006 is \$268,198 (\$199,865 in advances and \$68,333 in accrued interest).

Transfers

Transfers report the nonreciprocal contribution of resources of one fund to another. The purpose of the majority of transfers is to reimburse a fund which has made expenditure on behalf of another fund. Less often a residual equity transfer may be made to open or close a fund.

**CITY OF PACIFICA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 10 - Interfund Transactions (Continued):**

The following is a summary of transfers for the fiscal year ended June 30, 2006:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds		
General Fund	\$ 1,827,500	\$ 1,680,765
General Capital Improvement Fund	2,467,000	
Debt service fund	929,000	2,000,000
Nonmajor Governmental Funds		
Special Revenue Funds		
Fire Assessment Fund		900,000
Gas Tax Fund		350,000
Capital Projects Fund		
Parks and Playfield	134,765	
Major Enterprise Fund		
Sewer Utility Fund		1,017,500
Internal Service Funds		
Motor Pool Fund	300,000	
Self Insurance Fund	290,000	
	<u>\$ 5,948,265</u>	<u>\$ 5,948,265</u>

**NOTE 11 - Net Assets and Fund Balances:**

GASB Statement No. 34 adds the concept of Net Assets, which is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis.

The government-wide statement of net assets reports \$6,738,596 of restricted net assets, of which \$1,649,514 is restricted by enabling legislation.

Fund balances consist of reserved and unreserved amounts. Reserved fund balances represent amounts that are legally restricted to a specific use or are not available for appropriation of expenditure. The remaining portion is unreserved. Portions of the unreserved fund balance may be designated to indicate tentative plans for financial resource utilization in a future period. Such plans or intent are subject to change and have not been legally authorized or may not result in expenditures.

Fund with Deficit Fund Balances

Major Governmental Fund	
RDA-Rockaway Beach	\$ (4,947,027)
Nonmajor Governmental Funds	
Special Revenue Fund	
NPDES Stormwater Fund	\$ (73,427)
Internal Service Fund:	
Self Insurance	\$ (594,439)

**CITY OF PACIFICA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 12 - Contingencies:**

The City is the defendant in several lawsuits which, when aggregated, could result in a substantial loss to the City. In the case of *North Pacifica LLC v. City of Pacifica*, United States District Court, Northern District of California, Case No. C 01 4823 EMC, filed December 7, 2001. After the trial judgment in the favor of North Pacifica LLC in the sum of \$156,741 as of May 4, 2005 and subsequently awarded attorney fees and costs in the sum of \$595,201. The City has filed a notice of appeal on May 27, 2005 and Northern Pacifica has subsequently filed a cross appeal. The City has deposited the amount of \$783,506 in the federal district court to cover the amount of the judgment and attorneys' fees pending appeal. It is presently impossible to predict the outcome of this case. No provision for this liability has been made in the accompanying basic financial statements.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Federal Government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

**NOTE 13 - Prior Period Adjustments:**

Government-wide statements

Governmental activities

<u>Amounts</u>	
\$ 25,000	Understatement of cash and investments
18,804	Understatement of accounts receivable
(52,867)	Overstatement of grants receivable
(912)	Understatement of accounts payable
4,474,728	Understatement of capital assets
<u>78,312</u>	Understatement of interest receivable
<u>\$ 4,543,065</u>	

Business-type activities:

<u>Amounts</u>	
\$ (5,947,856)	Understatement of cash with fiscal agent
1,782,733	Understatement of deferred loss on refunding
(544,724)	Understatement of deferred loss on refunding - accumulation amortization
4,660,207	Overstatement of long-term debt
567,800	Overstatement of interest payable
<u>(482,947)</u>	Overstatement of capital assets
<u>\$ 35,213</u>	

**CITY OF PACIFICA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 13 - Prior Period Adjustments:**

Governmental fund statements

Funds	Amounts	
General Fund:	\$ 25,000	Understatement of cash and investments
	18,804	Understatement of accounts receivable
	43,804	
General Capital Improvement Capital Project Fund:	(52,867)	Overstatement of grants receivable
Redevelopment Agency Rockaway Beach Capital Project Fund:	(2,810,416)	Overstatement of prepaid items
	46,048	Overstatement of accounts payable
	(2,764,368)	
Gas Tax Special Revenue Fund:	(46,960)	Understatement of accounts payable
Redevelopment Agency Low/Mod Housing Fund:	(52,344)	Overstatement of prepaid items
Total Governmental Fund	\$ (2,872,735)	

Proprietary Fund Statements

Funds	Amounts	
Sewer Utility Fund:	\$ (5,947,856)	Understatement of cash with fiscal agent
	1,782,733	Understatement of deferred loss on refunding
	(544,724)	Understatement of deferred loss on refunding - accumulation amortization
	4,660,207	Overstatement of long-term debt
	567,800	Overstatement of interest payable
	(482,947)	Overstatement of capital assets
	35,213	
Internal Service Fund: Motor Pool Fund:	14,872	Understatement of capital assets
Total Proprietary Funds	\$ 50,085	

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