



CITY OF MARTINEZ

CITY COUNCIL AGENDA November 5, 2014

TO: Mayor and City Council

FROM: Alan Shear, Assistant City Manager

SUBJECT: Comprehensive Annual Financial Report (CAFR) for Fiscal Year Ended June 30, 2014

DATE: October 30, 2014

RECOMMENDATION:

Receive and file the Comprehensive Annual Financial Report (CAFR) for Fiscal Year ended June 30, 2014.

BACKGROUND:

Each fiscal year the City is required to be audited annually by an independent certified public accountancy firm. The CPA firm of Maze and Associates is the City's independent external auditor. Maze and Associates has completed its review and examination of the City's financial transactions and statements for the year ended June 30, 2014, and the audit was conducted in accordance with generally accepted auditing standards. Those standards require the auditor to plan and perform the audit to obtain reasonable assurances as to whether the financial statements are free of material misstatement. The audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and assessing the accounting principles used, and significant estimates made by staff. The City's auditor and staff reviewed the report with the Budget Subcommittee on October 29, 2014 and the Subcommittee recommended forwarding to the City Council.

It is the opinion of the auditors that the financial statements fairly represent the financial position of the City as of June 30, 2014, and that the statements were prepared in conformity with generally accepted accounting principles (GAAP). Maze and Associates also agreed with the City's Appropriations Limit Calculation (GANN) for 2013-14. The Finance Division was responsible for the coordination of the audit process, the completion of the year-end closing, and the preparation of the Comprehensive Annual Financial Report (CAFR).

The Finance Division incorporates the City's financial statements into a CAFR, the purpose of which is to provide citizens, grantor agencies, bond trustees, and other interested parties, with reliable financial information about the City. In each of the previous ten years, the City has received the Certificate of Achievement for Excellence in Financial Reporting from the Governmental Finance Officers Association (GFOA). The GFOA award is a prestigious national award recognizing the use of high standards in preparing state and local government financial reports.

Complete financial information as of June 30, 2014 is contained in the CAFR. Key information contained in the CAFR is stated below:

- The General Fund ended at June 30, 2014 with a fund balance of \$8,272,585. Of this amount \$77,969 was nonspendable and restricted; \$1,473,738 was assigned; and \$6,720,878 was unassigned, with \$1,000,000 designated for unforeseen contingencies, leaving \$5,720,878.

Operating revenues were \$20,528,272, of which \$190,000 was one-time revenues from fees collected on two subdivisions. Also included in operating revenues is \$800,000 in sales tax from a business that is no longer in the City, which makes it one-time revenue. Operating expenditures were \$19,081,572 with \$36,691 in encumbrances that will be re-appropriated to Fiscal Year 2014-15. Expenses, less encumbrances, were \$520,391 under budget, mostly in salary and benefit savings with \$280,000 in the police department and \$110,000 in public works.

In addition, \$153,601 was transferred to other funds. \$22,601 to the water system, for the lifeline program for low income residents; \$6,000 to three Lighting & Landscape Assessment Districts for maintenance costs; \$25,000 for repairs to the Boys & Girls club building; and \$100,000 was transferred to the Marina Service Enterprise Fund for mitigation services.

- The City has three Enterprise Funds, Water System, Marina, and Parking Services. Each is financed and operated in a manner similar to a private business enterprise. The intent of an enterprise fund is for the costs of providing goods and services to the general public on a continuing basis are financed or recovered primarily through user charges. The Water Fund ended the fiscal year with assets restricted for capital projects and debt service of \$10,534,024 and unrestricted of \$6,300,673, which can be used for future projects and debt service. The Marina ended June 30, 2014 with negative net assets of \$4,329,513, and Parking Services ended with unrestricted net assets of \$1,186,257 and \$177,471 restricted for capital projects.
- Internal Service Funds account for the financing of goods and services provided by one department to the other departments on a cost-reimbursement basis. The City has two Internal Service Funds. The Equipment Replacement Fund accounts for the accumulation of funds for the maintenance and subsequent replacement of City equipment, including the vehicle fleet. The Management Information System Fund accounts for the I.T. services rendered to all City departments for management of hardware and software needs. The combined unrestricted net assets of both funds were \$1,536,330 at June 30, 2014.

In addition to the CAFR, separate financial statements were produced for the Water System Enterprise Fund and Marina Services Enterprise Fund. In addition, to conducting the financial audit and offering an opinion on the City's financial statements, the auditors provide a Memorandum on Internal Controls and Required Communications as per the Statement on Auditing Standards (SAS) No. 115. This report notes certain matters involving internal control and operational concerns.

FISCAL IMPACT:

None.

ACTION:

Motion to receive and file the Comprehensive Annual Financial Report (CAFR) for fiscal year ended June 30, 2014.

Attachments:

- Comprehensive Annual Financial Report
- Water System Financial Statements
- Marina System Financial Statements
- Appropriations Limit Increment for 2013-14
- Memorandum on Internal Controls and Required Communications

APPROVED BY:

A handwritten signature in blue ink, appearing to read "Steve Stakel".

Interim City Manager

City of
MARTINEZ
California



Comprehensive Annual
Financial Report for the
Fiscal Year Ended
June 30, 2014

**CITY OF MARTINEZ, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2014**



**Prepared by
ADMINISTRATIVE SERVICES DEPARTMENT**

CITY OF MARTINEZ, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2014

Prepared by
ADMINISTRATIVE SERVICES DEPARTMENT

This Page Left Intentionally Blank

CITY OF MARTINEZ

Comprehensive Annual Financial Report
For the Year Ended June 30, 2014

Page

INTRODUCTORY SECTION:

Table of Contents..... i

Letter of Transmittal..... v

Key Personnel..... xiv

Organization Chart xv

Location Map..... xvi

GFOA Award xvii

FINANCIAL SECTION:

Independent Auditor’s Report..... 1

Management’s Discussion and Analysis 5

Basic Financial Statements:

Government-wide Financial Statements:

Statement of Net Position..... 18

Statement of Activities 19

Fund Financial Statements:

Governmental Funds:

Balance Sheet..... 22

Reconciliation of the Governmental Funds – Fund Balances
with the Governmental Activities Statement of Net Position 23

Statement of Revenues, Expenditures, and Changes in Fund Balances 24

Reconciliation of the Net Changes in Fund Balances - Total Governmental
Funds with the Change in Governmental Net Position..... 25

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual:

General Fund 26

CITY OF MARTINEZ

Comprehensive Annual Financial Report
For the Year Ended June 30, 2014

Page

FINANCIAL SECTION (Continued):

Basic Financial Statements (Continued)

Proprietary Funds:

Statement of Net Position 28

Statement of Revenues, Expenses and Changes in Fund Net Position..... 29

Statement of Cash Flows 30

Fiduciary Funds:

Statement of Fiduciary Net Position 32

Statement of Changes in Fiduciary Net Position 33

Notes to Financial Statements 35

Supplemental Information:

Non-major Governmental Funds:

Combining Balance Sheets 76

Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances 78

Combining Schedule of Revenues, Expenditures, and Changes
in Fund Balances - Budget and Actual..... 80

Internal Service Funds:

Combining Statement of Net Position 84

Combining Statement of Revenues, Expenses and Changes in Fund Net Position..... 85

Combining Statement of Cash Flows 86

Fiduciary Funds:

Statement of Changes in Assets and Liabilities – All Agency Funds 88

CITY OF MARTINEZ

**Comprehensive Annual Financial Report
For the Year Ended June 30, 2014**

STATISTICAL SECTION:

Page

Net Position by Component.....	91
Changes in Net Position.....	92
Fund Balances of Governmental Funds.....	94
Changes in Fund Balance of Governmental Funds.....	96
Assessed and Estimated Actual Value of Taxable Property	98
Property Tax Rates.....	99
Water System Revenue	100
Principal Property Tax Payers	101
Property Tax Levies and Collections.....	102
Ratio of Outstanding Debt by Type.....	103
Computation of Direct and Overlapping Debt	104
Computation of Legal Bonded Debt Margin.....	105
Revenue Bond Coverage, Water Fund Certificates of Participation.....	106
Demographic and Economic Statistics	107
Principal Employers.....	108
Full-Time Equivalent City Government Employees by Function	109
Operating Indicators by Function/Program	110
Capital Asset Statistics by Function/Program	112

This Page Left Intentionally Blank



City of Martinez

525 Henrietta Street, Martinez CA 94553-2394

November 5, 2014

Honorable Mayor and Council Members

State law requires that all general-purpose local governments publish a complete set of financial statements, presented in conformity with Generally Accepted Accounting Principles (GAAP), within six months of the close of each fiscal year. Therefore, we are pleased to present the City of Martinez' Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2014. The City is responsible for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to fairly set forth the financial position and results of operations of the City measured by the financial activity of its funds. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The Government Code of the State of California requires general law cities, such as the City of Martinez, to have its financial statements audited by an independent certified public accountant. Accordingly, this year's audit was completed by the accounting firm of Maze & Associates. The firm was engaged by the City Council to render an opinion of the City's financial statements in accordance with generally accepted auditing standards. To ensure complete independence, Maze & Associates has full access to the City Council to discuss the results of their assessment of the adequacy of internal accounting controls and the quality of financial reporting. The auditor's report on the basic financial statements is the first item in the accompanying financial statements.

