

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Pebble Beach Community Services District  
Pebble Beach, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Pebble Beach Community Services District, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Pebble Beach Community Services District'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. 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and the aggregate remaining fund information of the Pebble Beach Community Services District as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 4 through 12 Pension Funding Information on page 44 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. 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.

November 29, 2007

*Hayashi & Wayland LLP*

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**FINANCIAL STATEMENTS**  
**WITH**  
**INDEPENDENT AUDITOR'S REPORT**  
**JUNE 30, 2007**



**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**

**BOARD OF DIRECTORS**

**June 30, 2007**

| <u>Name</u>               | <u>Title</u>   | <u>Term Expires</u> | <u>Residence</u> |
|---------------------------|----------------|---------------------|------------------|
| Richard D. Verbanec       | President      | November 2007       | Pebble Beach     |
| Jeffrey B. Froke, Ph.D.   | Vice-President | November 2009       | Pebble Beach     |
| Gary D. Hornbuckle, Ph.D. | Director       | November 2007       | Pebble Beach     |
| Leo M. Laska              | Director       | November 2007       | Pebble Beach     |
| Gerald F. Verhasselt      | Director       | November 2009       | Pebble Beach     |

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT**  
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**JUNE 30, 2007**

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**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2007**

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This narrative overview and analysis of the Pebble Beach Community Services District's ("District") financial activities for the fiscal year ended June 30, 2007 has been provided by the management of the District. The management's discussion and analysis is intended to serve as an introduction to the District's financial statements which follow this section, and is recommended to be reviewed in conjunction with them.

**FINANCIAL HIGHLIGHTS**

- At the end of its fiscal year 2006-07 (*June 30, 2007*), the assets of the District exceeded its liabilities by \$52,926,981 (*net assets*). The net assets increased by \$1,030,174 over the prior year, including a \$970,194 increase in net assets of governmental activities, and a \$59,980 increase in net assets of business-type activities.
- The net assets included \$13,450,170 in *unrestricted net assets* available to finance the District's future projects and obligations. The unrestricted net assets increased by \$979,430 over the prior year. More information on unrestricted net assets has been provided in the "Financial Analysis of the Government-Wide Financial Statements" section beginning on page 6.
- The net assets included \$38,082,335 in *capital assets net of depreciation (net capital assets)*. This amount is \$1,046,528 less than the previous year because the depreciation and amortization expense (\$2,165,567) exceeded the capital outlay additions (\$1,119,039) in the fiscal year 2006-07.
- The beginning balance of the net capital assets (as of June 30, 2006) has been restated to: 1) remove \$6,353,842 in fire protection water system improvements transferred to the California American Water Company, and 2) add \$736,207 to record the District's one-third contribution to the wastewater treatment plant capital outlays as an intangible asset. More information on capital assets and the restatement has been provided in Note 8, beginning page 35.
- At the close of the fiscal year 2006-07, the District's governmental funds reported a combined fund balance of \$8,209,686, an increase of \$1,206,189 from the prior year. Of this amount \$7,260,945 in *unreserved fund balance* was available for use at the District's discretion. In accordance with the District's Long-Term Capital Outlay Program, the unreserved fund balance was designated for specific purposes as follows:
  - \$2,312,823 for Operating (O&M) expenditures and O&M reserves.
  - \$4,948,122 for construction projects and other capital outlays.
- On a current financial resources basis, the District's governmental fund revenues exceeded expenditures (including \$1,901,258 in capital outlay expenditures) by \$1,297,570. The proprietary fund expenses exceeded revenues by \$227,525.

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2007**

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**OVERVIEW OF THE FINANCIAL STATEMENTS**

The District's financial statements are comprised of three components: government-wide financial statements, fund financial statements and notes to financial statements including required supplementary information.

Government-wide and fund financial statements present the results of operations for different functions of the District as follows:

- 1) **Government-wide financial statements** provide both long-term and short-term information about the District's overall financial position in a manner similar to private-sector business.

The **Statement of Net Assets** displays all of the District's assets and liabilities, with the difference between the two reported as net assets. The **Statement of Activities** provides all current year revenues and expenses on an accrual basis of accounting regardless of when cash is received or paid. These two government-wide statements report the District's net assets and how they have changed during the fiscal year. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or weakening.

The government-wide financial statements separately present the District's functions as follows:

- **Governmental activities** include services financed mainly through property taxes. The District's general government, fire protection/emergency medical, and supplemental law enforcement services comprise its governmental activities.
  - **Business-type activities** include services financed, in whole or part, by fees paid by those who directly benefit from the service. The District's business-type activities include wastewater collection and treatment, garbage collection and disposal, and reclaimed water distribution services.
- 2) **Fund financial statements** focus on the individual functions of the District, and report the District's operations in more detail than the government-wide statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used by state and local governments to control their resources that are legally restricted or otherwise earmarked for special purposes. The District reports its fund financial statements in the following three categories:
    - **Governmental funds** are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on 1) short-term inflows and outflows of expendable resources, and 2) the resources remaining at the end of the fiscal year that are

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007**

available for future use. Because the focus of governmental funds is narrower than the government-wide financial statements, a reconciliation that explains the relationship (or differences) between them is presented following each of the governmental fund statements.

- **Proprietary funds** are used to report the same functions presented as business-type activities in the government-wide financial statements in more detail.
- **Fiduciary funds** present financial information about the District employees' retirement plans for which the District acts solely as a trustee or fiduciary. The District is responsible for ensuring that the assets reported in fiduciary funds are used for their intended purposes. The fiduciary funds are excluded from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

**Notes to the financial statements** provide additional information that is essential to a full understanding of the data provided in the financial statements.

**FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE FINANCIAL STATEMENTS**

A review of net assets over time may serve as a useful indicator of the District's financial position. Net assets represent the difference between the District's assets and liabilities. As of June 30, 2007, the District's net assets were \$52,926,981, an increase of \$1,030,174 from prior year. The following table outlines the District's net assets by function for the current and prior fiscal years.

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT'S NET ASSETS (000's)  
As of June 30, 2007 and 2006**

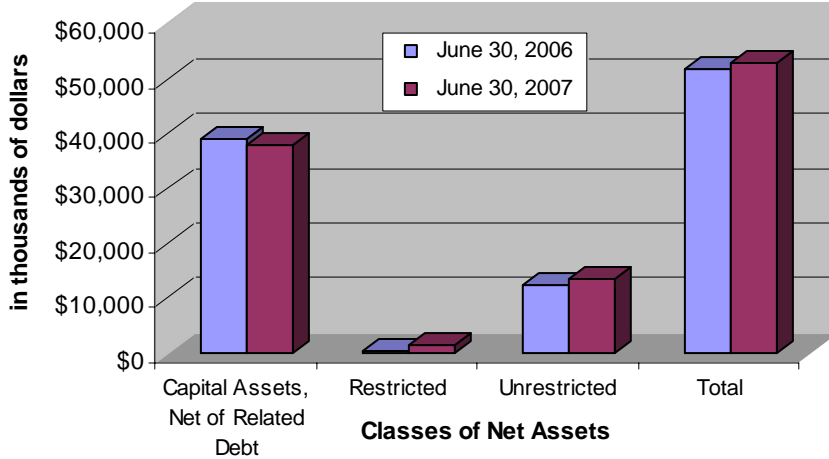
|  | Governmental<br>Activities |           | Business-type<br>Activities |           | Total     |           | Variance<br>\$ |
|--|----------------------------|-----------|-----------------------------|-----------|-----------|-----------|----------------|
|  | 2007                       | 2006      | 2007                        | 2006      | 2007      | 2006      |                |
| <b><u>ASSETS</u></b>                   |                            |           |                             |           |           |           |                |
| Current & Other Assets                 | \$ 8,706                   | \$ 7,202  | \$ 7,130                    | \$ 7,195  | \$ 15,836 | \$ 14,397 | \$ 1,439       |
| Capital Assets                         | 6,061                      | 6,285     | 32,021                      | 32,844    | 38,082    | 39,129    | (1,047)        |
| Total Assets                           | 14,767                     | 13,487    | 39,151                      | 40,039    | 53,918    | 53,526    | 392            |
| <b><u>LIABILITIES</u></b>              |                            |           |                             |           |           |           |                |
| Current Liabilities                    | 496                        | 198       | 302                         | 1,257     | 798       | 1,455     | (657)          |
| Other Liabilities                      | 115                        | 103       | 78                          | 71        | 193       | 174       | 19             |
| Total Liabilities                      | 611                        | 301       | 380                         | 1,328     | 991       | 1,629     | (638)          |
| <b><u>NET ASSETS</u></b>               |                            |           |                             |           |           |           |                |
| Invested In Capital Assets             | 6,061                      | 6,285     | 32,021                      | 32,844    | 38,082    | 39,129    | (1,047)        |
| Restricted for Outstanding Obligations | 949                        | 250       | 446                         | 47        | 1,395     | 297       | 1,098          |
| Unrestricted                           | 7,146                      | 6,651     | 6,304                       | 5,820     | 13,450    | 12,471    | 979            |
| Total Net Assets                       | \$ 14,156                  | \$ 13,186 | \$ 38,771                   | \$ 38,711 | \$ 52,927 | \$ 51,897 | \$ 1,030       |

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007**

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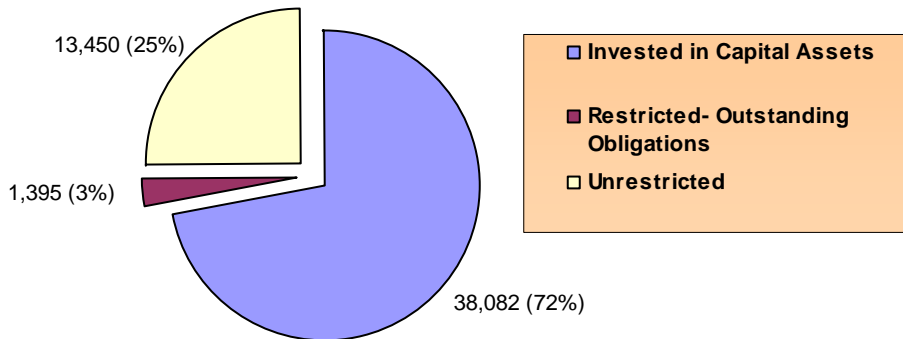
The chart below provides a comparison of the District's net assets for the current and prior fiscal years.

**PBCSD Net Assets Comparison June 30, 2006 and 2007**



The following chart displays the District's net assets by class as of June 30, 2007. The largest portion of the District's net assets, approximately 72%, reflects its net capital assets (e.g., land, buildings, utility systems and infrastructure, machinery and equipment, etc.). The District uses its capital assets to provide the services it is responsible for and those assets don't represent future expendable resources.

**Net Assets as of June 30, 2007 (in thousands of dollars)**



The second largest portion of the District's net assets, approximately 25%, is unrestricted financial assets. These assets are designated to finance future capital outlays, operating expenditures, emergency expenditures and rate stabilization. The Board of Directors of the District annually establishes reserves based on an update of the District's Long-Term Capital

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007**

Outlay Program and Financial Plans. As of June 30, 2007, the unrestricted net assets were earmarked as follows:

- o \$3,025,748 for Operating (O&M) expenditures and O&M reserves.
- o \$1,070,000 for rate stabilization reserves.
- o \$9,354,422 for construction projects and other capital outlays.

