

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT
For the fiscal year ended June 30, 2011**



**PEBBLE BEACH
COMMUNITY
SERVICES
DISTRICT**



PEBBLE BEACH COMMUNITY SERVICES DISTRICT
FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

For the fiscal year ended
June 30, 2011



PEBBLE BEACH COMMUNITY SERVICES DISTRICT
FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT
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PEBBLE BEACH COMMUNITY SERVICES DISTRICT

BOARD OF DIRECTORS

June 30, 2011

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>	<u>Residence</u>
Gerald F. Verhasselt	President	November 2013	Pebble Beach
Leo M. Laska	Vice President	November 2011	Pebble Beach
Jeffrey B. Froke, Ph.D.	Director	November 2013	Pebble Beach
Dr. Gary D. Hornbuckle	Director	November 2011	Pebble Beach
Richard D. Verbanec	Director	November 2011	Pebble Beach

INDEPENDENT AUDITOR'S 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, 2011, 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 opinion 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 opinion.

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, each major fund, and the aggregate remaining fund information of the Pebble Beach Community Services District, as of June 30, 2011, and the respective changes in financial position and the cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 4 through 12 is not a required part of the basic financial statements but is supplementary information required by 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.

October 20, 2011

Hayashi & Wayland, LLP





MANAGEMENT
DISCUSSION
AND
ANALYSIS



PEBBLE BEACH COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

This narrative overview and analysis of the Pebble Beach Community Services District's ("District") financial activities for the fiscal year ended June 30, 2011 has been provided by the management of the District. 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 the fiscal year 2010-11 (*June 30, 2011*), the assets of the District exceeded its liabilities by \$54,266,282 (*net assets*). The net assets increased by \$1,321,771 from the prior year, due to a \$1,163,587 increase in net assets of governmental activities, as well as a \$158,184 increase in net assets of business-type activities.
- The net assets included \$18,208,903 in *unrestricted net assets* available to finance the District's future capital projects and obligations. The unrestricted net assets increased by \$1,801,433 from 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 \$35,202,218 in *net capital assets*. This amount is \$986,910 less than the prior year. The decrease is the net effect of \$2,063,484 in depreciation and amortization expense, and \$1,076,574 in capital outlay additions.
- At the end of the fiscal year 2010-11, the District's governmental funds reported a combined fund balance of \$9,645,750, which is an increase of \$1,549,218 from the prior year. Of this amount, \$9,088,032 in *committed fund balance* was available for use in accordance with the District's Long-Term Capital Outlay Program and Long Term Financial Plan. This fund balance is committed for specific purposes as follows:
 - \$1,870,583 for operations and maintenance (O&M) expenditures and O&M reserves.
 - \$7,217,449 for construction projects and other capital outlays.
- On a current financial resources basis, the District's governmental fund revenues exceeded expenditures by \$1,965,022. The proprietary fund expenses exceeded revenues by \$319,264.

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 the financial statements.

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

PEBBLE BEACH COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

- 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 a 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 two 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 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.

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

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, 2011, the District's net assets were \$54,266,282, an increase of \$1,321,771 from the prior year. The following table outlines the District's net assets by function for the current and prior fiscal years.

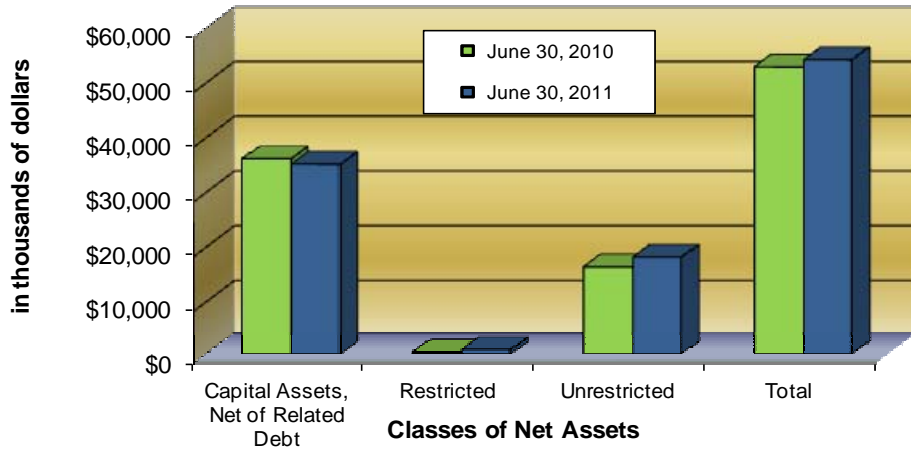
**PEBBLE BEACH COMMUNITY SERVICES DISTRICT
SUMMARY OF NET ASSETS (in thousands)
As of June 30, 2011 and 2010**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>		<u>Variance \$</u>
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	
<u>ASSETS</u>							
Current & Other Assets	\$ 10,213	\$ 8,848	\$ 9,745	\$ 8,845	\$ 19,958	\$ 17,693	\$ 2,265
Capital Assets	4,873	5,178	30,341	31,037	35,214	36,215	(1,001)
Total Assets	<u>15,086</u>	<u>14,026</u>	<u>40,086</u>	<u>39,882</u>	<u>55,172</u>	<u>53,908</u>	<u>1,264</u>
<u>LIABILITIES</u>							
Current Liabilities	321	437	388	347	709	784	(75)
Long-Term Liabilities	118	106	79	74	197	180	17
Total Liabilities	<u>439</u>	<u>543</u>	<u>467</u>	<u>421</u>	<u>906</u>	<u>964</u>	<u>(58)</u>
<u>NET ASSETS</u>							
Invested In Capital Assets, Net of Related Debt	4,869	5,178	30,333	31,011	35,202	36,189	(987)
Restricted for Outstanding Obligations	558	143	297	205	855	348	507
Unrestricted	<u>9,220</u>	<u>8,162</u>	<u>8,989</u>	<u>8,245</u>	<u>18,209</u>	<u>16,407</u>	<u>1,802</u>
Total Net Assets	<u>\$ 14,647</u>	<u>\$ 13,483</u>	<u>\$ 39,619</u>	<u>\$ 39,461</u>	<u>\$ 54,266</u>	<u>\$ 52,944</u>	<u>\$ 1,322</u>

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

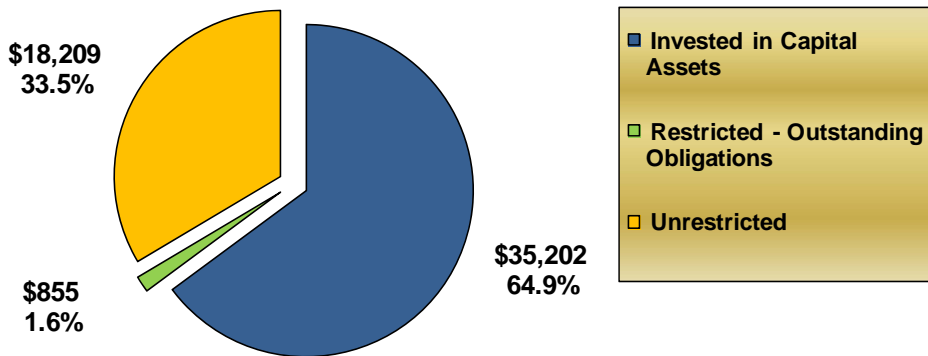
The chart below provides a comparison of the District's net assets for the current and prior fiscal years.