The City of Martinez is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget's Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Information related to this single audit, including a schedule of expenditures of federal awards, the independent auditor's reports on internal controls and compliance with applicable laws and regulations, and a schedule of findings and questioned costs are included in a separately issued single audit report.

Generally accepted accounting principles require that management provide a narrative introduction overview and analysis to accompany the basic financial statements in the form of a Management Discussion and Analysis (MD&A). This letter is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

Profile of Martinez

The City's roots can be traced back to 1824 when the Alhambra Valley was included in the Rancho El Pinole Mexican land grant to Ygnacio Martinez. By the late 1840's, the City was a ferryboat transit point across the Carquinez straits on the way to the gold fields of California. The City was officially incorporated in 1876 and serves as the County seat of Contra Costa County. It is located along the Sacramento and San Joaquin rivers in the central part of the County. By the time of its incorporation, Martinez had evolved into one of the area's most significant trading posts and shipping ports. Today, the City covers 12.5 square miles and has approximately 36,700 residents. As one of California's first towns, Martinez retains a strong sense of history and family. The renowned naturalist John Muir made Martinez his home for nearly a quarter century and in 1914, the year of Muir's death, the legendary baseball great Joe DiMaggio was born here. One of the unique aspects of Martinez is its architecture. Many of the downtown shops still retain their early 20th century look and charm, with some homes dating back more than 125 years.

The City operates under the Council-Manager form of government. The City Manager is responsible for the efficient implementation of Council policy and the effective administration of all City government affairs. The City is organized into four departments reporting directly to the City Manager. They are Administrative Services, Community and Economic Development, Police and Public Works.

The City provides a full range of services including police, public works, community and economic development, planning, building, engineering and inspection, parks and recreation, and general administrative services. The City's General Fund supports these services. The City's enterprise operations consist of the Parking Services, Water System, and Marina Services funds. All these services are accounted for in the City's financial statements.

Economic Outlook

The City, much like the larger economies of the State and surrounding region, continues to show strength as it emerges from the long-term impacts of the recent recession. According to a recent report prepared by Beacon Economics, LLC for the East Bay Economic Development Alliance, employment has steadily grown throughout the East Bay since the middle of 2010. Many of the gains in the past year were tied to full-time employment, which represents a significant shift from the 2012-13 period during which increases to the temporary workforce drove much of the rebound. Employment increases to the Transportation and Warehousing (4.9%) and Real Estate (4.2%) sectors led the way, but impressive gains to Professional Scientific and Technical Services (3.5%) and Healthcare (3.3%) also made solid contributions. As these jobs continue to grow, it signals an important trend toward higher-skill positions and business expansion in the region that will continue to strengthen the economic base and speed the recovery.

The improving employment trend is evident in the latest unemployment data as of August 2014 for Contra Costa County and Martinez. Since April 2011, the County's rate has dropped from 10.5% to 6.0%, and the City's rate has dropped from 8.4% to 4.8%. These local figures compare favorably to the statewide rate of 7.4%. The City will continue to look for opportunities to attract new businesses such as the move by Siemens Corporation's Bay Area healthcare and industry divisions from Concord to Martinez which resulted in approximately 100 new jobs in February 2013, and creation of approximately 50 new jobs at the new shopping center along Arnold Drive in March 2013.

The East Bay housing market continues to recover at a rapid pace. After the precipitous decline to housing values in 2008 and 2009, median home sales prices stabilized to some degree throughout the majority of 2010 and 2011. By 2012, the City saw its first annual increase in 4 years to median home sales prices with modest growth of 3.3%. The number of home sales continues to accelerate at a rapid pace, as 729 homes were sold in 2013 compared to 383 from the year before (and 175 from the low-water mark of 2008). The most recent month's sales activity from August 2014 shows an increase of 4.67% in median value to \$392,500 in Martinez. If these trends in sales price and homes sold increase, it will have a positive impact not only on the City's property tax base, but also its Document Transfer Tax revenues. Just as the County Assessor made wholesale downward adjustments to property tax values in recent years as market values were shown to be well below assessed values, the possibility of widespread positive "readjustments," or increasing a property's assessed value by more than 2% following the aforementioned reductions, exists for a significant number of properties. City staff and the City's property tax consultant HdL will be closely monitoring the tax roll to evaluate the trend. The housing market recovery still has a long way to go to achieve historical valuations, though. As a point of reference, the median home sale value in Martinez in February 2005 was \$590,000.

Martinez, like most local agencies, faces considerable challenges in the near term as financial conditions have affected most of its major revenue sources including property and sales taxes, and development fees. The City must also deal with its financial obligations for retirement and other post employment benefits (OPEB), as well as ever-escalating healthcare costs, while trying to maintain current service levels. The City expects retirement costs to continue to increase due to the dramatic market losses of the stock market turmoil in 2008 and 2009, which eroded the value of the CalPERS pension fund. Retirement costs are also anticipated to rise because of the recent decision by the CalPERS Board of Administration to change their amortization and smoothing policy. In April of 2013, CalPERS approved an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period, as opposed to the current policy which spread investment returns over a 15-year period with gains and losses paid over a rolling 30-year period. The new amortization and smoothing policy will be used for the first time in the June 30, 2013 actuarial valuations. These valuations will be performed in the fall of 2014 and will set employer contribution rates for FY 2015-16.

To help meet these and other budgetary challenges, the City strives to develop and diversify its economy in ways that will increase revenues and embrace its heritage. The downtown area historically accounts for only around 5% of the City's total sales tax revenues. Revitalization of the downtown and marina areas is crucial to the City's long-term economic health.

Major Initiatives and Objectives

Public Safety. In order to promote crime prevention activities and awareness, and nurture the partnerships created by our Neighborhood Policing Initiative, the Police Department participated in "National Night Out" against crime for the third consecutive year and had more than 1,400 citizens attend several events throughout the City. Additionally, the Department conducted 18 neighborhood policing area meetings in FY 2013-2014 as the initiative introduced in May 2011 continued to establish a presence through the community. Code Enforcement assisted in mitigating issues identified through the Neighborhood Policing strategy and conducted over 100 investigations throughout the year.

The Department continued its effort to reduce DUI related traffic collisions through saturation patrol and DUI check points. In cooperation with the California Department of Alcoholic Beverage Control, staff conducted three DUI check points. The Department also partnered with Contra Costa County on the “Avoid the 25” program, which allowed the City to participate in several additional DUI check points and saturation patrols within the City of Martinez and along the Highway 4 corridor.

The Department participated in the Contra Costa County Internet Crimes Against Children task force during FY2013-2014. The group’s mandate was to seek out and arrest people sharing child pornography, or those attempting to chat and lure children into sexual situations. Effective January 2014, the Police Department served as the lead agency for the task force and was involved in over 15 investigations.

Measure H Projects. The residents of Martinez approved Measure H, a \$30 million Parks, Pool and Library Bond measure in November 2008. \$15 million in bonds were issued in May 2009 and an additional \$10 million in bonds were issued in April 2012. The first projects supported by this bond included: construction of the Rankin Aquatic Center; renovation and expansion of the City library; renovations to Holiday Highlands, Hidden Lakes, Highland, Nancy Boyd and Rankin parks and Tavan Field; and improvements to tennis and basketball courts at various parks.

The Rankin Aquatic Center project was completed in July 2011. This project, supported through a Council-designated allocation of \$6 million in Measure H funds, included the complete demolition of the site and the following new construction: a play and recreational pool; pool house building with equipment rooms and administrative spaces; decking and miscellaneous site and frontage improvements. The pool reopened on July 23, 2011 and achieved record participation rates through the first three pool seasons. The facility received the California Parks and Recreation Services Award for “Outstanding Aquatic Facility” in March 2013. The City recently extended the pool season through October 2014 given the popularity of the new facility.

Holiday Highlands Park, Rankin Park and Tavan Field were completely renovated. The projects included ADA compliance, playground, hardscape, landscape, irrigation, field and lighting improvements. Additionally, a new restroom was constructed at Holiday Highlands, and the restrooms and concessions buildings at Rankin and Tavan were replaced.

The playground renovation project at Hidden Lakes Park was completed, as well as the tree replacement project at Nancy Boyd and Highland parks. The Sports Court Renovation project was also completed, which included the resurfacing of several basketball and tennis courts throughout the City.

Most recently, Hidden Valley, Cappy Ricks and Nancy Boyd (Phase 2) parks were renovated. At Hidden Valley Park, two new little league baseball fields were reconstructed, along with a regraded turf area, circuit workout equipment, new walking trail and paths, parking area, and restroom/maintenance facility. New group and individual picnic areas were constructed at all three parks and a new restroom and tennis courts were constructed at Cappy Ricks Park.