A smaller portion of the District's net assets, approximately 3%, represents the resources that are restricted to finance the District's outstanding contractual obligations. No assets of the District, other than this small amount, are subject to any external restrictions on their use.

The following table displays the change in the District's net assets in the fiscal year 2006-07.

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT'S CHANGE IN NET ASSETS  
For the Fiscal Year Ended June 30, 2007**

|  | <u>Governmental<br/>Activities</u> | <u>Business-type<br/>Activities</u> | <u>Total</u>                |
|--|------------------------------------|-------------------------------------|-----------------------------|
| <b>Revenues</b>                          |                                    |                                     |                             |
| Program Revenues:                        |                                    |                                     |                             |
| Charges for Services                     | \$ 194,463                         | \$ 1,213,342                        | \$ 1,407,805                |
| Operating Grants and Contributions       | -                                  | 425,973                             | 425,973                     |
| Capital Grants and Contributions         | -                                  | 196,124                             | 196,124                     |
| General Revenues:                        |                                    |                                     |                             |
| Property Taxes                           | 6,977,039                          | 2,325,680                           | 9,302,719                   |
| Proposition 172 Public Safety Tax        | 144,927                            | -                                   | 144,927                     |
| Investment Earnings                      | 437,656                            | 352,230                             | 789,886                     |
| Franchise Fees                           | -                                  | 70,084                              | 70,084                      |
| Miscellaneous                            | 55,811                             | 88,261                              | 144,072                     |
| Total Revenues                           | <u>7,809,896</u>                   | <u>4,671,694</u>                    | <u>12,481,590</u>           |
| <b>Expenses</b>                          |                                    |                                     |                             |
| General Government                       | 1,051,867                          | -                                   | 1,051,867                   |
| Law Enforcement                          | 108,525                            | -                                   | 108,525                     |
| Fire Protection and Emergency Medical    | 3,909,309                          | -                                   | 3,909,309                   |
| Project Expenditures                     | 1,678,620                          | -                                   | 1,678,620                   |
| Wastewater                               | -                                  | 2,924,037                           | 2,924,037                   |
| Solid Waste                              | -                                  | 554,752                             | 554,752                     |
| Reclamation                              | -                                  | 1,224,306                           | 1,224,306                   |
| Total Expenses                           | <u>6,748,321</u>                   | <u>4,703,095</u>                    | <u>11,451,416</u>           |
| <b>Transfers</b>                         | <u>(91,381)</u>                    | <u>91,381</u>                       | <u>-</u>                    |
| Change in Net Assets                     | 970,194                            | 59,980                              | 1,030,174                   |
| Net Assets, Beginning of Year (Restated) | <u>13,185,547</u>                  | <u>38,711,260</u>                   | <u>51,896,807</u>           |
| <b>Net Assets, End of Year</b>           | <u><b>\$ 14,155,741</b></u>        | <u><b>\$ 38,771,240</b></u>         | <u><b>\$ 52,926,981</b></u> |

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2007**

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The \$1,030,174 increase in total net assets is attributed to each function as follows:

**Governmental Activities**

In the fiscal year 2006-07, the net assets of governmental activities increased by \$970,194. The main financing source, property tax revenue, increased by \$339,108, or 5.1%, from \$6,637,931 in fiscal year 2005-06 to \$6,977,039 in the current fiscal year. The investment earnings increased by \$102,970, or approximately 31%, from \$334,686 to \$437,656. The expenses include \$1,687,620 for fire protection water system improvement special projects, and \$437,197 in depreciation. In addition, a \$91,381 transfer was made from governmental activities to business-type activities. More information on transfers is available in Note 6 to the Financial Statements.

**Business-Type Activities**

In the fiscal year 2006-07 net assets of business-type activities increased by \$59,980. The main financing source, property tax revenue, increased by \$960,187, or approximately 70%, from \$1,365,493 in the prior year to \$2,325,680 in the current fiscal year. The increase is mainly due to the termination of the \$847,151 property tax shift made to the State in each of the fiscal years 2004-05 and 2005-06 pursuant to the Proposition 1A. The investment earnings increased by \$276,329, or approximately 364%, from \$75,901 to \$352,230 due to high returns and increase in fund balances.

The expenses included \$1,728,370 in depreciation and amortization. Of that amount, \$798,291 represented the depreciation expense for the District's Reclamation Project Assets financed with contributed capital from the Project. The expenses also included \$379,548 in indirect expense allocation from the Governmental Activities (General Government).

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

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds**

The focus of the District's governmental funds is to provide information on the short-term inflows and outflows and balances of current expendable resources. In particular, the *unreserved fund balance* presented in the balance sheet may serve as a useful measure of the District's resources available for spending at the end of its fiscal year.

The District's governmental funds include the General Fund and the Capital Outlay Fund. The General Fund is the main operating fund of the District. As of June 30, 2007 the fund balance of the General Fund was \$2,312,823 which was unreserved and designated for operations and O&M Reserves. As a measure of the General Fund's liquidity, it may be useful to compare both its unreserved fund balance and total fund balance to total fund expenditures. At the end of the fiscal year, unreserved fund balance was equal to 50% of the general fund expenditures,

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2007**

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sufficient to meet the District's short-term operating requirements.

The combined Governmental Fund revenues exceeded expenditures by \$1,297,570 primarily due to increased property tax and interest revenues, and effective cost controls. This resulted in a \$1,206,189 increase in the combined fund balance of the District's governmental funds (net of a \$91,381 transfer to the proprietary funds). The fund balance of the General Fund increased by \$121,121 and the fund balance of the Capital Outlay Fund increased by \$1,085,068. At year end, the combined fund balance of governmental funds was \$8,209,686, consisting of \$948,741 reserved for outstanding obligations and \$7,260,945 was unreserved and designated by the District Board for specific purposes as reported in the balance sheet of governmental funds.

### **Proprietary Funds**

The District's proprietary fund statements provide the same type of information, in more detail, on the business-type activities presented in the government-wide financial statements.

The net assets of the proprietary funds increased by \$59,980, from \$38,711,260 to \$38,771,240. The net assets included \$6,304,494 in unrestricted net assets which has increased by \$484,721 or 8.3% from the previous year. The unrestricted net assets were designated by the Board as follows:

- \$828,193 for Operating (O&M) expenditures and O&M reserves.
- \$1,070,000 for rate stabilization reserves.
- \$4,406,301 for construction projects and other capital outlays.

### **BUDGETARY HIGHLIGHTS**

The District adopts annual operating budgets for both the governmental and the proprietary funds, and this report includes the results of governmental fund operations on a budgetary comparison basis. The District Board also adopts budget amendments during the course of the fiscal year to adjust for unforeseen circumstances and changes in priorities.

### **General Fund**

The general fund reflects a net favorable budget variance of \$794,044 when comparing actual amounts to the final budget for the fiscal year. The actual revenues exceeded the budget by \$9,160 and actual expenditures were less than the budgeted amount by \$784,884. The expenditure variances are mainly due to: 1) not using the contingencies included in the budget (5% of the operating budget), and 2) budgeting the California Department of Forestry and Fire Protection (CAL FIRE) staff salaries at the highest step of the salary ranges according to the contract between the State and the District (a more detailed explanation of the District's contractual relationship with CAL FIRE is provided in Note 1 following the basic financial statements).

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007**

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**CAPITAL ASSETS**

The District's investment in capital assets for its governmental and business-type activities amounts to \$38,082,335 (\$55,614,442 net of \$17,532,107 in accumulated depreciation and amortization) as of June 30, 2007. The capital asset investments include land, buildings, utility systems and infrastructure (wastewater lines and pump stations; reclaimed water distribution lines, pump stations and storage facilities), machinery and equipment, and construction in progress. The District's total investment in capital assets before depreciation increased by \$1,060,770, from \$54,553,672 to \$55,614,442. Significant additions to capital assets in the fiscal year 2006-07 are as follows:

- 2006 Sewer Line Replacement project (\$602,172) which included replacement of approximately 5,000 lineal feet of main collection lines.
- Recycled water distribution system assets financed with Reclamation Project capital contributions, including Poppy Hills Water Storage Tank Rehabilitation (\$149,943) and Forest Lake capacity expansion (\$30,256).
- Machinery and equipment including a 60KW portable generator (\$60,634) and web-based information systems development (\$47,881).

The following table displays the changes in District's capital assets, net of accumulated depreciation.

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT  
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION  
As of June 30, 2007 and 2006**

|                                 | <b>Governmental<br/>Activities</b> |                            | <b>Business-type<br/>Activities</b> |                            | <b>Total</b>               |                            |
|---------------------------------|------------------------------------|----------------------------|-------------------------------------|----------------------------|----------------------------|----------------------------|
|                                 | 2007                               | 2006                       | 2007                                | 2006                       | 2007                       | 2006                       |
| Land                            | \$ 1,371,224                       | \$ 1,371,224               | \$ 2,854,000                        | \$ 2,854,000               | \$ 4,225,224               | \$ 4,225,224               |
| Construction in Progress        | -                                  | 50,059                     | 154,173                             | 135,508                    | 154,173                    | 185,567                    |
| Buildings                       | 2,914,494                          | 3,054,474                  | 1,377,850                           | 1,429,854                  | 4,292,344                  | 4,484,328                  |
| Utility Systems/Infrastructure  | 65,525                             | 67,784                     | 27,186,163                          | 27,954,313                 | 27,251,688                 | 28,022,097                 |
| Machinery and Equipment         | 1,710,081                          | 1,741,278                  | 448,825                             | 470,367                    | 2,158,906                  | 2,211,645                  |
| <b>Total Net Capital Assets</b> | <b><u>\$ 6,061,324</u></b>         | <b><u>\$ 6,284,819</u></b> | <b><u>\$32,021,011</u></b>          | <b><u>\$32,844,042</u></b> | <b><u>\$38,082,335</u></b> | <b><u>\$39,128,861</u></b> |

Additional information on the District's capital assets can be found in Note 7 of the "Notes to Financial Statements" section.

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007**

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**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

In the fiscal year 2006-07, the District received \$847,151 more in property tax revenue as a result of the termination of a temporary revenue shift made to the State pursuant Proposition 1A in the previous two fiscal years. The District heavily relies on property tax revenue to finance its operations, capital outlays and infrastructure needs. It is expected that the abolishment of Proposition 1A property tax shift will allow the District to continue to fully fund its reserves and maintain the rates at similar levels in the fiscal year 2007-08.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the District's finances and to demonstrate the District's financial accountability and compliance with applicable laws for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information can be addressed to Pebble Beach Community Services District, Attention: Chief Financial Officer, 3101 Forest Lake Road, Pebble Beach, California, 93953 or may be obtained by visiting the District's website at [www.pbcasd.org](http://www.pbcasd.org).