PBCSD Net Assets Comparison June 30, 2010 and 2011



The following chart displays the District's net assets by class as of June 30, 2011. The largest portion of the District's net assets, approximately 64.9%, 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 do not represent future expendable resources.

Net Assets as of June 30, 2011 (in thousands of dollars)



The second largest portion of the District's net assets, approximately 33.5%, is unrestricted financial assets. These assets are available to finance future capital outlays, operating

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

expenses, emergency expenses and rate stabilization. The District's Board of Directors annually establishes reserves based on an update of the District's Long-Term Capital Outlay Program and Financial Plans. As of June 30, 2011, the unrestricted net assets were earmarked as follows:

- \$3,148,662 for Operations and Maintenance (O&M) expenses and O&M reserves.
- \$1,172,000 for rate stabilization reserves.
- \$13,888,241 for construction projects and other capital outlays.

A smaller portion of the District's net assets, approximately 1.6%, represents the resources that are restricted to finance the District's outstanding contractual obligations. No other assets of the District 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 2010-11.

PEBBLE BEACH COMMUNITY SERVICES DISTRICT'S CHANGE IN NET ASSETS			
For the Year Ended June 30, 2011			
	Governmental	Business-type	
	Activities	Activities	Total
Revenues			
Program Revenues:			
Charges for Services	\$ 195,678	\$ 1,282,706	\$ 1,478,384
Operating Grants and Contributions	-	340,704	340,704
Capital Grants and Contributions	-	61,644	61,644
General Revenues:			
Property Taxes	7,641,295	2,543,718	10,185,013
Proposition 172 Public Safety Tax	146,243	-	146,243
Investment Earnings	52,659	47,853	100,512
Franchise Fees	74,860	-	74,860
Miscellaneous	113,977	27,389	141,366
Total Revenues	8,224,712	4,304,014	12,528,726
Expenses			
General Government	1,756,526	-	1,756,526
Law Enforcement	173,533	-	173,533
Fire Protection and Emergency Medical	4,648,387	-	4,648,387
Project Expenditures	66,875	-	66,875
Wastewater	-	2,800,320	2,800,320
Solid Waste	-	571,477	571,477
Reclamation	-	1,189,837	1,189,837
Total Expenses	6,645,321	4,561,634	11,206,955
Transfers	(415,804)	415,804	-
Change in Net Assets	1,163,587	158,184	1,321,771
Net Assets, Beginning of Year	13,483,602	39,460,909	52,944,511
Net Assets, End of Year	\$ 14,647,189	\$ 39,619,093	\$ 54,266,282

PEBBLE BEACH COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

In fiscal year 2010-11, the net assets of the District increased by \$1,321,771 due to a \$1,163,587 increase in the net assets of governmental activities, and a \$158,154 increase in the net assets of business-type activities. The main financing source of the District, property tax revenue, decreased by \$277,518, from \$10,462,531 in fiscal year 2009-10 to \$10,185,013 in the current fiscal year (including deferred revenue of \$164,570) mainly due to the adjustment of certain commercial and residential property values by the Monterey County Assessor. The investment earnings decreased by \$110,012, from \$210,524 in fiscal year 2009-10 to \$100,512 in fiscal year 2010-11. The District is a participant in the Monterey County Treasury Investment Pool. The investment earnings were lower than the prior year mainly due to lower interest rates available for more secure fixed income investments, which governmental agencies can invest in. In FY 2010-11, the revenues of governmental activities included a \$78,778 one-time allocation from the surplus Monterey County Service Area No.74 Emergency Medical Services (EMS) Training and Equipment funds.

The governmental activities expenses increased by \$53,764, from \$6,591,557 in fiscal year 2009-10 to \$6,645,321 in fiscal year 2010-11. In addition to the \$6,179,029 in operating and personnel costs, the expenses included \$66,875 in fire protection water system improvement special project expenses and \$399,417 in depreciation expense. In fiscal year 2010-11 a \$415,804 transfer was made to business-type activities based on the annual update of the District's Long-Term Capital Outlay Program.

The business-type activities expenses decreased by \$115,998 from \$4,677,632 in fiscal year 2009-10 to \$4,561,634 in fiscal year 2010-11. Of these amounts, \$1,750,058 and \$1,664,066 were for depreciation and amortization for the fiscal years 2009-10 and 2010-11, respectively. The business-type expenses included \$1,170,149 and \$1,189,837 in Reclamation Project expenses for the fiscal years 2009-10 and 2010-11, including \$812,461 and \$849,133 in depreciation expense, respectively. The Reclamation operating expenses and capital assets are financed with contributed capital from the Reclamation Project.

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, 2011 the fund balance of the General Fund was \$1,870,583, of which the entire amount is committed for O&M and O&M Reserves. The combined Governmental Fund revenues exceeded the expenditures by

PEBBLE BEACH COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

\$1,965,022 primarily as a result of the decrease in the fire protection water system improvements expenditures. Of that amount, \$415,804 was transferred to the proprietary funds to meet the District's long-term goals identified in its Long-Term Capital Outlay Program. As a result, the combined fund balance of governmental funds increased by \$1,549,218, from \$8,096,532 in fiscal year 2009-10 to \$9,645,750 in 2010-11. The year-end fund balance included \$557,718 committed to outstanding obligations and \$9,088,032 committed 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 \$158,184, from \$39,460,909 to \$39,619,093. The net assets included \$8,988,244 in unrestricted net assets which has increased by \$743,441, or 9.0%, from the previous year. The unrestricted net assets were earmarked as follows:

- \$1,150,034 for Operations and Maintenance (O&M) expenses and O&M reserves.
- \$1,172,000 for rate stabilization reserves.
- \$6,666,210 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 the general 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 \$1,560,910 when comparing actual amounts to the final budget for the fiscal year. The actual revenues of \$8,255,938 were over the final budget by \$393,938 mainly due to: 1) receiving higher than anticipated current and prior year property taxes, penalties and interest; and 2) unanticipated one-time \$78,778 allocation from the Monterey County Service Area No. 74 EMS funds.

The actual expenditures of \$6,166,028 were less than the budgeted amount by \$1,166,972. The expenditure variances are mainly due to: 1) not using the contingencies included in the budget; 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 (more information on the District's contractual relationship with CAL FIRE is provided in Note 1 of the "Notes to the Financial Statements" section); and 3) carrying over certain operating expenses related to undergrounding of overhead utilities to the fiscal year 2011-12.

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

CAPITAL ASSETS

The District's investment in capital assets for its governmental and business-type activities amounts to \$35,214,802 (\$61,203,232 net of \$25,988,430 in accumulated depreciation and amortization) as of June 30, 2011. The capital asset investments include land, buildings, utility systems and infrastructure (wastewater lines and pump stations; wastewater treatment plant capacity rights; 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 \$976,680 or 1.6%, from \$60,226,552 to \$61,203,232. Significant additions to capital assets in fiscal year 2010-11 included:

- 2010 Wastewater Line Replacement Project (\$619,543).
- Pump Station P7 Improvements and New Force Main (\$121,955)
- Wastewater treatment plant capital outlays 1/3 PBCSD share (\$89,648).
- A 15KW Generator, installed at the Forest Lake Reservoir (\$35,081).