A variety of other parks projects funded through Measure H are currently underway. These improvements, slated for later this fiscal year, will involve ADA compliance, playground, and other site improvements at Susana Street and Mt. View parks. Similar improvements planned for Waterfront Park are expected to commence this fiscal year. The final \$5 million in authorized bonds will need to be sold to complete Waterfront Park and the remaining park projects.

Transportation Improvements. The project scoping document for the Alternative Waterfront Access Study, formerly known as the North Court Street Overcrossing, was completed. The preferred alternative was a bridge over Alhambra Creek connecting Berrellesa Street to the new Intermodal parking lot and Ferry Street. The project provides a long planned secondary access to the waterfront and marina. Staff is working with the Contra Costa Transportation Authority to fund the project as part of the 2014 Measure J Strategic Plan Update.

Construction of the intermodal parking lot north of the railroad tracks is completed. Design of the pedestrian overcrossing to the existing Amtrak station, the Alhambra Creek Bridge and realigned entrance to Ferry Street is well underway. The Downtown Bicycle and Pedestrian Safety Improvement project was completed. The Shell Avenue and Alhambra Valley Road Pedestrian Safety projects, as well as the Marina Vista/ I-680 Bicycle and Pedestrian Safety project, are currently in the design phase and will be constructed this fiscal year. Additionally, construction of the Pacheco Transit Hub and Park and Ride Facility was completed in the spring of 2014. The project provides approximately 114 parking spaces and 6 bus bays. The transit hub will be served by County Connection, WestCAT and Tri-Delta buses.

The Reliez Valley Road Pavement Rehabilitation project was completed last year. The project involved resurfacing the entire road within the City limits of just under a mile long. In addition, the Arnold Drive Pavement Rehabilitation Project was completed. The limits of the project stretched from Glacier Drive to Pacheco Boulevard.

The 2014 Pavement Program will be completed this fiscal year. Streets included in the project are portions of Morello and Pine/Center Avenue at Highway 4 and “C” Street. In addition, several streets will receive a base failure repair in anticipation of a future seal coat (slurry or cape seal) project. Lastly, the Measure J Pacheco Boulevard Widening Project is underway. A Project Study Report will be completed over this fiscal year and a portion of next year. The study area is in both the unincorporated County areas and the City, along Pacheco Boulevard from Blum Road to Morello Avenue. It is anticipated design and construction of road improvements within the City limits will follow the completion of the Study.

General Plan Update. The City of Martinez is in the process of updating its General Plan, the comprehensive, long-term plan for the physical development of the City. Much of the City’s existing General Plan was adopted in 1973. After more than three and half decades of use, it is appropriate to re-evaluate the scope and content of the document, which exists as the community’s statement of its fundamental values and as a shared vision for its future development. The General Plan is intended to articulate how the citizens of Martinez view the community, both now and in the future, and where the community stands on current and future planning and development issues. The General Plan is scheduled to be adopted in early 2015. The Planning Division also has begun a Zoning Ordinance update that will be completed in 2015.

Long Range Planning. The City will complete a market and fiscal analysis that will provide an assessment of current and local market conditions and long range marketability of the downtown. This project is a joint effort with the Contra Costa Transportation Authority and is funded in part by Federal Surface Transportation Program funds, with the remainder of the funding to be provided through a local match.

The Planning Division is finishing its update to the Housing Element and will be submitting it to the Department of Housing and Community Development in the beginning of 2015.

Economic Development. The City’s priority of economic development is particularly important to increase and diversify revenues. Several key commercial and residential development applications that were recently completed or are currently underway will add to the City’s tax base in the long term. These include the adaptive reuse of the 610 and 630 Court Street downtown cornerstone properties; the Arnold Shopping Center entering its third phase of development to complete construction on the remaining parcel; the Cascara Canyon apartment complex nearing completion; the Paseos 70-unit single family detached residential development currently under construction; and the Village at Arnold 43-unit single family attached residential project ready to begin development. Pine Meadows golf course is currently under review for development of 99 residential homes. The applicant has completed environmental review and public hearings are tentatively set for October 2014. Completion of a substantial remodel at 721-737 Castro Street provides the City with four upgraded storefronts that the applicant intends to lease to small retail businesses and/or boutiques, and the larger unit for a restaurant. Realizing the potential of these projects is crucial to improving and maintaining the City’s long term fiscal health.

The City is using the government access “City Channel” as a means to promote economic development in Martinez, and has enlisted the Chamber of Commerce and Main Street Martinez to provide promotional content. Soon to come are features on various business corridors throughout Martinez that will help market the City to potential customers and developers. The City is also expanding its use of digital media for marketing through its website and social media outlets.

The City Council approved a new Economic Stimulus Program in July 2014. The purpose of this program is to help stimulate the attraction of new business and retain and encourage the expansion of key existing business enterprises. The program is open only to wholesale or “Business to Business” operations and is subject to Council approval of a sales tax sharing agreement. It remains an economic development goal of the City to attract other such businesses and enter into similar agreements in an effort to enhance our sales tax base.

Marina. SB 1424 provides a new grant of marina trust lands to the City of Martinez. The bill requires the trust lands to be held by the City, as trustee, for the benefit of all the people of the state for purposes consistent with the public trust doctrine. The doctrine includes protecting maritime or water dependent commerce, navigation, and fisheries, and the preservation of the lands in their natural state for scientific study, open space, wildlife habitat and water-oriented recreation.

A land grant will allow the City to manage and lease the granted lands according to the public trust doctrine with 100% of the revenue generated from the marina going back into the City’s enterprise fund that supports the operation of the marina. The marina is an integral part of the shoreline experience that many residents of the region enjoy on a regular basis. It provides opportunities for landside and water recreational experiences, as well as education and research. SB 1424 will help maintain and preserve the Martinez Marina for the enjoyment and use by residents, businesses and public service agencies.

A private contractor operates the full-service Martinez Marina, with oversight by City staff and the Park, Recreation, Marina and Cultural Commission (PRMCC). The City is working to establish a long-term lease arrangement to provide for the marina’s financial stability and ensure that the facility is available for the enjoyment of marina users, residents and visitors for years to come.

Climate Action Plan/Sustainability Programs. The City made significant progress in 2013-14 implementing its Climate Action Plan. Continuing to implement dedicated recycling infrastructure and educational programming in area schools remains a priority. In coordination with the local franchised hauler, Republic Services, the City developed specialized, campus-specific recycling education programming for Martinez Junior High encompassing over 900 students. Additionally, the City used recycling grants from the State to provide two more elementary schools with assembly-level educational presentations in FY 2013-14, bringing the total number of Martinez schoolchildren in grades K-8 that have received recycling educational programming to approximately 2,600. The City is actively pursuing a grant opportunity with the State to support a long-term dedicated recycling education program in local schools in partnership with New Leaf Collaborative (a local continuing education program focusing on environmental initiatives) and Republic Services.

The City also initiated and secured the City's participation in the California Youth Energy Services Program provided by Rising Sun Energy Center. This Program provided a paid workforce training and development opportunity for 8 Martinez youth and served over 200 Martinez residences with free energy and water conservation assessments, infrastructure, and installation services. Major funding secured from program partners Shell (\$10K), Republic Services (\$5K), and Martinez Unified School District (\$2K, plus in-kind office space and workstations).

The City Council adopted a single-use plastic bag ban on June 18, 2014, with a start date of January 1, 2015. Martinez became the sixth city in Contra Costa County to adopt such a ban. The City began a concerted public outreach and education campaign surrounding the ban, which included informational workshops for merchants and citizens and distribution of almost 3,000 reusable bags to area residents (primarily through events held at local schools). The City has placed significant additional reusable bag orders for future distribution expected around the holiday season. The City also partnered with the local Chamber of Commerce and Main Street Martinez business organizations to distribute information and storefront decal signage to local merchants to help educate both the business community and the customers about the ban.

In response to the extreme drought conditions, the City created two specialized workshops on Water Conservation. These workshops, held in the summer of 2014, were videotaped and edited for rebroadcast on the local City Channel and Contra Costa Television stations where they will be shown for many months. The City expects the extended playback of these important educational workshops will result in this important information being viewed by hundreds of area residents.

The conversion of City-owned streetlights to LED technology that started in 2009 with a federal grant from the U.S. Department of Energy for the downtown area expanded to encompass all City-owned streetlights. This project, completed in the spring of 2014, involved the conversion of the remaining 482 streetlights throughout the City and will provide longstanding environmental as well as economic benefits.