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**Statement of Net Assets**  
**June 30, 2007**

|  | <b>Primary Government</b>          |                                     |                      |
|--|------------------------------------|-------------------------------------|----------------------|
|  | <b>Governmental<br/>Activities</b> | <b>Business-Type<br/>Activities</b> | <b>Total</b>         |
| <b><u>ASSETS</u></b>                   |                                    |                                     |                      |
| Cash and Cash Equivalents              | \$ 8,275,113                       | \$ 6,929,885                        | \$ 15,204,998        |
| Receivables, Net                       | 358,208                            | 238,632                             | 596,840              |
| Internal Balances                      | 49,238                             | (49,238)                            | -                    |
| Prepaid Items                          | 22,674                             | 11,357                              | 34,031               |
| Capital Assets, Net                    | 6,061,324                          | 32,021,011                          | 38,082,335           |
| Total Assets                           | <u>14,766,557</u>                  | <u>39,151,647</u>                   | <u>53,918,204</u>    |
| <b><u>LIABILITIES</u></b>              |                                    |                                     |                      |
| Accounts Payable                       | 72,349                             | 75,706                              | 148,055              |
| Contract Services Payable              | 67,380                             | 199,319                             | 266,699              |
| Construction in Progress Payable       | 355,818                            | 27,550                              | 383,368              |
| Compensated Absences Payable           | 115,269                            | 77,832                              | 193,101              |
| Total Liabilities                      | <u>610,816</u>                     | <u>380,407</u>                      | <u>991,223</u>       |
| <b><u>NET ASSETS</u></b>               |                                    |                                     |                      |
| Invested in Capital Assets             | 6,061,324                          | 32,021,011                          | 38,082,335           |
| Restricted for Outstanding Obligations | 948,741                            | 445,735                             | 1,394,476            |
| Unrestricted                           | 7,145,676                          | 6,304,494                           | 13,450,170           |
| Total Net Assets                       | <u>\$ 14,155,741</u>               | <u>\$ 38,771,240</u>                | <u>\$ 52,926,981</u> |

See accompanying notes to the financial statements.

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2007**

| <u>Functions/Programs</u>           | <u>Program Revenues</u>   |                                     |                             |   |   | <u>Net (Exp.) Rev. and Change in Net Assets</u> |
|-------------------------------------|---------------------------|-------------------------------------|-----------------------------|---|---|---|
|                                     | <u>Operating Expenses</u> | <u>Indirect Expenses Allocation</u> | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> |   |
| <b>Primary Government:</b>          |                           |                                     |                             |   |   |   |
| <b>Governmental Activities:</b>     |                           |                                     |                             |   |   |   |
| General Government                  | \$ 1,431,415              | \$ (379,548)                        | \$ -                        | \$ -                                      | \$ -                                    | \$ (1,051,867)                                  |
| Fire Protection & Emergency Medical | 3,909,309                 | -                                   | 194,463                     | -   | -                                       | (3,714,846)                                     |
| Law Enforcement                     | 108,525                   | -                                   | -                           | -   | -                                       | (108,525)                                       |
| Project Expenditures                | 1,678,620                 | -                                   | -                           | -   | -                                       | (1,678,620)                                     |
| Total Governmental Activities       | <u>7,127,869</u>          | <u>(379,548)</u>                    | <u>194,463</u>              | <u>-</u>                                  | <u>-</u>                                | <u>(6,553,858)</u>                              |
| <b>Business-type Activities:</b>    |                           |                                     |                             |   |   |   |
| Wastewater                          | 2,609,573                 | 314,464                             | 727,419                     | -   | -                                       | (2,196,618)                                     |
| Solid Waste                         | 489,668                   | 65,084                              | 485,923                     | -   | -                                       | (68,829)  |
| Reclamation                         | 1,224,306                 | -                                   | -                           | 425,973                                   | 196,124                                 | (602,209)                                       |
| Total Business-type Activities      | <u>4,323,547</u>          | <u>379,548</u>                      | <u>1,213,342</u>            | <u>425,973</u>                            | <u>196,124</u>                          | <u>(2,867,656)</u>                              |
| <b>Total Primary Government</b>     | <u>\$ 11,451,416</u>      | <u>\$ -</u>                         | <u>\$ 1,407,805</u>         | <u>\$ 425,973</u>                         | <u>\$ 196,124</u>                       | <u>\$ (9,421,514)</u>                           |

|  | <u>Primary Government</u>      |                                 |                       |
|--|--------------------------------|---------------------------------|-----------------------|
|  | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u>          |
| <b>Change in Net Assets:</b>             |                                |                                 |                       |
| Net (Expense) Revenue                    | <u>\$ (6,553,858)</u>          | <u>\$ (2,867,656)</u>           | <u>\$ (9,421,514)</u> |
| <b>General Revenues:</b>                 |                                |                                 |                       |
| Property Taxes                           | 6,977,039                      | 2,325,680                       | 9,302,719             |
| Proposition 172 Public Safety Sales Tax  | 144,927                        | -                               | 144,927               |
| Investment Earnings                      | 437,656                        | 352,230                         | 789,886               |
| Franchise Fees                           | -                              | 70,084                          | 70,084                |
| Miscellaneous                            | 55,811                         | 88,261                          | 144,072               |
| Transfers                                | (91,381)                       | 91,381                          | -                     |
| Total General Revenues                   | <u>7,524,052</u>               | <u>2,927,636</u>                | <u>10,451,688</u>     |
| Change in Net Assets                     | <u>970,194</u>                 | <u>59,980</u>                   | <u>1,030,174</u>      |
| Net Assets, Beginning of Year (Restated) | <u>13,185,547</u>              | <u>38,711,260</u>               | <u>51,896,807</u>     |
| Net Assets, End of Year                  | <u>\$ 14,155,741</u>           | <u>\$ 38,771,240</u>            | <u>\$ 52,926,981</u>  |

See accompanying notes to basic financial statements.

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**Balance Sheet - Governmental Funds**  
**June 30, 2007**

|   | <u>General<br/>Fund</u> | <u>Capital Outlay<br/>Fund</u> | <u>Total</u>        |
|---|-------------------------|--------------------------------|---------------------|
| <b><u>ASSETS</u></b>                        |                         |                                |                     |
| Cash and Cash Equivalents                   | \$ 2,111,065            | \$ 6,164,048                   | \$ 8,275,113        |
| Receivables, Net:                           |                         |                                |                     |
| Property Taxes                              | 72,457                  | -                              | 72,457              |
| Fire Service Special Tax                    | 855                     | -                              | 855                 |
| Proposition 172 Funds                       | 144,927                 | -                              | 144,927             |
| Interest                                    | 48,561                  | 70,118                         | 118,679             |
| Accounts                                    | 17,523                  | 3,767                          | 21,290              |
| Due from Reclamation Fund                   | 27,231                  | 22,007                         | 49,238              |
| Prepaid items                               | 22,674                  | -                              | 22,674              |
| Total Assets                                | <u>\$ 2,445,293</u>     | <u>\$ 6,259,940</u>            | <u>\$ 8,705,233</u> |
| <b><u>LIABILITIES AND FUND BALANCES</u></b> |                         |                                |                     |
| Liabilities:                                |                         |                                |                     |
| Accounts Payable                            | \$ 65,090               | \$ 7,259                       | \$ 72,349           |
| Contract Services Payable                   | 67,380                  | -                              | 67,380              |
| Construction in Progress Payable            | -                       | 355,818                        | 355,818             |
| Total Liabilities                           | <u>132,470</u>          | <u>363,077</u>                 | <u>495,547</u>      |
| Fund Balances:                              |                         |                                |                     |
| Reserved for:                               |                         |                                |                     |
| Outstanding Obligations                     | -                       | 948,741                        | 948,741             |
| Unreserved:                                 |                         |                                |                     |
| Designated for:                             |                         |                                |                     |
| Capital Outlays/Construction Projects       | -                       | 4,948,122                      | 4,948,122           |
| General Operations                          | 1,695,823               | -                              | 1,695,823           |
| Operations and Maintenance Reserve          | 617,000                 | -                              | 617,000             |
| Total Fund Balances                         | <u>2,312,823</u>        | <u>5,896,863</u>               | <u>8,209,686</u>    |
| Total Liabilities and Fund Balances         | <u>\$ 2,445,293</u>     | <u>\$ 6,259,940</u>            | <u>\$ 8,705,233</u> |

**Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets**

|  |                      |
|--|----------------------|
| Total Fund Balances - Governmental Funds   | \$ 8,209,686         |
| Amounts reported for governmental activities in the statement of net assets are different because:                         |                      |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds   | 6,061,324            |
| Certain current and long-term liabilities are not due and payable in the current period and are not reported in the funds: |                      |
| Accrued compensated absences   | (115,269)            |
| Net Assets of Governmental Activities  | <u>\$ 14,155,741</u> |

See accompanying notes to the financial statements.

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2007**

|   | <u>General<br/>Fund</u> | <u>Capital Outlay<br/>Fund</u> | <u>Total</u>        |
|---|-------------------------|--------------------------------|---------------------|
| <b><u>REVENUES</u></b>                            |                         |                                |                     |
| Property Taxes                                    | \$ 6,977,039            | \$ -                           | \$ 6,977,039        |
| Fire Service Special Tax                          | 194,463                 | -                              | 194,463             |
| Proposition 172 Funds                             | 144,927                 |                                | 144,927             |
| Investment Earnings                               | 168,820                 | 268,836                        | 437,656             |
| Miscellaneous                                     | 55,811                  | -                              | 55,811              |
| Total Revenues                                    | <u>7,541,060</u>        | <u>268,836</u>                 | <u>7,809,896</u>    |
| <b><u>EXPENDITURES</u></b>                        |                         |                                |                     |
| Current:  |                         |                                |                     |
| General Government                                | 873,210                 | -                              | 873,210             |
| Fire Protection and Emergency Medical             | 3,629,333               | -                              | 3,629,333           |
| Law Enforcement                                   | 108,525                 | -                              | 108,525             |
| Capital Outlay                                    | -                       | 1,901,258                      | 1,901,258           |
| Total Expenditures                                | <u>4,611,068</u>        | <u>1,901,258</u>               | <u>6,512,326</u>    |
| Excess (Deficiency) of Revenues over Expenditures | <u>2,929,992</u>        | <u>(1,632,422)</u>             | <u>1,297,570</u>    |
| <b><u>OTHER FINANCING SOURCES (USES)</u></b>      |                         |                                |                     |
| Transfers In                                      | 48,215                  | 2,849,032                      | 2,897,247           |
| Transfers Out                                     | <u>(2,857,086)</u>      | <u>(131,542)</u>               | <u>(2,988,628)</u>  |
| Total Other Financing Sources (Uses)              | <u>(2,808,871)</u>      | <u>2,717,490</u>               | <u>(91,381)</u>     |
| Net Change in Fund Balances                       | 121,121                 | 1,085,068                      | 1,206,189           |
| Fund Balances, Beginning of Year                  | <u>2,191,702</u>        | <u>4,811,795</u>               | <u>7,003,497</u>    |
| Fund Balances, End of Year                        | <u>\$ 2,312,823</u>     | <u>\$ 5,896,863</u>            | <u>\$ 8,209,686</u> |

**Reconciliation of the Statement of Revenues, Expenditures and Changes in  
Fund Balances to the Statement of Activities**

|   |                   |
|---|-------------------|
| Net change in fund balances- total governmental funds   | \$ 1,206,189      |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. | (223,495)         |
| Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds. - compensated absences  | <u>(12,500)</u>   |
| Change in Net Assets of Governmental Activities   | <u>\$ 970,194</u> |

See accompanying notes to the financial statements.