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

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION**

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 1,371,224	\$ 1,371,224	\$ 2,854,000	\$ 2,854,000	\$ 4,225,224	\$ 4,225,224
Construction in Progress	60,590	25,320	292,433	97,644	353,023	122,964
Buildings	2,424,708	2,546,873	1,208,595	1,248,642	3,633,303	3,795,515
Utility Systems/Infrastructure	56,486	58,746	25,726,056	26,514,725	25,782,542	26,573,471
Machinery and Equipment	960,387	1,176,000	260,323	322,070	1,220,710	1,498,070
Total Net Capital Assets	\$ 4,873,395	\$ 5,178,163	\$ 30,341,407	\$ 31,037,081	\$ 35,214,802	\$ 36,215,244

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

**PEBBLE BEACH COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

It is expected that the District will continue to be able to finance its operations and a portion of its budgeted capital outlays with its current revenues while maintaining the user service fees at similar levels in fiscal year 2011-12.

The District's main revenue source is property taxes. According to preliminary information received from the Monterey County Assessor's Office, the District's property tax revenue is expected to remain the same in fiscal year 2011-12. The small increase resulting from the Proposition 13 mandated automatic property value adjustments may be offset by the potential decrease in certain property values. Investment revenues are expected to be low due to the very low rates offered by the short-term, more secure, fixed income instruments in which governmental agencies are allowed to invest. As a result of these factors, the revenues will be budgeted conservatively in fiscal year 2011-12.

Also in fiscal year 2011-12, the District has plans to complete its final fire protection water system improvement project, Huckleberry Hill Water Storage Tank, and to start an annual project of undergrounding utilities for improved reliability and public safety on a "pay-as-you go" basis.

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 readers of the financial statements. 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, 3101 Forest Lake Road, Pebble Beach, California, 93953 or may be obtained by visiting the District's website at www.pbcisd.org.



BASIC FINANCIAL STATEMENTS



PEBBLE BEACH COMMUNITY SERVICES DISTRICT
Statement of Net Assets
June 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 9,469,539	\$ 9,564,645	\$ 19,034,184
Receivables, Net	577,556	345,166	922,722
Internal Balances	165,183	(165,183)	-
Capital Assets Not Being Depreciated	1,431,814	3,146,433	4,578,247
Capital Assets Net of Accumulated Depreciation	3,441,581	27,194,974	30,636,555
Total Assets	15,085,673	40,086,035	55,171,708
<u>LIABILITIES</u>			
Accounts Payable	127,798	44,018	171,816
Contract Services Payable	152,382	316,948	469,330
Construction in Progress Payable	4,583	8,001	12,584
Compensated Absences:			
Due within One Year	35,547	19,341	54,888
Due in More than One Year	118,174	78,634	196,808
Total Liabilities	438,484	466,942	905,426
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	4,868,812	30,333,406	35,202,218
Restricted for Outstanding Obligations	557,718	297,443	855,161
Unrestricted	9,220,659	8,988,244	18,208,903
Total Net Assets	\$ 14,647,189	\$ 39,619,093	\$ 54,266,282

See accompanying notes to the financial statements.

PEBBLE BEACH COMMUNITY SERVICES DISTRICT
Statement of Activities
For the Year Ended June 30, 2011

Functions/Programs	Program Revenues					Net (Exp.) Rev. and Changes in Net Assets
	Operating Expenses	Indirect Expenses Allocation	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:						
Governmental Activities:						
General Government	\$ 1,756,526	\$ -	\$ -	\$ -	\$ -	\$ (1,756,526)
Fire Protection & Emergency Medical	4,648,387	-	195,678	-	-	(4,452,709)
Law Enforcement	173,533	-	-	-	-	(173,533)
Project Expenditures	66,875	-	-	-	-	(66,875)
Total Governmental Activities	<u>6,645,321</u>	<u>-</u>	<u>195,678</u>	<u>-</u>	<u>-</u>	<u>(6,449,643)</u>
Business-type Activities:						
Wastewater	2,800,320	-	736,864	-	-	(2,063,456)
Solid Waste	571,477	-	545,842	-	-	(25,635)
Reclamation	1,189,837	-	-	340,704	61,644	(787,489)
Total Business-type Activities	<u>4,561,634</u>	<u>-</u>	<u>1,282,706</u>	<u>340,704</u>	<u>61,644</u>	<u>(2,876,580)</u>
Total Primary Government	<u>\$ 11,206,955</u>	<u>\$ -</u>	<u>\$ 1,478,384</u>	<u>\$ 340,704</u>	<u>\$ 61,644</u>	<u>\$ (9,326,223)</u>

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in Net Assets:			
Net (Expense) Revenue	\$ (6,449,643)	\$ (2,876,580)	\$ (9,326,223)
General Revenues:			
Property Taxes	7,641,295	2,543,718	10,185,013
Proposition 172 Public Safety Sales Tax	146,243	-	146,243
Investment Earnings	52,659	47,853	100,512
Franchise Fees	74,860	-	74,860
Miscellaneous	113,977	27,389	141,366
Transfers	(415,804)	415,804	-
Total General Revenues and Transfers	<u>7,613,230</u>	<u>3,034,764</u>	<u>10,647,994</u>
Changes in Net Assets	1,163,587	158,184	1,321,771
Net Assets, Beginning of Year	13,483,602	39,460,909	52,944,511
Net Assets, End of Year	<u>\$ 14,647,189</u>	<u>\$ 39,619,093</u>	<u>\$ 54,266,282</u>

See accompanying notes to the financial statements.

PEBBLE BEACH COMMUNITY SERVICES DISTRICT
Balance Sheet - Governmental Funds
June 30, 2011

	<u>General Fund</u>	<u>Capital Outlay Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 1,724,063	\$ 7,745,476	\$ 9,469,539
Receivables, Net:			
Property Taxes	303,183	-	303,183
Fire Service Special Tax	4,438	-	4,438
Proposition 172 Funds	146,243	-	146,243
Interest	5,167	7,435	12,602
Accounts	84,039	27,051	111,090
Due from Reclamation Fund	137,947	27,236	165,183
Total Assets	<u>2,405,080</u>	<u>7,807,198</u>	<u>10,212,278</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts Payable	100,350	27,448	127,798
Contract Services Payable	152,382	-	152,382
Construction in Progress Payable	-	4,583	4,583
Deferred Revenue	281,765	-	281,765
Total Liabilities	<u>534,497</u>	<u>32,031</u>	<u>566,528</u>
Fund Balances:			
Committed to:			
Outstanding Obligations	-	557,718	557,718
Capital Outlays/Construction Projects	-	7,217,449	7,217,449
General Operations	1,137,583	-	1,137,583
Operations and Maintenance Reserve	733,000	-	733,000
Total Fund Balances	<u>1,870,583</u>	<u>7,775,167</u>	<u>9,645,750</u>
Total Liabilities and Fund Balances	<u>\$ 2,405,080</u>	<u>\$ 7,807,198</u>	<u>\$ 10,212,278</u>

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

Total Fund Balances - Governmental Funds	\$ 9,645,750
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.	4,873,395
Certain property tax and other general fund receivables are not available to pay for current period expenditures, and therefore are not reported in the funds.	281,765
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	(153,721)
Net Assets of Governmental Activities	<u>\$ 14,647,189</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 Year Ended June 30, 2011

