Attachment 2

CITY OF MARTINEZ

WATER SYSTEM
ENTERPRISE FUND

FOR THE YEAR ENDED
JUNE 30, 2013

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CITY OF MARTINEZ
WATER SYSTEM
ENTERPRISE FUND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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MAZE & ASSOCIATES

INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the City Council
City of Martinez, California

Report on Financial Statements

We have audited the accompanying financial statements of the Water System Enterprise Fund (Water System) of the City of Martinez as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Water System's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water System Enterprise Fund of the City as of June 30, 2013, and the changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Management adopted the provisions of the following Governmental Accounting Standards Board Statement, which became effective during the year ended June 30, 2013 that resulted in certain changes in nomenclature on the financial statements:

> Statement 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* See Note 1 to the financial statements for relevant disclosures.

Management early implemented the provisions of the following Governmental Accounting Standards Board Statement during the year ended June 30, 2013 that had a material effect on the financial statements:

> Statement 65 – *Items Previously Reported as Assets and Liabilities.* See Note 5B to the financial statements for relevant disclosures.

The emphasis of these matters do not constitute a modification to our opinion.

Other Matter

As discussed in Note 1, the financial statements present only the Water System Enterprise Fund and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2013, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements. The Supplemental Information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Maze & Associates

Pleasant Hill, California
September 13, 2013

CITY OF MARTINEZ - WATER SYSTEM
ENTERPRISE FUND
STATEMENT OF NET POSITION
JUNE 30, 2013

ASSETS	
Current Assets:	
Cash and investments (Note 2):	
Available for operations	$14,018,533
Restricted Assets:	
Cash and cash equivalents (Note 2):	4,390,583
Accounts and other receivables	1,630,962
Total Current Assets	20,040,078
Noncurrent Assets:	
Capital assets - at cost: (Note 1D):	
Buildings	15,793,743
Improvements other than buildings	150,584
Equipment	1,347,994
Infrastructure	88,276,473
Total Depreciable Capital Assets	105,568,794
Less: Accumulated depreciation	(78,169,099)
Land	630,912
Construction in progress	2,976,302
Total Capital Assets - net	31,006,909
Other Non-Current Assets:	
Loan receivable (Note 3)	22,920
Total Noncurrent Assets	31,029,829
Total Assets	51,069,907
LIABILITIES	
Current Liabilities:	
Accounts payable	505,703
Accrued liabilities	64,293
Deposits	46,552
Unearned revenue	1,436
Total Current Liabilities	617,984
Current Liabilities Payable from Restricted Assets:	
Accrued interest payable	28,623
Current portion of compensated absences (Note 1F)	25,000
Current maturities of certificates of participation (Note 5)	820,000
Total Current Liabilities Payable from Restricted Assets	873,623
Noncurrent Liabilities:	
Accrued compensated absences (Note 1F)	172,606
Certificates of participation (Note 5)	9,827,884
Total Liabilities	11,492,097
NET POSITION (Note 1C)	
Net investment in capital assets	23,537,828
Restricted for:	
Debt service	1,211,780
Capital improvements	5,780,086
Unrestricted	9,048,116
Total Net Position	$39,577,810

See accompanying notes to financial statements

CITY OF MARTINEZ - WATER SYSTEM
ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013

OPERATING REVENUES	
Water sales	$10,688,120
Rents and leases	28,924
Other fees	856
Charges for services	490,390
Other revenue	36,057
Total Operating Revenues	11,244,347
OPERATING EXPENSES	
Filtration plant	4,822,559
Maintenance, repairs and distribution	2,014,654
Administration	1,832,931
Depreciation and amortization	1,888,290
Total Operating Expenses	10,558,434
Operating income	685,913
NONOPERATING REVENUE (EXPENSE)	
Interest income	42,455
Interest expense	(305,069)
Total Nonoperating Revenue (Expense)	(262,614)
Change in Net Position	423,299
Net position at beginning of year (as restated) (Note 5B)	39,154,511
Net position at end of year	$39,577,810

See accompanying notes to financial statements

CITY OF MARTINEZ - WATER SYSTEM
ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$11,037,882
Payments to suppliers	(6,919,667)
Payments to employees	(2,124,782)
Rent and lease payments received	36,057
Cash Flows from Operating Activities	2,029,490
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(720,215)
Principal payments on capital debt	(842,250)
Interest paid	(306,838)
Cash Flows from Capital and Related Financing Activities	(1,869,303)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	42,455
Cash Flows from Investing Activities	42,455
Net Cash Flows	202,642
Cash and investments at beginning of period	18,206,474
Cash and investments at end of period	$18,409,116
Financial Statement Presentation:	
Cash and Investments	$14,018,533
Restricted Cash and Cash Equivalents	4,390,583
Total	$18,409,116
Reconciliation of Operating Income to Cash Flows from Operating Activities:	
Operating income	$685,913
Adjustments to reconcile operating income to cash flows from operating activities:	
Depreciation	1,888,290
Change in assets and liabilities:	
Accounts and other receivables	(170,764)
Accounts payable and accrued liabilities	(328,255)
Deposits	227
Accrued compensated absences	(46,277)
Unearned revenue	356
Cash Flows from Operating Activities	$2,029,490

See accompanying notes to the financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Water System Enterprise Fund (Water System) of the City of Martinez (City) and is an integral part of that reporting entity. This enterprise fund is included in the basic financial statements of the City of Martinez. Enterprise funds are used to account for operations which are self-financing and where the determination of net earnings is necessary or useful for sound financial administration.

B. Basis of Presentation

The Water System's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

C. Basis of Accounting

The Water System uses the accrual basis of accounting whereby revenues are recorded as water is consumed, and expenses are recorded when incurred. The City has applied all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as elected to apply any pronouncements issued by the Financial Accounting Standards Board, except for those that conflict with or contradict GASB pronouncements.

Statement of Net Position – The statement of net position is designed to display the financial position of the Water System. The Water System's fund equity is segregated into three categories defined as follows:

- ***Net Investment in Capital Assets*** – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and deferred outflows of resources; reduced by the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets. These net assets are considered non-expendable.

- ***Restricted Net Position*** – This component of net position consists of constraints placed on net position used through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments. It also pertains to constraints imposed by law or constitutional provisions or enabling legislation.

- ***Unrestricted Net Position*** – This component of net position consists of net position that does not meet the definition of "restricted" or "investment in capital assets". Amounts included as unrestricted net position are available for designation for specific purposes as established by the City Council.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement of Revenues, Expenses and Changes in Net Position – The statement of revenues, expenses and changes in net position is the operating statement for proprietary funds. Revenues are reported by major source. These statements distinguish between operating and non-operating revenues and expenses and present a separate subtotal for operating revenues, operating expenses, and operating income.

D. Capital Assets

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives on a straight-line basis.

	Useful Life
Buildings	30-50 years
Equipment	4-25 years
Improvements	40 years
Underground valves and pipes	50-67 years

E. Premium

Bond premium are accreted over the term of the bonds on a straight-line basis which approximates the interest premium.

F. Compensated Absences

Compensated absences comprise unused vacation leave, vested sick pay and other employee benefits which are accrued as earned. The liability for compensated absences is determined annually. Only amounts expected to be permanently liquidated are classified as a current liability; the remainder is recorded as a long term liability.

The changes of the compensated absences were as follows:

Beginning Balance	$243,883
Additions	128,027
Payments	(174,304)
Ending Balance	$197,606
Current Portion	$25,000

G. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Deferred Outflows/Inflows of Resources

In additions to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow resources (expense/expenditure) until then. The Water System does not have any items that qualify for reporting in this category this fiscal year.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The separate financial element, *deferred inflows of resources,* represents an acquisition of net position that applies to future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Water System does not have any items that qualify for reporting in this category this fiscal year.

NOTE 2 - CASH AND INVESTMENTS

The Water System's cash is pooled with other funds of the City in an unrated cash and investment pool, the details of which are presented in the City's Comprehensive Annual Financial Report. The City is primarily invested in the California Local Agency Investment Fund and investments of U.S. Government sponsored agencies. Investments are stated at fair market value as required by generally accepted accounting principles.