Financial Information

Accounting System and Internal Controls. In developing and evaluating the City's accounting system, consideration is given to the accuracy of internal accounting controls. Internal accounting controls are designed to provide reasonable assurances regarding the safeguarding of assets against loss from unauthorized use or disposition, as well as the accuracy and reliability of accounting data and the adherence to prescribed managerial policy. The Administrative Services Department has been delegated the responsibility to maintain the integrity of the City's recorded financial data. Accounting for all of the City's activities is centralized under the Finance Division. The Administrative Services Department, in conjunction with City management, is also responsible for establishing and maintaining an internal control structure designed to ensure that the City's assets are protected from loss, theft, or misuse. As a recipient of federal, state, and county financial assistance for a variety of projects or programs, the City is responsible for ensuring that an adequate control structure is in place to comply with applicable laws and regulations related to those projects or programs. City administration believes the existing internal control systems are adequate to provide reasonable assurance the City's assets are safeguarded against loss and that the financial records are reliable for preparing financial statements and maintaining accountability for assets. This belief is supported by the City's "Unqualified" Audit issued for 2014.

Budgeting Controls. The City maintains extensive budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the biennial appropriated budget approved by City Council. Activities of all government and business type funds are included in the biennial budget. The budgetary level of control, the level at which expenditures cannot legally exceed the appropriated amount, for the operating budget is at the department level. For the capital improvement budget, the level of control is at the individual project level. The City also utilizes the encumbrance system as a management control to assist in controlling expenditures. All appropriations lapse at year-end; however, encumbrances and appropriations for unfinished capital and other projects are reviewed and, when warranted, reappropriated as part of the following year's budget. Budget-to-budget comparisons are included in the Financial Section for the General Fund and Special Revenue Funds.

Debt Administration. The City generally incurs long-term debt to finance projects or purchase assets that will have useful lives equal to or greater than the related debt.

The General Long-term Obligations Account Group provides accounting control over the principal of the City's general long-term debt. This debt will be repaid only out of governmental funds, but is not accounted for in these funds because this debt does not require an appropriation or expenditure in this accounting period. The City's long-term obligations are reported in the Statement of Net Position.

Proprietary Fund (Enterprise and Internal Service) long-term debt is maintained in the fund that will repay the debt because the City accounts for these funds on a full-accrual basis in a manner similar to that of commercial operations.

Bond premiums, discounts, and issuance costs are recognized during the period of issuance for governmental fund types. Bond proceeds are reported as another financing source net of the applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. For proprietary fund types, the bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are expensed in the year bonds are issued. The City's debt is explained in detail in Note 7 to the Financial Statements.

Cash Management Policies and Practices. The City's investment policy is to minimize credit and market risks while maintaining an optimal yield in its portfolio. Bank deposits are either insured by the federal government or collateralized. All collateral deposits are held either by the City or its agent in the City's name. Idle cash is primarily invested in the State of California Local Agency Investment Fund (LAIF).

Risk Management. The City is a member of the Municipal Pooling Authority (MPA) a Joint Powers Agency that covers general liability losses up to \$29 million. The City has a deductible of up to \$25,000 per claim. The City's Safety Program, Property Insurance, and Workers' Compensation reporting are all coordinated through the MPA.

Other Information

Awards. The Government Finance Officer's Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Martinez for its comprehensive annual financial report for the fiscal year ended June 30, 2013. This was the 13th consecutive award the City has received from GFOA. In order to be awarded a Certificate of Achievement, a City must publish an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both Generally Accepted Accounting Principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. Staff believes that the current comprehensive annual financial report continues to meet the Certificate of Achievement Program requirements and as such, will submit it to GFOA to determine its eligibility for another award.

Acknowledgements

The preparation of this report would not have been possible without the efficient and dedicated services of the Administrative Services Department. Special recognition is given to the Finance Division for their efforts in preparing this report. I would also like to thank the City Council and the City Manager for their support in planning and directing the financial operations of the City.

