

City of Placerville

Placerville, California

*Basic Financial Statements, Supplemental
Information and Independent Auditors' Report*

For the year ended June 30, 2007

C&L
Caporicci & Larson
Certified Public Accountants

CITY OF PLACERVILLE
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For the Year Ended June 30, 2007

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
of the City of Placerville
Placerville, California

We have audited the accompanying financial statements of governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Placerville, California (City), as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinions, such basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City 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 generally accepted accounting principles in the United States.

As described in Notes 1 and 4, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with GASB Statement No. 34, the City has elected to defer recording and reporting of its major general infrastructure assets acquired prior to fiscal year 2002-2003. As set forth in GASB Statement No. 34, the City at its option may record and report these major general infrastructure assets which are planned for fiscal year 2008-2009.

As discussed in Note 13 to the basic financial statements, the Placerville Public Finance Authority has defaulted on certain Revenue Bonds. The City has defaulted on certain assessment bonds issued on behalf of Improvement Districts created by property owners for a specific purpose. The City is not obligated to pay the assessment bonds with any funds other than assessments levied against the properties within those districts.

The accompanying Required Supplementary Information, such as Management's Discussion and Analysis and other information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires 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.

To the Honorable Mayor and Members of the City Council
of the City of Placerville
Placerville, California
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Supplementary Information is presented for purpose of additional analysis and is not a required part of the basic financial statements. The Supplementary Information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Capricci & Carson

Oakland, California
December 14, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Placerville we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2007. This discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the City's financial activity, identify changes in the City's financial position, and to identify any material changes in the approved operating and capital budgets.

Financial Highlights – Primary Government

- The City's net assets at the end of the year were \$47.00M, an increase of \$4.77M. The portion of the City's net assets that were unrestricted and available to meet ongoing obligations to citizens and creditors totaled \$1.77M or 3.76%.
- The governmental net assets increased by \$2.60M or 8.57% and the business-type net assets increased by \$2.17M or 18.31%.
- Program revenues from governmental activities increased \$0.89M or 19.21%. Program revenues from business-type activities increased by \$2.30M or 66.52%. General revenues, net of transfers, increased \$0.34M or 4.87%.

City Highlights

- Continued construction of the State mandated improvements to the City's Wastewater Treatment Plant, \$20.17M.
- Completed construction of the Upper Main Street Rehabilitation project which included the repavement of approximately 3,000 feet of Main Street from Bedford to Broadway, and the replacement of certain water distribution lines, sewer collection lines, storm drains, and sidewalks, \$2.34M.
- Acquired 1.84 acres of land and developed the Placerville Station II parking lot to help relieve congested parking in the downtown area, \$0.28M
- Began construction of the Canal Street drainage improvements, \$0.22M
- Continued design phase of the Blairs Lane Bridge over Hangtown Creek widening project, \$0.17M.
- Purchased and installed nine wireless pay stations which are an integral component of a new program designed to free up available parking in the downtown area, \$0.14M
- Began construction of the Bennett Drive sewer collection line rehabilitation project, \$0.15M.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. They are comprised of the *statement of net assets* and *statement of activities and changes in net assets*. The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or weakening. This statement, unlike previous financial statements prior to implementing GASB 34, combines and consolidates the governmental funds' current financial resources with capital assets and long-term obligations. The *statement of activities and changes in net assets* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., interest expense due but unpaid). Both of the above government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets, community development and recreation and parks. The business-type activities of the City include the two municipal utilities: water acquisition and delivery and wastewater collection and treatment.

Fund Financial 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. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. The fund financial statements provide detail information about each of the City's most significant funds, called *major funds*. The concept of major funds, and the determination of which are major funds, was established by GASB 34 and replaces the concept of combining like funds and presenting them in total. Instead, each *major fund* is presented individually, with all *nonmajor funds* summarized and presented in a single column.

Governmental funds. *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 statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*. The City has ten governmental funds, of which five are considered major funds for presentation purposes. Each major fund is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the City's major funds – the General Fund, the Transportation Development Fund, the Parks Development Fund, the Grants Fund, Capital Projects Fund, and Measure J Fund. Data from the other five governmental funds are combined into a single, aggregated presentation.

Proprietary Funds. The City maintains two different types of proprietary funds – *enterprise funds* and *internal service funds*. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for the two municipal utilities; water acquisition and distribution and wastewater collection and treatment. *Internal service funds* are used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its equipment operations and maintenance, stores inventory, and risk management activities. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the governmental-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The fund financial statements for the proprietary funds provide separate information for the municipal utilities. Conversely, the internal service funds are combined into a single aggregated column in the proprietary fund statements.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs.

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

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees, as well as providing a budgetary comparison schedule for the General Fund. Additional budgetary schedules for the General Fund and the combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information.

Government-Wide Statements

Statement of Net Assets:

The City's net assets at the end of the year were \$47.00M, an increase of \$4.77M. The governmental net assets increased by \$2.60M or 8.57% and the business-type net assets increased by \$2.17M or 18.31%. The increase in governmental net assets is primarily due to a \$2.65M increase in capital assets. The City and its contractors completed two capital projects as of June 30, 2007. Please see the "Capital Assets" section below for more details.

Net Assets
June 30, 2007
(amounts expressed in thousands)

	Governmental Activities		Business Type Activities		Total Primary Government	
	FY 05/06	FY 06/07	FY 05/06	FY 06/07	FY 05/06	FY 06/07
Current assets	\$ 4,130	\$ 3,838	\$ 856	\$ 3,047	\$ 4,986	\$ 6,885
Restricted Assets	6,742	6,483	7,661	6,690	14,403	13,173
Capital assets	24,256	27,361	25,390	45,809	49,646	73,170
Total assets	35,128	37,682	33,907	55,546	69,035	93,228
Current liabilities	961	1,239	1,892	2,972	2,853	4,211
Noncurrent liabilities	3,784	3,458	20,167	38,556	23,951	42,014
Total liabilities	4,745	4,697	22,059	41,528	26,804	46,225
Net assets:						
Invested in capital assets, net of related debt	22,951	26,124	5,030	7,053	27,981	33,177
Restricted	5,439	5,370	7,661	6,690	13,100	12,060
Unrestricted	1,993	1,491	(843)	275	1,150	1,766
Total net assets	\$ 30,383	\$ 32,985	\$ 11,848	\$ 14,018	\$ 42,231	\$ 47,003

Statement of Activities and Changes of Net Assets

Program revenues from governmental activities increased \$0.89M or 19.21%. This increase is primarily due to a \$0.62M overall increase in charges for services. General revenues, net of transfers, increased \$0.34M or 4.87%. This net increase is primarily due to an expected \$0.11M or 2.28% increase in local sales tax and a \$0.19M or 208.64% boost in property tax. Program revenues from business-type activities increased by \$2.30M or 66.52% which was primarily due to a one-time \$2.0M Small Communities Grant for the Waste Water Treatment Improvement Project and a \$0.90M increase in service charge revenues. Business-type revenues exceeded expenditures by \$1.50M primarily due to the \$2.0M Small Communities Grant.

Water Enterprise Fund revenues exceeded expenditures by \$0.27M which was primarily due to \$0.51M increase in service charge revenue. The City Council adopted new water rates for the first time since 1994 that became effective August 2006. The new water rates addressed the Water Enterprise Fund's short-term operating and capital replacement needs. The City is planning on developing a multi-year water revenue program to address the Water Enterprise Fund's long-term operating and infrastructure needs.

Sewer Enterprise Fund revenues exceeded expenditures by \$1.89M primarily due to the \$2.00M Small Communities Grant. The City has continued to implement the rate increases incorporated in the multi-year Waste Water Revenue Program that became effective October 2005.

Condensed Statement of Activities and Changes in Net Assets

June 30, 2007

(amounts expressed in thousands)

	Expenses		Program Revenues		Net (Expense) Revenue and Changes in Net Assets			
					Government Activities		Business-type Activities	
	FY 05/06	FY 06/07	FY 05/06	FY 06/07	FY 05/06	FY 06/07	FY 05/06	FY 06/07
<i>Governmental activities</i>								
General government	\$ 2,610	\$ 3,161	\$ 599	\$ 955	\$ (2,011)	\$ (2,206)		
Public safety	3,913	4,286	1,059	1,155	(2,854)	(3,131)		
Highways and streets	974	741	1,481	2,192	507	1,451		
Community development	534	655	427	422	(107)	(233)		
Parks and recreation	1,800	1,767	1,080	814	(720)	(953)		
Total governmental activities	9,831	10,610	4,646	5,538	(5,185)	(5,072)		
<i>Business-type activities</i>								
Water	1,225	1,297	963	1,474			(262)	177
Sewer	3,022	2,970	2,497	4,288			(525)	1,318
Total business-type activities	4,247	4,267	3,460	5,762			(787)	1,495
Total primary government	\$ 14,078	\$ 14,877	\$ 8,106	\$ 11,300				
					6,879	7,214	239	664
					1,694	2,142	(548)	2,159
					Net Assets:			
					28,689	30,383	12,396	11,848
					-	460	-	11
					28,689	30,843	12,396	11,859
					\$ 30,383	\$ 32,985	\$ 11,848	\$ 14,018

Budgetary Highlights - Current Year Impacts

- After three years of significant rate increases, the City's CalPERS (California Public Employee Retirement System) employer contributions have begun to stabilize:

Fiscal Year	Miscellaneous Plan	Public Safety	Increased Cost
2005/2006	20.82%	32.20%	\$ 235,114
2006/2007	20.68%	34.32%	\$ 24,184
2007/2008	20.44%	34.50%	\$ (6,868)

- The General Fund Budget was amended to reflect the Council approved collective bargaining agreements with all employee units including a health benefits, COLA, and class and compensation study for all non-sworn positions.
- The changes and unfavorable economic conditions did not adversely impact the *General Fund Operating Reserve* (\$1.18M).

Fund Financial Statements

Governmental Funds

The fund financial statements present financial data for the general, special revenue, capital projects and fiduciary funds. At the close of Fiscal Year 2007, the City's governmental funds reported a combined ending fund balance of \$6.91M – a decrease of \$0.55M or 7.38%.

General Fund. Total fund balance for the General Fund on June 30, 2007 was \$2.17M, an increase of \$0.10M from the prior year. Of the \$2.17M fund balance, \$1.18M is reserved for contingencies (Operating Reserve) as set by City financial policy and \$0.35M is reserved for equipment replacement. The \$1.53M in reserves accounts for 70.51% of the General Fund ending balance.

As a measure of the *General Fund's* liquidity, it may be useful to compare the fund balance for the Operating Reserve and the unreserved fund balance to total fund expenditures. The Operating Reserve and Unreserved fund balance represents 26.96% of total General Fund expenditures, net of transfers out.

Business Type Funds

The City's proprietary funds, excluding internal service funds, provide the same type of information found in the government-wide financial statements, but in more detail. As discussed in the business-type activities previously, the business-type net assets increased by \$2.17M. The increase in net assets includes the \$2.00M Small Communities Grant.

The City's Wastewater Treatment Plant has been the subject of a cease and desist order issued by the State Water Resources Control Board (SWRCB). The order requires upgrades to the City's existing facility to improve the quality of the effluent. The upgrade project has been in existence for several years. City management and its consultants have developed rate structure changes that will increase user rates by more than 200% over the next eight years. Included in the new rates are increased costs related state-mandated changes in maintenance and operations and debt service related to state-mandated plant improvement financing. The majority of the wastewater treatment plant's antiquated equipment necessitating costly repair and maintenance are being addressed in the City's \$47.10M facility upgrade and improvement project. The three-year project began construction in the spring of 2006.

Capital Assets and Debt Administration

Debt Administration

Long Term Debt - At the end of the current fiscal year, the City had \$40.92M in long term debt outstanding compared to \$22.55M last year, an \$18.37M or 81.48% net increase. The increase is largely attributed to the \$18.59M in proceeds from the 2006 State Revolving Fund Loan which is partially financing the State-mandated improvements to the Wastewater Treatment Plant. Details of all debt are included in Note 5 of the *notes to the basic financial statements*.