The Water System considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Interest income earned on pooled cash and investments is allocated monthly to the various funds of which the Water System is a participant, based on the month-end cash balances. Interest income from restricted cash and cash equivalents is credited directly.

The City must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City resolutions, bond indentures or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

NOTE 2 - CASH AND INVESTMENTS (Continued)

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality
Repurchase Agreements	30 days	A
U.S. Treasury Obligations	N/A	N/A
U.S. Agency Securities and U.S. Government Sponsored Enterprise	N/A	N/A
State Obligations	N/A	Second Highest Rating Category
Commercial Paper	270 days	A-1
Negotiable Certificates of Deposit	N/A	N/A
Time Certificates of Deposit	N/A	N/A
Shares of Beneficial Interest	N/A	Top Rating Category
Money Market Funds	N/A	Aam
Bankers' Acceptances	360 days	A-1
California Local Agency Investment Fund (LAIF Pool)	Upon Demand	N/A
California Asset Management Program (CAMP)	Upon Demand	N/A

As of June 30, 2013, Restricted Assets consisted of $4,390,583 of investments in Certificates of Deposit and cash deposits.

NOTE 3 – LOAN RECEIVABLE

The City made a loan to Riverhouse Associates, which was used to rehabilitate the Riverhouse Hotel, an affordable housing project. The loan is secured by a deed of trust, bears no interest, and is due August 14, 2021. At June 30, 2013 the loan balance was $284,930 of which $22,920 was owed to the Water System Enterprise Fund.

NOTE 4 – RATE SCHEDULES

Monthly service charges, service line and meter installation fees and consumption rates are as follows for fiscal year 2013:

Meter Size (Inches)	Monthly Service Charges	Service Line Installation Charges	Meter Installation Charges
5/8	$25.48	$2,703.86	$168.99
1	57.29	2,703.86	337.98
1-1/2	110.29	3,379.82	414.79
2	173.91	3,379.82	575.59
3	343.53	Actual Costs	Actual Costs
4	534.35		
6	1,064.43		
8	1,912.56		
10	3,078.71		

Consumption Rate	Zone 1	Zone 2	Zone 3	Zone 4
Per hundred cubic feet	$3.54	$3.76	$3.90	$4.13

NOTE 5 – CERTIFICATES OF PARTICIPATION

The Water System's debt issues and transactions are summarized below and discussed in detail thereafter.

A. Current Year Transactions and Balances

	Original Issue Amount	Balance at June 30, 2012	Retirements	Balance at June 30, 2013	Current Portion
Certificates of Participation:					
2003 Refinancing Project, 2-4%, due 12/01/18	$5,595,000	$2,780,000	$355,000	$2,425,000	$370,000
2012 Refunding Water System Improvements, 2-4%, due 12/01/26	8,025,000	8,025,000	440,000	7,585,000	450,000
Plus: Unamortized bond premium	696,947	685,134	47,250	637,884	
Total Enterprise Long Term Debt		$11,490,134	$842,250	$10,647,884	$820,000

B. GASB 65

With the early implementation of Governmental Accounting Standards Board Statement 65, *Items Previously Reported as Assets and Liabilities*, the City has restated the deferred bond issuance costs previously recognized. The net impact to the ending balance of net position in the amount of $724,084 is included on the Statement of Revenue, Expenses and Changes in Net Position.

NOTE 5 – CERTIFICATES OF PARTICIPATION (Continued)

C. 2003 Certificates of Participation

On March 11, 2003, the City issued Certificates of Participation (COPs) in the amount of $7,795,000 to refund and retire the outstanding 1992 City Hall Refurbishment Certificates of Participation and the 1993 Water System Improvements Certificates of Participation. The portion of the 2003 COPs used to refund the 1993 COPS have been recorded in the Water System Fund as they are payable from lease revenues derived from the operation of the water system repayable from fund resources. Interest payments on the 2003 COPs are due semiannually on June 1 and December 1, and annual principal payments are due on December 1. The Water System's total principal and interest remaining to be paid on the bonds is $2,717,287. The Water System's principal and interest paid for the current year is $712,370.

D. 2012 Certificates of Participation

On February 10, 2012, the City issued Certificates of Participation (COPs) in the amount of $8,025,000 to refund the 1999 COP for the acquisition and construction of improvements to the City's existing municipal water system. Semi-annual interest payments are due on June 1 and December 1 of each year, and annual principal payments are due on December 1. Interest and principal payments are payable from net revenues derived from the operation of the water system. The total principal and interest remaining to be paid on the certificates is $9,690,175. The City's principal and interest paid for the current fiscal year is $695,250.

The City has pledged future Water System Enterprise Fund revenues, net of specified operating expenses, to repay the installment agreement portion of the 2003 COPs and the 2012 Certificates of Participation through 2027. Annual principal and interest payments on 2003 the bonds are expected to require less than 14.06 percent and 3.91 percent of net water revenues. Annual principal and interest payments on the 2012 bonds are expected to require less than 17.42 percent and 10.11 percent of net water revenues. The Water Fund's total principal and interest remaining to be paid on the bonds is $12,407,462. The Water Fund's principal and interest paid for the current year and total customer net revenues were $1,149,089 and $2,525,205 respectively. The City is in compliance with its debt covenants for the year ended June 30, 2013.

E. Debt Service Requirements

Annual debt service requirements are shown below:

For the Year Ending June 30	Principal	Interest
2014	$820,000	$332,270
2015	835,000	309,484
2016	855,000	285,799
2017	890,000	258,528
2018	920,000	227,681
2019 - 2023	3,130,000	773,900
2024 - 2027	2,560,000	209,800
Total	10,010,000	$2,397,462
Plus: Unamortized Bond Premium	637,884	
Gross Long-term debt	$10,647,884	

NOTE 5 – CERTIFICATES OF PARTICIPATION (Continued)

F. Authorized but Unissued Debt

The City has previously issued Water Revenue Bonds authorized by the electorate at a bond election held on June 7, 1966. Series A, B, and C Bonds in the amount of $3,250,000 were previously issued and have been fully retired. $1,400,000 remains authorized but unissued as of June 30, 2013.

NOTE 6 – EMPLOYEES' RETIREMENT SYSTEM

Substantially all City employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City's employees participate in the Miscellaneous Joint Facilities Agency Employee Plans. Benefit provisions under the Plans are established by State statute and City ordinance. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts. The City's labor contracts require it to pay employee contributions as well as its own. The Plans' provisions and benefits in effect at June 30, 2013, are summarized as follows:

Miscellaneous Joint Facilities

	2 @ 55	2 @ 60	2 @ 62
Hire Date	Before July 1, 2012	After July 1, 2012 for Classic Members*	After January 1, 2013 for non-classic members
Benefit Vesting Schedule	5 years of service	5 years of service	5 years of service
Retirement Age Monthly Benefits	50	50	52
Monthly benefit as % of annual salary	1.426% - 2.418%	1.092% - 2.418%	1.000% - 2.500%
EE contribution rate	7%	7%	6.250%
ER contribution rate	10.238%	7.846%	6.250%

*A Classic PERS member is an employee who qualifies under one of the following categories:
An employee who was brought into CalPERS membership for the first time prior to January 1, 2013. An employee that was hired after January 1, 2013, yet is eligible for reciprocity with another public retirement system. An employee who is hired by a different CalPERS employer after January 1, 2013, after a break in service of less than six months. An employee who is brought back by the same CalPERS employer, regardless of the length of the break in service.

NOTE 6 – EMPLOYEES' RETIREMENT SYSTEM (Continued)

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the employer must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarially accrued liability. The City uses the actuarially determined percentages of payroll to calculate and pay contributions to CALPERS. This results in no net pension obligations or unpaid contributions. Annual Pension Costs, representing the payment of all contributions required by CALPERS, for the last three fiscal years were as follows:

Miscellaneous Joint Facilities Agency - Water Fund

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2011	$213,006	100%	$0
June 30, 2012	229,295	100%	0
June 30, 2013	226,562	100%	0

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.5% is assumed, including inflation at 2.75%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and amortized over a rolling thirty year period.