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2007**

|   | <u>Budgeted Amounts</u> |                     | <u>Actual</u><br><u>Amounts</u> | <u>Variance</u>                           |
|---|-------------------------|---------------------|---------------------------------|---|
|   | <u>Original</u>         | <u>Final</u>        |                                 | <u>Over(Under)</u><br><u>Final Budget</u> |
| <b><u>REVENUES</u></b>                            |                         |                     |                                 |   |
| Property Taxes                                    | \$ 6,750,000            | \$ 7,012,500        | \$ 6,977,039                    | \$ (35,461)                               |
| Fire Service Special Tax                          | 193,000                 | 193,000             | 194,463                         | 1,463                                     |
| Proposition 172 Funds                             | 128,000                 | 128,000             | 144,927                         | 16,927                                    |
| Investment Earnings                               | 83,500                  | 144,000             | 168,820                         | 24,820                                    |
| Miscellaneous                                     | 16,900                  | 54,400              | 55,811                          | 1,411                                     |
| Total Revenues                                    | <u>7,171,400</u>        | <u>7,531,900</u>    | <u>7,541,060</u>                | <u>9,160</u>                              |
| <b><u>EXPENDITURES</u></b>                        |                         |                     |                                 |   |
| Current:  |                         |                     |                                 |   |
| General Government                                | 1,076,452               | 1,076,452           | 873,210                         | (203,242)                                 |
| Fire Protection and Emergency Medical             | 4,184,500               | 4,184,500           | 3,629,333                       | (555,167)                                 |
| Law Enforcement                                   | 135,000                 | 135,000             | 108,525                         | (26,475)                                  |
| Total Expenditures                                | <u>5,395,952</u>        | <u>5,395,952</u>    | <u>4,611,068</u>                | <u>(784,884)</u>                          |
| Excess (Deficiency) of Revenues over Expenditures | <u>1,775,448</u>        | <u>2,135,948</u>    | <u>2,929,992</u>                | <u>794,044</u>                            |
| <b><u>OTHER FINANCING SOURCES (USES)</u></b>      |                         |                     |                                 |   |
| Transfers Out                                     | <u>(1,783,125)</u>      | <u>(2,191,125)</u>  | <u>(2,808,871)</u>              | <u>(617,746)</u>                          |
| Total Other Financing Sources                     | <u>(1,783,125)</u>      | <u>(2,191,125)</u>  | <u>(2,808,871)</u>              | <u>(617,746)</u>                          |
| Net Change in Fund Balances                       | (7,677)                 | (55,177)            | 121,121                         | 176,298                                   |
| Fund Balances, Beginning of Year                  | <u>2,191,702</u>        | <u>2,191,702</u>    | <u>2,191,702</u>                | <u>-</u>                                  |
| Fund Balances, End of Year                        | <u>\$ 2,184,025</u>     | <u>\$ 2,136,525</u> | <u>\$ 2,312,823</u>             | <u>\$ 176,298</u>                         |

See accompanying notes to the financial statements.

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2007**

|  | <b>Business-Type Activities - Enterprise Funds</b> |                    |                      |                      |
|--|--|--------------------|----------------------|----------------------|
|  | <b>Wastewater</b>                                  | <b>Solid Waste</b> | <b>Reclamation</b>   | <b>Total</b>         |
| <b>ASSETS</b>                          |  |                    |                      |                      |
| Current Assets:                        |  |                    |                      |                      |
| Cash and Cash Equivalents              | \$ 6,773,910                                       | \$ 155,975         | \$ -                 | \$ 6,929,885         |
| Accounts Receivable                    | 19,401   | 11,933             | 79,478               | 110,812              |
| Property Taxes Receivable              | 24,153   | -                  | -                    | 24,153               |
| User Fees Receivable                   | 2,975  | 2,984              | -                    | 5,959                |
| Interest Receivable                    | 97,708   | -                  | -                    | 97,708               |
| Prepaid Items                          | 11,357   | -                  | -                    | 11,357               |
| Total Current Assets                   | <u>6,929,504</u>                                   | <u>170,892</u>     | <u>79,478</u>        | <u>7,179,874</u>     |
| Capital Assets:                        |  |                    |                      |                      |
| Land                                   | -  | -                  | 2,854,000            | 2,854,000            |
| Buildings                              | 1,547,202  | -                  | -                    | 1,547,202            |
| Utility Systems                        | 19,505,616   | -                  | 21,419,696           | 40,925,312           |
| Machinery and Equipment                | 1,317,890  | -                  | 38,205               | 1,356,095            |
| Subtotal Capital Assets                | 22,370,708   | -                  | 24,311,901           | 46,682,609           |
| Less Accum Deprec / Amortization       | (11,326,644)                                       | -                  | (3,489,127)          | (14,815,771)         |
| Construction in Progress               | 87,549   | -                  | 66,624               | 154,173              |
| Total Capital Assets, Net              | <u>11,131,613</u>                                  | <u>-</u>           | <u>20,889,398</u>    | <u>32,021,011</u>    |
| Total Assets                           | <u>18,061,117</u>                                  | <u>170,892</u>     | <u>20,968,876</u>    | <u>39,200,885</u>    |
| <b>LIABILITIES</b>                     |  |                    |                      |                      |
| Current Liabilities:                   |  |                    |                      |                      |
| Accounts Payable                       | 52,928   | -                  | 22,778               | 75,706               |
| Contract Services Payable              | 77,427   | 121,892            | -                    | 199,319              |
| Construction in Progress Payable       | 22,091   | -                  | 5,459                | 27,550               |
| Due to Governmental Fund               | -  | -                  | 49,238               | 49,238               |
| Total Current Liabilities              | <u>152,446</u>                                     | <u>121,892</u>     | <u>77,475</u>        | <u>351,813</u>       |
| Noncurrent Liabilities:                |  |                    |                      |                      |
| Compensated Absences Payable           | 77,832   | -                  | -                    | 77,832               |
| Total Noncurrent Liabilities           | <u>77,832</u>                                      | <u>-</u>           | <u>-</u>             | <u>77,832</u>        |
| Total Liabilities                      | <u>230,278</u>                                     | <u>121,892</u>     | <u>77,475</u>        | <u>429,645</u>       |
| <b>NET ASSETS</b>                      |  |                    |                      |                      |
| Invested in Capital Assets             | 11,131,613   | -                  | 20,889,398           | 32,021,011           |
| Restricted for Outstanding Obligations | 445,735  | -                  | -                    | 445,735              |
| Unrestricted                           | 6,253,491  | 49,000             | 2,003                | 6,304,494            |
| Total Net Assets                       | <u>\$ 17,830,839</u>                               | <u>\$ 49,000</u>   | <u>\$ 20,891,401</u> | <u>\$ 38,771,240</u> |

See accompanying notes to the financial statements.

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2007**

|  | <b>Business-Type Activities - Enterprise Funds</b> |                    |                      |                      |
|--|--|--------------------|----------------------|----------------------|
|  | <b>Wastewater</b>                                  | <b>Solid Waste</b> | <b>Reclamation</b>   | <b>Total</b>         |
| <b>Operating Revenues:</b>                       |  |                    |                      |                      |
| User Service Charges                             | \$ 727,419   | \$ 485,923         | \$ -                 | \$ 1,213,342         |
| Franchise Fees                                   | -  | 70,084             | -                    | 70,084               |
| Operating Reimbursements                         | -  | -                  | 425,973              | 425,973              |
| Miscellaneous                                    | 88,261   | -                  | -                    | 88,261               |
| Total Operating Revenues                         | <u>815,680</u>                                     | <u>556,007</u>     | <u>425,973</u>       | <u>1,797,660</u>     |
| <b>Operating Expenses:</b>                       |  |                    |                      |                      |
| Salaries and Employee Benefits                   | 544,654  | -                  | 114,805              | 659,459              |
| Contractual Services                             | 815,522  | 484,668            | -                    | 1,300,190            |
| Other Operating Expenses                         | 319,318  | 5,000              | 311,210              | 635,528              |
| Administration & Engineering Allocation          | 314,464  | 65,084             | -                    | 379,548              |
| Depreciation and Amortization                    | 930,079  | -                  | 798,291              | 1,728,370            |
| Total Operating Expenses                         | <u>2,924,037</u>                                   | <u>554,752</u>     | <u>1,224,306</u>     | <u>4,703,095</u>     |
| Operating Income (Loss)                          | <u>(2,108,357)</u>                                 | <u>1,255</u>       | <u>(798,333)</u>     | <u>(2,905,435)</u>   |
| <b>Nonoperating Revenues:</b>                    |  |                    |                      |                      |
| Property Taxes                                   | 2,325,680  | -                  | -                    | 2,325,680            |
| Investment Earnings                              | 352,230  | -                  | -                    | 352,230              |
| Total Nonoperating Revenues                      | <u>2,677,910</u>                                   | <u>-</u>           | <u>-</u>             | <u>2,677,910</u>     |
| Income (Loss) Before Contributions and Transfers | 569,553  | 1,255              | (798,333)            | (227,525)            |
| <b>Capital Contributions</b>                     | -  | -                  | 196,124              | 196,124              |
| <b>Transfers In / (Out)</b>                      | <u>57,709</u>                                      | <u>35,418</u>      | <u>(1,746)</u>       | <u>91,381</u>        |
| Change in Net Assets                             | 627,262  | 36,673             | (603,955)            | 59,980               |
| Total Net Assets, Beginning of Year (Restated)   | <u>17,203,577</u>                                  | <u>12,327</u>      | <u>21,495,356</u>    | <u>38,711,260</u>    |
| Total Net Assets, End of Year                    | <u>\$ 17,830,839</u>                               | <u>\$ 49,000</u>   | <u>\$ 20,891,401</u> | <u>\$ 38,771,240</u> |

See accompanying notes to the financial statements.