Capital Assets

Capital asset additions for Fiscal Year 2006/2007 include:

Governmental Activities

- Completed construction – New Downtown Parking Pay Stations (\$0.14M)
- Completed construction – Upper Main Street Rehabilitation (\$1.86M)
- Construction in progress – Placerville Station II Parking Lot (\$0.28M)
- Construction in progress – Canal Street Drainage Improvements (\$0.22M)
- Construction in progress – Blairs Lane Bridge Widening (\$0.17M)

Governmental Capital Assets

June 30, 2007

(amounts expressed in thousands)

	Balance July 1, 2006	Additions	Transfers	Prior Period Adjustments	Balance June 30, 2007
<i>Non-Depreciable Assets:</i>					
Land and improvements	\$ 12,181	\$ 225	\$ -	\$ -	\$ 12,406
Construction in progress	2,544	528	(1,171)	-	1,901
Total nondepreciable assets	<u>14,725</u>	<u>753</u>	<u>(1,171)</u>	<u>-</u>	<u>14,307</u>
<i>Depreciable Assets:</i>					
Buildings and structures	11,288	114	59	-	11,461
Machinery and equipment	2,615	394	117	-	3,126
Infrastructure	429	1,930	995	472	3,826
Total depreciable assets	<u>14,332</u>	<u>2,438</u>	<u>1,171</u>	<u>472</u>	<u>18,413</u>
	29,057	3,191	-	472	32,720
Less accumulated depreciation	<u>(4,802)</u>	<u>(546)</u>	<u>-</u>	<u>(11)</u>	<u>(5,359)</u>
Total governmental activities	<u><u>\$ 24,255</u></u>	<u><u>\$ 2,645</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 461</u></u>	<u><u>\$ 27,361</u></u>

Business Type Activities

- Completed construction – Upper Main Street Water Distribution Line and Sewer Collection Line Replacement (\$0.48M)
- Construction in progress – Wastewater Treatment Plant Improvements (\$20.17M)
- Construction in progress – Bennett Drive Sewer Collection Rehabilitation (\$0.15M)

Business-Type Capital Assets

June 30, 2007

(amounts expressed in thousands)

	Balance July 1, 2006	Additions	Transfers	Prior Period Adjustments	Balance June 30, 2007
<i>Non-depreciable Assets:</i>					
Land and improvements	\$ 2,197	\$ -	\$ -	\$ -	\$ 2,197
Construction in progress	10,059	20,455	-	-	30,514
Total nondepreciable assets	<u>12,256</u>	<u>20,455</u>	<u>-</u>	<u>-</u>	<u>32,711</u>
<i>Depreciable Assets:</i>					
Buildings and structures	17,996	61	-	-	18,057
Machinery and equipment	622	110	-	-	732
Infrastructure	43,177	478	-	11	43,666
Total depreciable assets	<u>61,795</u>	<u>649</u>	<u>-</u>	<u>11</u>	<u>62,455</u>
	74,051	21,104	-	11	95,166
Less accumulated depreciation	<u>(48,661)</u>	<u>(696)</u>	<u>-</u>	<u>-</u>	<u>(49,357)</u>
Total business-type activities	<u><u>\$ 25,390</u></u>	<u><u>\$ 20,408</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 11</u></u>	<u><u>\$ 45,809</u></u>

Other Information

The Placerville Public Financing Authority. As discussed in Note 13 of the *notes to the basic financial statements*, the Placerville Public Finance Authority has defaulted on certain Revenue Bonds. That default was the product of a default on certain assessment bonds issued by the City of Placerville on behalf of improvement districts created by the City in response to a petition by property owners for a specific purpose. The City is not obligated to pay the assessment bonds with any funds other than assessments levied against the properties within those districts.

The Authority is a separate legal entity with the Authority's Board of Directors being comprised of the City's Council Members, City Manager and Director of Finance. The Authority has accountability for all funds, the power to execute contracts, and the right to sue and be sued. Obligations and liabilities of the Authority are not general obligations of the City.

Neither the City nor the Authority has any obligation to advance its own funds toward payments to bondholders. Payments with respect to assessments secured by liens against real property benefiting from the issuance of bonds, plus any amounts remaining from the proceeds of bond issues are the sole security for payment to bondholders. In the event of default, the City is responsible for foreclosure and auction proceedings on the property.

The aggregate principal balance of the Revenue Bonds issued by the Authority outstanding at June 30, 2007, was \$1,900,720 which is not included in these accompanying basic financial statements.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all of its citizens, taxpayers, customers, investors and creditors. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City of Placerville, Director of Finance, 3101 Center Street, Placerville, CA 95667.

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**BASIC
FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

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CITY OF PLACERVILLE
Statement of Net Assets
June 30, 2007

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and investments	\$ 1,537,160	\$ 2,472,334	\$ 4,009,494
Receivables:			
Accounts	1,071,079	-	1,071,079
Interest	25,747	30,084	55,831
Utility billings, net	-	1,075,947	1,075,947
Prepaid expenses	94,441	-	94,441
Deferred charges	-	578,745	578,745
Internal balances	1,109,752	(1,109,752)	-
Total current assets	<u>3,838,179</u>	<u>3,047,358</u>	<u>6,885,537</u>
Restricted:			
Cash and investments	3,275,406	-	3,275,406
Deposits held by fiscal agents	109,020	6,379,970	6,488,990
Receivables:			
Accounts	806,952	-	806,952
Interest	20,681	-	20,681
Prepaid expenses	-	-	-
Loans	886,558	-	886,558
Grants	300,772	309,693	610,465
Other assets	1,083,497	-	1,083,497
Total restricted assets	<u>6,482,886</u>	<u>6,689,663</u>	<u>13,172,549</u>
Capital assets:			
Nondepreciable	14,307,096	32,710,507	47,017,603
Depreciable, net	13,054,099	13,098,527	26,152,626
Total capital assets	<u>27,361,195</u>	<u>45,809,034</u>	<u>73,170,229</u>
Total Assets	<u>37,682,260</u>	<u>55,546,055</u>	<u>93,228,315</u>
Liabilities:			
Current liabilities:			
Accounts payable	330,271	2,735,446	3,065,717
Payroll and related taxes payable	405,132	-	405,132
Deposits	2,259	37,105	39,364
Insurance premium payable	-	-	-
Current portion of compensated absences	431,918	-	431,918
Current portion of long-term debt	69,610	199,368	268,978
Total current liabilities	<u>1,239,190</u>	<u>2,971,919</u>	<u>4,211,109</u>
Restricted:			
Accounts payable	165,953	-	165,953
Unearned revenue	946,349	-	946,349
Total restricted liabilities	<u>1,112,302</u>	<u>-</u>	<u>1,112,302</u>
Long-term liabilities:			
Compensated absences	491,077	-	491,077
Claims payable	686,355	-	686,355
Long-term debt, net	1,167,874	38,556,281	39,724,155
Total long-term liabilities	<u>2,345,306</u>	<u>38,556,281</u>	<u>40,901,587</u>
Total Liabilities	<u>4,696,798</u>	<u>41,528,200</u>	<u>46,224,998</u>
Net Assets:			
Invested in capital assets, net of related debt	<u>26,123,711</u>	<u>7,053,385</u>	<u>33,177,096</u>
Restricted:			
Capital projects	2,263,462	6,689,663	8,953,125
Special projects and programs	3,107,122	-	3,107,122
Total restricted net assets	<u>5,370,584</u>	<u>6,689,663</u>	<u>12,060,247</u>
Unrestricted	<u>1,491,167</u>	<u>274,807</u>	<u>1,765,974</u>
Total Net Assets	<u>\$ 32,985,462</u>	<u>\$ 14,017,855</u>	<u>\$ 47,003,317</u>

CITY OF PLACERVILLE
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Contributions	
Primary government:					
Governmental activities:					
General government	\$ 3,161,445	\$ 955,268	\$ -	\$ -	\$ 955,268
Public safety	4,286,336	921,596	164,160	69,307	1,155,063
Highways and streets	741,127	152,649	294,395	1,744,886	2,191,930
Community development	654,668	362,979	59,118	-	422,097
Parks and recreation	1,766,718	813,798	-	-	813,798
Total governmental activities	10,610,294	3,206,290	517,673	1,814,193	5,538,156
Business-type activities:					
Water	1,297,069	1,474,060	-	-	1,474,060
Sewer	2,969,981	4,287,695	-	-	4,287,695
Total business-type activities	4,267,050	5,761,755	-	-	5,761,755
Total primary government	\$ 14,877,344	\$ 8,968,045	\$ 517,673	\$ 1,814,193	\$ 11,299,911

General revenues and transfers:

Taxes:

Property

Sales

Motor vehicle

Other

Total

Interest and investment earnings

Miscellaneous

Transfers

Total general revenues and transfers

Changes in net assets

Net Assets:

Beginning of year, as previously reported

Prior period adjustment (Note 14)

Beginning of year, as restated

End of year

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (2,206,177)	\$ -	\$ (2,206,177)
(3,131,273)	-	(3,131,273)
1,450,804	-	1,450,804
(232,571)	-	(232,571)
<u>(952,920)</u>	<u>-</u>	<u>(952,920)</u>
<u>(5,072,138)</u>	<u>-</u>	<u>(5,072,138)</u>
-	176,991	176,991
<u>-</u>	<u>1,317,714</u>	<u>1,317,714</u>
<u>-</u>	<u>1,494,705</u>	<u>1,494,705</u>
<u>(5,072,138)</u>	<u>1,494,705</u>	<u>(3,577,433)</u>
286,954	-	286,954
5,112,489	-	5,112,489
796,473	-	796,473
<u>635,335</u>	<u>-</u>	<u>635,335</u>
6,831,251	-	6,831,251
235,580	416,867	652,447
19,567	375,355	394,922
<u>127,952</u>	<u>(127,952)</u>	<u>-</u>
<u>7,214,350</u>	<u>664,270</u>	<u>7,878,620</u>
2,142,212	2,158,975	4,301,187
30,382,607	11,848,247	42,230,854
<u>460,643</u>	<u>10,633</u>	<u>471,276</u>
<u>30,843,250</u>	<u>11,858,880</u>	<u>42,702,130</u>
<u>\$ 32,985,462</u>	<u>\$ 14,017,855</u>	<u>\$ 47,003,317</u>

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**FUNDS
FINANCIAL STATEMENTS**

CITY OF PLACERVILLE

Balance Sheet

Governmental Funds

June 30, 2007

	Major Funds				
	General	Transportation Development	Park Development	Capital Projects	Grants
Assets:					
Cash and investments	\$ 648,680	\$ 21,209	\$ 37,216	\$ 387,767	\$ 1,182,562
Receivables:					
Accounts	1,008,976	682,000	-	14,801	-
Interest	25,747	(14,807)	460	2,461	9,500
Prepaid expenses	94,441	-	-	-	-
Due from other funds	976,269	-	8,627	52,600	-
Advances to other funds	127,870	-	-	-	-
Restricted:					
Deposits held by fiscal agents	-	-	-	109,020	-
Receivables:					
Loans	-	-	-	-	886,558
Grants	-	-	-	-	88,743
Other assets	-	-	-	-	1,083,497
Total Assets	<u>\$ 2,881,983</u>	<u>\$ 688,402</u>	<u>\$ 46,303</u>	<u>\$ 566,649</u>	\$ 3,250,860
Liabilities:					
Accounts payable	\$ 257,406	\$ 22,843	\$ -	\$ 41,558	\$ 13,256
Payroll and related taxes payable	405,132	-	-	-	-
Deposits	-	-	-	-	-
Due to other funds	46,009	33,097	-	-	-
Advances from other funds	-	400,000	-	-	-
Restricted:					
Due to other funds	-	-	-	-	-
Deferred revenue	-	-	-	-	946,349
Total Liabilities	<u>708,547</u>	<u>455,940</u>	<u>-</u>	<u>41,558</u>	<u>959,605</u>
Fund Balances (Deficit):					
Reserved	1,532,458	232,462	46,303	525,091	2,291,255
Unreserved	640,978	-	-	-	-
Total Fund Balances	<u>2,173,436</u>	<u>232,462</u>	<u>46,303</u>	<u>525,091</u>	<u>2,291,255</u>
Total Liabilities and Fund Balances	<u>\$ 2,881,983</u>	<u>\$ 688,402</u>	<u>\$ 46,303</u>	<u>\$ 566,649</u>	<u>\$ 3,250,860</u>

<u>Measure J</u>	<u>Non-Major Funds</u>	<u>Total</u>
\$ 948,395	\$ 698,257	\$ 3,924,086
67,600	42,551	1,815,928
10,092	12,975	46,428
-	-	94,441
-	13,334	1,050,830
-	-	127,870
-	-	109,020
-	-	886,558
-	212,029	300,772
-	-	1,083,497
<u>\$ 1,026,087</u>	<u>\$ 979,146</u>	<u>\$ 9,439,430</u>
\$ 251	\$ 88,045	\$ 423,359
-	-	405,132
-	2,259	2,259
-	-	79,106
-	269,772	669,772
-	-	-
-	-	946,349
<u>251</u>	<u>360,076</u>	<u>2,525,977</u>
625,927	619,070	5,872,566
<u>399,909</u>	-	<u>1,040,887</u>
<u>1,025,836</u>	<u>619,070</u>	<u>6,913,453</u>
<u>\$ 1,026,087</u>	<u>\$ 979,146</u>	<u>\$ 9,439,430</u>

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CITY OF PLACERVILLE
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2007

Total Fund Balances - Total Governmental Funds \$ 6,913,453

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in Governmental Funds Balance Sheet.

Non-depreciable	14,307,096
Depreciable	18,413,134
Less accumulated depreciation	<u>(5,359,035)</u>
	<u>27,361,195</u>

Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet.