As required by State law, effective July 1, 2005, the City's Miscellaneous Joint Facilities Agency Plans were terminated, and the employees in those plans were required by CALPERS to join new State-wide pools. One of the conditions of entry to these pools was that the City true-up any unfunded liabilities in the former Plans, either by paying cash or by increasing its future contribution rates through a Side Fund offered by CALPERS. In April 2011 the City satisfied its Miscellaneous Joint Facilities Agency Plan's unfunded liability.

NOTE 6 – EMPLOYEES' RETIREMENT SYSTEM (Continued)

The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. CALPERS' latest actuarial value (which differs from market value) and funding progress for the State-wide pools are shown below:

Miscellaneous Joint Facilities Agency Plan:

	Actuarial					
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2009	$3,104,798,222	$2,758,511,101	$346,287,121	88.9%	$742,981,488	46.6%
2010	3,309,064,934	2,946,408,106	362,656,828	89.0%	748,401,352	48.5%
2011	3,619,835,876	3,203,214,899	416,620,977	88.5%	759,263,518	54.9%

The City's Miscellaneous Joint Facilities Agency Plan represents approximately 0.95%, 0.96%, and 0.95% of the State-wide pool for the years ended June 30, 2011, 2010, and 2009, respectively, based on the City's total covered payroll of $7,227,796, $7,160,574, and $7,060,240.

Audited annual financial statements and ten-year statistical information are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS

The City provides health care benefits for retired employees and spouses based on negotiated employee bargaining unit contracts under an agent multiple-employer post employment benefit plan. Substantially all of the City's employees may become eligible for those benefits if they reach the normal retirement age and have a minimum ten years of service while working for the City. The premium reimbursement benefits are as follows: 0-10 years of service = 0%; 11-15 years of service = 25%; 16-20 years of service = 50%; 21-25 years of service = 75%; 26 years or more of service = 100%. Currently, 9 retirees meet the eligibility requirements and receive reimbursements.

The cost of retiree health care benefits is recognized as an expenditure when health care premiums are paid. For the year ending June 30, 2013, those costs totaled $56,253 for the Water System.

During fiscal year 2008, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes uniform financial reporting standards for employers providing postemployment benefits other than pensions (OPEB). The provisions of this statement are applied prospectively and do not affect prior years' financial statements. Required disclosures are presented below.

By Council resolution and through agreements with its labor units, the City provides certain health care benefits for retired employees (spouses and dependents are not included) under third-party insurance plans. A summary of eligibility and retiree contribution requirements are shown below by bargaining unit:

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

Management Association; and Laborers' International Union of North America Union (LiUNA) Local #324

Health Benefits – Retirees represented by the Association and by LiUNA, Local #324 who retire from service or disability on PERS shall receive retirement health benefits in accordance with the following:

Benefits shall be paid at the retirement health benefit rate for the least costly of the health benefit insurances. At the present time the least costly of the plans offered is Kaiser. For those hired prior to January 1, 2007, the City shall pay one hundred percent of the premium prorated based on the percentages shown below.

For those retirees who were hired on or after January 1, 2007, the retiree shall be reimbursed the amount of the Kaiser premium in effect on January 1, 2007 plus eighty-five percent of each increase in the premium, prorated based on the percentages shown below.

Years of Service with the City	Percent of Health Insurance To be Paid by City
0 through 9 years	0%
10 through 14 years	25%
15 through 19 years	50%
20 through 24 years	75%
Over 25 years	100%

For retirees hired before January 1, 2006, the City will also pay for the cost of Medicare Part B. The above percentages also apply to the payment of Medicare Part B.

As of June 30, 2013, there were approximately 9 Water System's employees that were eligible to receive retirement health care benefits.

A. Funding Policy and Actuarial Assumptions

The annual required contribution (ARC) was determined as part of a June 30, 2011 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 7.61% discount rate; (b) 3.25% projected annual salary increase, (c) inflation 3% and (d) 5%-9.4% health inflation increases. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the City and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least biannually as results are compared to past expectations and new estimates are made about the future. The City's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a closed 30 year amortization period.

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

In accordance with the City's budget, the annual required contribution (ARC) is to be funded throughout the year as a percentage of payroll. Concurrent with implementing Statement No. 45, the City Council passed a resolution to participate the California Employers Retirees Benefit Trust, (CERBT), an irrevocable trust established to fund OPEB. CERBT is an agent multiple-employer plan, consisting of an aggregation of single-employer plans, with pooled administrative and investment functions. CERBT is administrated by CALPERS, and is managed by an appointed board not under the control of City Council. This Trust is not considered a component unit by the City and has been excluded from these financial statements. The CERBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained from the California Public Employees' Retirement System, CERBT, P.O. Box 942703, Sacramento, CA 94229-2703.

B. Funding Progress and Funded Status

Generally accepted accounting principles permits contributions to be treated as OPEB assets and deducted from the Actuarial Accrued Liability (AAL) when such contributions are placed in an irrevocable trust or equivalent arrangement. During the fiscal year ended June 30, 2013, the City contributed the ARC amounting to $1,246,000 to the Plan which represented 11.6% of the $10,735,000 of covered payroll. The City also contributed additional funds to CERBT in previous fiscal years representing funds accumulated in prior years in the City's General Fund. As a result, the City has recorded the Net OPEB Asset, representing the difference between the ARC, the amortization of the Net OPEB Asset and actual contributions, as presented on the following page:

Annual required contribution (ARC)	($1,246,000)
Interest on net OPEB asset	289,000
Adjustment to annual required contribution	(257,000)
Annual OPEB cost	(1,214,000)
Contributions made:	
City portion of current year premiums paid	858,284
Additional contributions to CERBT	387,716
Total contributions	1,246,000
Change in net OPEB asset	32,000
Net OPEB Asset at June 30, 2012	4,224,000
Net OPEB Asset at June 30, 2013	$4,256,000

The actuarial accrued liability (AAL) representing the present value of future benefits, included in the actuarial study dated June 30, 2011 amounted to $15,734,000 and was partially funded since assets have been transferred into CERBT. The City's prior year contributions, the current year annual required contribution, along with investment income net of current year premiums resulted in assets with CERBT of $7,257,908 as of June 30, 2013, which partially reduced the unfunded actuarial accrued liability.

NOTE 7 – POST-EMPLOYMENT BENEFITS (Continued)

The Plan's annual OPEB cost and actual contributions for fiscal years ended June 30, 2011, 2012 and 2013 are set forth below:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of OPEB Cost Contributed	Net OPEB (Obligation) Asset
June 30, 2011	$877,000	$934,000	106%	$4,183,000
June 30, 2012	1,138,000	1,179,000	104%	4,224,000
June 30, 2013	1,214,000	1,246,000	103%	4,256,000

The Schedule of Funding Progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the actuarial studies is presented below:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	Unfunded (Overfunded) Actuarial Accrued Liability (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll [(B-A)/C]
July 1, 2007	$0	$14,010,000	$14,010,000	0.00%	$9,579,000	146.26%
July 1, 2009	3,566,000	13,633,000	10,067,000	26.16%	10,088,000	99.79%
June 30, 2011	4,990,000	15,734,000	10,744,000	31.71%	10,735,000	100.08%

NOTE 8 – DEFERRED COMPENSATION PLAN

City employees may defer a portion of their compensation under a City sponsored Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Under this Plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death or in an emergency defined by the Plan.

The laws governing deferred compensation plan assets require plan assets to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these plans are not the City's property and are not subject to City control, they have been excluded from these financial statements.

NOTE 9 - INSURANCE

The City participates in the Municipal Pooling Authority (MPA) pool in which there is a transfer or pooling of risks among participants in the pool. Premiums are paid to MPA by all cities and MPA pays claims, maintains claim reserves and controls administrative costs of the program. Claims are paid by MPA, excluding the deductible. If MPA does not have adequate funds, then the City could be assessed additional premiums to fund the liabilities. However, MPA believes it is adequately funded based on recent actuarial reports.