	<u>General Fund</u>	<u>Capital Outlay Fund</u>	<u>Total</u>
<u>REVENUES</u>			
Property Taxes	\$ 7,708,626	\$ -	\$ 7,708,626
Fire Service Special Tax	196,209	-	196,209
Proposition 172 Funds	146,243	-	146,243
Franchise Fees	74,860	-	74,860
Investment Earnings	16,023	36,636	52,659
Miscellaneous	113,977	-	113,977
Total Revenues	<u>8,255,938</u>	<u>36,636</u>	<u>8,292,574</u>
<u>EXPENDITURES</u>			
Current:			
General Government	1,592,088	-	1,592,088
Fire Protection and Emergency Medical	4,400,407	66,875	4,467,282
Law Enforcement	173,533	-	173,533
Capital Outlay	<u>-</u>	<u>94,649</u>	<u>94,649</u>
Total Expenditures	<u>6,166,028</u>	<u>161,524</u>	<u>6,327,552</u>
Excess (Deficiency) of Revenues over Expenditures	<u>2,089,910</u>	<u>(124,888)</u>	<u>1,965,022</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In (Out)	<u>(2,038,814)</u>	<u>1,623,010</u>	<u>(415,804)</u>
Total Other Financing Sources (Uses)	<u>(2,038,814)</u>	<u>1,623,010</u>	<u>(415,804)</u>
Net Change in Fund Balances	51,096	1,498,122	1,549,218
Fund Balances, Beginning of Year	<u>1,819,487</u>	<u>6,277,045</u>	<u>8,096,532</u>
Fund Balances, End of Year	<u>\$ 1,870,583</u>	<u>\$ 7,775,167</u>	<u>\$ 9,645,750</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	\$ 1,549,218
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 depreciation exceeded capital additions in the current period.	(304,768)
Certain property tax and other general fund revenues reported in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	166,772
Property tax revenues that become available and are recognized in the current year that related to prior years are not reported as revenues in the statement of activities.	(234,634)
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.	(13,001)
Change in Net Assets of Governmental Activities	<u>\$ 1,163,587</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 Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Property Taxes	\$ 7,387,500	\$ 7,387,500	\$ 7,708,626	\$ 321,126
Fire Service Special Tax	195,000	195,000	196,209	1,209
Proposition 172 Funds	147,000	147,000	146,243	(757)
Franchise Fees	75,000	75,000	74,860	(140)
Investment Earnings	27,500	27,500	16,023	(11,477)
Miscellaneous	30,000	30,000	113,977	83,977
Total Revenues	<u>7,862,000</u>	<u>7,862,000</u>	<u>8,255,938</u>	<u>393,938</u>
<u>EXPENDITURES</u>				
Current:				
General Government	1,883,000	1,883,000	1,592,088	(290,912)
Fire Protection and Emergency Medical	5,270,000	5,270,000	4,400,407	(869,593)
Law Enforcement	170,000	180,000	173,533	(6,467)
Total Expenditures	<u>7,323,000</u>	<u>7,333,000</u>	<u>6,166,028</u>	<u>(1,166,972)</u>
Excess of Revenues over Expenditures	<u>539,000</u>	<u>529,000</u>	<u>2,089,910</u>	<u>1,560,910</u>
<u>OTHER FINANCING USES</u>				
Transfers Out, Net of Transfers In	(485,000)	(475,000)	(2,038,814)	(1,563,814)
Total Other Financing Uses	<u>(485,000)</u>	<u>(475,000)</u>	<u>(2,038,814)</u>	<u>(1,563,814)</u>
Net Change in Fund Balances	54,000	54,000	51,096	(2,904)
Fund Balances, Beginning of Year	<u>1,819,487</u>	<u>1,819,487</u>	<u>1,819,487</u>	<u>-</u>
Fund Balances, End of Year	<u>\$ 1,873,487</u>	<u>\$ 1,873,487</u>	<u>\$ 1,870,583</u>	<u>\$ (2,904)</u>

See accompanying notes to the financial statements.

PEBBLE BEACH COMMUNITY SERVICES DISTRICT
Statement of Net Assets
Proprietary Funds
June 30, 2011

	Business-Type Activities - Enterprise Funds			
	Wastewater	Solid Waste	Reclamation	Total
<u>ASSETS</u>				
Current Assets:				
Cash and Cash Equivalents	\$ 9,517,676	\$ 46,969	\$ -	\$ 9,564,645
Accounts Receivable	21,031	-	188,560	209,591
Property Taxes Receivable	95,310	-	-	95,310
User Fees Receivable	14,339	14,531	-	28,870
Interest Receivable	11,395	-	-	11,395
Total Current Assets	<u>9,659,751</u>	<u>61,500</u>	<u>188,560</u>	<u>9,909,811</u>
Capital Assets:				
Land	-	-	2,854,000	2,854,000
Buildings	1,595,634	-	-	1,595,634
Utility Systems	24,226,360	-	21,539,699	45,766,059
Machinery and Equipment	1,336,334	-	135,300	1,471,634
Subtotal Capital Assets	<u>27,158,328</u>	<u>-</u>	<u>24,528,999</u>	<u>51,687,327</u>
Less Accum Deprec / Amortization	(14,872,160)	-	(6,766,193)	(21,638,353)
Construction in Progress	256,071	-	36,362	292,433
Total Capital Assets, Net	<u>12,542,239</u>	<u>-</u>	<u>17,799,168</u>	<u>30,341,407</u>
Total Assets	<u>22,201,990</u>	<u>61,500</u>	<u>17,987,728</u>	<u>40,251,218</u>
<u>LIABILITIES</u>				
Current Liabilities:				
Accounts Payable	22,644	-	21,374	44,018
Contract Services Payable	316,948	-	-	316,948
Construction in Progress Payable	8,001	-	-	8,001
Due to Governmental Fund	-	-	165,183	165,183
Compensated Absences	19,341	-	-	19,341
Total Current Liabilities	<u>366,934</u>	<u>-</u>	<u>186,557</u>	<u>553,491</u>
Noncurrent Liabilities:				
Compensated Absences	78,634	-	-	78,634
Total Noncurrent Liabilities	<u>78,634</u>	<u>-</u>	<u>-</u>	<u>78,634</u>
Total Liabilities	<u>445,568</u>	<u>-</u>	<u>186,557</u>	<u>632,125</u>
<u>NET ASSETS</u>				
Invested in Capital Assets, Net of				
Related Debt	12,534,238	-	17,799,168	30,333,406
Restricted for Outstanding Obligations	297,443	-	-	297,443
Unrestricted	8,924,741	61,500	2,003	8,988,244
Total Net Assets	<u>\$ 21,756,422</u>	<u>\$ 61,500</u>	<u>\$ 17,801,171</u>	<u>\$ 39,619,093</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, 2011