Long-term debt - current portion - (net)	(69,610)
Long-term debt - non-current portion - (net)	(1,167,874)
Compensated absences	<u>(922,995)</u>
	<u>(2,160,479)</u>

Interest on long term debt is not accrued in the funds, but rather is recognized as an expenditure when due.

(60,939)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds that are reported with governmental activities.

932,232

Net Assets of Governmental Activities **\$ 32,985,462**

CITY OF PLACERVILLE
Statement of Revenues, Expenses and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

	Major				
	General	Transportation Development	Park Development	Capital Project	Grants
Revenues:					
Property taxes	\$ 286,954	\$ -	\$ -	\$ -	\$ -
Sales tax	4,120,874	-	-	-	-
Transient occupancy taxes	191,364	-	-	-	-
Other taxes	160,272	-	-	-	-
Franchise fees	283,699	-	-	-	-
Licenses and permits	204,620	-	-	-	-
Fines and forfeitures	584,504	-	-	-	-
Use of money and property:					
Interest earnings	89,324	(23,637)	1,230	10,886	70,175
Rentals and concessions	37,129	-	-	-	-
Intergovernmental	796,473	1,524,261	-	14,801	78,255
Charges for services	1,147,261	-	38,520	36,631	-
Grant revenue	-	-	-	-	252,784
Other revenue	483,662	-	-	-	-
Total Revenues	8,386,136	1,500,624	39,750	62,318	401,214
Expenditures:					
General government	2,753,944	-	-	175,544	-
Public safety	2,717,860	-	-	-	214,373
Highways and streets	541,509	2,231,586	-	21,774	-
Community development	525,221	-	-	14,926	94,935
Parks and recreation	1,634,585	-	6,685	1,318	-
Total Expenditures	8,173,119	2,231,586	6,685	213,562	309,308
Revenues Over (Under)					
Expenditures	213,017	(730,962)	33,065	(151,244)	91,906
Other Financing Sources (Uses):					
Proceeds of capital lease	-	-	-	-	-
Transfers in	59,388	337,460	-	170,400	-
Transfers out	(171,209)	-	(11,415)	-	-
Total Other Financing Sources (Uses)	(111,821)	337,460	(11,415)	170,400	-
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	101,196	(393,502)	21,650	19,156	91,906
Fund Balances (Deficit):					
Beginning of year	2,072,240	625,964	24,653	505,935	2,199,349
End of year	<u>\$ 2,173,436</u>	<u>\$ 232,462</u>	<u>\$ 46,303</u>	<u>\$ 525,091</u>	<u>\$ 2,291,255</u>

See accompanying Notes to Basic Financial Statements.

<u>Measure J</u>	<u>Non-Major Funds</u>	<u>Total</u>
\$ -	\$ -	\$ 286,954
991,615	-	5,112,489
-	-	191,364
-	-	160,272
-	-	283,699
-	-	204,620
-	-	584,504
39,843	47,759	235,580
-	-	37,129
-	434,811	2,848,601
8,458	161,564	1,392,434
25,000	1,954	279,738
-	-	483,662
<u>1,064,916</u>	<u>646,088</u>	<u>12,101,046</u>
9,801	-	2,939,289
1,005,883	-	3,938,116
-	738,197	3,533,066
-	-	635,082
-	50,602	1,693,190
<u>1,015,684</u>	<u>788,799</u>	<u>12,738,743</u>
<u>49,232</u>	<u>(142,711)</u>	<u>(637,697)</u>
-	-	-
-	-	567,248
-	(297,711)	(480,335)
<u>-</u>	<u>(297,711)</u>	<u>86,913</u>
<u>49,232</u>	<u>(440,422)</u>	<u>(550,784)</u>
976,604	1,059,492	7,464,237
<u>\$ 1,025,836</u>	<u>\$ 619,070</u>	<u>\$ 6,913,453</u>

City of Placerville
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes
in Fund Balance to the Government-Wide Statement of Activities and Changes in Net Assets
For the year ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds \$ (550,784)

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

Governmental funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. 3,191,697

Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in the Governmental Funds financial statements. (546,307)

Governmental funds do not report additions or retirements to long term debt. However, in the Government-wide Statement of Activities and Changes in Net Assets, the cost of those liabilities is allocated to the related departments.

Compensated absences	(40,980)
Capital Lease	60,580
Energy Commission Loan, net	<u>5,721</u>
	<u>25,321</u>

Interest on long term debt is not accrued in the funds, but rather is recognized as an expenditure when due. 3,306

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net (expense) of the internal service funds is reported with governmental activities. 18,979

Change in Net Assets of Governmental Activities \$ 2,142,212

CITY OF PLACERVILLE
Statement of Net Assets
All Proprietary Funds
June 30, 2007

	Major Funds			Governmental Activities Internal Service Funds
	Water	Sewer	Total	
Assets:				
Current assets:				
Cash and investments	\$ 48,752	\$ 2,423,582	\$ 2,472,334	\$ 888,480
Cash with fiscal agent	23,989	6,355,981	6,379,970	-
Receivables:				
Accounts	-	-	-	62,102
Interest	5,136	24,948	30,084	-
Utility billings, net	434,913	641,034	1,075,947	-
Grants	70,964	238,729	309,693	-
Deferred charges	8,925	569,820	578,745	-
Due from other funds	-	22,892	22,892	138,028
Advances to other funds	-	550,000	550,000	541,902
Total current assets	<u>592,679</u>	<u>10,826,986</u>	<u>11,419,665</u>	<u>1,630,512</u>
Capital assets:				
Nondepreciable:				
Land and improvements	227,579	1,969,327	2,196,906	-
Construction in progress	497,331	30,016,270	30,513,601	-
Depreciable:				
Buildings and structures	4,020,142	14,037,122	18,057,264	-
Machinery and equipment	105,636	626,922	732,558	-
Infrastructure	21,059,277	22,606,018	43,665,295	-
Accumulated depreciation	(20,856,349)	(28,500,241)	(49,356,590)	-
Total capital assets	<u>5,053,616</u>	<u>40,755,418</u>	<u>45,809,034</u>	<u>-</u>
Total Assets	<u>5,646,295</u>	<u>51,582,404</u>	<u>57,228,699</u>	<u>1,630,512</u>
Liabilities:				
Current liabilities:				
Accounts payable	85,924	2,649,522	2,735,446	11,925
Deposits	34,532	2,573	37,105	-
Due to other funds	436,072	696,572	1,132,644	-
Current portion of long-term debt	14,009	185,359	199,368	-
Total current liabilities	<u>570,537</u>	<u>3,534,026</u>	<u>4,104,563</u>	<u>11,925</u>
Long-term liabilities:				
Claims payable	-	-	-	686,355
Advances from other funds	550,000	-	550,000	-
Long-term debt, net	248,423	38,307,858	38,556,281	-
Total long-term liabilities	<u>798,423</u>	<u>38,307,858</u>	<u>39,106,281</u>	<u>686,355</u>
Total Liabilities	<u>1,368,960</u>	<u>41,841,884</u>	<u>43,210,844</u>	<u>698,280</u>
Net Assets:				
Invested in capital assets, net of related debt	4,791,184	2,262,201	7,053,385	-
Unrestricted	(513,849)	7,478,319	6,964,470	932,232
Total Net Assets	<u>\$ 4,277,335</u>	<u>\$ 9,740,520</u>	<u>\$ 14,017,855</u>	<u>\$ 932,232</u>

CITY OF PLACERVILLE
Statement of Revenues, Expenses and Changes in Net Assets
All Proprietary Funds
For the Year Ended June 30, 2007

	Major Funds			Governmental Activities Internal Service Funds
	Water	Sewer	Total	
Operating Revenues:				
Service charges	\$ 1,453,206	\$ 2,271,903	\$ 3,725,109	\$ 523,508
Other revenues	20,854	15,792	36,646	-
Total Operating Revenues	<u>1,474,060</u>	<u>2,287,695</u>	<u>3,761,755</u>	<u>523,508</u>
Operating Expenses:				
General and administrative	253,361	261,576	514,937	545,569
Maintenance and operation	828,382	2,108,098	2,936,480	-
Depreciation	201,945	493,950	695,895	-
Total Operating Expenses	<u>1,283,688</u>	<u>2,863,624</u>	<u>4,147,312</u>	<u>545,569</u>
Operating Income (Loss)	<u>190,372</u>	<u>(575,929)</u>	<u>(385,557)</u>	<u>(22,061)</u>
Nonoperating Revenues and (Expenses):				
Grants	-	2,000,000	2,000,000	-
Connection fees	185,177	190,178	375,355	-
Amortization expense	-	(21,105)	(21,105)	-
Interest earnings	9,988	406,879	416,867	-
Interest expense	(13,381)	(85,252)	(98,633)	-
Total Nonoperating Revenues	<u>181,784</u>	<u>2,490,700</u>	<u>2,672,484</u>	<u>-</u>
Income (Loss) Before Transfers	372,156	1,914,771	2,286,927	(22,061)
Transfers out	(101,168)	(26,784)	(127,952)	41,040
Total Transfers	<u>(101,168)</u>	<u>(26,784)</u>	<u>(127,952)</u>	<u>41,040</u>
Net Income (Loss)	270,988	1,887,987	2,158,975	18,979
Net Assets (Deficit):				
Beginning of year, as previously reported	4,006,347	7,841,900	11,848,247	913,253
Prior period adjustment (Note 14)	-	10,633	10,633	-
Beginning of year, as restated	4,006,347	7,852,533	11,858,880	913,253
End of year	<u>\$ 4,277,335</u>	<u>\$ 9,740,520</u>	<u>\$ 14,017,855</u>	<u>\$ 932,232</u>

CITY OF PLACERVILLE
Statement of Cash Flows
All Proprietary Funds
For the Year Ended June 30, 2007

	Major Funds			Governmental Activities Internal Service Funds
	Water	Sewer	Total	
Cash Flows From Operating Activities:				
Cash received from customers and users	\$ 1,291,354	\$ 1,937,062	\$ 3,228,416	\$ 498,565
Cash paid to suppliers	(629,561)	209,506	(420,055)	(553,408)
Cash paid to employees	(508,805)	(1,173,119)	(1,681,924)	-
Net Cash Provided (Used) by Operating Activities	<u>152,988</u>	<u>973,449</u>	<u>1,126,437</u>	<u>(54,843)</u>
Cash Flows From Noncapital Financing Activities:				
Interfund transfers, net	(101,168)	(26,784)	(127,952)	41,040
Interfund loans, net	-	-	-	(541,902)
Decrease in claims payable	-	-	-	12,766
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(101,168)</u>	<u>(26,784)</u>	<u>(127,952)</u>	<u>(488,096)</u>
Cash Flows From Capital and Related Financing Activities:				
Proceeds from 2006 SRF Loan	-	18,589,505	18,589,505	-
Grants	-	2,000,000	2,000,000	-
Capital asset purchases	(202,190)	(20,901,662)	(21,103,852)	-
Capital improvement fees	185,177	190,178	375,355	-
Principal payments on long-term debt	(13,674)	(180,695)	(194,369)	-
Interest paid	(13,381)	(85,252)	(98,633)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(44,068)</u>	<u>(387,926)</u>	<u>(431,994)</u>	<u>-</u>
Cash Flows from Investing Activities:				
Interest received	4,651	382,282	386,933	-
Net Cash Provided (Used) by Investing Activities	<u>4,651</u>	<u>382,282</u>	<u>7,898,880</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	12,403	941,021	953,424	(542,939)
Cash and Cash Equivalents:				
Beginning of year	60,338	7,838,542	7,898,880	1,431,419
End of year	<u>\$ 72,741</u>	<u>\$ 8,779,563</u>	<u>\$ 8,852,304</u>	<u>\$ 888,480</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating income (loss)	\$ 190,372	\$ (575,929)	\$ (385,557)	\$ (22,061)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	201,945	493,950	695,895	-
Changes in current assets and liabilities:				
Receivables	(183,732)	(350,633)	(534,365)	(120,351)
Due to other funds	(34,492)	311,324	276,832	-
Accounts payable	(22,131)	1,094,737	1,072,606	(7,839)
Deposits	-	-	-	-
Claims payable	-	-	-	-
Total adjustments	<u>(38,410)</u>	<u>1,549,378</u>	<u>1,510,968</u>	<u>(128,190)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 151,962</u>	<u>\$ 973,449</u>	<u>\$ 1,125,411</u>	<u>\$ (150,251)</u>

CITY OF PLACERVILLE

Statement of Net Assets

Fiduciary Funds

June 30, 2007

	PFA Agency Funds	Other Agency Funds	Total
Assets:			
Cash and investments	\$ 1,045,505	\$ 542,666	\$ 1,588,171
Receivables:			
Accounts	19,117	47,556	66,673
Interest	12,345	6,354	18,699
Total Assets	<u>\$ 1,076,967</u>	<u>\$ 596,576</u>	<u>\$ 1,673,543</u>
Liabilities:			
Accounts payable	-	211,996	211,996
Deposits	27,906	384,580	412,486
Due to bondholders	1,049,061	-	1,049,061
Total Liabilities	<u>\$ 1,076,967</u>	<u>\$ 596,576</u>	<u>\$ 1,673,543</u>

**NOTES TO BASIC
FINANCIAL STATEMENTS**

CITY OF PLACERVILLE

Notes to Basic Financial Statements For the Year Ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Placerville, California, (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Boards (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Reporting Entity

The City of Placerville, California (City) was incorporated in 1854, as a municipal corporation operating under the general laws of the State of California. The City operates under a Council-Manager form of government and provides services including general government, public works, public safety, water, sewer, and parks and recreation. Control or dependence is determined on the basis of budget adoption, selection of governing authority and designation of management, outstanding debt secured by revenues or general obligations of the City and ability to significantly influence operations.