NOTE 9 – INSURANCE (Continued)

Insurance coverage through the Municipal Pooling Authority is as follows:

Type of Coverage (Deductible)	Coverage Limits
Liability ($10,000)	$29,000,000
Employment Risk Management Authority ($50,000)	1,000,000
Vehicle - Physical Damage ($3,000 for police vehicles, $2,000 for all others)	250,000
Worker's Compensation (no deductible)	Statutory Limits
All Risk Fire & Property ($25,000)	1,000,000,000
Earthquake (5% - 10% per location, $25,000 to $100,000 minimum)	6,892,678
Flood ($100,000 per occurrence)	25,000,000
Boiler & Machinery ($5,000)	100,000,000
Cyber Liability ($50,000)	2,000,000
Public Entity Pollution Liability ($100,000)	1,000,000

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SUPPLEMENTAL INFORMATION

CITY OF MARTINEZ - WATER SYSTEM
ENTERPRISE FUND
SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

	Filtration Plant	Maintenance, Repairs and Distribution	Administration
Salaries	$704,375	$491,823	$45,299
Salaries - overtime and temporary	30,761	121,692	
Fringe benefits	399,048	361,351	84,502
Retirement medical			169,265
Labor provided by other departments, net		167,636	494,267
Rent and utilities	367,359	198,024	
Communications	3,212	31,873	662
Operating supplies	134,027	243,191	
Travel and entertainment	5		331
Dues and subscriptions	390	1,018	
Office supplies	5,501		7,009
Postage			7,565
Equipment rental	37,672	115,331	14,775
Repairs and maintenance	50,776	166,549	
Professional fees	157,888	76,720	139,051
Raw water and chemicals purchase	2,924,619		
Training	2,327	5,410	
Contractual services	441	812	
Operating charges by other departments		30,953	425,880
Insurance	4,158	2,271	20,562
Tax in lieu			423,763
	$4,822,559	$2,014,654	$1,832,931

Attachment 3

CITY OF MARTINEZ

MARINA SERVICES ENTERPRISE FUND

FOR THE YEAR ENDED
JUNE 30, 2013

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CITY OF MARTINEZ – MARINA SERVICES
ENTERPRISE FUND

Financial Statements
For the Year Ended June 30, 2013

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MAZE & ASSOCIATES

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor of the City Council of the
City of Martinez
Martinez, California

Report on Financial Statements

We have audited the accompanying financial statements of the Marina Services Enterprise Fund (Marina) of the City of Martinez as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Marina's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marina Services Enterprise Fund of the City as of June 30, 2013, and the changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Marina will continue as a going concern. As discussed in Note 2 to the financial statements, the Marina Services Enterprise Fund has an accumulated net deficit of $4,367,834 as of June 30, 2013 made up primarily of State loans which the City has not had sufficient operating revenues to pay. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Emphasis of Matters

During the fiscal year ended June 30, 2013, it was determined that the Marina Services Enterprise Fund would never be able to repay the long-term interfund advances in the amount of $473,849 to the City's General Fund due to the Marina Services Fund's ongoing deficit and going concern issues as discussed in Note 2 and Note 5B and therefore the loans were forgiven. In addition, the City was unable to pay the principal portion of the State loans during the fiscal year as discussed in Note 7.

Management adopted the provisions of the following Governmental Accounting Standards Board Statements, which became effective during the year ended June 30, 2013 that resulted in certain changes in nomenclature on the financial statements:

Statement 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* See Note 1 to the financial statements for relevant disclosures.

Management early-implemented the provisions of the following Governmental Accounting Standards Board Statements during the year ended June 30, 2013 that had material effects on the financial statements:

Statement 65 - *Items Previously Reported as Assets and Liabilities.* See Note 7 to the financial statements for relevant disclosures.

As discussed in Note 1F the Marina Services Enterprise Fund capital assets and beginning net position were restated.

The emphasis of these matters do not constitute a modification to our opinion.

Other Matter

As discussed in Note 1, the financial statements present only the Marina Services Enterprise Fund and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2013, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements. The Supplemental Information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Maze + Associates

Pleasant Hill, California
September 13, 2013

CITY OF MARTINEZ - MARINA SERVICES
ENTERPRISE FUND
STATEMENT OF NET POSITION
JUNE 30, 2013

ASSETS	
Current Assets:	
Cash and cash equivalents (Note 3)	$187,057
Receivables:	
Accounts	2,564
Total Current Assets	189,621
Noncurrent Assets:	
Capital assets - at cost (Note 1D)	
Buildings	308,594
Less: accumulated depreciation	(265,244)
	43,350
Land	32,532
Total Capital Assets - net	75,882
Total Assets	265,503
LIABILITIES	
Current Liabilities:	
Accounts payable	24,997
Deposits	46,867
Accrued interest	63,571
Unearned revenue (Note 4)	326,179
Current portion of loans payable (Note 7)	87,118
Total Current Liabilities	548,732
Noncurrent Liabilities:	
Loans payable (Note 7)	4,084,605
Total Noncurrent Liabilities	4,084,605
NET POSITION (DEFICIT) (Note 1C)	
Net investment in capital assets	(2,357,827)
Unrestricted	(2,010,007)
Total Net Position (Deficit) (Note 2)	($4,367,834)

See accompanying notes to financial statements

CITY OF MARTINEZ - MARINA SERVICES
ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013

OPERATING REVENUES	
Rents and leases	$140,244
Contribution	318,943
Other revenue	3,000
Total Operating Revenues	462,187
OPERATING EXPENSES	
Administration	242,251
Maintenance and repair	324,621
Depreciation	45,272
Total Operating Expenses	612,144
Operating income	(149,957)
NON OPERATING REVENUES (EXPENSE)	
Interest income	884
Interest expense	(95,011)
Taxes	12,891
Total Non Operating Revenues (Expense)	(81,236)
Income (loss) before transfers	(231,193)
Transfers in (Note 5)	723,849
Change in Net Position	492,656
Net Position (deficit) at beginning of year (as restated) (Note 1F)	(4,860,490)
Net Position (deficit) at end of year	($4,367,834)

See accompanying notes to financial statements

CITY OF MARTINEZ - MARINA SERVICES
ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$134,047
Payments to suppliers	(570,766)
Cash Flows from Operating Activities	(436,719)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Taxes received	12,891
Borrowings of advances to other funds	(473,849)
Transfers in	723,849
Cash Flows from Noncapital Financing Activities	262,891
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Interest paid	(71,269)
Cash Flows from Capital and Related Financing Activities	(71,269)
CASH FLOWS FROM CAPITAL AND RELATED INVESTING ACTIVITIES	
Interest	884
Cash Flows from Investing Activities	884
Net Cash Flows	(244,213)
Cash and investments at beginning of period	431,270
Cash and investments at end of period	$187,057

Reconciliation of Operating Loss to Cash Flows from Operating Activities:	
Operating loss	($149,957)
Adjustments to reconcile operating loss to cash flows	
Depreciation	45,272
Change in assets and liabilities:	
Accounts receivable	(833)
Accounts payable and other liabilities	(3,896)
Deposits	2
Unearned revenue	(327,307)
Cash Flows from Operating Activities	($436,719)

See accompanying notes to financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In January 1960, the City entered into an agreement with the State of California, whereby a loan of $1,300,000 was granted to the City for construction of a Marina. In October of 1964, a Memorandum of Agreement which superseded the 1960 loan agreement was entered into.

A. Reporting Entity

The City of Martinez – Marina Services is an enterprise fund of the City of Martinez and is an integral part of that reporting entity. This enterprise fund is included in the basic financial statements of the City of Martinez. Enterprise funds are used to account for operations which are self-financing and where the determination of net earnings is necessary or useful for sound financial administration.

B. Basis of Presentation

The Marina's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

C. Basis of Accounting

The Marina uses the accrual basis of accounting whereby revenues are recorded as earned and expenses are recorded when goods are received or services are provided. The City has applied all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as elected to apply any pronouncements issued by the Financial Accounting Standards Board, except for those that conflict with or contradict GASB pronouncements.