	Business-Type Activities - Enterprise Funds			
	Wastewater	Solid Waste	Reclamation	Total
Operating Revenues:				
User Service Charges	\$ 736,864	\$ 545,842	\$ -	\$ 1,282,706
Operating Reimbursements	-	-	340,704	340,704
Miscellaneous	27,389	-	-	27,389
Total Operating Revenues	<u>764,253</u>	<u>545,842</u>	<u>340,704</u>	<u>1,650,799</u>
Operating Expenses:				
Salaries and Employee Benefits	688,848	-	94,230	783,078
Contractual Services	1,031,300	544,644	-	1,575,944
Other Operating Expenses	265,239	26,833	246,474	538,546
Depreciation and Amortization	814,933	-	849,133	1,664,066
Total Operating Expenses	<u>2,800,320</u>	<u>571,477</u>	<u>1,189,837</u>	<u>4,561,634</u>
Operating Income (Loss)	<u>(2,036,067)</u>	<u>(25,635)</u>	<u>(849,133)</u>	<u>(2,910,835)</u>
Nonoperating Revenues:				
Property Taxes	2,543,718	-	-	2,543,718
Investment Earnings	47,853	-	-	47,853
Total Nonoperating Revenues	<u>2,591,571</u>	<u>-</u>	<u>-</u>	<u>2,591,571</u>
Income (Loss) Before Contributions and Transfers	555,504	(25,635)	(849,133)	(319,264)
Capital Contributions	-	-	61,644	61,644
Transfers In	390,169	25,635	-	415,804
Changes in Net Assets	945,673	-	(787,489)	158,184
Total Net Assets, Beginning of Year	<u>20,810,749</u>	<u>61,500</u>	<u>18,588,660</u>	<u>39,460,909</u>
Total Net Assets, End of Year	<u>\$ 21,756,422</u>	<u>\$ 61,500</u>	<u>\$ 17,801,171</u>	<u>\$ 39,619,093</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, 2011

	Business-Type Activities - Enterprise Funds			
	<u>Wastewater</u>	<u>Solid Waste</u>	<u>Reclamation</u>	<u>Total</u>
Cash Flows from Operating Activities:				
Cash Received for User Service Charges				
Collected on the Property Tax Rolls	\$ 739,775	\$ 548,467	\$ -	\$ 1,288,242
Cash Received for Services	20,822	-	-	20,822
Cash Received from Reclamation Project	-	-	311,753	311,753
Payments to Employees	(683,864)	-	(94,230)	(778,094)
Payments for Goods and Services	(1,242,174)	(571,477)	(254,283)	(2,067,934)
Net Cash Used in Operating Activities	<u>(1,165,441)</u>	<u>(23,010)</u>	<u>(36,760)</u>	<u>(1,225,211)</u>
Cash Flows from Noncapital Financing Activities:				
Property Taxes	2,557,746	-	-	2,557,746
Net Cash Provided by Noncapital Financing Activities	<u>2,557,746</u>	<u>-</u>	<u>-</u>	<u>2,557,746</u>
Cash Flows from Capital and Related Financing Activities:				
Capital Contributions	-	-	34,408	34,408
Transfers from Governmental Funds	390,169	25,635	63,996	479,800
Acquisition and Construction of Capital Outlays	(911,937)	-	(61,644)	(973,581)
Net Cash Provided By (Used in) Capital and Related Financing Activities	<u>(521,768)</u>	<u>25,635</u>	<u>36,760</u>	<u>(459,373)</u>
Cash Flows from Investing Activities:				
Proceeds from Investment Earnings	37,884	-	-	37,884
Net Cash Provided by Investment Activities	<u>37,884</u>	<u>-</u>	<u>-</u>	<u>37,884</u>
Net Increase in Cash and Cash Equivalents	908,421	2,625	-	911,046
Cash and Cash Equivalents, Beginning of Year	8,609,255	44,344	-	8,653,599
Cash and Cash Equivalents, End of Year	<u>\$ 9,517,676</u>	<u>\$ 46,969</u>	<u>\$ -</u>	<u>\$ 9,564,645</u>

Reconciliation of Operating Loss to Net Cash Used in Operating Activities

	Business-Type Activities - Enterprise Funds			
	<u>Wastewater</u>	<u>Solid Waste</u>	<u>Reclamation</u>	<u>Total</u>
Operating Loss	\$ (2,036,067)	\$ (25,635)	\$ (849,133)	\$ (2,910,835)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and Amortization	814,933	-	849,133	1,664,066
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	(3,655)	2,625	(28,951)	(29,981)
Increase (decrease) in accounts payable	53,621	-	(7,809)	45,812
(Increase) decrease in prepaid assets	743	-	-	743
Increase (decrease) in compensated absences	4,984	-	-	4,984
Total adjustments	<u>870,626</u>	<u>2,625</u>	<u>812,373</u>	<u>1,685,624</u>
Net Cash used in operating activities	<u>\$ (1,165,441)</u>	<u>\$ (23,010)</u>	<u>\$ (36,760)</u>	<u>\$ (1,225,211)</u>

See accompanying notes to the financial statements.



**NOTES
TO
FINANCIAL
STATEMENTS**



PEBBLE BEACH COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Pebble Beach Community Services District (District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. 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
- Undergrounding of Overhead Utilities

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 emergency medical services (EMS). 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, is fully owned by the District. In addition, the District owns a 25% equity interest in the Carmel Hill Fire Station located near the Highway One Gate in Pebble Beach. The other owners of the station are the neighboring Cypress Fire Protection District (Cypress FPD) with a 25% interest, and CAL FIRE which has a 50% interest. A fire engine and a ladder truck provide structural fire protection and EMS from the main Pebble Beach Fire Station. A fire engine located at the Carmel Hill Fire Station provides structural fire protection and EMS for the District and the Cypress FPD. Fire engines at each station are staffed with a firefighter/paramedic providing advanced life support medical services. The cost of the CAL FIRE contractual services was \$3,970,243 in the fiscal year ending June 30, 2011.

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

PEBBLE BEACH COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

operating and maintenance (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 year ended June 30, 2011, the District paid \$1,031,300, which represented 40.53% of the plant's O&M expenses. The District charges property owners a user fee 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 franchise 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 into 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 collection and disposal 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 District makes quarterly payments to CMC for the basic residential services. The cost for this service was \$544,644 for the fiscal year ended June 30, 2011. The fees for commercial and supplemental residential services are collected directly by CMC.

Recycled 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.

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 recycled water distribution system pipelines, a 2.5 million gallon storage tank, a potable water pump station, and a reclaimed water booster pump station.

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 114 million gallons of storage capacity. It is filled with recycled water during the winter months when there is excess production at the treatment plant and the stored recycled

PEBBLE BEACH COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

water is used during the summer months when the irrigation demands exceed the treatment plant's capacity. Construction of the reservoir was completed in March 2006. In fiscal year 2008-09, the outlet structure of the reservoir was modified to increase the storage capacity from 105 million gallons to 114 million gallons. The Forest Lake 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.

Since the completion of the first phase, an average of 750 acre feet of recycled water per year has been used for irrigation, replacing the use of potable water. In fiscal year 2010-11, all golf courses and certain open spaces within the District have been irrigated with recycled water 100% of the time with no use of potable water.

Undergrounding of Overhead Utilities - In fiscal year 2010-11, the District activated its latent power to convert existing overhead electric and communications facilities to underground locations. A study conducted showed that undergrounding of utility lines would increase public safety and reliability for the entire community. After obtaining the necessary approval from the Monterey County Local Agency Formation Commission (LAFCO), the District Board adopted its *Ordinance No.26* on June 24, 2011 to implement newly authorized powers to underground the utility lines. Beginning in fiscal year 2011-12, the District plans to start undergrounding the main lines incrementally and on a "pay-as-you-go" basis to provide the greatest benefit to the most residents without incurring any debt.