The financial reporting entity, as defined by the Governmental Accounting Standards Board (GASB), consists of the primary government, the City, organizations for which the primary government is financially accountable, and any other organization for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The City Council acts as the governing body and is able to impose its will on the following organization, establishing financial accountability:

Redevelopment Agency of the City of Placerville (Agency) is a separate governmental entity created to prepare and carry out plans for improvement, rehabilitation and redevelopment of blighted areas within the City. City Council members, in separate session, serve as the governing board of the Agency, and all accounting and administrative functions are performed by the City. The financial activity of the Agency has been blended in the City's accompanying basic financial statements.

As a result, this organization is considered a component unit of the City and is included within the basic financial statements of the City using the blended method. The separate financial statements of this component unit can be obtained from the City's Finance Department.

All entities included in this financial statement maintain June 30 as their fiscal year-end.

B. Government-wide Financial Statements

The basic financial statements include both Government-Wide (based on the City as a whole) and Fund Financial Statements. While the previous reporting model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on either the City as a whole or major individual funds (within the Fund Financial Statements). Major Funds are funds whose revenues, expenditures or expenses, assets, or liabilities are at least ten percent of the corresponding totals for all Governmental or Enterprise Funds and at least 5 percent of the aggregate amount for all Governmental and Enterprise Funds for the same item. The General Fund is always a Major Fund and any other government or enterprise fund may be reported as a Major Fund if the government believes that fund is particularly important to financial statement users.

The Government-Wide Financial Statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. 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 support.

CITY OF PLACERVILLE

Notes to Basic Financial Statements For the Year Ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Government-wide Financial Statements, Continued

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 specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included in program revenues are reported 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 Enterprise Funds are reported as separate columns in the Fund Financial Statements.

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 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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded in the accounting period in which the related liability is incurred.

Property taxes, special assessments, sales tax, licenses, intergovernmental revenues, investment earnings, charges for services and fines and penalties associated with the current fiscal year are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal year. Property taxes attach as an enforceable lien on property. Secured and unsecured property taxes are levied on July 1. The unsecured and secured property tax lien date is January 1. Unsecured property taxes become delinquent on August 31. Secured property taxes are payable in two installments, on November 1 and February 1 of each year, and become delinquent on December 10 and April 10, respectively. The County of El Dorado, California (County) bills and collects the property taxes and remits them to the City according to a payment schedule established by the County. City property tax revenues are recognized when received in cash except at year-end when they are accrued pursuant to the modified accrual basis of accounting. The County is permitted by State law to levy property taxes at 1% of full market value (at time of purchase) and can increase property assessed value no more than 2% per year.

CITY OF PLACERVILLE

Notes to Basic Financial Statements For the Year Ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Transportation Development Special Revenue Fund is used to account for revenues and expenditures associated with the administration of the Transportation Development Act Funds.

The Park Development Special Revenue Fund is used to account for revenues and expenditures associated with the administration of the City's park programs and activities.

The Grants Special Revenue Fund is used to account for revenues and expenditures associated with the administration of various Federal and State grant programs.

The Measure J Special Revenue Fund is used to account for revenues and expenditures associated with the administration of the 0.25% sales tax add to supplement the City's police services.

The Capital Project Fund is used for projects carried out within the City.

The government reports the following major proprietary funds:

The Water System Fund is used for the operation and maintenance of a water system consisting of acquisition, distribution pipeline, and elevated storage tanks.

The Wastewater System Fund is responsible for the treatment of industrial and domestic wastewater. The fund collects all user fees and disburses all expenditures for this purpose. The fund also collects fees resulting from new growth. These funds will be used in the future to expand capacity of the wastewater treatment plant required due to growth.

Additionally, the government reports the following fund types:

Internal Service Funds are used to account for services provided to other departments of the government, or to other governments, on a cost reimbursement basis. The City has Internal Service Funds for Workers' Compensation Insurance, Liability Insurance, and Fleet Replacement.

The Agency Funds are used to account for resources held by the government in a purely custodial capacity.

CITY OF PLACERVILLE

Notes to Basic Financial Statements For the Year Ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

Certain eliminations have been made as prescribed by GASB Statement No. 34 for interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between governmental activities and business-type activities, which are presented as internal balances and eliminated in the total governmental column. In the Statement of Activities, internal service fund transactions have been eliminated. However, transactions between governmental and business-type activities have not been eliminated.

Amounts reported as program revenues include 1) charges to customers for services, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. 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 nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary and internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, to the business type activities, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the committee on Accounting Procedure. The City applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

D. Use of Restricted and Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

E. Cash, Cash Equivalents, and Investments

The City pools cash resources from all funds in order to facilitate the management of cash. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms.

For purposes of reporting cash flows, the City considers each fund's share in the cash and investments pool to be cash and cash equivalents.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No. 3)*, certain disclosure requirements for Deposits and Investment Risks were made in the following areas:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentrations of Credit Risk

CITY OF PLACERVILLE

Notes to Basic Financial Statements For the Year Ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Cash, Cash Equivalents, and Investments, Continued

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The City participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF) which has invested a portion of the pooled funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to change in interest rates.

F. Receivables

All receivables are shown net of an allowance for doubtful accounts. Service charges revenues (water, sewer and refuse collection) are recorded as billed to customers on a cyclical basis. All utility customers are billed bi-monthly.

G. Interfund Balances/Internal Balances

All other outstanding balances between funds are reported as due to and due from other funds. These are generally repaid within the following fiscal year.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the Government-Wide Financial Statements as "internal balances."

H. Compensated Absences

Amounts of vested or accumulated vacation, sick leave, compensatory time, floating holidays, management leave, and related benefits on such compensation that are not expected to be liquidated with expendable available financial resources are reported in the General Long-Term Debt Account Group. No expenditure is reported for these amounts.

I. Capital Assets

Capital assets, which include land, buildings, improvements, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities in the Government-Wide Financial Statements. Capital assets are recorded at historical cost or estimated historical cost if historical cost is not available. Donated assets are valued at their estimated fair value on the date donated. City policy has set the capitalization thresholds for reporting capital assets at the following:

General capital assets	\$	5,000
Infrastructure capital assets		100,000

CITY OF PLACERVILLE

Notes to Basic Financial Statements For the Year Ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. Capital Assets, Continued

Depreciation has been provided on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
General Capital Assets:	
Buildings, Improvements	40
Improvements, other than Buildings	25
Furniture and Fixtures	5
Machinery and Equipment	5
Vehicles	5
Infrastructure:	
Water/Sewer Lines	25
Streets	40

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with GASB Statement No. 34, the City has elected to defer recording and reporting of its major general infrastructure assets acquired prior to fiscal year 2002-2003. Recording and reporting by the City of these major general infrastructure assets is planned by fiscal year 2008-2009.

Interest accrued during capital assets construction, if any, is capitalized for the business-type and proprietary funds as part of the asset cost. For fiscal year ended June 30, 2007, interest was capitalized in the amount of \$800,662.

J. Deferred and Unearned Revenue

In the Government-Wide Financial Statements, unearned revenue is recognized for transactions for which revenue has not yet been earned. Typical transactions recorded as unearned revenues in the Government-Wide Financial Statements are long-term assessments, long-term loans receivable, and prepaid charges for services.

In the Fund Financial Statements, deferred revenue is recorded when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. The City records deferred revenue for transactions for which revenues have not been earned, or for which funds are not available to meet current financial obligations. Typical transactions for which deferred revenue is recorded are grants received but not yet earned or available, interest on interfund advances receivable, long-term assessments and loans receivable.

K. Long-Term Liabilities

In the Government-Wide Financial Statements and Proprietary Fund Financial Statements the long-term debt and other financed obligations are reported as liabilities in the appropriate activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are reported as expenditures.

CITY OF PLACERVILLE

Notes to Basic Financial Statements For the Year Ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

K. Long-Term Liabilities, Continued

In the Fund Financial Statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as expenditures.

L. Net Assets and Fund Equity

Government-Wide Financial Statements

Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

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

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

Fund Financial Statements

Fund Equity – Reservations and designations of fund balances of governmental funds and unrestricted net assets of proprietary funds are created to either satisfy legal covenants, including State laws, that require a portion of the fund equity be segregated or identify the portion of the fund equity not available for future expenditures.

M. Use of Estimates

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

2. CASH AND INVESTMENTS

The City maintains a cash and investment pool, which includes cash balances and authorized investments of all funds, which the City invests to enhance interest earnings. The pooled interest earned is allocated to the funds quarterly, based on average daily cash and investment balances in these funds.

A. Cash Deposits

At June 30, 2007, the carrying amount of the City’s deposits was \$3,930,301. Bank balances before reconciling items were \$563,250 at that date, the total amount of which was collateralized or insured with securities held by the pledging financial institutions in the City’s name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the City’s cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City’s name.

CITY OF PLACERVILLE

Notes to Basic Financial Statements For the Year Ended June 30, 2007

2. CASH AND INVESTMENTS, Continued

A. Cash Deposits, Continued

According to California law, the market value of pledged securities with banking institutions must equal at least 110% of the City's cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total cash deposits. The City may waive collateral requirements for cash deposits, which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation. The City, however, has not waived the collateralization requirements.

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash and investments is allocated on a quarterly basis to the various funds based on average daily cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

B. Investments

The City is authorized by State statutes and in accordance with the City's Investment Policy (Policy) to invest in the following:

- U.S. Treasury Securities
- U.S. Government Federal Agencies
- Certificates of Deposit
- Bankers Acceptances
- Commercial Paper (Corporations)
- Medium-Term Corporate Notes
- Repurchase Agreements collateralized by U.S. Securities or U.S. Government Federal Agencies
- California Local Agency Investment Fund (LAIF)
- U.S. Government Mortgage Pass-Through Securities
- Collateralized Mortgage Obligations (CMOs)
- Asset-Backed Securities (ABS)
- Money Market Mutual Funds
- Passbook Savings and Demand Deposits Accounts

The Policy, in addition to State statutes, establishes that funds on deposit in banks must be federally insured or collateralized and investments shall (1) have maximum maturity not to exceed five years, (2) be laddered and based on cash flow forecasts; and (3) be subject to limitations to a certain percent of the portfolio for each of the authorized investments. The City's investments comply with the established policy.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Pools*, investments were stated at fair value using the aggregate method in all funds and component units, resulting in the following investment income:

CITY OF PLACERVILLE

Notes to Basic Financial Statements For the Year Ended June 30, 2007

2. CASH AND INVESTMENTS, Continued

B. Investments, Continued

Realized gain/(loss) on matured/ sold investments	\$	-
Unrealized gain/(loss) in changes in fair value of investments		(2,327)
Net gain/(loss)		(2,327)
Interest income		341,994
Total investment income	\$	339,667

The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year that matured or were called/sold in the current year were included as a change in the fair value of investments reported in the prior year(s) and the current year.

The City's portfolio value fluctuates in an inverse relationship to any change in interest rate. Accordingly, if interest rates rise, the portfolio value will decline. If interest rates fall, the portfolio value will rise.

In accordance with GASB Statement No. 31, the portfolio, for year-end reporting purposes, is treated as if it were all sold. Therefore, fund balance reflects the portfolio's change in value. These portfolio value changes are unrealized unless sold. The City's policy is to buy and hold investments until their maturity dates.

Cash and Investments with Fiscal Agent. The Cash and Investments with Fiscal Agents in the amount of \$6,488,990 include certain amounts which are held by fiscal agents to be used only for specific capital outlay, payments of certain longterm debt and maintaining required reserves. These funds have been invested only as permitted by specific State statutes governing their investment or applicable City ordinance, resolution, or bond indenture.