Statement of Net Position – The statement of net position is designed to display the financial position of the Marina. The Marina's fund equity is segregated into three categories defined as follows:

- ***Net Investment in Capital Assets*** – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and deferred outflows of resources; reduced by the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets. These net assets are considered non-expendable.

- ***Restricted Net Position*** – This component of net position consists of constraints placed on net position used through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments. It also pertains to constraints imposed by law or constitutional provisions or enabling legislation.

- ***Unrestricted Net Position*** – This component of net position consists of net position that does not meet the definition of "restricted" or "investment in capital assets". Amounts included as unrestricted net position are available for designation for specific purposes as established by the City Council.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement of Revenues, Expenses and Changes in Net Position – The statement of revenues, expenses and changes in net position is the operating statement for proprietary funds. Revenues are reported by major source. These statements distinguish between operating and non-operating revenues and expenses and present a separate subtotal for operating revenues, operating expenses, and operating income.

D. Capital Assets

Capital assets are recorded at estimated cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives on a straight-line basis.

Buildings	30-40 years
Improvements	50 years

E. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F. Restatement

During the current fiscal year the City determined real property in the amount of $800,165 and improvements in the amount of $1,672,642 that were not considered to be City assets that were recorded as capital assets with associated accumulated depreciation in the amount of $217,443. In addition, the City also determined that land had been granted to them in the past in the amount of $32,532 was not recorded. The City restated the Marina Services Enterprise Fund in the amount of $2,222,832 which is included in the Statement of Revenues, Expenses and Changes in Net Position.

G. Deferred Outflows/Inflows of Resources

In additions to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow resources (expense/expenditure) until then. The Marina does not have any items that qualify for reporting in this category this fiscal year.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The separate financial element, *deferred inflows of resources*, represents an acquisition of net position that applies to future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Marina does not have any items that qualify for reporting in this category this fiscal year.

NOTE 2 – CONTINUED OPERATIONS

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Marina as a going concern. The Marina Services Enterprise Fund has an accumulated net deficit of $4,367,834 as of June 30, 2013 made up primarily of State loans which the City has not had sufficient operating revenues to repay. The fund is used to account for the operation of the City's Marina. Management has taken steps to remedy this situation by privatizing the Marina and entering into an operating agreement with an independent company to manage the Marina. In fiscal year 2006-07, the State agreed to allow the City to make interest-only annual payments until August 2008, at which time the City commenced making principal payments on the loans. During fiscal year 2013 the City was again unable to make principal payments on the loans. See discussion in Note 7. Contained in the loan agreements with the State is a provision which allows the State to take over the Marina with a 90 day notice. As of June 30, 2013, the City had not received such notice.

In view of the matters described in the preceding paragraph, recoverability of a major portion of the recorded asset amounts shown in the accompanying statement of net assets is dependent upon continued operations of the Marina, which in turn is dependent upon the Marina's ability to meet its financing requirements on a continuing basis, to maintain present financing and to succeed in its future operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Marina be unable to continue in existence.

NOTE 3 – CASH AND INVESTMENTS

The Marina's cash is pooled with other funds of the City in an unrated cash and investment pool, the details of which are presented in the City's Comprehensive Annual Financial Report. The City is primarily invested in the California Local Agency Investment Fund and investments of U.S. Government sponsored agencies. Investments are stated at fair value as required by generally accepted accounting principles.

NOTE 4 – UNEARNED REVENUE

Unearned revenue represents a prepayment on a land lease. The unearned revenue is being amortized over the term of the lease of 55 years, which runs through the fiscal year ending June 30, 2052. The balance of this unearned revenue was $326,179 at June 30, 2013.

NOTE 5 – INTERFUND PAYABLES TO THE CITY

A. Transfers from the City

During the fiscal year ended June 30, 2013, the City's General Fund transferred $723,849 to the Marina to write off the Marina's advances as discussed in Note 5B below and to fund operations.

B. Advances from the City

In fiscal year 2004-2005 the General Fund made an advance to the Marina Services Enterprise Fund in the amount of $225,000, to be repaid monthly until 2018. Annual interest at 4.96% is accrued on the unpaid balance.

In fiscal year 2005-2006 the General Fund made two additional advances to the Marina Services Enterprise Fund in the amount of $82,000 and $275,000. The $82,000 advance is to be repaid at the same repayment terms as the original $225,000 advance discussed above. As of June 30, 2013, its balance was $0, as the remaining payable of $52,176 was liquidated by the City's General Fund. The second advance for $275,000 is to be repaid over 45 years. Annual interest at 4.53% is accrued on the unpaid balance.

In fiscal year 2007-08 the General Fund made an advance to the Marina Services Enterprise Fund in the amount of $110,000, to be repaid monthly until 2023 at an interest rate of 3.11%. The project was completed under budget and $67,408 of the loan was unused and returned to the General Fund.

During the fiscal year ended June 30, 2013, it was determined that the Marina Services Enterprise Fund would never be able to repay the long-term interfund advances to the General Fund due to the Marina Services Funds ongoing deficit and going concern issues as discussed in Note 2, therefore the loans were forgiven.

NOTE 6 – MARINA FEES

Monthly berthing fees and other fees are as follows for 2013:

	Berthing Fees				***Charges***	
A.	20 Feet Double		$106.00		40 Feet, Single	$352.00
	25 Feet Double		$140.00		40 Feet, Double	$266.00
	30 Feet Double		$171.00		45 Feet, Single	$412.00
	35 Feet Single		$285.00		45 Feet, Double	$319.00
	35 Feet Double		$219.00			
B.	End Ties	A 35 Feet	$286.00		C 80 Feet	$721.00
		A 90 Feet	$906.00		D 70 Feet	$631.00
		B 90 Feet	$906.00		E 60 Feet	$519.00

C.	On berth tenant permit	$183.00	/ month
D.	Transient daily Berth rate	$ 15.00	/up to 20 feet
		$ 17.00	/25 feet
		$ 18.00	/30 feet
		$ 20.00	/35 feet
		$ 22.00	/40 feet
		$ 25.00	/45 feet and above
E.	Utility Charges	$ 5.00	/20 feet
		$ 6.00	/25 feet
		$ 8.00	/30 feet
		$ 10.00	/35 feet
		$ 12.00	/40 feet
		$ 15.00	/45-90 feet
		Liveaboard Electrical=Slip length X 2	
F.	Dock Box	$ 4.00	/month

Other Fees

a.	Use of Launch Ramp	$ 10.00	/day
b.	R.V. Parking	$ 15.00	/day
c.	Key deposit fee	$ 25.00	/key

NOTE 7 – LOANS PAYABLE

A. Current Year Transactions and Balances

	Original Issue Amount	Balance at June 30, 2012	Additions	Balance at June 30, 2013	Current Portion
Marina Loans					
Loan Payable - 1964	$1,300,000	$850,000		$850,000	
Accrued interest		1,712,515	$25,499	1,738,014	
Loan Payable - 1973	450,000	251,136		251,136	$24,712
Loan Payable - 1978	175,000	131,574		131,574	10,021
Loan Payable - 1982	300,000	323,922		323,922	17,018
Loan Payable - 1984	750,000	877,077		877,077	35,367
Total Marina Loans		$4,146,224		$4,171,723	$87,118

During fiscal year 2003, accrued interest was added to the outstanding principal for all the State loans with the exception of the 1964 agreement.

B. Loan Payable – 1964

In January of 1960, the City entered into an agreement with the State of California, whereby a loan of $1,300,000 was granted to the City for the construction of a Marina. In October of 1964, a Memorandum of Agreement which superseded the 1960 loan agreement was entered into. At June 30, 2013, the amount payable to the State including interest amounted to $2,588,014.