Respectfully submitted,



Alan Shear
Assistant City Manager

City of Martinez Key Personnel

June 30, 2014

City Council

Rob Schroder, Mayor

Michael Menesini, Vice Mayor

AnaMarie Avila Farias, Councilmember

Mark Ross, Councilmember

Lara DeLaney, Councilmember

Council Appointees

Anna Gwyn Simpson, Interim City Manager

Eric Ghisletta, Acting Chief of Police

Elected Officials

Gary Hernandez, City Clerk

Carolyn Robinson, City Treasurer

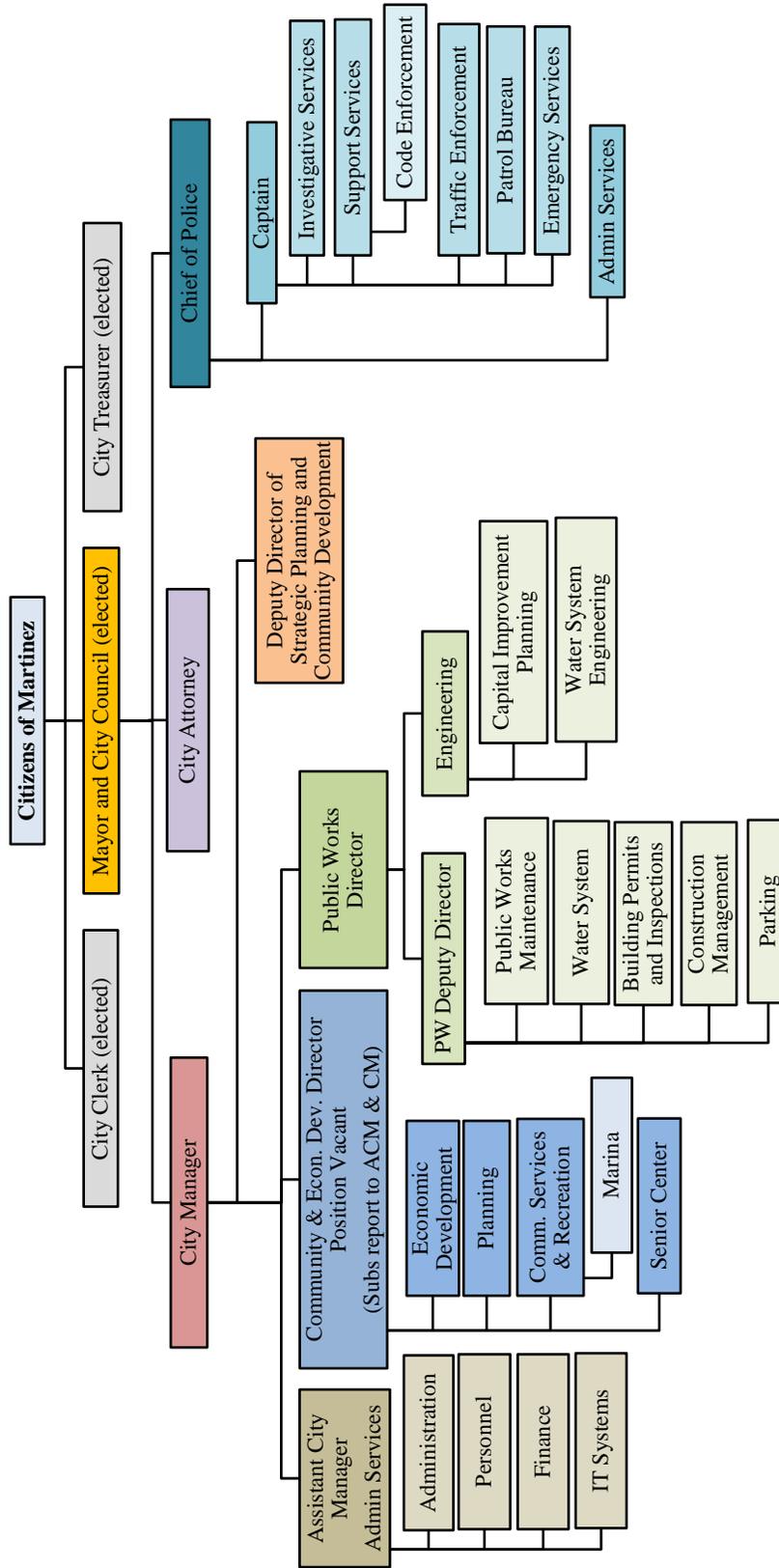
City Staff

Alan Shear, Assistant City Manager

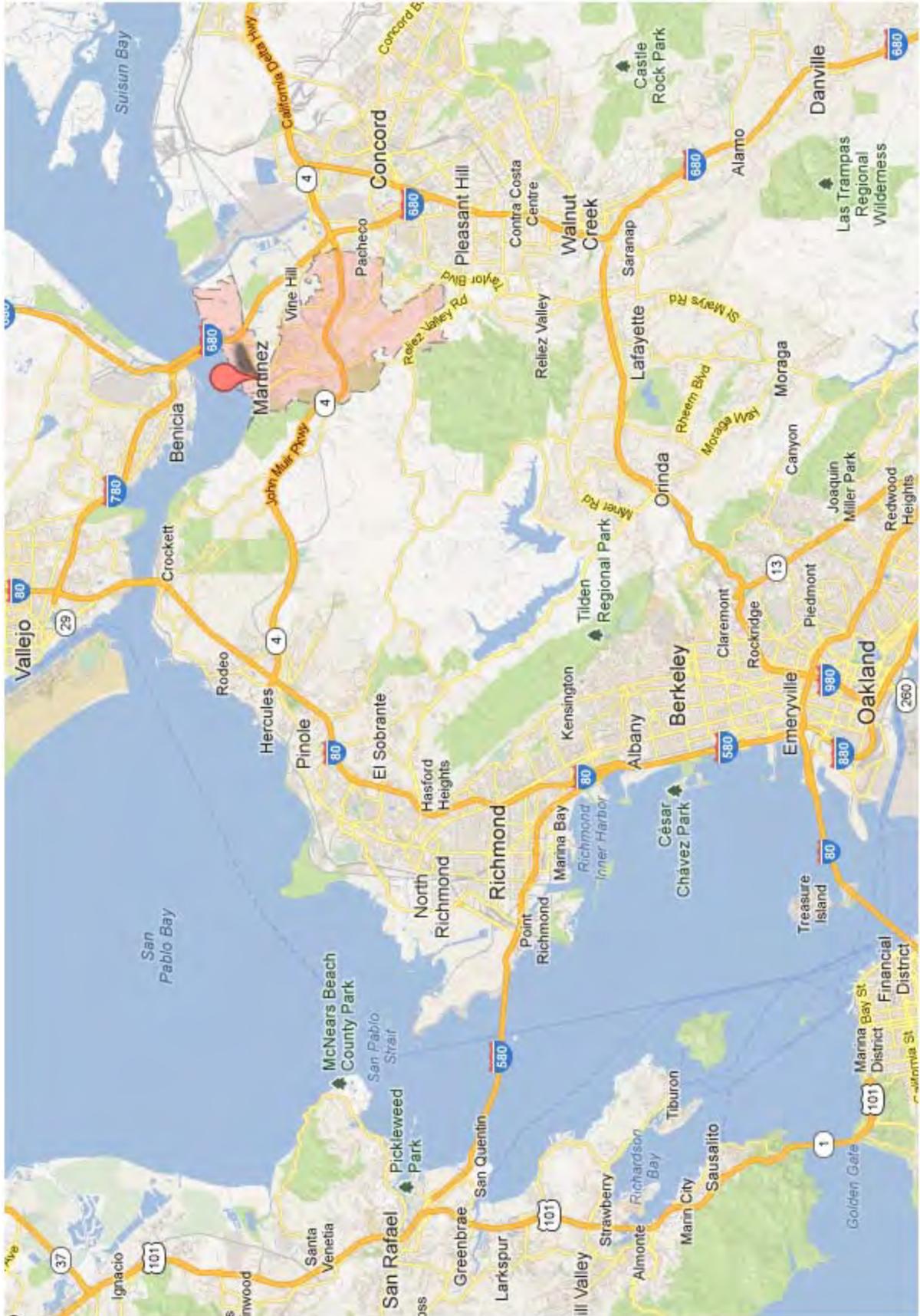
Cathy Spinella, Finance Manager

David Scola, Public Works Director

CITY OF MARTINEZ FUNCTIONAL ORGANIZATION CHART



AREA MAP





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Martinez
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

This Page Left Intentionally Blank

INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Martinez as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City'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. 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the City's Marina will continue as a going concern. As discussed in Note 10D to the financial statements, the City's Marina Services Enterprise Fund has an accumulated net deficit of \$4,329,513 as of June 30, 2014 made up primarily of State loans which the City has not had sufficient operating revenues to pay. During the fiscal year ended June 30, 2014, the City did not pay the principal portion due on the State loans that are recorded in the Marina Services Enterprise Fund as discussed in Note 8. 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 10D. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have 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 do not express an opinion or 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The Introductory Section, Supplemental Information and Statistical Section as listed in the Table of Contents are presented for purposes of additional analysis and are not required parts 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.

The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly we do not express an opinion or provide any assurance on them.

A handwritten signature in cursive script that reads "Mage + Associates".

Pleasant Hill, California
September 22, 2014

This Page Left Intentionally Blank

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the City of Martinez's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the accompanying transmittal letter, the Basic Financial Statements and the accompanying notes to the financial statements.

FINANCIAL HIGHLIGHTS

Financial highlights of the year include the following:

City-wide Activities:

- The assets of the City of Martinez exceeded its liabilities at the close of June 30, 2014 by \$107,297,891. Of this amount \$18,367,246 may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$25,123,855, a decrease of \$1,960,991 in comparison with the prior year. Of this amount, the unassigned fund balance was \$6,691,234 which is available for discretionary spending.
- At the end of the fiscal year, unassigned fund balance for the General Fund was \$5,720,878, or 30% of general fund expenditures. The general fund has an additional unassigned fund balance of \$1,000,000 set aside for contingencies.
- The City of Martinez's total debt decreased by \$1,391,752 during the fiscal year to \$23,365,000 for Governmental Activities and \$13,977,855 for Business-type Activities..

OVERVIEW OF THE FINANCIAL STATEMENTS

The City's basic financial statements are comprised of three components: 1) Government-wide Financial Statements, 2) Fund financial statements and 3) Notes to the Basic Financial Statements. The two sets of financial statements provide two different views of the City's financial activities and financial position both long term and short term.

Government-Wide Financial Statements: The Government-wide financial statements are designed to provide the readers with a broader, long term view of the City's activities as a whole, and comprise the Statement of Net Position and the Statement of Activities. The Statement of Net Position provides information about the financial position of the City in its entirety, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all the City's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues and expenses of each of the City's programs. All the amounts in the Statement of Net Position and the Statement of Activities are separated into Governmental Activities and Business-type Activities in order to provide a summary of these two activities of the City as a whole.

- *Governmental Activities*—All of the City's basic services are considered to be governmental activities, including general government; community and economic development; public safety; public works; recreation, parks, and community services; public improvements; building inspection and code enforcement; planning and zoning; and general administration services. These services are supported by general City revenues such as taxes, and by specific program revenues such as mitigation/impact fees.
- *Business-type Activities*—The City's three enterprise activities, Parking Services, Water System, and Marina Services, are reported here. Unlike governmental services, these services are supported through user fees based on the amount of the service they use.

The Statement of Net Position and the Statement of Activities and Changes in Net Position report information about the City as a whole. In addition, these two statements report the City's net position and changes for the year. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating.

Fund Financial Statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain grants and other money.

The City's Fund Financial Statements are divided into three categories; Governmental Funds, Proprietary Funds and Fiduciary Funds. The Governmental Fund financials are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The Proprietary Fund financials are prepared using the economic resources measurement focus and the accrual basis of accounting. The Fiduciary Funds include agency funds, which are custodial in nature and do not involve a measurement of operational results, and trust funds which, in addition to being custodial in nature, include operational activities. Only trust funds include a Statement of Changes in Net Position.

The Fund Financial Statements provide detailed information about each of the City's most significant funds, called Major Funds. The concept of Major Funds, and the determination of which are Major Funds, was established by GASB Statement 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, with all Non-major Funds summarized and presented only in a single column. Subordinate schedules present the detail of these Non-major Funds. Major Funds present the major activities of the City for the year, and may change from year to year as a result of changes in the pattern of the City's activities.

- *Governmental Funds* – Most of the City's basic services are reported in Governmental Funds, which focus on how much money flows into and out of those funds and the balances left at year-end that are available for spending. The Governmental Fund statements provide a detailed, short term view of the City's general government operations and basic services it provides. Governmental Fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The Fund Financial Statements, of governmental funds measure only current revenues and expenditures, current assets, liabilities, deferred inflows of resources and fund balances; they exclude capital assets, long-term debt and other long-term obligation amounts. The City's Governmental Funds are comprised of the General Fund, Measure H Fund and Capital Improvements Fund, which are considered Major Funds. Non-Major Funds consist of Gas Tax, NPDES Stormwater, Measure J, COPS Grant, Housing In-Lieu, PEG Access, Recycling, Debt Service and Lighting & Landscape.
- *Proprietary Funds* – When the City charges customers for services it provides, whether to outside customers or other units of the City, these monies are generally reported in Proprietary Funds. The City maintains two different types of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial Statements. The City uses three enterprise funds to account for Water System, Marina Services and Parking Services. *Internal Service funds* are used to report activities which provide supplies and services for the City's other programs and activities. The City uses internal service funds to account for its fleet of vehicles and for its management information systems. Since the City's Internal Service Funds are proprietary funds used by the City to account for the financing of goods and services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis, their activities are reported only in total at the Fund level. Internal Service Funds may not be Major Funds because their revenues are derived from other City funds. These revenues are eliminated in the City-wide Financial Statements and any related profits or losses are returned to the activities that created them, along with any residual net position of the Internal Service Funds. Enterprise and Internal Service Fund financial statements are prepared on the full accrual basis and as in the past, include all their assets and liabilities, current and long-term.