C. Summary of Cash and Investments

The following is a summary of cash and investments at June 30, 2007:

	Government-Wide Statement of Net Assets			Fiduciary Funds	
	Governmental Activities	Business Activities	Total	Statement of Net Assets	Total
	Cash and investments	\$ 1,537,160	\$ 2,472,334	\$ 4,009,494	\$ 1,588,171
Restricted cash and investments	\$ 3,275,406	\$ -	\$ 3,275,406	\$ -	\$ 3,275,406
Cash with fiscal agent	\$ 109,020	\$ 6,379,970	\$ 6,488,990	\$ -	\$ 6,488,990

CITY OF PLACERVILLE

Notes to Basic Financial Statements For the Year Ended June 30, 2007

2. CASH AND INVESTMENTS, Continued

C. Summary of Cash and Investments, Continued

Deposits and investments were categorized as follows at June 30, 2007:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years) 1 year or less</u>
Cash:		
Cash Deposits	\$ 480,685	\$ 480,685
Petty Cash	2,655	2,655
Total cash:	483,340	483,340
Investments:		
Local Agency Investment Funds	5,114,325	5,114,325
Total investments	5,114,325	5,114,325
Total cash and investments	\$ 5,597,665	\$ 5,597,665
Restricted Cash:		
Cash Deposits	\$ 3,275,406	\$ 3,275,406
Total restricted cash:	\$ 3,275,406	\$ 3,275,406
Cash with Fiscal Agents:		
Money Market Funds	\$ 6,488,990	\$ 6,488,990
Total cash with fiscal agents	\$ 6,488,990	\$ 6,488,990

D. Risk Disclosures

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy provides that final maturities of securities cannot exceed five years. Specific maturities of investments depend on liquidity needs. At June 30, 2007, the City's pooled cash and investments had the following maturities:

<u>Maturity</u>	<u>Percentage of Investment</u>
Less than one year	100%

Credit Risk: It is the City's policy that commercial paper have a rating of "A-1" or higher by a nationally recognized statistical rating organization (NRSRO) and with a maturity date not exceeding 270 days from the date of purchase. Medium-term notes, with a final maturity not exceeding four years from the date of purchase, must have a rating of AA or the equivalent by a NRSRO. Medium-term notes with a final maturity exceeding four years from the date of purchase shall be rated at least AAA or the equivalent by a NRSRO at the time of purchase.

According to the City's investment policy, the aggregate investment in medium-term notes will not exceed 10% of the City's total portfolio. Federal instrumentalities must have a rating of AAA or the equivalent by a NRSRO at the time of

CITY OF PLACERVILLE

Notes to Basic Financial Statements For the Year Ended June 30, 2007

2. CASH AND INVESTMENTS, Continued

D. Risk Disclosures, Continued

purchase. The Local Agency Investment Fund (LAIF), administered by the State of California, has a separate investment policy, governed by Government Code Sections 16480-16481.2, that provides credit standards for its investments.

The City's investments are only in Local Agency Investment Fund which is not rated by a NRSRO.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are held by the counterparty. All of the City's investments in securities are held in the name of the City. The City's custodial agreement policy prohibits counterparties holding securities not in the City's name.

E. Fair Value of Investments

GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, requires that the City's investments be carried at fair market value instead of cost. Accordingly, the City adjusts the carrying value of its investments to reflect their fair value at each fiscal year-end and the effects of these adjustments are included in income for that fiscal year. Changes in value in the fiscal year ended June 30, 2007 from June 30, 2006, amounted to an unrealized loss of \$2,327.

F. Investments in Local Agency Investment Fund

The City's investments with Local Agency Investment Funds (LAIF) at June 30, 2007, included a portion of the pooled funds invested in Structured Notes and Asset-Backed Securities. These investments included the following:

Structured Notes are debt securities (other than asset-backed securities) whose cash-flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMO's) or credit card receivables.

As of June 30, 2007, the City had \$5,114,325 invested in LAIF, which had invested 3.466% of the pooled investment funds in Structured Notes and Asset-Backed Securities. The LAIF fair value factor of 0.999545022 was used to calculate the fair value of the investments in LAIF.

CITY OF PLACERVILLE

Notes to Basic Financial Statements For the Year Ended June 30, 2007

3. INTERFUND TRANSACTIONS

A. Fund Financial Statements

Due To, Due From

At June 30, 2007, the City had the following short-term interfund receivables and payables:

Due To	Due From				
	Governmental Activities		Business-Type Activities		
	General Fund	Transportation Development	Water	Sewer	Total
<i>Governmental Activities:</i>					
General Fund	\$ -	\$ 24,469	\$ 334,904	\$ 616,896	\$ 976,269
Park Development	-	8,628	-	-	8,628
Grants	-	-	-	-	-
Capital Project	-	-	25,600	27,000	52,600
Non-Major	-	-	6,667	6,667	13,334
<i>Business-Type Activities:</i>					
Sewer	-	-	22,892	-	22,892
Internal Service Fund	46,009	-	46,009	46,009	138,027
Totals	\$ 46,009	\$ 33,097	\$ 436,072	\$ 696,572	\$ 1,211,750

Transfers

At June 30, 2007, the City had the following transfers:

Transfers Out	Transfers In						
	Governmental Activities				Business-Type Activities		
	General	Transportation	Capital Projects	Non-Major	Sewer	Internal Service Fund	Total
<i>Governmental Activities:</i>							
General	\$ -	\$ -	\$ 90,200	\$ 35,000	\$ -	\$ 46,009	\$ 171,209
Park Development	-	11,415	-	-	-	-	11,415
Non-Major	50,000	326,045	-	-	30,000	-	406,045
<i>Business-Type Activities:</i>							
Water	-	-	25,600	6,667	22,892	46,009	101,168
Sewer	-	-	27,000	6,667	-	46,009	79,676
<i>Internal Service Funds</i>	9,388	-	27,600	60,000	-	-	96,988
Total	\$ 59,388	\$ 337,460	\$ 170,400	\$ 108,334	\$ 52,892	\$ 138,027	\$ 866,501

CITY OF PLACERVILLE

Notes to Basic Financial Statements For the Year Ended June 30, 2007

4. CAPITAL ASSETS

A. Government-Wide Financial Statements

At June 30, 2007, the City's capital assets consisted of the following:

	Government Activities	Business-Type Activities	Total
<i>Non-Depreciable Assets:</i>			
Land and improvements	\$ 12,405,684	\$ 2,196,906	\$ 14,602,590
Construction in process	1,901,412	30,513,601	32,415,013
Total nondepreciable assets	<u>14,307,096</u>	<u>32,710,507</u>	<u>47,017,603</u>
<i>Depreciable Assets:</i>			
Buildings and structures	11,461,154	18,057,264	29,518,418
Machinery and equipment	3,126,459	732,559	3,859,018
Infrastructure	3,825,521	43,665,295	47,490,816
	<u>18,413,134</u>	<u>62,455,118</u>	<u>80,868,252</u>
Less accumulated depreciation	<u>(5,359,035)</u>	<u>(49,356,590)</u>	<u>(54,715,625)</u>
Total depreciable assets, net	<u>13,054,099</u>	<u>13,098,528</u>	<u>26,152,627</u>
Total capital assets	<u><u>\$ 27,361,195</u></u>	<u><u>\$ 45,809,035</u></u>	<u><u>\$ 73,170,230</u></u>

As explained in Note 1, the City implemented new GASB pronouncements as related to capital assets. In fiscal year ended June 30, 2007, the City counted, valued and reported its capital assets, including infrastructure for its business-type activities, as shown in the following tables. However, in accordance with GASB Statement No. 34, the City has elected to defer accounting and reporting of its major general infrastructure assets acquired before fiscal year 2002-2003 which is planned by fiscal year 2008-2009. The following is a summary of capital assets for governmental activities:

	Balance July 1, 2006	Additions	Transfers	Prior Period Adjustments (Note 14)	Balance June 30, 2007
<i>Non-Depreciable Assets:</i>					
Land and improvements	\$ 12,180,986	\$ 224,698	\$ -	\$ -	\$ 12,405,684
Construction in progress	2,543,974	528,279	(1,170,841)	-	1,901,412
Total Nondepreciable assets	<u>14,724,960</u>	<u>752,977</u>	<u>(1,170,841)</u>	<u>-</u>	<u>14,307,096</u>
<i>Depreciable Assets:</i>					
Buildings and structures	11,288,368	114,021	58,765	-	11,461,154
Machinery and equipment	2,614,551	394,442	117,466	-	3,126,459
Infrastructure	428,848	1,930,257	994,610	471,806	3,825,521
Total depreciable assets	<u>14,331,767</u>	<u>2,438,720</u>	<u>1,170,841</u>	<u>471,806</u>	<u>18,413,134</u>
Less accumulated depreciation	<u>(4,801,565)</u>	<u>(546,307)</u>	<u>-</u>	<u>(11,163)</u>	<u>(5,359,035)</u>
Total Depreciable assets, net	<u>9,530,202</u>	<u>1,892,413</u>	<u>1,170,841</u>	<u>460,643</u>	<u>13,054,099</u>
Total Governmental activities	<u><u>\$ 24,255,162</u></u>	<u><u>\$ 2,645,390</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 460,643</u></u>	<u><u>\$ 27,361,195</u></u>

CITY OF PLACERVILLE

Notes to Basic Financial Statements For the Year Ended June 30, 2007

4. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

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

General government	\$	284,200
Public safety		157,820
Highways and streets		67,431
Parks and recreation		<u>36,856</u>
Total	\$	<u>546,307</u>

The following is a summary of capital assets for business-type activities:

	Balance July 1, 2006	Additions	Transfers	Prior Period Adjustments (Note 14)	Balance June 30, 2007
<i>Non-depreciable Assets:</i>					
Land and improvements	\$ 2,196,906	\$ -	\$ -	\$ -	\$ 2,196,906
Construction in progress	<u>10,058,971</u>	<u>20,454,630</u>	<u>-</u>	<u>-</u>	<u>30,513,601</u>
Total Nondepreciable assets	<u>12,255,877</u>	<u>20,454,630</u>	<u>-</u>	<u>-</u>	<u>32,710,507</u>
<i>Depreciable Assets:</i>					
Buildings and structures	17,996,276	60,988	-	-	18,057,264
Machinery and equipment	622,758	109,801	-	-	732,559
Infrastructure	<u>43,175,962</u>	<u>478,433</u>	<u>-</u>	<u>10,900</u>	<u>43,665,295</u>
Total depreciable assets	<u>61,794,996</u>	<u>649,222</u>	<u>-</u>	<u>10,900</u>	<u>62,455,118</u>
Less accumulated depreciation	<u>(48,660,428)</u>	<u>(695,895)</u>	<u>-</u>	<u>(267)</u>	<u>(49,356,590)</u>
Total depreciable assets, net	<u>13,134,568</u>	<u>(46,673)</u>	<u>-</u>	<u>10,633</u>	<u>13,098,528</u>
Total business-type activities	<u>\$ 25,390,445</u>	<u>\$ 20,407,957</u>	<u>\$ -</u>	<u>\$ 10,633</u>	<u>\$ 45,809,035</u>

Business-type activities depreciation expense for capital assets for the year ended June 30, 2007, were as follows:

Water	\$	201,945
Sewer		<u>493,950</u>
Total	\$	<u>695,895</u>

CITY OF PLACERVILLE

Notes to Basic Financial Statements For the Year Ended June 30, 2007

4. CAPITAL ASSETS, Continued

B. Fund Financial Statements

The fund financial statements do not present general government capital assets but they are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

The capital assets of the enterprise funds in the Proprietary Fund Financial Statements are the same as those shown in the business-type activities of the Government-Wide Financial Statements. Internal Service Funds' capital assets are combined with governmental activities.

5. LONG-TERM DEBT

A. Government-Wide Financial Statements

	Government Activities	Business-Type Activities	Total
Long-term debt, due within one year	\$ 501,528	\$ 199,368	\$ 700,896
Noncurrent portion of long-term debt:			
Compensated absences	491,077	-	491,077
1997 State Revolving Loan	-	2,076,527	2,076,527
2006 State Revolving Loan	-	18,589,505	18,589,505
2006 Sewer Revenue Bonds	-	17,215,000	17,215,000
Energy Commission Loan	37,223	-	37,223
Capital Lease	1,130,651	675,249	1,805,900
Total noncurrent portion of long-term debt	1,658,951	38,556,281	40,215,232
Total long-term debt	\$ 2,160,479	\$ 38,755,649	\$ 40,916,128

Governmental Activities

Following is a summary of governmental activity long-term debt transactions during the fiscal year ended June 30, 2007:

	Balance July 1, 2006	Additions	Retirements	Balance June 30, 2007	Due in More than One Year	Due within One Year
Compensated Absences	\$ 882,015	\$ 40,980	\$ -	\$ 922,995	\$ 491,077	\$ 431,918
Energy Commission Loan	48,889	-	5,721	43,168	37,223	5,945
Capital Lease	1,254,896	-	60,580	1,194,316	1,130,651	63,665
Total	\$ 2,185,800	\$ 40,980	\$ 66,301	\$ 2,160,479	\$ 1,658,951	\$ 501,528

CITY OF PLACERVILLE

Notes to Basic Financial Statements For the Year Ended June 30, 2007

5. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Business-Type Activities

Following is a summary of business-type activity long-term debt transactions during the fiscal year ended June 30, 2007:

	Balance July 1, 2006	Additions	Retirements	Balance June 30, 2007	Due in More than One Year	Due within One Year
1997 State Revolving Loan	\$ 2,395,037	\$ -	\$ 157,211	\$ 2,237,826	\$ 2,076,527	\$ 161,299
2006 State Revolving Loan	-	18,589,505	-	18,589,505	18,589,505	-
2006 Sewer Revenue Bonds	17,215,000	-	-	17,215,000	17,215,000	-
Capital Lease	750,476	-	37,158	713,318	675,249	38,069
Total	\$ 20,360,513	\$ 18,589,505	\$ 194,369	\$ 38,755,649	\$ 38,556,281	\$ 199,368

Compensated Absences

The City records a liability to recognize the financial effect of unused vacation and other compensated leaves. The total of vacation and other compensated leaves is \$922,995. The City typically uses the General Fund to liquidate compensated absences.