The agreement was modified in 1964 with the following conditions:

Net income from the operations of the Marina is distributable as follows:

- Pro rata reimbursement to contributors of initial development costs as described in the agreement.
- 80% of the annual net income to the State, until the sum of $1,300,000 is paid; the remaining 20% to be paid to the City.
- After the principal portion of the loan is repaid to the State, 80% of the annual net income shall be paid to the City; the remaining 20% shall be paid to the State until the State has been paid 3% interest per annum on the unpaid principal of the loan for each year starting with January 1, 1961. The agreement will terminate upon completion of the foregoing payments.

NOTE 7 – LOANS PAYABLE (Continued)

The loan payment date and maturity date of the loan is being negotiated between the City and the State.

C. Loan Payable – 1973

On December 20, 1973, the City entered into another agreement with the State of California, whereby a loan of $450,000 was granted to the City to complete the Martinez Small Craft Harbor (MSCH). At June 30, 2013, the amount payable to the State was $251,136. The terms are as follows:

- The loan is payable from the gross revenues from operations of the facilities located or erected within the MSCH Project, prior to any other expenditures from such revenues.
- Payments of principal and interest at 4.5% shall be payable in equal annual installments on August 1 of each year with a final payment due on August 1, 2026.
- Any retained earnings arising from the operation of the MSCH Project after deductions for repayments of the State loan, operating and maintenance expenses and reserve funds provided for by the State, shall be invested in reasonably liquid assets. No transfer of such funds, other than for advance repayment of the State loan, shall be made so long as any principal or interest remains unpaid.
- Whenever the retained earnings exceeds two years of MSCH Project operating and loan repayment expenses, such excess may be required by the State for advance repayment of the loan.

D. Loan Payable – 1978

On January 30, 1978, the City entered into another agreement with the State of California, whereby a loan of $175,000 was granted to the City for construction of Marina Improvements. At June 30, 2013 the amount payable to the State was $131,574. The terms are as follows:

- The loan is payable from the gross revenues from operation of the facilities located or erected within the Project Area.
- Payments of principal and interest at 4.5% in equal annual installments shall be payable on August 1 of each year with a final payment due August 1, 2029.

NOTE 7 – LOANS PAYABLE (Continued)

E. Loan Payable – 1982

On November 1, 1982, the City entered into another agreement with the State of California, whereby a loan of $300,000 was granted to the City for the construction of new berthings and improvements to the Marina. The loan was to be based on stages of completion. At June 30, 2013, the amount payable to the State was $323,922. The loan terms are as follows:

- The loan is payable from the gross revenues originating from the operations of the Marina. These gross revenues constitute sole security for the loan.
- The loan shall bear compound interest at 4.5% per annum on the unpaid balance.
- Repayment of the loan shall be in equal annual installments on August 1 of each year with final payment due August 1, 2034.

F. Loan Payable – 1985

On January 14, 1985 the City entered into another agreement with the State of California, whereby a loan of $770,425 was granted to the City for twelve capital improvement projects at the Marina. At June 30, 2013, the amount payable to the State was $877,077. The loan terms are as follows:

- The loan is payable from the gross revenues from the operation of the facilities located within the project area.
- The loan shall bear compound interest at 4.5% per annum on the unpaid balance.
- Repayment of the loan shall be in equal annual installments on August 1 of each year with a final payment due on August 1, 2038.
- Berthing rates may not average less than $3.75 per foot of boat or berth length and are subject to annual adjustments based on the consumer price index.
- A survey of berthing charges in the same market as the Marina shall be conducted on an annual basis.

G. Loan Repayment

At June 30, 2013, the Marina Fund owed $4,171,723 in loans to the State. The City made an interest payment of $71,267 in fiscal 2013 to cover current year interest accrued on the unpaid loan balances.

The above loan agreements, except for the 1960 loan which has no specified repayment terms, require the Marina to remit annual debt service payments. The City failed to make the $42,599 of principal portion of the debt service payments for the loans that were due on August 1, 2012. The State has assessed a late penalty fee of 5% of the unpaid balances.

NOTE 7 – LOANS PAYABLE (Continued)

H. Debt Service Transactions:

	Marina Activities	
For the Year Ending June 30	Principal	Interest
2014	$87,118	$69,347
2015	46,522	67,344
2016	48,616	65,250
2017	50,803	63,063
2018	53,090	60,776
2019 - 2023	303,505	265,825
2024 - 2028	354,821	191,109
2029 - 2033	303,639	116,249
2034 - 2038	281,243	48,260
2039	54,352	2,444
Total	1,583,709	$949,667
Plus: Marina Loan 1964	850,000	
Plus: Accrued interest	1,738,014	
Total	$4,171,723	

NOTE 8 - INSURANCE

The City participates in the Municipal Pooling Authority (MPA) pool in which there is a transfer or a of pooling of risks among participants in the pool. Premiums are paid to MPA by all cities and MPA pays claims, maintains claim reserves and controls administrative costs of the program. Claims are paid by MPA, excluding the deductible. If MPA does not have adequate funds, then the City could be assessed additional premiums to fund the liabilities. However, MPA believes it is adequately funded based on recent actuarial reports.

Insurance coverage through the Municipal Pooling Authority is as follows:

Type of Coverage (Deductible)	Coverage Limits
Liability ($10,000)	$29,000,000
Employment Risk Management Authority ($50,000)	1,000,000
Vehicle - Physical Damage ($3,000 for police vehicles, $2,000 for all others)	250,000
Workers' Compensation (no deductible)	Statutory Limits
All Risk Fire & Property ($25,000)	1,000,000,000
Earthquake (5% - 10% per location, $25,000 to $100,000 minimum)	6,892,678
Flood ($100,000 per occurrence)	25,000,000
Boiler & Machinery ($5,000)	100,000,000
Cyber Liability ($50,000)	2,000,000
Public Entity Pollution Liability ($100,000)	1,000,000

NOTE 9 – OPERATING LEASES

The Marina entered into an operating lease with Eagle Marine for the Marina Boat Yard facility. The current lease term expires July 31, 2017. Lease payments are a percentage of gross receipts or the minimum monthly rent, whichever is greater. The minimum annual rent is $48,000 per year until July 31, 2013 and then increases to $51,000 a year until July 31, 2017. Lease payments received for the year ended June 30, 2013 were $50,204.

The Marina also entered into an operating lease with the Martinez Yacht Club. The current lease term expires November 1, 2013. Lease payments received for the year ended June 30, 2013 were $9,392.

The Marina entered into a management agreement with Almar Management, Inc. on July 20, 2005 to manage and operate the Martinez Marina. The current agreement commenced on July 20, 2005 and continued to December 31, 2005 at which date the Agreement continues unless terminated by either party with at 60 day written notice. Revenue received per this Agreement is rents and other income from the marina, less expenditures at the marina under the management of Almar Management, Inc. Total rents and income from Almar as of June 30, 2013 was $68,339.

The Marina entered into a lease agreement with Southern Pacific Transportation Company for the use on public trust lands. The current lease expires June 30, 2052. The City received the full payment and recognizes $8,364 annually as lease revenue. The balance remains as unearned revenue. Lease payment for the year ended June 30, 2013 was $8,364.

The Marina entered into a lease agreement January 16, 2013 the Marina with Rooster Productions, LLC for the use of the Kenney Family Production Facility, which is located on public trust lands. The current lease term expires on January 16, 2018. Lease payments received for the year ended June 30, 2013 were $3,945.