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2007**

|   | <b>Business-Type Activities - Enterprise Funds</b> |                    |                    |                     |
|---|--|--------------------|--------------------|---------------------|
|   | <u>Wastewater</u>                                  | <u>Solid Waste</u> | <u>Reclamation</u> | <u>Total</u>        |
| <b>Cash Flows from Operating Activities:</b>                            |  |                    |                    |                     |
| Cash Received for User Service Charges                                  |  |                    |                    |                     |
| Collected on the Property Tax Rolls                                     | \$ 726,900   | \$ 485,231         | \$ -               | \$ 1,212,131        |
| Cash Received for Services  | 77,621   | -                  | -                  | 77,621              |
| Cash Received for Franchise Fees  | -  | 69,482             | -                  | 69,482              |
| Cash Received from Reclamation Project                                  | -  | -                  | 466,203            | 466,203             |
| Payments to Employees   | (537,740)  | -                  | (114,805)          | (652,545)           |
| Payment for Goods and Services  | (1,440,094)  | (456,697)          | (302,527)          | (2,199,318)         |
| Net Cash Provided by (Used in) Operating Activities                     | <u>(1,173,313)</u>                                 | <u>98,016</u>      | <u>48,871</u>      | <u>(1,026,426)</u>  |
| <b>Cash Flows from Noncapital Financing Activities:</b>                 |  |                    |                    |                     |
| Property Taxes  | 2,327,145  | -                  | -                  | 2,327,145           |
| Transfers (to) from other funds   | (45,145)   | 35,418             | 21,944             | 12,217              |
| Net Cash Provided by Noncapital Financing Activities                    | <u>2,282,000</u>                                   | <u>35,418</u>      | <u>21,944</u>      | <u>2,339,362</u>    |
| <b>Cash Flows from Capital and Related Financing Activities:</b>        |  |                    |                    |                     |
| Capital Contributions   | -  | -                  | 1,209,897          | 1,209,897           |
| Transfers from Government Operations Fund                               | 102,854  | -                  | 25,549             | 128,403             |
| Acquisition and Construction of Capital Outlays                         | (711,815)  | -                  | (1,267,054)        | (1,978,869)         |
| Net Cash Provided by (Used in) Capital and Related Financing Activities | <u>(608,961)</u>                                   | <u>-</u>           | <u>(31,608)</u>    | <u>(640,569)</u>    |
| <b>Cash Flows from Investing Activities:</b>                            |  |                    |                    |                     |
| Proceeds of Investment Earnings   | 330,300  | -                  | -                  | 330,300             |
| Net Cash Provided by Investment Activities                              | <u>330,300</u>                                     | <u>-</u>           | <u>-</u>           | <u>330,300</u>      |
| Net Increase (Decrease) in Cash and Cash Equivalents                    | 830,026  | 133,434            | 39,207             | 1,002,667           |
| Cash and Cash Equivalents, Beginning of Year                            | 5,943,884  | 22,541             | (39,207)           | 5,927,218           |
| Cash and Cash Equivalents, End of Year                                  | <u>\$ 6,773,910</u>                                | <u>\$ 155,975</u>  | <u>\$ -</u>        | <u>\$ 6,929,885</u> |

**Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities**

|  | <b>Business-Type Activities - Enterprise Funds</b> |                    |                     |                       |
|--|--|--------------------|---------------------|-----------------------|
|  | <u>Wastewater</u>                                  | <u>Solid Waste</u> | <u>Reclamation</u>  | <u>Total</u>          |
| Operating Income (Loss)  | <u>\$ (2,108,357)</u>                              | <u>\$ 1,255</u>    | <u>\$ (798,333)</u> | <u>\$ (2,905,435)</u> |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: |  |                    |                     |                       |
| Depreciation and Amortization  | 930,079  | -                  | 798,291             | 1,728,370             |
| Changes in assets and liabilities:   |  |                    |                     |                       |
| (Increase) decrease in accounts receivable   | (11,158)   | (1,294)            | 40,230              | 27,778                |
| (Increase) decrease in prepaid expenses  | (3,650)  | -                  | -                   | (3,650)               |
| Increase (decrease) in accounts payable  | 12,859   | 98,055             | 8,683               | 119,597               |
| Increase (decrease) in compensated absences  | 6,914  | -                  | -                   | 6,914                 |
| Total adjustments  | <u>935,044</u>                                     | <u>96,761</u>      | <u>847,204</u>      | <u>1,879,009</u>      |
| Net Cash provided by (used in) operating activities  | <u>\$ (1,173,313)</u>                              | <u>\$ 98,016</u>   | <u>\$ 48,871</u>    | <u>\$ (1,026,426)</u> |

See accompanying notes to the financial statements.

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2007**

|   | <u>Trust Fund</u><br>Defined<br>Benefit Plan | <u>Agency Funds</u><br>Supplemental<br>Retirement Plan |
|---|--|--|
| <b>ASSETS</b>   |  |  |
| Cash and Cash Equivalents                                     | \$ 272,489                                   | \$ 130,948   |
| Cash Value Life Insurance                                     | 64,665                                       | 36,185   |
| Interest/Notes Receivable                                     | -  | 98,311   |
| Investments at Fair Value                                     | <u>1,875,449</u>                             | <u>1,000,074</u>                                       |
| Total Assets  | <u>\$ 2,212,603</u>                          | <u>\$ 1,265,518</u>                                    |
| <b>LIABILITIES</b>  |  |  |
| Obligation to Employees Under<br>Supplemental Retirement Plan | <u>-</u>                                     | <u>\$ 1,265,518</u>                                    |
| Total Liabilities   | <u>\$ -</u>                                  | <u>\$ 1,265,518</u>                                    |
| <b>NET ASSETS</b>   |  |  |
| Held in Trust for Pension Benefits                            | <u>\$ 2,212,603</u>                          |  |

See accompanying notes to the financial statements.

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2007**

|   | <u>Trust Fund<br/>Defined<br/>Benefit Plan</u> | <u>Agency Funds<br/>Supplemental<br/>Retirement Plan</u> |
|---|--|--|
| <b>ADDITIONS</b>  |  |  |
| Contributions:  |  |  |
| Employer  | \$ 84,982                                      | \$ 58,526  |
| Plan Members  | -  | 91,598   |
| Total Contributions                                     | <u>84,982</u>                                  | <u>150,124</u>   |
| Investment Earnings:                                    |  |  |
| Interest, Realized and Unrealized Gains & Losses        | 280,597  | 120,477  |
| Increase (Decrease) in Cash Surrender Value of Life Ins | 5,998  | (6,854)  |
| Total Investment Earnings:                              | <u>286,595</u>                                 | <u>113,623</u>   |
| Total Additions   | <u>371,577</u>                                 | <u>263,747</u>   |
| <b>DEDUCTIONS</b>                                       |  |  |
| Benefit Withdrawals                                     | 895,441  | 335,768  |
| Insurance Premiums                                      | 10,069   | 13,233   |
| Total Deductions  | <u>905,510</u>                                 | <u>349,001</u>   |
| Change in Supplemental Retirement Plan Assets           | -  | (85,254)   |
| Change in Defined Benefit Plan Net Assets               | (533,933)                                      | -  |
| Net Assets, Beginning of Year                           | <u>2,746,536</u>                               | <u>1,350,772</u>   |
| Net Assets, End of Year                                 | <u>\$ 2,212,603</u>                            | <u>\$ 1,265,518</u>                                      |

See accompanying notes to the financial statements.

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of the Pebble Beach Community Services District (District) relating to the funds included in the accompanying financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB Codification of Governmental Accounting and Financial Reporting Standards, the District has elected not to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. The more significant accounting policies of the District are described below.

**A. Reporting Entity**

The District was organized on July 1, 1982 under the Community Services District Law (Section 61000 et seq, Government Code) by merger of the Pebble Beach Sanitary District and the County Service Area 42. It provides the following services within the Del Monte Forest area of the Monterey Peninsula:

- Fire Protection and Emergency Medical Services
- Supplemental Law Enforcement
- Wastewater Collection, Treatment and Disposal
- Garbage Collection and Disposal
- Recycled Water Storage and Distribution

**Fire Protection and Emergency Medical Services** - The District contracts with the California Department of Forestry and Fire Protection (CAL FIRE) to provide fire protection and first-responder emergency medical services. Under the contract, CAL FIRE provides personnel and the District provides facilities, vehicles, equipment and supplies for the services. There are two fire stations serving the District. The main Pebble Beach Fire Station, located at Forest Lake and Lopez Roads next to the District Administrative Office, is fully owned by the District. In addition, the District owns 25% equity interest in the Carmel Hill Fire Station located near Highway One Gate in Pebble Beach. The other owners of the station are the neighboring Cypress Fire Protection District (Cypress FPD) with 25% interest, and the CAL FIRE with 50% interest. A fire engine located at the Carmel Hill Fire Station provides structural fire protection within the District and the Cypress FPD. The costs of the CAL FIRE contractual services were \$3,131,762 and \$3,226,994 in the fiscal years ending June 30, 2007 and 2006, respectively.

Beginning November 2003, the District has been providing advanced life support paramedic service to mitigate slow ambulance response times within the District. The

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

ambulance service within the District is provided pursuant to a county-wide contract awarded by the County of Monterey. In order to provide advanced life support service within the nationally recommended time standards, the District separately contracts the ambulance service company. Under the latest contract entered into in February 2006, the District provides a vehicle and Westmed ambulance company (Westmed) provides one paramedic to respond from the District's main fire station 24-hours per day, seven days a week. Prior to Westmed, the District provided this service through a contract with the American Medical Response Company (AMR), previous ambulance service provider of Monterey County. The costs of this service were \$291,104 for the fiscal year ending June 30, 2007 and \$310,928 for the fiscal year ending June 30, 2006. The reduction in cost is due to lower pricing negotiated with Westmed.

**Wastewater Collection, Treatment and Disposal** - The District owns and maintains seventy-four miles of wastewater collection and interceptor lines and eight lift stations. The wastewater treatment service is provided through a contract with the Carmel Area Wastewater District (CAWD). According to the contract, the District pays for one-third of the cost of the CAWD treatment plant capital outlays for maintaining use rights to one-third of the plant's treatment capacity. In addition, the District shares the treatment plant O&M costs based on prorated wastewater flows of the two Districts, and, pays an additional 7.5% of the plant O&M costs as administration fee. In the fiscal years ended June 30, 2007 and June 30, 2006 the District paid \$815,522 and \$1,172,488 which represented approximately 38.5% and 41% of the plant O&M expenses, respectively. The District levies a user fee on property owners to pay a portion of its wastewater collection, treatment and disposal costs. User fees are collected for the District by the Monterey County Tax Collector's Office on the property tax bills.

**Garbage Collection and Disposal** - The District provides garbage collection and disposal services through a contractual agreement with Waste Management, Inc., d.b.a. Carmel Marina Corporation (CMC). In January 2003, the District granted a contract extension to CMC, extending the term of the original 15-year contract entered in 1995 by five years, from June 2010 to June 2015. The District levies a user fee on all residential property owners for mandatory basic garbage and refuse collection services. The fees for the basic residential services are collected for the District by the Monterey County Tax Collector's office on the property tax bills. The fees for commercial and supplemental residential services are collected directly by CMC.

**Reclaimed Water Storage and Distribution** - The CAWD/PBCSD Reclamation Project (Project) is a cooperative effort of three public agencies including the District, the Carmel Area Wastewater District (CAWD), Monterey Peninsula Water Management District (MPWMD), and one private company, the Pebble Beach Company (PBC). The first phase of the project included construction of tertiary facilities to produce recycled water from the secondary effluent emitted from CAWD's wastewater treatment plant, and, a distribution system to deliver recycled water for irrigation of seven golf courses, athletic fields and other recreational areas within Pebble Beach.

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The first phase of the project was financed by Certificates of Participation which were executed and delivered at the direction of the MPWMD in December, 1992 in the amount of \$33,900,000. The PBC guaranteed payment of debt service as well as any operating deficiencies. Construction of the Project began in January, 1993 and was completed in October, 1994. Pursuant to the agreements between participating agencies, the District owns the distribution system assets, including approximately seven miles of reclaimed water distribution system pipelines, a 2.5 million gallon storage tank, a potable water pump station, and a reclaimed water booster pump station. Since the completion of the first phase, an average of 650 acre feet of recycled water per year has been used for irrigation, replacing the use of potable water.