Capital Lease

The City secured a capital lease in the amount of \$2,052,000 with an interest rate of 5.08% in order to finance tenant improvements to the first three floors of the new City Hall facility, located at 3101 Center Street, new exterior painting, brick façade, sidewalks, and street improvements around facility. Principal and interest payments are due in April and October each year. The annual debt service requirements for the City Hall Capital Lease are as follows:

Year Ending June 30,	Principal	Interest	Total
2008	\$ 101,734	\$ 94,738	\$ 196,472
2009	106,916	89,556	196,472
2010	112,361	84,110	196,471
2011	118,084	78,388	196,472
2012	124,099	72,373	196,472
2013-2017	721,992	260,367	982,359
2018-2022	623,382	64,269	687,651
2023-2027	-	-	-
Total	\$ 1,908,568	\$ 743,801	\$ 2,652,369

CITY OF PLACERVILLE

Notes to Basic Financial Statements For the Year Ended June 30, 2007

5. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Energy Commission Loan

In 2005, the City secured an Energy Commission Loan in the amount of \$54,500 with an interest 3.95% to retrofit the Center Street Parking Structure with energy efficient lighting. Principal and interest payments are due in June and December each year. The annual debt service requirements for the Energy Commission Loan are as follows:

Year Ending June 30,	Principal	Interest	Total
2008	\$ 5,945	\$ 1,652	\$ 7,597
2009	6,186	1,410	7,596
2010	6,433	1,163	7,596
2011	6,690	907	7,597
2012	6,955	641	7,596
2013-2017	10,959	436	11,395
2018-2022	-	-	-
2023-2027	-	-	-
Total	\$ 43,168	\$ 6,209	\$ 49,377

Revenue Bonds Payable

On March 14, 2006, the Placerville PFA issued the Series 2006 Wastewater System Refinancing and Improvement Project Revenue Bonds in the amount of \$17,215,000 pursuant to an Indenture by and between the Placerville PFA and Union Bank of California, N.A. as Trustee. A portion of the proceeds from the Bonds were used to refinance the Series 1994 Sewer Revenue Refunding and Phase II Improvement Bonds. The remainder of the Bond proceeds is being used to partially finance State mandated improvements to the City's Wastewater Treatment Plant, relocate and replace a section of sewer line along Hangtown Creek, and construct other capital projects related to the Wastewater System.

Principal payments are due September 1 of each year and interest payments ranging from 4.00% to 5.00% are due March 1 and September 1 of each year. The annual debt service requirements for the Series 2006 Wastewater System Refinancing and Improvement Project Revenue Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2008	\$ -	\$ 830,658	\$ 830,658
2009	-	830,658	830,658
2010	-	830,658	830,658
2011	-	830,658	830,658
2012	-	830,657	830,657
2013-2017	-	4,153,287	4,153,287
2018-2022	957,500	4,116,783	5,074,283
2023-2027	1,347,500	3,894,731	5,242,231
Total	\$ 2,305,000	\$ 16,318,090	\$ 18,623,090

CITY OF PLACERVILLE

Notes to Basic Financial Statements For the Year Ended June 30, 2007

5. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

State Revolving Loans

In 1997, the City secured a State Revolving Loan in the amount of \$3,247,671 and an interest rate of 2.6% to construct improvements to the Wastewater Treatment Plant in order to comply with State mandated requirements at that time. Principal and interest payments are due in March of each year. The annual debt service requirements for the 1997 State Revolving Loan are as follows:

Year Ending June 30,	Principal	Interest	Total
2008	\$ 161,299	\$ 58,183	\$ 219,482
2009	165,493	53,990	219,483
2010	169,795	49,687	219,482
2011	174,210	45,272	219,482
2012	178,739	40,743	219,482
2013-2017	965,869	131,541	1,097,410
2018-2022	422,419	16,545	438,964
2023-2027	-	-	-
Total	\$ 2,237,824	\$ 395,961	\$ 2,633,785

In 2006, the City secured a State Revolving Loan in the amount of \$42,906,467 with an interest rate of 0.00% to partially finance improvements to the Wastewater Treatment Plant in order to comply with State mandated requirements at that time. Principal payments will begin twelve months after construction is completed. It's anticipated that principal payments will be due in February of each year, beginning February 2010. The estimated annual debt service requirements for the 2006 State Revolving Loan are as follows:

Year Ending June 30,	Principal	Interest	Total
2008	\$ -	\$ -	\$ -
2009	-	-	-
2010	2,145,323	-	2,145,323
2011	2,145,323	-	2,145,323
2012	2,145,323	-	2,145,323
2013-2017	10,726,617	-	10,726,617
2018-2022	10,726,617	-	10,726,617
2023-2027	10,726,617	-	10,726,617
Total	\$ 38,615,820	\$ -	\$ 38,615,820

CITY OF PLACERVILLE

Notes to Basic Financial Statements For the Year Ended June 30, 2007

5. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

Annual debt service requirements for all loans and bonds, excluding unamortized bond discount, are as follows:

Year Ending June 30,	Principal	Interest	Total
2008	\$ 268,978	\$ 985,230	\$ 1,254,208
2009	278,594	975,613	1,254,207
2010	2,433,913	965,618	3,399,531
2011	2,444,307	955,224	3,399,531
2012	2,455,116	944,415	3,399,531
2013-2017	12,425,437	4,545,632	16,971,069
2018-2022	12,729,919	4,197,598	16,927,517
2023-2027	12,074,117	3,894,731	15,968,848
Total	\$ 45,110,381	\$ 17,464,061	\$ 62,574,442

The fund financial statements do not present general government long-term debt but is shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

6. RETIREMENT PLAN

Plan Description

The City contributes to the California Public Employees Retirement System (PERS), a cost-sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and City ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office located at 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members are required by State statute to contribute 7% for miscellaneous and 9% for safety employees of their annual covered salary. The City employer makes the contributions required of City employees on their behalf and for their account, which amounted to \$348,427 for the year ended June 30, 2007. The City employer is required to contribute for fiscal year 2006-2007 at an actuarially determined rate of 13.675% and 25.324% of annual covered payroll for miscellaneous and safety employees, respectively.

Annual Pension Cost

For 2006-2007 the City's annual pension cost of \$1,146,350 for PERS was equal to the City's annual required contribution. The required contribution was determined as part of the June 30, 2004, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases that range from 3.25% to 14.45% for miscellaneous and 3.25% to 14.45% for safety employees depending on age, service, and type of employment, and (c) 3.25% cost of living adjustment for retirees. Both (a) and (b) included an inflation component of 3.00%. The actuarial value of PERS assets was determined using techniques that smooth the affects of short-term volatility in the market value of investments over a three year period. The average remaining amortization period at June 30, 2004, was 14 years for both miscellaneous and safety employees for prior and current service unfunded liabilities.

CITY OF PLACERVILLE

Notes to Basic Financial Statements For the Year Ended June 30, 2007

6. RETIREMENT PLAN, Continued

Annual Pension Cost, Continued

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2005	\$ 792,164	100%	\$ -
June 30, 2006	1,061,380	100%	-
June 30, 2007	1,146,350	100%	-

7. DEFERRED COMPENSATION PLAN

The City in 1983 established a deferred compensation plan (the Plan) created in accordance with Internal Revenue Code Section 457. The Plans permit all eligible employees to execute an individual agreement with the City for amounts earned by them, to be paid at a future date when certain circumstances are met. These circumstances include termination by reason of retirement, death, disability or other events as provided for in the Plans. Employees may contribute up to 25% of their annual compensation, not to exceed \$15,500 in any year, into the deferred compensation plan.

During the fiscal year ended June 30, 1999, the City amended its deferred compensation plan to comply with subsection (g) of the Internal Revenue Code Section 457, which states that assets of the plan are held for exclusive benefit of participants and their beneficiaries. Accordingly, the assets and related liabilities for the Plan, which amounted to \$2,794,658 at June 30, 2007, have been removed from the basic financial statements of the City, with no impact on fund equity.

8. POST-RETIREMENT HEALTH CARE BENEFITS

Employees who retire from the City are eligible to receive certain health care benefits. Expenditures for post-retirement health care benefits are recorded on a "pay as you go" basis and for fiscal year ended June 30, 2007 were \$71,277 with 17 participants eligible to receive benefits.

9. CLASSIFICATION OF FUND BALANCE AND OTHER FUND DISCLOSURES

Fund Financial Statements

In the fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various designations are established by actions of the City Council and Management and can be increased, reduced or eliminated by similar actions.

CITY OF PLACERVILLE

Notes to Basic Financial Statements For the Year Ended June 30, 2007

9. CLASSIFICATION OF FUND BALANCE AND OTHER FUND DISCLOSURES, Continued

Fund Financial Statements, Continued

In governmental funds, designations are presented as a component of fund balance as follows:

	General	Transportation Development	Park Development	Capital Projects	Grants	Measure J	Non-Major	Total
<i>Reserved</i>								
Encumbrances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Special programs	100,000	-	-	-	2,291,255	1,025,836	338,973	3,756,064
Capital projects	256,458	232,462	46,303	525,091	-	-	280,097	1,340,411
Total reserved	<u>356,458</u>	<u>232,462</u>	<u>46,303</u>	<u>525,091</u>	<u>2,291,255</u>	<u>1,025,836</u>	<u>619,070</u>	<u>5,096,475</u>
<i>Unreserved, Designated:</i>								
Contingencies	1,176,000	-	-	-	-	-	-	1,176,000
Total unreserved, designated	<u>1,176,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,176,000</u>
<i>Unreserved, Undesignated</i>								
	640,978	-	-	-	-	-	-	640,978
Total	<u><u>\$ 2,173,436</u></u>	<u><u>\$ 232,462</u></u>	<u><u>\$ 46,303</u></u>	<u><u>\$ 525,091</u></u>	<u><u>\$ 2,291,255</u></u>	<u><u>\$ 1,025,836</u></u>	<u><u>\$ 619,070</u></u>	<u><u>\$ 6,913,453</u></u>

Expenditures over Appropriations

The following fund had an excess of expenditures over appropriations, but had adequate resources to cover the excess:

Major Fund	
Transportation Development	<u><u>\$ 22,962</u></u>

Fund Equity Deficits

The Parking District Special Revenue Fund has an accumulated deficit of \$(248,827) at June 30, 2007. This amount will be offset with charges for services increases in future years.

10. RISK MANAGEMENT

The City is a member of joint powers authorities for workers compensation and general liability insurance programs as described below. The purpose of the authorities is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

Each member city has a representative on the Board of Directors. Officers of the authorities are elected annually by the Board of Directors.

CITY OF PLACERVILLE

Notes to Basic Financial Statements For the Year Ended June 30, 2007

10. RISK MANAGEMENT, Continued

The following provides a reconciliation of claims payable, which are recorded as an Internal Service Fund, for the two years ended June 30, 2006 and 2007:

		Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments For Current and Prior Years	End of Year Liability
2005-2006	\$	765,159	\$ (53,083)	\$ (38,487)	\$ 673,589
2006-2007		673,589	138,262	(125,497)	686,354

Northern California Cities Self Insurance Fund

Northern California Cities Self Insurance Fund (Authority) is a joint powers authority created by certain Northern California cities to provide claims processing administrative services, risk management service and actuarial studies for the Authority as a whole.

The Workers Compensation Program comprises a banking layer for claims up to \$100,000 and a Shared Risk Pool for claims from \$100,000 to \$500,000. Excess commercial insurance coverage is provided for claims over the shared risk layers.

The Authority is governed by a Board of Directors comprised of officials appointed by each member. The activities of the Authority include setting and collecting premiums, administering and paying claims and related expenses and investing the Authority's excess funds.

Shared Risk Pool - Each member is assessed in a contribution which is intended to cover its share of the Authority's claims, operating costs and claim settlement expenses. Contributions are based on an actuarially determined rate for each coverage layer (pool), based on an estimate of the probable losses and expenses to be borne by that pool for the claim year. Additional cash contributions may be assessed on the basis of adverse loss experience. Refunds to members may be made if funds are determined to be surplus as a result of an actuarial study. Losses are allocated on the basis of each participant's share of cash contributions. All contributions are recognized as revenues when earned, based on the period covered by the contribution.