Revenue on leased land	
Eagle Marine	$50,204
Martinez Yacht Club	9,392
Almar Management, Inc.	68,339
Subtotal	127,935
Revenue from public trust lands	
Southern Pacific Transportation	8,364
Rooster Productions, LLC	3,945
Subtotal	12,309
Total rents and leases revenue	$140,244

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SUPPLEMENTAL INFORMATION

CITY OF MARTINEZ - MARINA SERVICES
ENTERPRISE FUND
SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

	Administration	Maintenance and Repair
Professional services	$40,488	
State Lands lease	21,078	
Engineering services	55,335	
Dredge project		$269,299
Legal services	21,393	815
Consulting services	73,378	
Repair & maintenance		22,119
Property insurance		317
Utilities		16,411
Professional membership	275	
Mitigation plan	29,284	
Travel	182	14,858
Advertising and printing	589	802
Other	249	
	$242,251	$324,621

CITY OF MARTINEZ
GRANTED PUBLIC TRUST LANDS
FOR THE YEAR ENDED JUNE 30, 2013

Fund Equity 06/30/12	$0
REVENUE	
Lease - Rooster Productions	3,945
Lease - Southern Pacific Transportation	8,364
TOTAL REVENUE	12,309
EXPENDITURES	
Staff - Dig out & clean up settlement ponds	817
TOTAL EXPENDITURES	817
Fund Equity 06/30/13	$11,492

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Attachment 4

CITY OF MARTINEZ
PEDESTRIAN AND BICYCLE PROGRAM
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2013

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CITY OF MARTINEZ
PEDESTRIAN AND BICYCLE PROGRAM
FOR THE YEAR ENDED JUNE 30, 2013

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MAZE & ASSOCIATES

INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the City Council
City of Martinez, California

Report on Financial Statements

We have audited the accompanying financial statements of the Transportation Development Act Program (Program) of the City of Martinez as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Program's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Program as of June 30, 2013, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Maze + Associates

Pleasant Hill, California
September 13, 2013

CITY OF MARTINEZ
PEDESTRIAN AND BICYCLE PROGRAM
BALANCE SHEET
JUNE 30, 2013

	Allocation Instruction # 11001008
ASSETS	
Due from Metropolitan Transportation Commission (Note 2)	$18,320
TOTAL ASSETS	$18,320
LIABILITIES	
Due to City of Martinez	$18,320
TOTAL LIABILITIES	$18,320

See accompanying notes to financial statements

CITY OF MARTINEZ
PEDESTRIAN AND BICYCLE PROGRAM
STATEMENT OF REVENUES AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2013

	Allocation Instruction # 11001008
REVENUES	
T.D.A. Article 3 (Note 2)	$18,320
Total Revenues	18,320
EXPENDITURES:	
Downtown Bicycle Improvement Project	18,320
Total Expenditures	18,320
Excess of Revenues Over Expenditures	

See accompanying notes to financial statements

CITY OF MARTINEZ
PEDESTRIAN AND BICYCLE PROGRAM
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Martinez has developed the Pedestrian/Bicycle Program (Program) under the Transportation Development Act (TDA), Article 3.0, for the construction of pedestrian pathways and wheelchair ramps and bicycle master plan studies. The Program is funded by TDA grants.

The following is a summary of significant accounting policies of the Program which conform to generally accepted accounting principles in the United States of America as applicable to governments.

A. Fund Accounting

The Program is accounted for as part of the Capital Improvements Capital Projects Fund of the City of Martinez. This Fund is a set of self-balancing accounts which comprise its assets, liabilities, fund equity, revenues and expenditures.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized. The Program is accounted for in a governmental fund type and the modified accrual basis of accounting is used. Under the modified accrual basis, revenues are recognized when they become measurable and available as net current assets. Expenditures are recognized when they are incurred.

C. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – TDA 3.0 REVENUES

For the year ended June 30, 2013, the City received allocation instructions from the Metropolitan Transportation Commission for the following project:

Project Name	Allocation Instruction #	Grant Amount	Expended from Inception to 6/30/2013	Revenue in fiscal 6/30/2013
Downtown Bicycle Improvement Project	11001008	$35,000	$18,320	$18,320

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING, ON COMPLIANCE WITH THE TRANSPORTATION DEVELOPMENT ACT AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Members of the City Council
City of Martinez, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Transportation Development Act Program of the City of Martinez, as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated September 13, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Program's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Our procedures included the applicable audit procedures contained in §6666 of Title 21 of California Code of Regulations and tests of compliance with the applicable provisions of the Transportation Development Act and the allocation instructions and resolutions of the Metropolitan Transportation Commission. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are listed as findings 2013-1 and 2013-2 in our separately issued Memorandum on Internal Control and dated September 13, 2013 which is an integral part of our audits and should be read in conjunction with this report.

We have also issued a separate Memorandum on Internal Control dated September 13, 2013 which is an integral part of our audit and should be read in conjunction with this report.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maze + Associates

Pleasant Hill, California
September 13, 2013

Attachment 5

MAZE & ASSOCIATES

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED UPON PROCEDURES FOR COMPLIANCE WITH THE PROPOSITION 111 2012-2013 APPROPRIATIONS LIMIT INCREMENT

Honorable Mayor and Members of the City Council
City of Martinez, California

We have performed the procedures below to the Appropriations Limit Worksheet which were agreed to by the City of Martinez for the year ended June 30, 2013. These procedures, which were suggested by the League of California Cities and presented in their Article XIIIB Appropriations Limitation Uniform Guidelines, were performed solely to assist you in meeting the requirements of Section 1.5 of Article XIIIB of the California Constitution. Management is responsible for the Appropriations Limit Worksheet. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the City. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures you requested us to perform and our findings were as follows:

A. We obtained the Appropriations Limit Worksheet and determined that the 2012-2013 Appropriations Limit of $153,873,743 and annual adjustment factors were adopted by Resolution of City Council. We also determined that the population and inflation options were selected by a recorded vote of the City Council.

B. We recomputed the 2012-2013 Appropriations Limit by multiplying the 2011-2012 Prior Year Appropriations Limit by the Total Growth Factor.

C. For the Appropriations Limitation Worksheet, we agreed the Per Capita Income, City Population and County Population Factors to California State Department of Finance Worksheets.

We were not engaged to, and did not conduct and audit, the objective of which would be the expression of an opinion on the Appropriations Limit Worksheet. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management and the City Council; however, this restriction is not intended to limit the distribution of this report, which is a matter of public record.

Maze & Associates

September 13, 2013

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Attachment 6

CITY OF MARTINEZ
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

FOR THE YEAR ENDED JUNE 30, 2013

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CITY OF MARTINEZ
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

For The Year Ended June 30, 2013

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MAZE & ASSOCIATES

MEMORANDUM ON INTERNAL CONTROL

To the City Council of
the City of Martinez, California

We have audited the basic financial statements of the City of Martinez for the year ended June 30, 2013, and have issued our report thereon dated September 13, 2013. In planning and performing our audit of the basic financial statements of the City of Martinez, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist and that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, we identified certain deficiencies in internal control that we consider to be material weaknesses that are included on the Schedule of Material Weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified certain deficiencies in internal control that we consider to be significant deficiencies that are included on the Schedule of Significant Deficiencies.

Management responses included in this report have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, City Council, others within the organization, and agencies and pass-through entities requiring compliance with generally accepted government auditing standards, and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

Pleasant Hill, California
September 13, 2013

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MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF MATERIAL WEAKNESSES

2013 - 1: Marina Going Concern and Technical Default of Marina Loans

Criteria: The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Marina as a going concern.

In accordance with the most recent loan agreements for the 1973, 1978, 1982 and 1984 marina loans from the State of California, Department of Boating and Waterways, the City is required to make annual debt service payments on the loans consisting of both a principal and an interest portion.

Condition: The Marina Services Enterprise Fund has an accumulated net deficit of $4,367,834 as of June 30, 2013 made up primarily of State loans which the City has not had sufficient operating revenues to repay. The fund is used to account for the operations of the City's Marina. Management has taken steps to remedy this situation by privatizing the Marina and entering into an operating agreement with an independent company to manage the Marina. In fiscal year 2006-07, the State agreed to allow the City to make interest-only annual payments until August 2008, at which time the City commenced making principal payments on the loans. The City did not make the principal portion of the debt service payment in the amount of $42,599 for the 1973, 1978, 1982 and 1984 marina loans that was due on August 1, 2012. The City was only able to pay the interest portion of the debt service.

In view of the matters described in the preceding paragraph, recoverability of a major portion of the recorded asset amounts shown in the accompanying statement of net assets is dependent upon continued operations of the Marina, which in turn is dependent upon the Marina's ability to meet its financing requirements on a continuing basis, to maintain present financing and to succeed in its future operations.

Cause: Costs of running the Marina continue to exceed the operating revenues that are earned, due to this, the City has not had sufficient funds to properly maintain and dredge the Marina or pay the debt service on the loans.