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 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; 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 and proprietary funds. 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 THE FINANCIAL STATEMENT
JUNE 30, 2011

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 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 60 days of the end of the current fiscal period. One exception is the Proposition 172 public safety funds which has a 90 day recognition period. Expenditures generally are recorded when a liability is incurred, as under the accrual basis of accounting. However, expenditures related to compensated absences, are recorded only when payments are made.

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 service. A portion of the operations, maintenance and capital outlay expenditures are financed from property tax revenue.
- The *Solid Waste Enterprise Fund* accounts for the activities related to solid waste services 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.

PEBBLE BEACH COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- The *Reclamation Enterprise Fund* accounts for the District's recycled water distribution activities and related operating and capital contributions from the CAWD/PBCSD Reclamation Project.

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

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, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Assets, Liabilities, Net Assets or Equity

Cash and Cash Equivalents

In order to increase 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, 2011, 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 its relative equity.

An individual fund's deposit in the pool can be liquidated at anytime and therefore is considered a "cash equivalent" 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

PEBBLE BEACH COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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”.

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.

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, 2011.

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:

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

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

PEBBLE BEACH COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

sick leave benefits of District employees as of June 30, 2011. More information on compensated absences is available in Note 8 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, on November 1st and February 1st, and become delinquent on December 10th and April 10th, respectively, at which time applicable penalties and interest are assessed. Unsecured property taxes are due on March 1st and become delinquent on August 31st.

Net Assets and Fund Equity

In the government-wide financial statements and proprietary fund financial statements, net assets are reported in three categories: invested 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). All other net assets are considered unrestricted.

Governmental Fund Financial Statements and Governmental Accounting Standards Board (GASB) 54 Disclosures

Beginning in fiscal year 2010-11, GASB 54 changes how the fund balance is reported in the **governmental fund** financial statements. Fund balance represents the difference between a fund's assets and liabilities. GASB 54 requires reporting of the governmental fund balances under five classifications, **Non-spendable, Restricted, Committed, Assigned and Unassigned**.

The fund balance of the District governmental funds are classified as "Committed" as presented on the balance sheet on Page 15. Those amounts can be only used for the identified specific purposes pursuant to constraints imposed by formal action of the District's Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of formal action it employed to previously commit those amounts.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and other funds are available, then the District applies amounts to committed fund balance followed by assigned then unassigned amounts.

PEBBLE BEACH COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District Board establishes and maintains an O&M Reserve through approval of the District's Long Term Financial Plan. The O&M Reserve is set at 10% of the current year's O&M Budget, and every year upon adoption of the final budget, the amount in the O&M Reserve will be adjusted to meet the 10% criteria by transferring the necessary amount from the General Fund. This reserve is to be used in the event of a natural disaster; or catastrophic or other unforeseen events. If the O&M Reserve is used during a fiscal year, it will be replenished to the appropriate level as soon as sufficient revenue is available.

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. 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. The budget may be amended throughout the year with the Board's authorization, as needs are identified and reported to 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. In

PEBBLE BEACH COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2011

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

accordance with GASB Statement No. 34, only the general fund budget is presented in the basic financial statements.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2011 are classified in the financial statements as follows:

Cash and cash equivalents	\$ 19,034,184
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Cash and cash equivalents as of June 30, 2011 consisted of the following:

Cash on hand	\$ 561
Deposits with financial institutions - First National Bank	41,356
Monterey County investment pool	<u>18,992,267</u>
Total cash and cash equivalents	<u>\$ 19,034,184</u>

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

The California Government Code authorizes investments in U.S. treasury obligations, U.S. Agency securities, banker's acceptances, commercial paper, negotiable certificates of deposit, repurchase agreements, corporate notes and money market funds. The District currently invests the majority of its funds in the local government investment pool administered by Monterey County. As of June 30, 2011, the investment policy and the investments of the Monterey County pool are in compliance with the California Government Code. The District staff is also authorized to invest up to \$7,000,000 in a separate custom investment portfolio to be maintained by the Monterey County Treasury outside of the Monterey County pool. Any single instrument that is purchased for the custom portfolio must be in compliance with the type, maximum maturity and maximum percentage limitations established by the Monterey County investment policy. The weighted average maturity cannot exceed three years and the investments other than obligations of the U.S. Treasury are limited to \$3,500,000 for the custom portfolio. As of June 30, 2011, the District does not have a custom portfolio kept outside the Monterey County pool.

Disclosure Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of June 30, 2011, the weighted average maturity of the Monterey County investment portfolio is 256 days.

PEBBLE BEACH COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2011

4. CASH AND CASH EQUIVALENTS (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Monterey County investment pool does not have a rating provided by a nationally recognized statistical rating organization. Approximately 92% of the investment portfolio is comprised of U.S. Treasuries, Federal Agency securities, governmental investment pools and other liquid funds. All of those assets have an investment grade rating. U.S. Treasuries are not specifically rated, but are considered the safest of all investments. The corporate debt (approximately 8%) is rated in the higher levels of investment grade. All federal agency securities have AAA ratings or they are guaranteed by the U.S. Treasury.

Concentration of Credit Risk

The Monterey County or the District investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The Monterey County pool does not include any investments by any one issuer (other than the State of California Local Agency Investment Fund and the California Asset Management Program - external governmental investment pools) that represents 5% or more of total investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the provision which requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Districts deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The District also maintains a checking account with First National Bank and uses this account as the operating account for the District. As of June 30, 2011, the District has \$41,357 on deposit with First National Bank. The deposits at First National Bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to the amount of \$250,000. The deposits are also collateralized at 110% by U.S. Treasury obligations and Municipal securities held by Wells Fargo Bank's Trust Department (trust agent).

PEBBLE BEACH COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2011

5. RECEIVABLES

Receivables at June 30, 2011 for the District's individual funds are presented below. All receivables are expected to be collected within one year.

Governmental Activities			
Receivables	General	Capital	Total
Accounts	\$ 84,039	\$ 27,051	\$ 111,090
Taxes: Property & Fire Service	307,621	-	307,621
Proposition 172	146,243	-	146,243
Interest	5,167	7,435	12,602
Net Receivables	<u>\$ 543,070</u>	<u>\$ 34,486</u>	<u>\$ 577,556</u>

Business-Type Activities				
Receivables	Wastewater	Solid Waste	Reclamation	Total
Accounts	\$ 21,031	\$ -	\$ 188,560	\$ 209,591
Taxes & Service Charges	109,649	14,531	-	124,180
Interest	11,395	-	-	11,395
Net Receivables	<u>\$ 142,075</u>	<u>\$ 14,531</u>	<u>\$ 188,560</u>	<u>\$ 345,166</u>

Deferred Revenue

In governmental funds deferred revenue arises when revenue does not meet both the "measurable" and "available" criteria. As of June 30, 2011, the following revenues reported under the "Governmental Activities" are not considered to be available to liquidate liabilities of the current period (60 days), therefore, classified as deferred revenue.