In addition to the assets listed above, in December 1998, the District purchased the Forest Lake Reservoir from California-American Water Company (Cal-Am). The reservoir has been rehabilitated including new improvements to meet the State Water Resources Department Division of Safety of Dams requirements and currently provides 105 million gallon of storage capacity. It is filled with recycled water during winter months when there is excess production at the treatment plant and the stored recycled water is used during summer months when the irrigation demands exceed the production. The construction of the reservoir was completed in March 2006. The construction costs were financed by the sale proceeds of a portion of PBC's water entitlements obtained in return for financially guaranteeing the first phase of the project. The water entitlements are offered to the residential users within Pebble Beach.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely, to a significant extent on fees and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a function. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods or services provided by a function or segment and 2) grants and contributions that are restricted for meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences, are recorded only when payment is due.

Property taxes, user fees and interest associated with the current fiscal period are all considered susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received.

The District reports the following major governmental funds:

- The *General Fund* is the main operating fund of the District. It accounts for all financial resources of the general government, except those which may be accounted for in another fund.
- The *Capital Outlay Fund* accounts for the construction projects and other capital outlay expenditures included in the District's budget and the long-term capital outlay program.

The District reports the following major proprietary funds:

- The *Wastewater Enterprise Fund* accounts for the collection, treatment and disposal of wastewater generated within the District. Historically, the District has established user fees to finance a portion of the cost of providing the wastewater collection, treatment and disposal service. A portion of the operations, maintenance and capital outlay expenditures are financed from property tax revenue.

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- The *Solid Waste Enterprise Fund* accounts for the activities related to solid waste service provided to residential and commercial users in the District. The user fees collected from residential property owners are used to pay for mandatory basic garbage collection services provided by the franchise holder.
- The *Reclamation Enterprise Fund* accounts for the District's reclaimed water distribution activities and related operating and capital contributions from the CAWD/PBCSD Reclamation Project.

In addition, the District reports the following *Fiduciary Funds* which account for assets held by the District in a trustee capacity or as an agent for District employees.

- The *Pension Trust Fund* accounts for the District employees' defined pension plan activities in essentially the same manner as proprietary funds since capital maintenance is critical for the District.
- The *Agency Fund* is custodial in nature (assets equal liabilities) and the District is not required to measure results of operations. It accounts for the District employees' supplemental retirement plan activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are internal service fund charges and charges for services to business-type activities of the District. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods or services provided, 2) operating grants and contributions and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing goods and services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges for services. Operating expenses for enterprise funds include salaries and employee benefits, maintenance and operation of systems and facilities, administrative expense allocations and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District has elected not to adopt the pronouncements issued by the Financial Accounting Standards Board (FASB) after November 30, 1989 unless GASB has not issued a pronouncement addressing a financial statement presentation issue associated

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

with the District. There are no such issues associated with the District's financial statements.

**D. Assets, Liabilities, Net Assets or Equity**

**Cash and Cash Equivalents**

In order to increase the flexibility and efficiency the District pools the cash of all funds, except fiduciary funds. The cash and cash equivalents balance in each fund represents that fund's equity share of the total. As of June 30, 2007, the largest portion of cash of all funds was deposited with the Monterey County Treasury Investment Pool. Each District fund whose monies are deposited in the pool has equity therein, and interest earned on the investment of these monies is allocated quarterly based on relative equity. An individual fund's deposit in the pool is considered to be "cash equivalents" when preparing the financial statements.

**Interfund Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as interfund receivables/ interfund payables (i.e., the current portion of interfund loans) or advances to/from other funds (the non-current portion of interfund loans). All other outstanding balances between funds are reported as "Due From" (Interfund Receivables) or "Due To" (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".

**Prepaid Items**

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

**Capital Assets**

Capital assets, which include property, plant, equipment, infrastructure, and intangibles are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost, if purchased or constructed. Donated assets are valued at their fair market value on the date donated.

Repairs and maintenance are recorded as expenses. Renewals and improvements are capitalized. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the fiscal year ended June 30, 2007.

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Capitalized assets have an original cost of \$2,000 or more and a minimum of three years of useful life. Property, plant and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

| <b>Assets</b>                          | <b>Years</b> |
|--|--------------|
| Buildings                              | 30           |
| Subsurface Lines                       | 50           |
| Other Wastewater System Infrastructure | 20-40        |
| Wastewater Equipment and Vehicles      | 3-15         |
| Fire Dept Equipment and Vehicles       | 3-20         |
| Administration Equipment               | 3-10         |
| Reclamation Project Assets             | 5-50         |

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**Compensated Absences**

The District permits accumulation of earned but unused vacation and sick leave benefits, up to the limits established in its administrative code. The authorized accumulated vacation and sick leave benefits are payable upon separation from employment. The estimated liability for compensated absences represents the accumulated vacation and sick leave benefits of District employees as of June 30, 2007. More information on compensated absences is available in Note 9 to the Financial Statements.

**Property Taxes, User Fees and Special Taxes**

The County of Monterey is responsible for the assessment, collection and apportionment of property taxes among all tax-receiving agencies, including the District. The District determines the amount of its user fees and special taxes. The County collects the District's user fees and special taxes on the property tax rolls for the benefit of the District. Secured property taxes (and District user fees and special taxes) are payable in two equal installments, November 1 and February 1, and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are due on March 1 and become delinquent on August 31.

**Net Assets and Fund Equity**

In the government-wide financial statements and proprietary fund financial statements, net assets are reported in three categories: investments in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Restricted net assets represent net assets restricted by parties outside of the District (such as creditors, grantors, contributors, laws and regulations of other governments) and include unspent proceeds of bonds issued to acquire or construct capital assets. On June 30, 2007, except for the amounts restricted for its contractual outstanding obligations presented in Note 10, all net assets of the District are unrestricted.

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change at the District Board's discretion.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted first, then unrestricted resources as they are needed.

**2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

Amounts reported in the government-wide financial statements are different from those reported in the fund financial statements due to differences in measurement focus, basis of accounting and composition. The governmental fund balance sheet includes a reconciliation between *total fund balance-governmental funds* and *net assets of governmental activities* as reported in the government-wide statement of net assets. Also, the governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net change in fund balances-total governmental funds* and *change in net assets of governmental activities* as reported in the government-wide statement of activities.

**3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

The District Board adopts an annual budget by resolution by August 1 of each fiscal year. The budget covers all governmental and proprietary funds including capital projects. All appropriations for operating expenditures lapse at fiscal year end and are rebudgeted for the coming fiscal year. The appropriations for capital outlays not completed in the current year are normally carried forward to the coming fiscal year. Encumbrance accounting is not used. The budget is prepared on the modified accrual basis of accounting which is consistent with generally accepted accounting principles.

The District Board also annually updates its long-term capital improvement program and long-term financial plan for both governmental and business-type activities. These documents identify anticipated capital expenditures and include proposed financing mechanisms. The level of appropriated budgetary control is the adopted budget for all funds and programs and includes all revisions and amendments approved by the District Board subsequent to the initial adoption. Annually, a third-quarter budget review is presented by the management and the budget is amended by the Board. The District General Manager and department heads may authorize transfers of appropriations within a department budget. Additional appropriations as well as transfers of appropriations between departments require the approval of the District Board. Per GASB Statement No. 34, only the general fund and major special revenue fund budgets are to be presented in the basic financial statements.

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

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**4. CASH AND INVESTMENTS**

The District's cash and cash equivalents at June 30, 2007 included \$15,104,598 in the Monterey County Treasury Pooled Portfolio, \$100,000 in a First National Bank checking account, and \$400 in petty cash. Each fund's portion of these accounts is displayed in the financial statements as "Cash and Cash Equivalents".

The Monterey County Treasury Pool investments are in compliance with section 53635 of the Government Code of the State of California which permits investments in certain securities with certain term-to-maturity and percentage limitations and establishes investment goals of the safety, liquidity and yield (in order). As of June 30, 2007 the market value of the Treasury Pool was not materially different from its carrying value. The District did not have any investments outside the Treasury Pool as of June 30, 2007.

The District maintains an average \$100,000 balance in First National Bank and uses this account mainly for payment of invoices. Upon determination of total liabilities, sufficient funds are transferred semi-monthly from the District's Monterey County account to the First National Bank to make payments. Deposits with First National Bank are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$100,000. In addition, a State regulation requires the Bank to place collateral on public funds deposits. The regulation stipulates that all deposits made by public entities made to accounts held at FDIC insured institutions (such as is First National Bank) must be collateralized at a rate of 110% by securities which are held for the benefit of the entity. First National Bank uses Wells Fargo Bank's Trust Department for Financial Institutions to be its trust agent for this purpose. As of June 30, 2007, the District's deposit with the First National Bank did not in exceed of the FDIC insurance limit.

**5. RECEIVABLES**

Receivables at June 30, 2007 for the District's individual funds are presented below. All receivables are deemed fully collectible within 90 days.

| <u>Receivables</u>      | <u>Governmental Activities</u> |                  |                   |
|-------------------------|--------------------------------|------------------|-------------------|
|                         | <u>General</u>                 | <u>Capital</u>   | <u>Total</u>      |
| Accounts                | \$ 162,450                     | \$ 3,767         | \$ 166,217        |
| Taxes & Service Charges | 73,312                         | -                | 73,312            |
| Interest                | 48,561                         | 70,118           | 118,679           |
| Net Receivables         | <u>\$ 284,323</u>              | <u>\$ 73,885</u> | <u>\$ 358,208</u> |

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**5. RECEIVABLES (Continued)**

| <u>Receivables</u>      | <u>Business-Type Activities</u> |                    |                    | <u>Total</u>      |
|-------------------------|---------------------------------|--------------------|--------------------|-------------------|
|                         | <u>Wastewater</u>               | <u>Solid Waste</u> | <u>Reclamation</u> |                   |
| Accounts                | \$ 19,401                       | \$ 11,933          | \$ 79,478          | \$ 110,812        |
| Taxes & Service Charges | 27,128                          | 2,984              | -                  | 30,112            |
| Interest                | 97,708                          | -                  | -                  | 97,708            |
| Net Receivables         | <u>\$ 144,237</u>               | <u>\$ 14,917</u>   | <u>\$ 79,478</u>   | <u>\$ 238,632</u> |

**6. INTERFUND TRANSACTIONS**

As of June 30, 2007, interfund receivables and payables consist of the following:

| <u>Fund</u>    | <u>Interfund<br/>Receivable</u> | <u>Interfund<br/>Payable</u> |
|----------------|---------------------------------|------------------------------|
| General        | \$ 27,231                       | \$ -                         |
| Capital Outlay | 22,007                          | -                            |
| Reclamation    | -                               | 49,238                       |
| Total          | <u>\$ 49,238</u>                | <u>\$ 49,238</u>             |

The interfund receivables and payables represent cash deposited to one fund belonging to another fund. These amounts will be reimbursed in fiscal year ending June 30, 2008.

The District transfers current financial resources from one fund to another upon approval of the Board. In the fiscal year 2006-07, \$91,381 was transferred from the General Fund to Wastewater Fund to maintain the capital outlay reserves at a level identified in the annual update of the District's Long-Term Capital Outlay and Financial Plans.