- *Fiduciary Funds* - The City is the agent for one assessment district, the Alhambra Creek Special Assessment District, and is responsible for holding amounts collected from property owners that await transfer to the District's bond trustees. The City is also an agent for certain community organizations, for which it collects and disburses cash and maintains separate cash accounts. The City's fiduciary activities are reported in the separate Statements of Fiduciary Net Position and the Agency Funds Statement of Changes in Assets and Liabilities. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its own operations.

Comparisons of Budget and Actual financial information are presented only for the General Fund and other Major Funds that are Special Revenue Funds.

Notes to the Basic Financial Statement: The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the Government-Wide and Fund Financial Statements. The Notes to the Basic Financial Statements can be found on pages 35 - 71 of this report. Note 10D on page 59 provides information about the Marina Services Enterprise Fund's ability to continue as a going concern. Note 11 on pages 60 - 63 provides the City's progress in funding of its obligation to provide pension benefits to its employees.

Supplemental Information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental information that combines statements referred to earlier in connection with Non-major Governmental Funds, Internal Service Funds and Agency Funds. Supplemental information is presented after the notes and can be found on pages 73 to 88.

Statistical Section: This section presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The net position for the City increased \$5,099,803 in 2014 to \$107,297,891. The annual change comes from the change in net position as recorded in the Statement of Activities which flows through the Statement of Net Position. Governmental Activities are shown in Tables 1 and 2. Business-type Activities are shown in Tables 3 and 4.

Net investment in capital assets of \$65,686,711 represents the City's investment in capital assets net of amounts borrowed to finance that investment. Although the City's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position represents resources which are subject to external restrictions on how they may be used. This restricted amount totaled \$23,243,934 at June 30, 2014. The remaining balance of unrestricted net position, is normally the part of net position that may be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements. At June 30, 2014 the unrestricted net position was \$18,367,246.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
Cash and investments	\$27,503,471	\$29,212,169	\$20,299,867	\$19,735,996	\$ 47,803,338
Other assets	7,363,498	7,299,664	1,508,369	1,615,734	8,871,867
Capital assets	<u>62,313,550</u>	<u>57,041,085</u>	<u>31,539,228</u>	<u>31,405,904</u>	<u>93,852,778</u>
Total Assets	97,180,519	93,552,918	53,347,464	52,757,634	150,527,983
Long-term debt outstanding	23,365,000	23,915,000	13,977,855	14,819,607	37,342,855
Other Liabilities	<u>4,385,970</u>	<u>4,065,551</u>	<u>1,501,267</u>	<u>1,312,306</u>	<u>5,887,237</u>
Total Liabilities	27,750,970	27,980,551	15,479,122	16,131,913	43,230,092
Net position:					
Net investment in capital assets	45,809,594	45,011,693	19,877,117	21,503,114	65,686,711
Restricted	12,532,439	16,908,562	10,711,495	7,116,866	23,243,934
Unrestricted	<u>11,087,516</u>	<u>3,652,112</u>	<u>7,279,730</u>	<u>8,005,741</u>	<u>18,367,246</u>
Total Net Position	<u>\$69,429,549</u>	<u>\$65,572,367</u>	<u>\$37,868,342</u>	<u>\$36,625,721</u>	<u>\$107,297,891</u>

Governmental activities – The Governmental activities increased the City’s net position by \$3,857,182 to \$69,429,549 at June 30, 2014. Below are the changes in net position.

Table 1	Governmental Activities	
	2014	2013
Expenses		
General government	\$1,372,623	\$1,628,907
Administrative services	1,132,197	1,000,933
Public works	3,790,730	3,975,144
Community & economic development	8,103,341	5,887,738
Police	10,993,156	10,932,911
Interest on long-term debt	1,152,130	1,106,817
Total expenses	26,544,177	24,532,450
Revenues		
Program revenues:		
Charges for services	3,575,943	2,392,009
Operating contributions & grants	2,643,701	2,472,936
Capital grants	4,658,843	2,882,306
Total program revenues	10,878,487	7,747,251
General revenues:		
Property tax	6,603,214	6,154,962
Sales tax	3,775,971	3,544,810
VLF Property tax swap	2,538,617	2,428,253
Franchise Fees	1,516,127	1,468,924
Other taxes	4,424,621	2,779,809
Intergovernmental	62,369	72,276
Investment earnings	61,227	74,686
Miscellaneous	631,486	775,704
Gain on sale of capital assets	31,841	0
General revenues	19,645,473	17,299,424
Total revenues	30,523,960	25,046,675
Change in net position before transfers	3,979,783	514,225
Transfers	(122,601)	(723,849)
Change in net position	\$3,857,182	\$(209,624)

The cost of all Governmental activities was \$26,544,177 in Fiscal Year 2014. A portion of the cost for these activities was paid either by those who directly benefited from the programs, by other governments and organizations that subsidized certain programs with operating grants and contributions, or capital grants and contributions. Overall, the City’s Governmental activities program revenues during the year were \$10,878,487.

Program revenues totaled \$10,878,487 or 35.64% of total revenues for Fiscal Year 2014, up \$3,131,236 from 2013. The largest increase is in Capital Grants, due to grant funding on two intermodal projects totaling \$3,949,000. The City’s program revenues include developer fees, plan check fees, building inspections, traffic fines, recreation fees, police fees, grants, assessment revenues, and other charges for services. Program revenues are categorized in three groups: Charges for Services of \$3,575,943 which are intended to help cover the expenses incurred in providing a variety of City services; Operating Contributions and Grants of \$2,643,701, which is attributable to special revenue funds such as Gas Tax, Measure J and police services; and Capital Grants of \$4,658,843, which includes federal, state and local funding.

General revenues are not allocable to programs but are used to pay for the net cost of government services. General revenues totaled \$19,645,473 or 64.36% of total revenues, up \$2,346,049 from Fiscal Year 2013. Table 1 shows that \$18,858,550 or 95.99% of general revenues came from taxes, and the balance of \$786,923 or 4.01%, came from intergovernmental, investment earnings and miscellaneous. Transfers out totaled \$122,601 and were from the General Fund to the Marina Services Fund of \$100,000, and \$22,601 to the Water System.

Net expense is defined as total program costs less program revenues generated by those specific activities. In the City's case, program revenues of \$10,878,487, reduced the total expenses of \$26,544,177 by approximately 41.0% to \$15,665,690. It is clear in that the City's program revenues do not approach the cost of program expenses. This shows how dependent the City is on taxes to pay for City services. Table 2 below is the net expense by department.

Table 2	Net (Expense) Revenue and Changes in Net Position	
	2014	2013
Governmental Activities:		
General government	(\$1,255,492)	(\$1,538,173)
Administrative services	(1,002,085)	(987,041)
Public works	(2,547,509)	(2,800,437)
Community & Economic Dev	168,185	(368,585)
Police	(9,876,659)	(9,984,146)
Interest on long term debt	(1,152,130)	(1,106,817)
Total Governmental Activities	(\$15,665,690)	(\$16,785,199)

Business-type activities – The Business-type activities increased the City's net position by \$1,242,621 in 2014 to \$37,868,342. Below are the changes in net positions.

Table 3	Business-type Activities	
	2014	2013
Expenses		
Water System	\$10,849,585	\$10,854,257
Marina Services	253,902	707,155
Parking Services	229,773	232,110
Total expenses	11,333,260	11,793,522
Revenues		
Program revenues:		
Charges for services	12,337,807	12,074,438
Operating contributions & grants	0	0
Capital grants	0	0
Total program revenues	12,337,807	12,074,438
General revenues:		
Taxes	69,169	70,237
Investment earnings	46,304	45,531
General revenues	115,473	115,768
Total revenues	12,453,280	12,190,206
Change in net position before transfers	1,120,020	396,684
Transfers	122,601	723,849
Change in net position	\$1,242,621	\$1,120,533

The cost of business-type activities was \$11,333,260 in Fiscal Year 2014. A portion of the cost for these activities was paid either by those who directly benefited from the programs, by other governments and organizations that subsidized certain programs with operating grants and contributions, or capital grants and contributions. Overall, the City's Business-type activities program revenues during the year were \$12,337,807. General revenues are not allocable to programs but are used to pay for the net cost of services. General revenues totaled \$238,074 which came from taxes, investment earnings, miscellaneous and transfers from Governmental Activities.

Net expense is defined as total program costs less program revenues generated by those specific activities. In the City's case, program revenues of \$12,337,807 along with expenses of \$11,333,260 for net revenues as shown in the Statement of Activities of \$1,004,547, the detail is broken out below in table 4.

Table 4	Net (Expense) Revenue and Changes in Net Position	
	2014	2013
Business-type Activities:		
Water System	\$829,042	\$390,090
Marina Services	(75,885)	(244,968)
Parking Services	251,390	135,794
Total Business-type Activities	\$1,004,547	\$280,916

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

At June 30, 2014, the City's governmental funds reported a combined fund balance of \$25,123,855, a decrease of \$1,960,991 compared to the prior year. The General Fund increased by \$1,293,099, Capital Improvements increased by \$1,116,204, Measure H decreased by \$4,955,985 and an increase of \$585,691 in Non-major Funds.