Effect: The Marina's continued operations are a going concern. Failure to pay the principal portion of the loans caused the City to be in technical default on the loans. Additionally, the City has been assessed a 5% penalty on the unpaid portion of the debt service.

Recommendation: The City should continue in its communications with the State in order to determine if the terms of the loans can be renegotiated and to come up with a plan of action for the future of the Marina.

Management Response:

In July 2012, the City Council was notified that the Marina Services Enterprise Fund did not have a sufficient fund balance to pay both the principal and interest due on the State loans. As a result, the City Council authorized to make interest only payments on the loans. The City has been working collaboratively with the State to seek a comprehensive solution to outstanding issues with the Marina, including the loans. The State is considering the value of the Marina to the region and the State as an important asset. Within that framework, discussions include developing a plan for the possible repair and renovation of the Marina, landside development, and renegotiation of the loan terms. The outcome of these discussions has yet to be determined.

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MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF SIGNIFICANT DEFICIENCIES

2013 - 2: Completion of Projects and Billings

Criteria: When a project included in construction in progress has received a notice of completion from the City Council, the project should be transferred out of construction in progress to a completed asset in the same fiscal year in which the notice of completion was received.

Condition: The City Council accepted the Marina Vista Streetscape Project and filed a notice of completion in December, 2012. Final payment retention was made to the contractor in late January 2013 however, as of June 30, 2013 the City had not transferred the project in the amount of $2,969,773 out of construction in progress to completed infrastructure assets. Additionally, there were three other utility companies involved in different aspects of the project with the City and due to delays caused by these other companies the City was unable to file for reimbursements in the amount of $325,260 until the utility companies could bring themselves up to date with the project.

Cause: The backlog of the work from the utility companies caused delays for the City on the project and ultimately in the reimbursement filings. Additionally, the City stated that the Engineering Division focused their resources on managing several large capital improvement projects through final design, bidding and contract award process so that construction could commence in the summer of 2013 instead of completing the necessary project closeout in a timelier manner.

Effect: If completed projects are not transferred out of construction in progress to completed assets, it is overstating the construction in progress balance and understating the balance of the completed assets and the depreciation associated with the project is not being charged. The City may not be efficiently managing cash flows for projects if they are unable to work with third parties to keep the billings and reimbursements for projects up to date.

Recommendation: The City should develop procedures to ensure reimbursement requests are prepared on a timely basis, at least quarterly, as costs are incurred not only to improve cash flow but to match expenditures with associated revenues in the same period. The City should also have a process in place to ensure that projects are transferred to completed assets once a notice of completion has been issued by the City Council.

Management Response: The City has procedures on submitting reimbursement requests in a timely manner, however on this project staff had difficulties with retrieving the appropriate information from the three utility companies to be billed. One utility company was experiencing a backlog in completing and close-out of projects by two years. This close-out process also delayed Finance from moving the project from Capital Asset Construction in Progress, to Capital Asset Infrastructure in order to start the depreciation process. The City did retain an engineering firm to provide staff augmentation and project management services in February. The City plans to continue using contract engineering services to support the engineering staff, in order to provide enough project management from the beginning of the project through completion, which includes final billing from all funding sources and working with Finance to supply all the necessary information to transfer the asset, as required by Governmental Accounting Standards Board Statement Number 34, by year end.

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REQUIRED COMMUNICATIONS

September 13, 2013

To the City Council of
The City of Martinez, California

We have audited the basic financial statements of the City of Martinez for the year ended June 30, 2013. Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards and, *Government Auditing Standards.*

Significant Audit Findings

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Martinez are described in Note 1 to the financial statements. The following pronouncements became effective, but did not have a material effect on the financial statements:

GASB 60 - *Accounting and Financial Reporting for Service Concession Arrangements*

The objective of this proposed Statement is to establish accounting and financial reporting requirements for service concession arrangements (SCAs), which are a type of public-private or public-public partnership arrangement. SCAs include, but are not limited to:

a. Arrangements in which the operator will design and build a facility and will obtain the right to collect fees from third parties (for example, construction of a municipal complex for the right to lease a portion of the facility to third parties)

b. Arrangements in which the operator will provide an up-front payment or a series of payments in exchange for the right to access an existing facility (for example, a parking garage) and collect fees from third parties for its usage

c. Arrangements in which the operator will design and build a facility (for example, a new tollway), finance the construction costs, provide the associated services, collect the associated fees, and convey the facility to the government at the end of the arrangement.

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GASB 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

This Statement also supersedes Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

GASB 64 - *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53*

Some governments have entered into interest rate swap agreements and commodity swap agreements in which a swap counterparty, or the swap counterparty's credit support provider, commits or experiences either an act of default or a termination event as both are described in the swap agreement. Many of those governments have replaced their swap counterparty, or swap counterparty's credit support providers, either by amending existing swap agreements or by entering into new swap agreements. When these swap agreements have been reported as hedging instruments, questions have arisen regarding the application of the termination of hedge accounting provisions in Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. Those provisions require a government to cease hedge accounting upon the termination of the hedging derivative instrument, resulting in the immediate recognition of the deferred outflows of resources or deferred inflows of resources as a component of investment income.

The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

The following pronouncements became effective, and as disclosed in Note 10 and required a prior period restatement for the cumulative effect on the financial statements:

GASB 65 - *Items Previously Reported as Assets and Liabilities*

This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

GASB 65 - *Items Previously Reported as Assets and Liabilities (Continued)*

Concepts Statement No. 4, *Elements of Financial Statements,* introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The following pronouncements became effective, and required a format change in the Statement of Net Assets and certain nomenclature revisions in the footnotes accompanying the financial statements:

GASB 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. *Concepts Statement No. 4, Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in *Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

Unusual Transactions, Controversial or Emerging Areas

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the City's financial statements was:

Management's estimate of the estimated fair value of investments is based on market pricing in effect as of June 30, 2013. The City held approximately $49.5 million of cash and investments as measured by fair value. We evaluated the key factors and assumptions used to develop the fair value of investments in determining that it is reasonable in relation to the financial statements taken as a whole.

Disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was the disclosure of the going concern issues with the Marina in Note 10D to the financial statements and issue 2013-1 above. The Marina Services Enterprise Fund has an accumulated net deficit of $4,367,834 as of June 30, 2013 made up primarily of State loans which the City has not had sufficient operating revenues to repay.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We did propose audit adjustments that, in our judgment, could have a significant effect, either individually or in the aggregate, on the City's financial reporting process related to recording of capital assets and receivables that are described in the Memorandum on Internal Control.

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have no such misstatements to report to the City Council.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in a management representation letter dated September 13, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Marina as a going concern. The Marina Services Enterprise Fund has an accumulated net deficit of $4,367,834 as of June 30, 2013 made up primarily of State loans which the City has not had sufficient operating revenues to repay. The fund is used to account for the operation of the City's Marina. Management has taken steps to remedy this situation by privatizing the Marina and entering into an operating agreement with an independent company to manage the Marina. In fiscal year 2006-07, the State agreed to allow the City to make interest-only annual payments until August 2008, at which time the City commenced making principal payments on the loans. During fiscal year 2013 the City was again unable to make principal payments on the loans. See discussion in Note 8. Contained in the loan agreements with the State is a provision which allows the State to take over the Marina with a 90 day notice. As of June 30, 2013, the City had not received such notice.

In view of the matters described in the preceding paragraph, recoverability of a major portion of the recorded asset amounts shown in the accompanying statement of net assets is dependent upon continued operations of the Marina, which in turn is dependent upon the Marina's ability to meet its financing requirements on a continuing basis, to maintain present financing and to succeed in its future operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Marina be unable to continue in existence.

Other Information Accompanying the Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

With respect to the required supplementary information accompanying the financial statements, we applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not express an opinion nor provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Introductory and Statistical Sections included as part of the Comprehensive Annual Financial Report have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we did not express an opinion nor provide any assurance on them.

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This information is intended solely for the use of City Council and management and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Maze + Associates