Source	General Fund
Taxes: Property & Fire Service	\$ 249,275
State Mandated Cost Reimbursements	32,490
Total Deferred Revenue	<u>\$ 281,765</u>

PEBBLE BEACH COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2011

6. INTERFUND TRANSACTIONS

The interfund receivables and payables represent cash deposited to one fund belonging to another fund. As of June 30, 2011, the District's interfund receivables and payables consist of the following:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General	\$ 137,947	\$ -
Capital Outlay	27,236	-
Reclamation	-	(165,183)
Total	<u>\$ 165,183</u>	<u>\$ (165,183)</u>

The District transfers current financial resources from one fund to another upon approval of the Board. In the fiscal year 2010-11, transfers from the General Fund to the Governmental Capital Outlay Fund (\$1,623,010) and the Wastewater Fund (\$390,169) were made 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. A transfer (\$25,635) was made from the General Fund to the Solid Waste Fund to finance a portion of the household hazardous waste collection event (\$15,635), and contributions to a regional recycling media coalition (\$5,000) and Zero Waste Recycling programs (\$5,000).

<u>Fund Transferred From</u>	<u>Funds Transferred To</u>			<u>Total</u>
	<u>Governmental Funds</u>	<u>Proprietary Funds</u>		
	<u>Capital Outlay Fund</u>	<u>Wastewater</u>	<u>Solid Waste</u>	
Governmental Funds				
General Fund	\$ 1,623,010	\$ 390,169	\$ 25,635	\$ 2,038,814
Total	<u>\$ 1,623,010</u>	<u>\$ 390,169</u>	<u>\$ 25,635</u>	<u>\$ 2,038,814</u>

PEBBLE BEACH COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2011

7. CAPITAL ASSETS

A. Capital Assets – Governmental Activities

Changes in capital assets for governmental activities for the year ended June 30, 2011 were as follows:

Governmental Activities	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Capital Assets not being depreciated					
Land	\$ 1,371,224	\$ -	\$ -	\$ -	\$ 1,371,224
Construction in Progress	25,320	49,642	-	(14,372)	60,590
Total Capital Assets not being depreciated	<u>1,396,544</u>	<u>49,642</u>	<u>-</u>	<u>(14,372)</u>	<u>1,431,814</u>
Capital Assets being depreciated					
Buildings	4,124,180	-	(4,153)	14,372	4,134,399
Infrastructure	67,784	-	-	-	67,784
Machinery & Equipment	3,622,901	45,007	(78,433)	-	3,589,475
Total Capital Assets being depreciated	<u>7,814,865</u>	<u>45,007</u>	<u>(82,586)</u>	<u>14,372</u>	<u>7,791,658</u>
Less accumulated depreciation for:					
Buildings	(1,577,307)	(136,537)	4,153	-	(1,709,691)
Infrastructure	(9,038)	(2,260)	-	-	(11,298)
Machinery & Equipment	(2,446,901)	(260,620)	78,433	-	(2,629,088)
Total accumulated depreciation	<u>(4,033,246)</u>	<u>(399,417)</u>	<u>82,586</u>	<u>-</u>	<u>(4,350,077)</u>
Net Capital Assets being depreciated	<u>3,781,619</u>	<u>(354,410)</u>	<u>-</u>	<u>14,372</u>	<u>3,441,581</u>
Total Net Capital Assets - Governmental Activities	<u>\$ 5,178,163</u>	<u>\$ (304,768)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,873,395</u>

Depreciation was charged to functions/programs of governmental activities for the year ended June 30, 2011 as follows:

Depreciation Expense	
General Government	\$ 151,437
Fire Protection & Emergency Medical Services	247,980
Total Depreciation Expense Governmental Activities	<u>\$ 399,417</u>

PEBBLE BEACH COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2011

7. CAPITAL ASSETS (Continued)

B. Capital Assets – Business-Type Activities

Changes in capital assets for business-type activities for the year ended June 30, 2011 were as follows:

Business Type Activities	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Capital Assets not being depreciated / amortized					
Land	\$ 2,854,000	\$ -	\$ -	\$ -	\$ 2,854,000
Construction in Progress	97,644	869,448	-	(674,659)	292,433
Total Capital Assets not being depreciated / amortized	2,951,644	869,448	-	(674,659)	3,146,433
Capital Assets being depreciated / amortized					
Buildings	1,580,370	15,264	-	-	1,595,634
Utility Systems	45,044,452	46,947	-	674,659	45,766,058
Machinery & Equipment	1,438,677	36,733	(3,775)	-	1,471,635
Total Capital Assets being depreciated / amortized	48,063,499	98,944	(3,775)	674,659	48,833,327
Less accumulated depreciation / amortization for:					
Buildings	(331,727)	(55,312)	-	-	(387,039)
Utility Systems	(18,529,728)	(1,510,274)	-	-	(20,040,002)
Machinery & Equipment	(1,116,607)	(98,480)	3,775	-	(1,211,312)
Total accumulated depreciation / amortization	(19,978,062)	(1,664,066)	3,775	-	(21,638,353)
Net Capital Assets being depreciated / amortized	28,085,437	(1,565,122)	-	674,659	27,194,974
Total Net Capital Assets- Business-Type Activities	\$ 31,037,081	\$ (695,674)	\$ -	\$ -	\$ 30,341,407

Depreciation was charged to functions/programs of business-type activities for the year ended June 30, 2011 as follows:

Depreciation / Amortization Expense	
Wastewater	\$ 814,933
Reclamation	849,133
Total Depreciation/Amortization Business-Type Activities	\$ 1,664,066

PEBBLE BEACH COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2011

8. LONG-TERM LIABILITIES

As of June 30, 2011, the only long-term obligation of the District was the Compensated Absences Payable as presented below.

Compensated Absences

The District's 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, 2011.

	<u>Balance</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Due within</u> <u>One Year</u>
Governmental Activities	\$ 140,720	\$ 72,944	\$ (59,943)	\$ 153,721	\$ 35,547
Business-Type Activities	92,991	43,977	(38,993)	97,975	19,341
Total	<u>\$ 233,711</u>	<u>\$ 116,921</u>	<u>\$ (98,936)</u>	<u>\$ 251,696</u>	<u>\$ 54,888</u>

9. COMMITMENTS AND CONTINGENCIES

Capital Outlay and Project Commitments

The District has a number of active projects currently underway. A list of the ongoing projects and the commitments under the related contracts as of June 30, 2011 are listed in the table below:

<u>CAPITAL OUTLAYS / PROJECTS</u>	<u>Cumulative</u> <u>Expenditures</u> <u>as of June 30, 2011</u>	<u>Remaining</u> <u>Commitment</u>
Huckleberry Hill Water Storage Tank Project	\$ 255,219	\$ 58,081
2011 Sewer Line Replacement Project	48,510	42,350
Pump Station P7 Replacement and New Force Main Project	120,297	146,711
Fire Road No. 20 Intersection Improvements	5,775	1,725
Fire Station Exercise Room Addition	16,229	3,671
Fire Engine 6621	-	494,241
Wastewater Trailer Mounted Sewer Line Rodding Machine	-	102,255
Scada Sys Software	-	6,127
Total	<u>\$ 446,030</u>	<u>\$ 855,161</u>

PEBBLE BEACH COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2011

9. COMMITMENTS AND CONTINGENCIES (Continued)

Fire Protection Water System Improvements Huckleberry Hill Water Tank Project

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 water tank project. The project includes construction of a new 800,000 gallon water storage tank near Sunset Lane to overcome a storage deficiency in the first lift zone based on Fire Department and Cal-Am requirements. On June 30, 2011, the \$58,081 balance of this contract represents an outstanding commitment of the District.