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**7. CAPITAL ASSETS**

**A. Capital Assets – Governmental Activities**

Changes in capital assets for governmental activities for the year ended June 30, 2007 were as follows:

| <b>Governmental Activities</b>                   | <b>Beginning Balance</b> | <b>Acquisition and Construction/ Depreciation</b> | <b>Sales and Other Dispositions</b> | <b>Transfers</b> | <b>Ending Balance</b> |
|--|--------------------------|---|-------------------------------------|------------------|-----------------------|
| Capital Assets not being depreciated             |                          |   |                                     |                  |                       |
| Land   | \$ 1,371,224             | \$ -  | \$ -                                | \$ -             | \$ 1,371,224          |
| Construction in Progress                         | 50,059                   | 47,881  | -                                   | (97,940)         | -                     |
| Total Capital Assets not being depreciated       | <u>1,421,283</u>         | <u>47,881</u>                                     | <u>-</u>                            | <u>(97,940)</u>  | <u>1,371,224</u>      |
| Capital Assets being depreciated                 |                          |   |                                     |                  |                       |
| Buildings  | 4,086,592                | -   | -                                   | -                | 4,086,592             |
| Infrastructure                                   | 67,784                   | -   | -                                   | -                | 67,784                |
| Machinery & Equipment                            | 3,043,275                | 165,821   | (54,976)                            | 97,940           | 3,252,060             |
| Total Capital Assets being depreciated           | <u>7,197,651</u>         | <u>165,821</u>                                    | <u>(54,976)</u>                     | <u>97,940</u>    | <u>7,406,436</u>      |
| Less accumulated depreciation for:               |                          |   |                                     |                  |                       |
| Buildings  | (1,020,899)              | (139,980)   | -                                   | -                | (1,160,879)           |
| Improvements other than Buildings                | -                        | (2,259)   | -                                   | -                | (2,259)               |
| Infrastructure                                   | -                        | (2,259)   | -                                   | -                | (2,259)               |
| Machinery & Equipment                            | (1,313,216)              | (294,958)   | 54,976                              | -                | (1,553,198)           |
| Total accumulated depreciation                   | <u>(2,334,115)</u>       | <u>(437,197)</u>                                  | <u>54,976</u>                       | <u>-</u>         | <u>(2,716,336)</u>    |
| Net Capital Assets being depreciated             | <u>4,863,536</u>         | <u>(271,376)</u>                                  | <u>-</u>                            | <u>97,940</u>    | <u>4,690,100</u>      |
| Total Net Capital Assets-Governmental Activities | <u>\$ 6,284,819</u>      | <u>\$ (223,495)</u>                               | <u>\$ -</u>                         | <u>\$ -</u>      | <u>\$ 6,061,324</u>   |

Depreciation was charged to functions/programs of governmental activities for the year ended June 30, 2007 as follows:

| <b>Depreciation Expense</b>                        |                   |
|--|-------------------|
| General Government                                 | \$ 157,221        |
| Fire Protection & Emergency Medical Service        | <u>279,976</u>    |
| Total Depreciation Expense Governmental Activities | <u>\$ 437,197</u> |

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**7. CAPITAL ASSETS (Continued)**

**B. Capital Assets – Business-Type Activities**

Changes in capital assets for business-type activities for the year ended June 30, 2007 were as follows:

| <b>Business Type Activities</b>                        | <b>Beginning Balance</b> | <b>Acquisition and Construction/ Depreciation</b> | <b>Sales and Other Dispositions</b> | <b>Transfers</b> | <b>Ending Balance</b> |
|--|--------------------------|---|-------------------------------------|------------------|-----------------------|
| Capital Assets not being depreciated / amortized       |                          |   |                                     |                  |                       |
| Land   | \$ 2,854,000             | \$ -  | \$ -                                | \$ -             | \$ 2,854,000          |
| Construction in Progress                               | 135,508                  | 796,031   | -                                   | (777,366)        | 154,173               |
| Total Capital Assets not being depreciated / amortized | <u>2,989,508</u>         | <u>796,031</u>                                    | <u>-</u>                            | <u>(777,366)</u> | <u>3,008,173</u>      |
| Capital Assets being depreciated / amortized           |                          |   |                                     |                  |                       |
| Buildings  | 1,547,202                | -   | -                                   | -                | 1,547,202             |
| Utility Systems  | 40,130,644               | 17,302  | -                                   | 777,366          | 40,925,312            |
| Machinery & Equipment                                  | 1,267,383                | 92,006  | (3,294)                             | -                | 1,356,095             |
| Total Capital Assets being depreciated / amortized     | <u>42,945,229</u>        | <u>109,308</u>                                    | <u>(3,294)</u>                      | <u>777,366</u>   | <u>43,828,609</u>     |
| Less accumulated depreciation / amortization for:      |                          |   |                                     |                  |                       |
| Buildings  | (117,348)                | (52,004)  | -                                   | -                | (169,352)             |
| Utility Systems  | (12,176,331)             | (1,562,818)                                       | -                                   | -                | (13,739,149)          |
| Machinery & Equipment                                  | (797,016)                | (113,548)   | 3,294                               | -                | (907,270)             |
| Total accumulated depreciation / amortization          | <u>(13,090,695)</u>      | <u>(1,728,370)</u>                                | <u>3,294</u>                        | <u>-</u>         | <u>(14,815,771)</u>   |
| Net Capital Assets being depreciated / amortized       | <u>29,854,534</u>        | <u>(1,619,062)</u>                                | <u>-</u>                            | <u>777,366</u>   | <u>29,012,838</u>     |
| Total Net Capital Assets- Business-Type Activities     | <u>\$ 32,844,042</u>     | <u>\$ (823,031)</u>                               | <u>\$ -</u>                         | <u>\$ -</u>      | <u>\$ 32,021,011</u>  |

Depreciation was charged to functions/programs of business-type activities for the year ended June 30, 2007 as follows:

| <b>Depreciation / Amortization Expense</b>          |                     |
|---|---------------------|
| Wastewater  | \$ 930,079          |
| Reclamation   | 798,291             |
| Total Depreciation Expense Business-Type Activities | <u>\$ 1,728,370</u> |

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

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**8. RESTATEMENT OF FINANCIAL STATEMENTS**

The beginning balances of Governmental and Business-type activities capital assets have been restated as follows:

**A. Restatement of Governmental Activities Capital Assets Beginning Balance**

Since 1995, The District has an on-going program to improve California Water Company (Cal-Am) water pump stations and water lines to improve its firefighting capability. The District had been capitalizing the improvements made to the Cal-Am water system pending Cal-Am's acceptance of the improvements. Those assets have been transferred and consequently an adjustment was made to remove \$6,353,842 (\$7,055,841 net of \$701,999 in accumulated depreciation) of fire protection water system improvements from the District's books as of June 30, 2006.

**B. Restatement of Business-Type Activities Capital Assets Beginning Balance**

Since 2003, the District has been capitalizing its expenses associated with the District's one-third share of the wastewater treatment facility capital outlays. It was determined that the District should go back ten years to recapture the costs, net of accumulated depreciation, for its one third share of the improvements to the wastewater treatment plant and record as an intangible "Capacity Rights" asset. Since capital outlays expensed prior to ten years ago would not be significant, it was deemed unnecessary to go back further than ten years. This resulted in an adjustment increasing the District's wastewater Fund net assets by \$736,207 (\$981,334 net of \$245,127 in accumulated amortization) as of June 30, 2006. These "Capacity Rights" are included under utility systems in the capital assets.

**9. LONG-TERM LIABILITIES**

As of June 30, 2007, the only long-term obligation of the District was the Compensated Absences Payable as presented below.

**Compensated Absences**

The District employees can accrue a maximum of 30 vacation and 150 sick leave days during their employment. Unused vacation leave is payable at employees' regular hourly rate and the sick leave is payable at one-half of the regular hourly rate upon separation from service without cause. The following is a summary of changes in compensated absences for the fiscal year ended June 30, 2007.

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**9. LONG-TERM LIABILITIES (Continued)**

|                          | <u>Balance<br/>June 30, 2006</u> | <u>Additions</u> | <u>Deletions</u>   | <u>Balance<br/>June 30, 2007</u> | <u>Due within<br/>One Year</u> |
|--------------------------|----------------------------------|------------------|--------------------|----------------------------------|--------------------------------|
| Governmental Activities  | \$ 102,770                       | \$ 56,036        | \$ (43,537)        | \$ 115,269                       | \$ 32,840                      |
| Business-Type Activities | 70,918                           | 31,607           | (24,693)           | 77,832                           | 16,559                         |
| Total                    | <u>\$ 173,688</u>                | <u>\$ 87,643</u> | <u>\$ (68,230)</u> | <u>\$ 193,101</u>                | <u>\$ 49,399</u>               |

**10. COMMITMENTS AND CONTINGENCIES**

**Capital Outlay and Construction Commitments**

As of June 30, 2007, the District has the following outstanding commitments related to construction project contracts:

|  | <u>Contract</u>     | <u>Outstanding<br/>Commitment</u> |
|--|---------------------|-----------------------------------|
| Fire Protection Water Systems Improvements |                     |                                   |
| Fourth Priority Pipeline Replacement       | \$ 2,312,140        | \$ 635,741                        |
| Fire Protection Water Systems Improvements |                     |                                   |
| Spruance Water Tank Project                | 313,000             | 313,000                           |
| Pump Station P8 Rehabilitation             | 250,000             | 250,000                           |
| Pump Station P3 Force Main Replacement     | 91,760              | 91,760                            |
| 2007 Sewer Line Replacement Project        | 89,660              | 77,945                            |
| Pump Station P3 Improvements               | 40,000              | 26,030                            |
| Total                                      | <u>\$ 3,096,560</u> | <u>\$ 1,394,476</u>               |

**Fire Protection Water Systems Improvements Fourth Priority Pipeline Replacement Project**

The District has been replacing California-American Water Company (Cal-Am) water distribution lines to obtain increased fire protection benefits. The District has a \$2,015,380 construction contract with the Monterey Peninsula Engineering and a \$296,760 engineering services contract with the E2 Consulting Engineers for the Fourth Priority Pipeline Replacement Project. On June 30, 2007, the \$635,741 total balance of the two contracts represents an outstanding commitment of the District.

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

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**10. COMMITMENTS AND CONTINGENCIES (Continued)**

On June 29, 2007, the District approved a \$313,000 agreement with E2 Consulting Engineers for design and construction management engineering services required for the Spruance water tank project. The project includes construction of a new 600,000 gallon water storage tank near Spruance Road to overcome a storage deficiency in the first lift zone based on Fire Department and Cal-Am requirements.

**Spanish Bay Wastewater Pump Station (P8) Rehabilitation**

On June 29, 2007 the District approved a contract with Anderson Pacific Engineering Construction, Inc. with a total budget of \$250,000 for rehabilitation of Spanish Bay Wastewater Pump station. The project includes construction of a new 8-foot diameter wet well, installation of submersible pumps, and conversion of the existing dry and wet wells into emergency overflow structures to provide additional response time if the pump station stops operating. The total project budget of \$250,000 was classified as an outstanding commitment of the District on June 30, 2007.

**2007 Sewer Line Replacement Project**

The District's annual capital improvement program includes upgrade and replacement of wastewater collection lines. On May 23, 2007, the District approved an \$89,660 agreement with E2 Consulting Engineers to provide engineering services for the 2007 Sewer Line Replacement Project. The project will be constructed in the fiscal year 2007-08. On June 30, 2007, the \$77,945 balance of the engineering services contract represents an outstanding commitment of the District.