Banking Layer - The banking layer is the member's deductible portion of each claim. As part of its services to members a portion of their contributions is used to pay their deductibles. If a member's balance is insufficient, the Authority advances the necessary amount and bills the member in the following year. Excess balances may likewise be used to offset subsequent year contributions.

CITY OF PLACERVILLE

Notes to Basic Financial Statements For the Year Ended June 30, 2007

10. RISK MANAGEMENT, Continued

Northern California Cities Self Insurance Fund, Continued

The following is a summary of financial information of the Authority as of and for the year ended June 30, 2007:

Total Assets (Primarily Investments)	\$	47,161,242
Total Liabilities		26,019,429
Member Equity		21,141,813
Total Revenues		16,753,725
Total Expenses		11,616,536
Operating Income		5,137,189

Public Agency Risk Sharing Authority of California

Public Agency Risk Sharing Authority of California (PARSAC) is a joint powers authority created by certain California Cities to provide claims processing administrative services, risk management services and actuarial studies for PARSAC as a whole.

The General Liability program, a shared risk pool, total coverage of \$10 million. The first million, in excess of the City's \$50,000 retention, per occurrence is covered by PARSAC, the second and third million are covered by California Affiliated Risk Management Authority (CARMA), and the remaining seven million is covered by a commercial excess insurance carrier.

The ultimate cost of the program to the City depends on the catastrophic losses of all members, as well as the City's own loss experience, and will be determined two and half years after the end of the current program year.

The following is a summary of audited financial information of PARSAC as of and for the year ended June 30, 2007:

Total Assets (primarily investments)	\$	26,600,548
Total Liabilities		15,613,898
Fund Balance		10,986,650
Total Revenues		10,477,842
Total Expenses		11,083,039
Operating Income		(605,197)

11. CITY AGREEMENTS WITH CERTAIN OTHER GOVERMENTAL UNITS

El Dorado County Fire Protection District

The City entered into an agreement with the El Dorado County Fire Protection District (District) under which the District will provide fire protection and emergency medical services for the City. These services had been previously provided by the City Fire Department.

The District, not a joint venture, is governed by its own Board of Directors and is not governed by the cities that are serviced by it. All City Fire Department personnel, vehicles and equipment have been transferred to the District.

Effective with fiscal year 1993-1994 and all future years, the City's obligation for fire protection and emergency medical services shall be satisfied by District's receipt of the City's property tax revenue, even if such amount is reduced by future shifts to the State of California.

CITY OF PLACERVILLE

Notes to Basic Financial Statements For the Year Ended June 30, 2007

11. CITY AGREEMENTS WITH CERTAIN OTHER GOVERNMENTAL UNITS, Continued

El Dorado County Fire Protection District, Continued

For the year ended June 30, 2007, City property tax revenue assigned to the District amounted to approximately \$950,000.

El Dorado County Transit Authority

El Dorado County Transit Authority was formed in November, 1993, as a joint powers authority to own, operate, and/or maintain a public transit system.

El Dorado County Transportation Commission

El Dorado County Transportation Commission is a joint powers agency formed, in April 1995, for the purpose of engaging in regional transportation planning and the allocation of funds for transportation purposes.

12. CONTINGENCIES

Legal Actions

There are various claims and legal actions pending against the City for which no provision has been made in the accompanying general purpose financial statements. In the opinion of the City Attorney and City Management, liabilities arising from these claims and legal actions, if any, will not have an adverse material effect on the financial position of the City.

Federal Grants

The City has received federal grants for specific purposes that are subject to review and audit by the federal government. Although such audits could result in expenditure disallowance under grant terms, any required reimbursements are not expected to be material.

The City is self-insured and participates in public entity risk pools (See Note 10).

Proposition 62

On September 28, 1995, the California Supreme Court reversed a Court of Appeals decision which reinstated provisions of Proposition 62 which was a 1986 voter initiative that required all general taxes to be approved by simple majority vote of the electorate. The Supreme Court provided very little detail on a number of important issues surrounding their decision, including, the effective date of the decision, whether the decision would be retroactive, and whether existing taxes would have to be put to a vote for them to remain valid. The decision will have minimal impact on the City's existing general tax structure.

Proposition 218

On November 5, 1996, Proposition 218 was approved by the voters. Proposition 218 is a constitutional amendment which addresses both taxes and assessments imposed, extended or increased without voter approval on or after January 1, 1995. Its effect on existing assessments is unclear but it could have a minimal affect on the City's business taxes.

CITY OF PLACERVILLE

Notes to Basic Financial Statements For the Year Ended June 30, 2007

13. PLACERVILLE PUBLIC FINANCING AUTHORITY HAS DEFAULTED ON CERTAIN REVENUE BONDS

The Placerville Public Financing Authority (Authority) is a legal joint powers entity with created by the City and its Redevelopment Agency. The Authority's Board of Directors is comprised of the City's Council Members, City Manager and Finance Director. The Authority has accountability for all funds, the power to execute contracts, and the right to sue and be sued. Obligations and liabilities of the Authority are not obligations of the City.

Neither the City nor the Authority have any obligation to advance its own funds toward payments to bondholders, other than the City's obligation to make payments on its sewer revenue bonds and an installment purchase agreement and to pay over assessment payments received from property owners as discussed below and the Authority's obligation to make payments from funds received from the City. Payments with respect to assessments secured by liens against real property benefiting from the issuance of bonds, plus any amounts held by the Trustee, are the sole security for payment to bondholders, other than payments on the City's sewer revenue bonds and an installment purchase agreement. In the event of delinquency in payment of assessment or supplemental assessments, the City is responsible for foreclosure and auction proceedings on assessed property.

The aggregate principal balance of the Revenue Bonds issued by the Authority outstanding at June 30, 2007, was \$1,900,720 which is not included in these accompanying basic financial statements.

Limited Obligation Assessment Bonds and Revenue Bonds

In 1992, the City issued Limited Obligation Assessment bonds for its Assessment Districts 92-1 and 92-2, and then subsequently issued Limited Obligation Supplemental Assessment Bonds for Assessment District 92-1. In 1994, the City issued Limited Obligation Assessment Bonds for its Assessment Districts 94-1 and 94-2, and City Sewer Revenue Bonds. For the purpose of this discussion, the term "Limited Obligation Assessment Bonds" refers to all Assessment Bonds including the Supplemental issue.

The Authority issued its Revenue Bonds of 1992, Series A (Series A Bonds) and its Revenue Bonds of 1992, Series C (Series C Bonds) to purchase the City's 1992 Limited Obligation Assessment Bonds and Supplemental Limited Obligation Assessment Bonds. The Authority issued its Revenue Bonds of 1994 (Series 1994 Bonds) to purchase the City's 1994 Limited Obligation Assessment Bonds and Sewer Revenue Bonds.

The City issued Limited Obligation Assessment Bonds on behalf of improvement districts created to benefit property owners for a specific purpose, such as to finance local street, water and sewer improvements. Property owners in the designated districts were assessed amounts sufficient to cover the principal and interest costs of repaying the bonds. Annually, assessment installments are levied and placed on the County of El Dorado Property Tax Rolls. The Authority applied proceeds of the sale of its Series A and Series C Revenue Bonds to the purchase of the City's Assessment Bonds, which were then pledged as security for its Revenue Bonds. The City also issued Sewer Revenue Bonds for improvements related to its wastewater treatment plant, and to refund earlier bonds issued to finance such improvements. The Authority also applied proceeds of the sale of its Series 1994 Revenue Bonds to the purchase. The City has not defaulted on payment of the Sewer Revenue Bonds.

CITY OF PLACERVILLE

Notes to Basic Financial Statements For the Year Ended June 30, 2007

13. PLACERVILLE PUBLIC FINANCING AUTHORITY HAS DEFAULTED ON CERTAIN REVENUE BONDS, Continued

The following table summarizes the City's Limited Obligation Assessment bonds, Limited Obligation Supplemental Assessment bonds, revenue obligations payable from revenues of the City's Wastewater System as issued:

Bond Issue – Date	Aggregate Amount Issued	Authority Revenue Bonds Issued
AD 1992-1, March 1992	\$5,247,500	Series A - \$7,700,000
AD 1992-2, March 1992	\$1,533,202	
AD 1992-1, June 1992	\$2,785,000	Series C - \$3,185,000
AD 1994-1, June 1994 ¹	\$2,660,000	Series 1994 - \$13,070,000 ¹
AD 1994-2, June 1994 ¹	\$4,855,000	
Sewer Revenue Bonds ¹	\$4,255,000	
Installment Purchase Agreement ²	\$17,215,000	Series 2006 - \$17,215,000 ²

¹ Paid in full.

² Issued in 2006. Not in default.

The City is responsible for collecting the assessments levied against the property within the improvement districts and for disbursing these amounts to the Trustee, Union Bank of California, who further disburses the funds to ultimately retire the Authority's Revenue Bonds.

Defaults

In March, 1998, the Authority defaulted on the regularly scheduled interest payment due on its Revenue Bonds of 1992, Series C (Series C Bonds). The Authority's default was the result of the City of Placerville's default on Limited Obligation Supplemental Assessment Bonds issued and secured by supplemental assessment liens on real property within the City's Assessment District 92-1 (AD 92-1). The City's default was the result of the nonpayment of supplemental assessments by owners of property within AD 92-1.

In September, 2003, the Authority defaulted on the regularly scheduled interest payment due on its Series A Bonds. The Authority's default was the result of the City of Placerville's defaults over several years on Limited Obligation Assessment Bonds issued and secured by assessment liens on real property within the City's Assessment District 92-1 (AD 92-1) and assessment liens on real property within the City's Assessment District 92-2 (AD 92-2). The City's defaults were the result of the nonpayment of assessments by owners of property within AD 92-1 and AD 92-2.

Series 1994 Revenue bond technical defaults, or draw downs of reserve funds, also occurred as a result of nonpayment of assessments by owners of property within the City's Assessment District 94-1.

Due to property owners' continued nonpayment of assessments and supplemental assessments, the City defaulted on the required cash flows for the payment of the City's Limited Obligation Original and Supplemental Assessment Bonds. When property owners fail to pay their assessments, the Assessment Bonds are not being paid and therefore there are no, or insufficient, cash flows to pay the Authority's Revenue Bonds (other than funds held by the Trustee). As necessary, the Revenue Bond Reserve Fund is drawn down to pay the bondholders until the Fund is depleted.

The Revenue Bond Reserve Funds were drawn down to pay the Series A and Series C Bonds. The Reserve Funds for the Series A and Series C bonds have been completely depleted. These Revenue Bonds and the assessment bonds sharing them are in default. After the reserve funds were depleted, scheduled principal and interest payments for the Authority's Series A and C Bonds were not paid.

CITY OF PLACERVILLE

Notes to Basic Financial Statements For the Year Ended June 30, 2007

13. PLACERVILLE PUBLIC FINANCING AUTHORITY HAS DEFAULTED ON CERTAIN REVENUE BONDS, Continued

Since the default on the Series A Bonds and the Series C Bonds, the City has collected some delinquent assessments and some delinquent supplemental assessments resulting from the sale of certain properties within the districts, including some sold at County tax sales. The amounts collected have been disbursed to the Trustee for further disbursement to the bondholders or are held by the City for payment to the Trustee.

While the City does not have an obligation to advance its own funds to pay the defaulted Limited Obligation Assessment Bonds, the City does have administrative responsibilities such as judicial foreclosure and sale by auction of delinquent properties. The City has obtained a judgment of foreclosure on all properties subject to default.

The City and Authority believe that further defaults on payments of assessments and supplemental assessments are likely to occur, resulting in continued default of scheduled principal and interest payments.

In a different scenario from the Series A Bonds and the Series C Bonds, through a procedure connected with a foreclosure sale, a credit bid by the City and a corresponding sale to a new developer, the AD 94-1 Bonds were paid in full. The foreclosure payments, as well as remaining funds in the Construction Fund, were transmitted to the Trustee for a partial redemption of the Series 1994 Bonds.

In addition, the owners of the parcels in the City's Assessment District 94-2 (AD 94-2) prepaid their assessments. The payments were transmitted to the Trustee for a partial redemption of Series 1994.

The remaining Series 1994 Revenue Bonds of the Authority, and City's 1994 Sewer Revenue Bonds, have been paid in full in connection with the Authority's issuance of its \$17,215,000 Revenue Bonds (Wastewater System Refinancing and Improvement Project), Series 2006, payable from installment payments by the City's Wastewater System pursuant to an installment purchase agreement.