2011 Sewer Line Replacement Project

The District's annual capital improvement program includes replacement of wastewater collection lines. On February 25, 2011, the District approved a \$90,860 agreement with E2 Consulting Engineers to provide engineering services for the 2011 Sewer Line Replacement Project. The project will be constructed in the fiscal year 2011-12. On June 30, 2011, the \$42,350 balance of the engineering services contract represents an outstanding commitment of the District.

Wastewater Pump Station (P-7) Replacement and New Force Main Project

The project includes rebuilding the District's wastewater pump station P-7 located at the Pebble Beach Golf Links 18th fairway, including installation of a new force main line. On May 28, 2010, the District approved a \$162,008 agreement with E2 Consulting Engineers to provide engineering services for the Pump Station P7 and Force Main Project. On June 24, 2011, the District approved a \$105,000 agreement with Shape Incorporated to provide two submersible pumps, one mixer, and two access hatches as part of the project. On June 30, 2011, the \$41,711 balance of the engineering services contract and the \$105,000 equipment purchase agreement represent outstanding commitments of the District.

Fire Road No. 20 Intersection Improvements

The project includes design and construction to re-align the entrance of the District's Fire Road No. 20 at Spruance Road. On June 30, 2011 \$1,725 of the \$7,500 contract for final design services with Whitson Engineers represents the District's outstanding commitment for this project.

Fire Station Exercise Room Addition

The project includes a 256 square-foot addition to provide sufficient exercise space for personnel. On February 2, 2011, staff entered into an agreement for \$19,900 with the Paul Davis Partnership to provide architectural and design services for the project. On June 30, 2011, the \$3,671 balance of the agreement represents an outstanding commitment for this project.

PEBBLE BEACH COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2011

9. COMMITMENTS AND CONTINGENCIES (Continued)

Fire Engine 6621 Replacement

The eighteen year old reserve fire engine will be replaced with a new engine of 1500 gallons per minute pumping capacity. On October 29, 2010 the board approved the \$494,241 proposal submitted by Emergency One Inc. for the purchase of this engine. On June 30, 2011, the entire amount represents an outstanding commitment of the District.

Wastewater Trailer Mounted Sewer Line Rodding Machine

The FY 2010-11 budget included an appropriation to purchase a power rodding machine mounted on a trailer that will be used to remove roots and clear stoppages from wastewater lines. On March 25, 2011 the board approved the \$102,255 bid from WECO Industries, LLC. to purchase this equipment. On June 30, 2011, the entire amount represents an outstanding commitment of the District.

Scada System Software

Supervisory Control and Data Acquisition (SCADA) system alarm software (SCADAalarm) notifies the maintenance crew of wastewater pump station and reclaimed water distribution system emergencies. As of June 30, 2011, the District has a \$6,127 agreement with TESCO Controls, Inc. to replace the discontinued SCADAalarm with WIN-911 alarm software.

10. 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.

PEBBLE BEACH COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2011

10. RISK MANAGEMENT (Continued)

Based on its level of RSF, a member district may receive a refund or additional assessment annually.

The difference in conditions (DIC), dam failure liability and excess employee fidelity bonds 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 a failure of the Forest Lake Reservoir. The DIC program provides coverage for certain 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 a \$500,000 coverage with a \$100,000 deductible.

11. EMPLOYEE RETIREMENT SYSTEMS

A. Defined Benefit Pension Plan

The District' employees participate in a California Public Employees Retirement System (CalPERS) pension plan effective July 1, 2004. The employees were covered under a single-employer private pension plan (Private Plan) for their services rendered prior to July 1, 2004. The Private Plan has been terminated effective April 1, 2011. The assets of the Plan have been pro-rated among the participants on the basis of their actuarial present value of accrued benefits and distributed to their individual retirement accounts (IRAs). The Private Plan has been replaced with additional fixed annual contributions to the District Supplemental Retirement Plan (explained on Page 40) for a six-year period commencing on July 1, 2011. The amount of the additional annual contributions has been determined as \$171,387 which is the amount needed to amortize the difference between the actuarial present value of benefits under the Plan and the Plan assets over a six-year period.

Prior to FY 2010-11, the Private Plan was reported as a Fiduciary Fund of the District. The abolishment of the Plan and distribution of assets to employee IRAs removed any District responsibility for providing specific benefits or guaranteeing any investment results. Therefore, the Private Plan is no longer reported as a Fiduciary Fund of the District.

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 cost sharing 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

PEBBLE BEACH COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2011

11. EMPLOYEE RETIREMENT SYSTEMS (Continued)

participating public employers within the State of California. Benefit provisions and all other requirements are 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 2010-11, the required contribution rate was 21.51% which included an 8% contribution made by the District on behalf of its employees and 13.51% 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, 2011, the District’s annual pension cost of \$240,287 for CalPERS was equal to the District’s required and actual contributions. The required contribution was determined as part of the June 30, 2008 actuarial valuation using the entry age normal actuarial cost method.

PEBBLE BEACH COMMUNITY SERVICES DISTRICT			
California Public Employees Retirement System (CalPERS)			
Three Year Trend Information			
Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2010-11	\$ 240,287	100%	\$ -
2009-10	\$ 234,303	100%	\$ -
2008-09	\$ 226,501	100%	\$ -

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.

PEBBLE BEACH COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2011

11. EMPLOYEE RETIREMENT SYSTEMS (Continued)

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). Under the plan, an amount equal to the Social Security portion of the Federal Insurance Contribution Act (FICA) contributions is withheld from employee wages and submitted with matching employer contributions, to fund the benefits of the plan. Benefits include individual retirement investment accounts and group disability insurance. Employees manage their own individual retirement investment accounts maintained at Charles Schwab and Co. (Schwab). The District's administrative involvement is primarily limited to the remittance of monthly employee and employer contributions to Schwab and the disability insurance provider, Standard Insurance Company. The District has no responsibility for providing specific benefits, nor does it guarantee any investment results under the plan. All plan assets are the property and rights of the employees and, as such are not reflected in the accompanying basic financial statements.

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

C. Retirement Health Savings Plan:

The District has a retirement health savings plan (RHS) provided by the International City Managers Association Retirement Corporation (ICMA-RC) to assist employees with healthcare costs during their retirement. The RHS Plan allows employees to accumulate money in their own individual accounts on a tax-free basis while they are working. The RHS Plan is financed jointly by the employee and employer contributions. Employees contribute 1% of their regular salary monthly into their own individual accounts on a tax-free basis. The District's monthly contribution is equal to 2% of the total regular salaries which is equally distributed to all employees. In fiscal year 2010-11 the total employer contributions to the plan were \$22,265. The assets in the individual accounts grow tax-free. The funds accumulated can be used to pay for employees or their dependants' health insurance or medical expenses on a tax-free basis when separated from employment. The District has no responsibility for providing specific benefits, nor does it guarantee any investment results under the plan. All plan assets are the property and rights of the employees and, as such are not reflected in the accompanying basic financial statements.