ANALYSES OF MAJOR GOVERNMENTAL FUNDS

General Fund

General Fund revenues totaled \$20,528,272 in Fiscal Year 2013-14 an increase of \$1,224,404 from Fiscal Year 2012-13. The increase is comprised of the following: \$934,115 in Taxes, primarily property and sales tax; Intergovernmental of \$20,529; Charges for Services of \$395,400; Fines and Forfeits of \$104,444; and \$58,089 in Use of Money & Property. These increases were offset by a decline of \$887 in Licenses, Permits and Fees and \$287,286 in Miscellaneous. Taxes totaling \$17,310,873 represented approximately 84% of total General Fund revenues, with \$6,603,214 (or 32% of the total General Fund revenues) coming from Property Taxes. Other revenue sources comprising the remaining 16% of General Fund revenues included Licenses, Permits and Fees; Intergovernmental; Charges for Services; Fines and Forfeits; Use of Money and Property; and Miscellaneous.

General Fund expenditures totaled \$19,081,572, an increase of \$88,271 from Fiscal Year 2013. Transfers out of the General Fund decreased \$707,248 in Fiscal Year 2014 to \$153,601. This decrease was mostly attributable to a transfer of \$723,849 to the Marina Fund in 2013.

Final expenditures for the General Fund at year-end were \$557,082 below budget, however, the fiscal year ended with encumbrances of \$36,691. Budget amendments and supplemental appropriations of \$683,906 were made during the year for unanticipated expenditures after adoption of the original budget. Total final budget appropriations came in at \$19,638,654.

At the end of Fiscal Year 2014 the fund balance for the City's General Fund was \$8,272,585, an increase of \$1,293,099 over last year. The General Fund fund balance was comprised of the following: \$77,969, of nonspendable and restricted; \$1,473,738 assigned; and \$6,720,878 unassigned, of which \$1,000,000 was designated by Council for contingencies due to unforeseen occurrences referred to in Note 10C of the financial statements. Only the unassigned \$5,720,878 portion represents available liquid resources.

Measure H Fund

The Measure H Fund accounts for the bond proceeds of \$25,000,000 received in 2009 and 2012. The Fund is budgeted on a project length basis and therefore is not comparable on an annual basis.

The revenue received was investment earnings of \$21,024. The expenses of \$4,977,009 were based on project activity for the reconstruction of parks.

Capital Improvement Fund

The Capital Improvement Fund accounts for major City capital improvement projects. The Fund is budgeted on a project length basis and therefore is not comparable on an annual basis.

Revenue received in Fiscal Year 2014 included funding for projects from Contra Costa Transportation Authority in the amount of \$2,488,134; \$421,982 from Public Transportation Modernization Improvement and Service Enhancement Account (PTMISEA); \$1,039,000 Regional Measure funding and \$87,508 from a Transportation Fund for Clean Air (TFCA) grant; \$328,702 was for reimbursement for project work on behalf of other agencies. Another \$363,653 in funding came from net transfers from Gas Tax revenue, reserve funds due to paying off the 2003 bond, General Fund and Local J funds. The fund also received \$25,000 in mitigation fees and interest. Total revenue received, including net transfers, was \$5,995,322. This is an increase of \$4,069,932 over the prior year and is primarily from funding for two intermodal projects. There was also an increase in expenditures of \$3,097,298 from Fiscal Year 2013.

Other Governmental Funds

These funds are not presented separately in the Basic Financial Statements, but are individually presented as Supplemental Information.

Internal Service Funds

Internal Service Funds are proprietary funds used by the City to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's Internal Service Funds are the Equipment Replacement Fund and the Management Information System (MIS) Fund.

- *Equipment Replacement Fund*—Costs for the Equipment Replacement Fund are considered to be “direct costs” that are readily identifiable with a specific service. The Equipment Replacement Fund charges departments' equipment and vehicle rates based on value and overall maintenance costs.
- *Management Information System (MIS) Fund*—Costs for the MIS Fund are considered to be “indirect costs” that are not easily associated with a specific service. These costs are distributed by both number of computer workstations and overall use of technology.

Enterprise Funds

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the City is that the costs and expenses, including depreciation, of providing goods or services to the general public on a continuing basis, are financed or recovered primarily through user charges. Enterprise Funds are also used when the City has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City's Enterprise Funds include Parking Services, Water System, and Marina Services and are described as follows:

- *Parking Services*—Parking Services Fund revenue is generated from parking meters and parking permits in the downtown area. Operating revenues increased by \$113,259 in Fiscal Year 2014 to a total of \$481,163. Operating expenses decreased by \$773 to \$232,380. Non-operating revenues decreased by \$1,656 to \$57,882. Net position increased by \$306,665 to \$1,765,822. The Parking Services Fund’s fiscal year end unrestricted Net Position was \$1,186,257.
- *Water System*— The Water System Fund is financed and operated in a manner similar to that of a private business. Net position of the Water System Fund increased \$873,772 in Fiscal Year 2014. Overall operating revenues increased by \$434,280, and operating expenses increased by \$29,256. Non-operating expenses decreased by \$21,918, and non-operating revenues increased by \$930 in interest income. As of June 30, 2014, the Fund’s Net Position was \$40,451,582, with \$23,616,885 net investment in capital assets, \$1,189,498 restricted for debt service, and \$9,344,526 restricted for capital projects. Only \$6,300,673 of the Fund’s Net Position was unrestricted at the close of Fiscal Year 2014. Due to the age of the Water System infrastructure, significant investments will be required in future years to update water lines and equipment and enhance security.
- *Marina Services*—Marina Fund revenues include lease payments, charges for services, property taxes, and government grants for capital improvement projects. Operating revenues decreased by \$284,170 due to a contribution in 2013 of \$318,943 for dredging, offset with an increase in rents and leases of \$36,683. Operating expenses decreased \$451,255 in 2014 due to dredging conducted in 2013. The Fund’s Net Position increased by \$38,321 with transfers from the General Fund of \$100,000 to a deficit of \$4,329,513 at June 30, 2014. The Marina has \$4,197,223 in outstanding loans to the State of California; approximately half of that amount is the total of four individual loans with an annual debt repayment schedule. The City had been making this full payment until a recent declining trend in marina revenues that has hindered the City’s ability to pay the principal and interest. The other half of the deficit to the State originates back to the 1964 Agreement with the State to construct the marina. The City is working with the State on alternatives to pay back all of the loans.

CAPITAL ASSETS

GASB 34 requires the City to record all of its capital assets, including infrastructure, which was not recorded in prior years. Infrastructure includes roads, bridges, traffic signals and similar assets used by the entire population. Beginning in Fiscal Year 2003, in accordance with GASB 34, the City began recording the cost of all its infrastructure assets and computing the amount of accumulated depreciation for these assets based on their original acquisition dates.

At the end of Fiscal 2014, Governmental Activities and Business-type Activities had invested in a broad range of capital assets, net of depreciation, in the amounts of \$62,313,550 and \$31,539,228, respectively, as shown below.

The City depreciates all its capital assets over their estimated useful lives, as required by GASB 34. The purpose of depreciation is to spread the cost of a capital asset over the years of its life so that an allocable portion of the cost of the asset is borne by all users. Additional information on capital assets and depreciation may be found in Note 6.

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
<i>Governmental Activities</i>		
Land	\$16,055,114	\$16,055,114
Construction in progress	1,283,479	3,037,950
Building and improvements	12,511,364	12,495,490
Equipment	7,136,882	6,665,379
Infrastructure	64,119,695	55,952,772
Less accumulated depreciation	<u>(38,792,984)</u>	<u>(37,165,620)</u>
Totals	<u>\$62,313,550</u>	<u>\$57,041,085</u>
<i>Business-Type Activities</i>		
Land	\$897,521	\$897,521
Construction in progress	4,935,611	2,976,302
Building and improvements	16,498,043	16,498,043
Equipment	1,990,723	1,892,157
Infrastructure	88,189,973	88,299,973
Less accumulated depreciation	<u>(80,972,643)</u>	<u>(79,158,092)</u>
Totals	<u>\$31,539,228</u>	<u>\$31,405,904</u>

DEBT ADMINISTRATION

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs (other than those paid for by the Enterprise Funds). In March 2003, the City issued Certificates of Participation (COPs) in the amount of \$2,200,000 to refund and retire the outstanding 1992 proceeds used to finance the rehabilitation and expansion of the Martinez City Hall. The 2003 COP was fully repaid as of June 30, 2014. In May 2009 and April 2012, the City issued General Obligation Bonds totaling \$25,000,000 to finance the costs of acquiring and constructing parks, library improvements, and pool and safety improvements.