14. CONTINGENT LIABILITIES

On May 24, 2005, the City Council approved an agreement with the Sacramento Area Council of Governments (SACOG) which advanced \$1,283,684 in Federal RSTP revenue to the City for the partial construction of the Upper Main Street Rehabilitation project. The advanced revenue was used to repair and replace sidewalks and storm drains and repave approximately 3,000 feet of roadway from Bedford Avenue to Broadway. In return, the City agreed to pay back SACOG the \$1,283,684 over a four year period. The sources of repayment are limited to future RSTP allocations and Gas Tax subventions made to the City. The repayment schedule is as follows:

Year Ending	Principal	Interest	Total
June 30,			
2008	\$ 315,000	\$ -	\$ 315,000
2009	313,684	-	313,684
Total	\$ 628,684	\$ -	\$ 628,684

CITY OF PLACERVILLE

Notes to Basic Financial Statements For the Year Ended June 30, 2007

15. PRIOR PERIOD ADJUSTMENTS

Government-Wide Financial Statements

The City has recorded additions to capital assets as prior period adjustments to prior year accounting. Accordingly, the City's net assets as of July 1, 2006 have been restated as follows:

	Net Assets as Previously Reported	Prior Period Adjustments	Net Assets as Restated
Governmental Activities	\$ 30,382,607	\$ 460,643	\$ 30,843,250
Business-Type Activities	11,848,247	10,633	11,858,880
Total	\$ 42,230,854	\$ 471,276	\$ 42,702,130

Fund Financial Statements

	As Previously Reported	Prior Period Adjustments	As Restated
<i>Proprietary Funds</i>			
Water	\$ 4,006,347	\$ -	\$ 4,006,347
Sewer	7,841,900	10,633	7,852,533
Total proprietary funds	\$ 11,848,247	\$ 10,633	\$ 11,858,880

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**REQUIRED
SUPPLEMENTARY INFORMATION**

CITY OF PLACERVILLE

Required Supplementary Information For the Year Ended June 30, 2007

1. BUDGETARY CONTROL AND ACCOUNTING

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

1. The annual budget adopted by the City Council provides for the general operation of the City. The annual budget is adopted by the City Council in June of each year for all funds. The resolution sets a combined appropriation of the funds for the operation of the City.
2. The City Manager is authorized to transfer budgeted amounts between departments and line items to assure adequate and proper standards of service. Budgetary revisions, including supplemental appropriations which increase appropriations in individual funds and transfers between funds, must be approved by the City Council. The budgetary level of control is at the fund level. The budgeted figures used in the financial statements are the final amended amounts.
3. The budget is formally integrated into the accounting system and employed as a management control device during the year for all funds.
4. Budgets for the governmental fund types are adopted and recorded on the modified basis of accounting on a basis consistent with generally accepted accounting principles (GAAP). Budget appropriations lapse at the end of the fiscal year. Supplemental appropriations were adopted by the City Council and have been included in the statements of revenues, expenditures, and changes in fund balance – budget to actual. Budgets are also prepared for proprietary fund types, which include debt service principal payments and capital outlay, but do not include depreciation.

Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations, and if certain proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller or refunded to the taxpayers through revised tax rates or revised fee schedules. For the fiscal year ended, proceeds of taxes did not exceed allowable appropriations.

The accompanying Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual for the General and all Major funds present comparisons of the legally-adopted budget with actual data on a basis consistent with generally accepted accounting principles.

CITY OF PLACERVILLE
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance
Revenues:				
Property taxes	\$ 168,000	\$ 168,000	\$ 286,954	\$ 118,954
Sales tax	4,188,000	4,188,000	4,120,874	(67,126)
Transient occupancy taxes	186,000	186,000	191,364	5,364
Other taxes	214,000	214,000	160,272	(53,728)
Franchise fees	224,000	224,000	283,699	59,699
Licenses and permits	135,000	135,000	204,620	69,620
Fines and forfeitures	500,000	500,000	584,504	84,504
Use of money and property:				
Interest earnings	76,000	76,000	89,324	13,324
Rentals and concessions	34,400	34,400	37,129	2,729
Intergovernmental	764,160	764,160	796,473	32,313
Charges for services	1,124,500	1,124,500	1,147,261	22,761
Other revenue	847,276	847,276	483,662	(363,614)
Total Revenues	<u>8,461,336</u>	<u>8,461,336</u>	<u>8,386,136</u>	<u>(75,200)</u>
Expenditures:				
General government	3,116,681	3,132,867	2,753,944	378,923
Public safety	2,643,501	2,709,121	2,717,860	(8,739)
Highways and streets	584,537	584,537	541,509	43,028
Community development	560,897	560,897	525,221	35,676
Parks and recreation	1,651,770	1,707,570	1,634,585	72,985
Total Expenditures	<u>8,557,386</u>	<u>8,694,992</u>	<u>8,173,119</u>	<u>521,873</u>
Revenues Over (Under) Expenditures	<u>(96,050)</u>	<u>(233,656)</u>	<u>213,017</u>	<u>446,673</u>
Other Financing Sources (Uses):				
Transfers in	133,302	133,302	59,388	(73,914)
Transfers out	(37,252)	(47,067)	(171,209)	(124,142)
Total Other Financing Sources (Uses)	<u>96,050</u>	<u>86,235</u>	<u>(111,821)</u>	<u>(198,056)</u>
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>\$ -</u>	<u>\$ (147,421)</u>	<u>101,196</u>	<u>\$ 248,617</u>
Fund Balances:				
Beginning of year			<u>2,072,240</u>	
End of year			<u>\$ 2,173,436</u>	

CITY OF PLACERVILLE
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Transportation Development Fund
For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance
Revenues:				
Use of money and property:				
Interest earnings	\$ -	\$ -	\$ (23,637)	\$ (23,637)
Intergovernmental	4,720,000	1,524,000	1,524,261	261
Total Revenues	<u>4,720,000</u>	<u>1,524,000</u>	<u>1,500,624</u>	<u>(23,376)</u>
Expenditures:				
Highways and streets	4,720,000	2,232,000	2,231,586	414
Total Expenditures	<u>4,720,000</u>	<u>2,232,000</u>	<u>2,231,586</u>	<u>414</u>
Revenues Over (Under) Expenditures	<u>-</u>	<u>(708,000)</u>	<u>(730,962)</u>	<u>(22,962)</u>
Other Financing Sources (Uses):				
Transfers in	-	337,000	337,460	
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>337,000</u>	<u>337,460</u>	<u>-</u>
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>\$ -</u>	<u>\$ (371,000)</u>	<u>(393,502)</u>	<u>\$ (22,962)</u>
Fund Balances:				
Beginning of year			625,964	
End of year			<u>\$ 232,462</u>	

CITY OF PLACERVILLE
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Park Development Fund
For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance
Revenues:				
Use of money and property:				
Interest earnings	\$ -	\$ 1,000	\$ 1,230	\$ 230
Intergovernmental	-	-	-	-
Charges for services	-	39,000	38,520	(480)
Grant revenue	-	-	-	-
Other revenue	-	-	-	-
Total Revenues	<u>-</u>	<u>40,000</u>	<u>39,750</u>	<u>(250)</u>
Expenditures:				
Parks and recreation	-	7,000	6,685	315
Total Expenditures	<u>-</u>	<u>7,000</u>	<u>6,685</u>	<u>315</u>
Revenues Over (Under) Expenditures	<u>-</u>	<u>33,000</u>	<u>33,065</u>	<u>65</u>
Other Financing Sources (Uses):				
Transfers in	-	-	-	-
Transfers out	-	(11,500)	(11,415)	85
Total Other Financing Sources (Uses)	<u>-</u>	<u>(11,500)</u>	<u>(11,415)</u>	<u>85</u>
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>\$ -</u>	<u>\$ 21,500</u>	21,650	<u>\$ 150</u>
Fund Balances (Deficit):				
Beginning of year			<u>24,653</u>	
End of year			<u>\$ 46,303</u>	

CITY OF PLACERVILLE
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Grants Fund
For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance
Revenues:				
Use of money and property:				
Interest earnings	\$ 2,000	\$ 70,000	\$ 70,175	\$ 175
Grant revenue	154,161	253,000	252,784	(216)
Other revenue	-	78,000	78,255	255
Total Revenues	<u>156,161</u>	<u>401,000</u>	<u>401,214</u>	<u>214</u>
Expenditures:				
Public safety	112,791	214,000	214,373	(373)
Community development	92,161	92,161	94,935	(2,774)
Total Expenditures	<u>204,952</u>	<u>306,161</u>	<u>309,308</u>	<u>(3,147)</u>
Revenues Over (Under) Expenditures	<u>(48,791)</u>	<u>94,839</u>	<u>91,906</u>	<u>(2,933)</u>
Other Financing Sources (Uses):				
Transfers, net	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>\$ (48,791)</u>	<u>\$ 94,839</u>	91,906	<u>\$ (2,933)</u>
Fund Balances:				
Beginning of year			<u>2,199,349</u>	
End of year			<u>\$ 2,291,255</u>	

CITY OF PLACERVILLE
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Measure J Fund
For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance
Revenues:				
Use of money and property:				
Interest earnings	\$ 32,000	\$ 32,000	\$ 39,843	\$ 7,843
Intergovernmental	<u>1,003,000</u>	<u>1,003,000</u>	<u>1,025,073</u>	<u>22,073</u>
Total Revenues	<u>1,035,000</u>	<u>1,035,000</u>	<u>1,064,916</u>	<u>29,916</u>
Expenditures:				
General government	9,000	9,000	9,801	(801)
Public safety	<u>1,181,643</u>	<u>1,214,463</u>	<u>1,005,883</u>	<u>208,580</u>
Total Expenditures	<u>1,190,643</u>	<u>1,223,463</u>	<u>1,015,684</u>	<u>207,779</u>
Revenues Over (Under) Expenditures	<u>(155,643)</u>	<u>(188,463)</u>	<u>49,232</u>	<u>237,695</u>
Other Financing Sources (Uses):				
Transfers, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>\$ (155,643)</u>	<u>\$ (188,463)</u>	49,232	<u>\$ 237,695</u>
Fund Balances:				
Beginning of year			<u>976,604</u>	
End of year			<u>\$ 1,025,836</u>	

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**SUPPLEMENTARY
INFORMATION**

CITY OF PLACERVILLE

Balance Sheet Non-Major Funds June 30, 2007

	Special Revenue Funds				Total
	Gas Tax	Development Impact	LLMD	Parking District	
Assets:					
Cash and investments	\$ 349,170	\$ 310,570	\$ 38,482	\$ 35	\$ 698,257
Restricted:					
Receivables:					
Accounts	-	-	470	42,081	42,551
Interest	8,753	5,594	526	(1,898)	12,975
Grant	34,756	177,273	-	-	212,029
Due from other funds	13,334	-	-	-	13,334
Total Assets	\$ 406,013	\$ 493,437	\$ 39,478	\$ 40,218	\$ 979,146
Liabilities:					
Accounts payable	\$ 67,040	\$ 3,371	\$ 620	\$ 17,014	\$ 88,045
Deposits	-	-	-	2,259	2,259
Restricted:					
Advances to other funds	-	-	-	269,772	269,772
Total Liabilities	67,040	3,371	620	289,045	360,076
Fund Balances (Deficit):					
Reserved	338,973	490,066	38,858	(248,827)	619,070
Total Fund Balances (Deficit)	338,973	490,066	38,858	(248,827)	619,070
Total Liabilities and Fund Balances (Deficit)	\$ 406,013	\$ 493,437	\$ 39,478	\$ 40,218	\$ 979,146

CITY OF PLACERVILLE

Schedule of Revenues, Expenditures and Changes in Fund Balances

Non-Major Funds

For the Year Ended June 30, 2007

	Special Revenue Funds				Total
	Gas Tax	Development Impact	LLMD	Parking District	
Revenues:					
Use of money and property:					
Interest earnings	\$ 31,688	\$ 20,051	\$ (1,086)	\$ (2,894)	\$ 47,759
Intergovernmental	304,885	129,926	-	-	434,811
Grant revenue	1,954	-	-	-	1,954
Charges for services	-	15,114	35,665	110,785	161,564
Total Revenues	<u>338,527</u>	<u>165,091</u>	<u>34,579</u>	<u>107,891</u>	<u>646,088</u>
Expenditures:					
Highways and streets	257,355	215,384	-	265,458	738,197
Parks and recreation	-	-	50,602	-	50,602
Total Expenditures	<u>257,355</u>	<u>215,384</u>	<u>50,602</u>	<u>265,458</u>	<u>788,799</u>
Revenues Over (Under)					
Expenditures	<u>81,172</u>	<u>(50,293)</u>	<u>(16,023)</u>	<u>(157,567)</u>	<u>(142,711)</u>
Other Financing Sources (Uses):					
Proceeds from capital lease	-	-	-	-	-
Transfers out	(297,711)	-	-	-	(297,711)
Total Other Financing Sources (Uses)	<u>(297,711)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(297,711)</u>
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(216,539)</u>	<u>(50,293)</u>	<u>(16,023)</u>	<u>(157,567)</u>	<u>(440,422)</u>
Fund Balances (Deficit):					
Beginning of year	<u>555,512</u>	<u>540,359</u>	<u>54,881</u>	<u>(91,260)</u>	<u>1,059,492</u>
End of year	<u>\$ 338,973</u>	<u>\$ 490,066</u>	<u>\$ 38,858</u>	<u>\$ (248,827)</u>	<u>\$ 619,070</u>

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