**Seal Rock Wastewater Pump Station (P-3) Force Main Installation**

On June 29, 2007, the District approved a \$92,000 project assignment to E2 Consulting Engineers to provide engineering services required for the Seal Rock Wastewater Pump Station P-3 Force Main Installation Project. The project includes installation of a second force main with connection piping that will allow uninterrupted pump station operations in the event either the existing or the new force main is damaged.

**Seal Rock Wastewater Pump Station (P-3) Improvements**

On March 30, 2007, the District approved a \$40,000 project assignment to the E2 Consulting Engineers (E2) to provide engineering services for the Seal Rock Wastewater Pump Station P-3 Rehabilitation Project. On June 30, 2007, the \$26,030 balance of the engineering services contract was classified as an outstanding commitment of the District.

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

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**11. RISK MANAGEMENT**

The District is insured against various risks of loss related to torts; theft; damage or destruction of assets; errors or omissions; and work-related injuries to employees through participation in a joint powers agreement with the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA).

ACWA/JPIA was formed under a joint powers agreement pursuant to California Government Code Section 6500 et seq. and 900 et seq. effective July 5, 1979 to provide insurance protection for its members. The property, general liability and workers compensation programs are ACWA/JPIA's pooled programs. According to the agreement, the member districts are provided coverage for losses in excess of their individually selected retrospective allocation points, which are similar to a deductible. A portion of the excess is self-insured by ACWA/JPIA where all members share the losses. Individual claims (and aggregate public liability and property claims) in excess of ACWA/JPIA's self-insured levels are covered by excess insurance policies purchased from outside commercial insurance carriers. ACWA/JPIA maintains a retrospective adjustment stabilization fund (RSF) with separate accounts for each member district. Based on its level of RSF, a member district may receive a refund or additional assessment annually. The District has been receiving refunds over the past three years.

The difference in conditions (DIC), dam failure liability and excess employee fidelity bond are not pooled programs. These coverages are provided by ACWA/JPIA through purchases from commercial insurance carriers. Dam failure liability insurance covers the District for liabilities resulting from failure of Forest Lake Reservoir, and DIC program provides coverage for other Reclamation Project assets mainly against earthquake damage. The property insurance program automatically provides a \$100,000 employee fidelity coverage. The District carries a separate employee fidelity insurance which provides an additional \$500,000 coverage.

**12. EMPLOYEE RETIREMENT SYSTEMS**

**A. Defined Benefit Pension Plan**

The District's defined benefit pension plan provides retirement and disability benefits to the employees and death benefits to their beneficiaries. The plan is comprised of the following two components which cover separate time periods:

**California Public Employees Retirement System (CalPERS), effective July 1, 2004**

**Plan Description** - Effective July 1, 2004, the District participates in a California Public Employees Retirement System (CalPERS) multiple-employer public employee defined benefit pension plan. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as common investment and administrative agent for participating public employers within the State of California. Benefit provisions and all other requirements are

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

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**12. EMPLOYEE RETIREMENT SYSTEMS (Continued)**

established by state statute. Under the plan, retirement benefits vest after five years of service. CalPERS issues a comprehensive annual financial report a copy of which may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

**Funding Policy** - The District contributes the actuarially determined amounts necessary to fund the benefits for its employees. The actuarial methods and assumptions are adopted by the CalPERS Board of Administration. In the fiscal year 2006-07, the required contribution rate was 21.8% which included 8% contribution made by the District on behalf of its employees and 13.8% in employer contributions. The contribution requirements of the employees are established by the State statute and the employer contribution rate is established and may be amended by CalPERS.

**Annual Pension Cost** – For the year ended June 30, 2007, the District’s annual pension cost of \$205,102 for CalPERS was equal to the District’s required and actual contributions. The required contribution was determined as part of the June 30, 2005 actuarial valuation.

Initial unfunded liabilities are amortized over a closed period that depends on the plan’s date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20 year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the plan’s accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

A summary of principle assumptions and methods used to determine the annual required contribution are presented below:

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|                                   |   |
|-----------------------------------|---|
| <b>Valuation Date</b>             | <b>June 30, 2005</b>  |
| <b>Actuarial Cost Method</b>      | <b>Entry Age Actuarial Cost Method</b>  |
| <b>Amortization Method</b>        | <b>Level Percent of Payroll</b>   |
| <b>Average Remaining Period</b>   | <b>16 Years as of the Valuation Date</b>  |
| <b>Asset Valuation Method</b>     | <b>15 Year Smoothed Market</b>  |
| <b>Actuarial Assumptions</b>      |   |
| <b>Investment Rate of Return</b>  | <b>7.75% (net of administrative expenses)</b>   |
| <b>Projected Salary Increases</b> | <b>3.25% to 14.45% depending on Age, Service, and type of employment</b>  |
| <b>Inflation</b>                  | <b>3.00%</b>  |
| <b>Payroll Growth</b>             | <b>3.25%</b>  |
| <b>Individual Salary Growth</b>   | <b>A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%.</b> |

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**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

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**12. EMPLOYEE RETIREMENT SYSTEMS (Continued)**

**Asset Valuation Method** – In order to dampen the effect of short-term market value fluctuations on employer contribution rates, the following asset smoothing technique is used. First an Expected Value of Assets is computed by bringing forward the prior year's Actuarial Value of Assets and the contributions received and benefits paid during the year at the assumed actuarial rate of return. The Actuarial Value of Assets is then computed as the Expected Value of Assets plus one-third of the difference between the actual Market Value of Assets and the Expected Value of Assets as of the valuation date. However in no case will the Actuarial Value of Assets be less than 90% or greater than 110% of the actual Market Value of Assets.

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**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**California Public Employees Retirement System (CalPERS)**  
**Three Year Trend Information**

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| <u>Fiscal Year</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|--------------------|----------------------------------|--------------------------------------|-------------------------------|
| 2006-07            | \$ 205,102                       | 100%                                 | 0                             |
| 2005-06            | 189,898                          | 100%                                 | 0                             |
| 2004-05            | 174,676                          | 100%                                 | 0                             |

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The District's plan is part of a Risk Pool, a cost-sharing multiple-employer defined benefit plan. Effective with the June 30, 2003 valuation, CalPERS established a risk pool for cities and other government entities that have less than 100 active members. The actuarial valuation was performed with other participants within the same risk pool. Therefore, stand-alone information of the funding progress for the District is not available.

**Single-Employer Private Pension Plan prior to July 1, 2004**

The District maintains a single employer defined benefit pension plan that covers employees hired prior to July 1, 2004. The benefits accrued under this plan have been frozen on that date, and thereafter employees have been provided prospective coverage under the CalPERS plan described above. The single-employer private pension plan will be phased out of existence when all employees hired prior July 1, 2004 receive their accrued benefits upon retirement or leave of District service. The benefits retained by the employees under this plan will provide the covered employees with a monthly pension at the age of 60 or later which will equal to 2% of the average of the three highest annual salary, per each year of service rendered prior to July 1, 2004. Employees can elect to retire earlier than age 60 with a reduced monthly benefit.

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

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**12. EMPLOYEE RETIREMENT SYSTEMS (Continued)**

Under the plan, employees are provided a pre-retirement death benefit which is equal to the sum of their accrued benefit and the death benefit on any life insurance contract, less any cash surrender values.

A schedule of funding progress which displays the recent history of the District's single-employer defined benefit pension plan is provided in the "Required Supplementary Information" section following the Notes to the Financial Statements.

**Single Employer Pension Plan Funding Policy**

The District makes all required payments on behalf of its eligible employees. The District's funding policy is to pay actuarially determined employer contributions once a year into a trust account held by the ING Corporation. The investments are managed by the two Trustees appointed by the District Board.

**Annual Pension Cost** - For the fiscal year ended, June 30, 2007, the District contributed \$74,913 to the ING Corporation to maintain the benefits accrued under the plan.

The contribution amount to the single-employer pension plan was determined as part of the June 30, 2007 actuarial valuation using the aggregate actuarial cost method. The actuarial assumptions included a) 6% pre-retirement and, 5% post-retirement investment rate of return (net of administrative expenses); and b) projected salary increases of 3.5% per year; and c) a 3% cost-of-living adjustment.

**B. Supplemental Retirement Plan**

The supplemental retirement plan was established in December 1990, to replace the employees' Social Security benefits (retroactively effective January 1, 1985). The plan covers all employees of the District. Under the plan, an amount equal to the Social Security portion of Federal Insurance Contribution Act (FICA) contributions withheld from employee wages and matching employer contributions, fund the benefits of the plan. Benefits include individual retirement investment accounts, life insurance contracts, and group disability coverage.

The retirement investment accounts are maintained by the ING Corporation (ING) and the PBCSD Investment Committee. Employee contributions are invested in ING and managed by the employees. Employees have a choice to invest employer contributions in ING or in an investment pool managed by the District's Supplemental Retirement Plan Investment Committee. The Committee is composed of two Trustees appointed by the District Board and two employees. The investments managed by the Committee are deposited in a Charles Schwab & Co, Inc. account. All contributions are 100% vested with the employee.

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

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**12. EMPLOYEE RETIREMENT SYSTEMS (Continued)**

The life insurance contracts are in the form of universal insurance policies in the minimum amounts of \$100,000.

The District's employees continue to be covered by Medicare by depositing the employee and matching employer contributions with the Internal Revenue Service.

Activities of the supplemental retirement plan are reported as an agency fund in the District's financial statements because the District has only a custodial role in plan operations. The assets of the plan always equal the liabilities. The District has no responsibility for providing specific benefits nor guarantees any investment results under the plan.

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT  
PENSION FUNDING INFORMATION (UNAUDITED)  
JUNE 30, 2007**

The schedule of single employer pension plan funding progress for the past three actuarial valuations is presented below.

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SINGLE EMPLOYER DEFINED BENEFIT PENSION PLAN SCHEDULE OF FUNDING PROGRESS  
YEAR ENDED JUNE 30, 2007**

| <b>Actuarial<br/>Valuation<br/>For the Plan<br/>Year Ended<br/>June 30</b> | <b>Net Assets<br/>Available for<br/>Benefits<br/>(a)</b> | <b>Actuarial<br/>Accrued<br/>Liability (AAL)<br/>(b)</b> | <b>Unfunded<br/>(Overfunded)<br/>AAL (UAAL)<br/>(b-a)</b> | <b>Funded<br/>Ratio - %<br/>(a/b)</b> | <b>Annual<br/>Covered<br/>Payroll<br/>(c)</b> | <b>UAAL As A<br/>Percentage<br/>Of Covered<br/>Payroll - %<br/>(b-a)/c</b> | <b>Annual<br/>Contribution<br/>Required</b> | <b>Percentage<br/>Contributed</b> |
|--|--|--|---|---------------------------------------|---|--|---|-----------------------------------|
| 2007   | 2,212,603  | 1,915,302  | (297,301)   | 115.5                                 | 762,976                                       | (39.0)   | 84,982                                      | 100                               |
| 2006   | 2,746,536  | 2,624,170  | (122,366)   | 104.7                                 | 932,155                                       | (13.1)   | 82,316                                      | 100                               |
| 2005   | 2,533,519  | 2,416,504  | (117,015)   | 104.8                                 | 849,528                                       | (13.8)   | 76,226                                      | 100                               |