The Water Fund has two outstanding debt issues. In 2003 and 2012, the City issued Certificates of Participation (COPs) in the amounts of \$5,595,000 and \$8,025,000, respectively. COP proceeds were used to finance improvements to the Water Plant.

Each of the City's debt issues are discussed in detail in Notes 7 and 8 to the financial statements. The table below represents the City's outstanding debt at June 30, 2014.

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Governmental Activity Debt		
<i>General Long-Term Debt</i>		
2003 Certificates of Participation	\$0	\$255,000
General Obligation Bonds	<u>23,365,000</u>	<u>23,660,000</u>
Total governmental activity debt	<u><u>\$23,365,000</u></u>	<u><u>\$23,915,000</u></u>
Business-Type Activity Debt		
<i>Water Fund Long-Term Debt</i>		
2003 Refinancing Project	\$2,055,000	\$2,425,000
2012 Refinancing Project	7,135,000	7,585,000
Unamortized Bond Premium	<u>590,632</u>	<u>637,884</u>
Total Water Fund debt	<u><u>\$9,780,632</u></u>	<u><u>\$10,647,884</u></u>
Marina Long-term Debt		
1960 State of California	\$2,613,514	\$2,588,014
1973 State of California	251,136	251,136
1978 State of California	131,574	131,574
1982 State of California	323,922	323,922
1985 State of California	<u>877,077</u>	<u>877,077</u>
Total Marina Fund debt	<u><u>\$4,197,223</u></u>	<u><u>\$4,171,723</u></u>
Total business-type activity debt	<u><u>\$13,977,855</u></u>	<u><u>\$14,819,607</u></u>

SPECIAL ASSESSMENT DISTRICT DEBT

Alhambra creek Assessment District, special assessment district in the City, has also issued debt to finance infrastructure and facilities construction for that district. No special assessment debt was issued in Fiscal Year 2014.

At June 30, 2014, a total of \$505,000 in special assessment district debt was outstanding. This debt is secured only by assessments on the real property in the district issuing the debt and is not the City's responsibility, although the City does act as the district's agent in the collection and remittance of assessments.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The economy of the City and its major initiatives for the coming year are discussed in detail in the accompanying Transmittal Letter.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This Comprehensive Annual Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this Report should be directed to the Administrative Services Department, at 525 Henrietta Street, Martinez, CA 94553.

This Page Left Intentionally Blank

CITY OF MARTINEZ

**STATEMENT OF NET POSITION
AND STATEMENT OF ACTIVITIES**

The Statement of Net Position and the Statement of Activities summarize the entire City's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the City's assets and all its liabilities, as well as all its revenues and expenses. This is known as the full accrual basis—the effect of all the City's transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between City funds have been eliminated.

The Statement of Net Position reports the difference between the City's total assets and deferred outflows of resources and the City's total liabilities and deferred inflows of resources, including all the City's capital assets and all its long-term debt. The Statement of Net Position focuses the reader on the composition of the City's net assets, by subtracting total liabilities from total assets.

The Statement of Net Position summarizes the financial position of all the City's Governmental Activities in a single column, and the financial position of all the City's Business-Type Activities in a single column; these columns are followed by a Total column that presents the financial position of the entire City.

The City's Governmental Activities include the activities of its General Fund, along with all its Special Revenue, Capital Projects and Debt Service Funds. Since the City's Internal Service Funds service these Funds primarily, their activities are consolidated with Governmental Activities, after eliminating inter-fund transactions and balances. The City's Business-type Activities include all its Enterprise Fund activities.

The Statement of Activities reports increases and decreases in the City's net position. It is also prepared on the full accrual basis, which means it includes all the City's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets, current liabilities, deferred outflows/inflows of resources, available revenues and measurable expenditures.

The format of the Statement of Activities presents the City's expenses first, listed by program, and follows these with the expenses of its business-type activities. Program revenues—that is, revenues which are generated directly by these programs—are then deducted from program expenses to arrive at the net expense of each governmental and business-type program. The City's general revenues are then listed in the Governmental Activities or Business-type Activities column, as appropriate, and the Change in Net Position is computed and reconciled with the Statement of Net Position.

Both these Statements include the financial activities of the City and the Martinez Public Improvement Corporation. The Corporation is legally separate but is a component unit of the City because it is controlled by the City, which is financially accountable for the activities of the Corporation.

CITY OF MARTINEZ
STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments (Note 3)			
Available for operations	\$19,514,691	\$16,794,625	\$36,309,316
Restricted	7,988,780	3,505,242	11,494,022
Receivables (net of allowance for uncollectible):			
Accounts and other	550,863	1,504,998	2,055,861
Intergovernmental	1,994,591		1,994,591
Interest	23,301		23,301
Loans receivable (Note 5)	441,584	22,920	464,504
Internal balances (Note 4C)	19,549	(19,549)	
Prepays and inventory (Note 1I)	48,325		48,325
Net OPEB Asset (Note 12)	4,285,285		4,285,285
Capital assets (Note 6)			
Land and construction in progress	17,338,593	5,833,132	23,171,725
Depreciable assets, net	44,974,957	25,706,096	70,681,053
Total Assets	97,180,519	53,347,464	150,527,983
LIABILITIES			
Accounts payable	1,148,860	740,605	1,889,465
Accrued wages and benefits	626,345	65,680	692,025
Deposits	617,495	97,683	715,178
Unearned revenue	335,998	319,251	655,249
Claims payable due within one year (Note 15)	80,000		80,000
Accrued interest		88,489	88,489
Accrued compensated absences (Note 1H)			
Due within one year	1,024,000	142,000	1,166,000
Due in more than one year	553,272	47,559	600,831
Long-term debt (Notes 7 and 8)			
Due within one year	310,000	968,640	1,278,640
Due in more than one year	23,055,000	13,009,215	36,064,215
Total Liabilities	27,750,970	15,479,122	43,230,092
NET POSITION (Note 10)			
Net investment in capital assets	45,809,594	19,877,117	65,686,711
Restricted for:			
Capital projects	10,025,639	9,521,997	19,547,636
Debt service	1,127,736	1,189,498	2,317,234
Special revenue projects	1,379,064		1,379,064
Total Restricted Net Position	12,532,439	10,711,495	23,243,934
Unrestricted	11,087,516	7,279,730	18,367,246
Total Net Position	\$69,429,549	\$37,868,342	\$107,297,891

See accompanying notes to financial statements

CITY OF MARTINEZ
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental Activities:							
General government	\$1,372,623	\$58,935		\$58,196	(\$1,255,492)		(\$1,255,492)
Administrative services	1,132,197	109,688	\$20,424		(1,002,085)		(1,002,085)
Public works	3,790,730	991,335		251,886	(2,547,509)		(2,547,509)
Community & economic development	8,103,341	1,921,226	2,001,539	4,348,761	168,185		168,185
Police	10,993,156	494,759	621,738		(9,876,659)		(9,876,659)
Interest on long-term debt	1,152,130				(1,152,130)		(1,152,130)
Total Governmental Activities	26,544,177	3,575,943	2,643,701	4,658,843	(15,665,690)		(15,665,690)
Business-type Activities:							
Water system	10,849,585	11,678,627				\$829,042	829,042
Marina services	253,902	178,017				(75,885)	(75,885)
Parking services	229,773	481,163				251,390	251,390
Total Business-type Activities	11,333,260	12,337,807				1,004,547	1,004,547
Total	\$37,877,437	\$15,913,750	\$2,643,701	\$4,658,843	(15,665,690)	1,004,547	(14,661,143)
General revenues:							
Property taxes					6,603,214		6,603,214
Sales taxes					3,775,971		3,775,971
VLF Property Tax Swap					2,538,617		2,538,617
Franchise fees					1,516,127		1,516,127
Other taxes					4,424,621	69,169	4,493,790
Intergovernmental, unrestricted					62,369		62,369
Investment earnings					61,227	46,304	107,531
Sale of property					31,841		31,841
Miscellaneous					631,486		631,486
Transfers					(122,601)	122,601	
Total general revenues and transfers					19,522,872	238,074	19,760,946
Change in Net Position					3,857,182	1,242,621	5,099,803
Net Position-Beginning					65,572,367	36,625,721	102,198,088
Net Position-Ending					\$69,429,549	\$37,868,342	\$107,297,891

See accompanying notes to financial statements

This Page Left Intentionally Blank

FUND FINANCIAL STATEMENTS

Major funds are defined generally as having significant activities or balances in the current year.

MAJOR GOVERNMENTAL FUNDS

The funds described below are determined to be major funds by the City in Fiscal 2014. Individual non-major funds may be found in the Supplemental Section.

GENERAL FUND

The General Fund is used for all the general revenues of the City not specifically levied or collected for other City funds and the related expenditures. The General Fund accounts for all financial resources of the City which are not accounted for in another fund.

MEASURE H FUND

Accounts for the \$25,000,000 of General Obligation Bonds issued in May 2009 and March 2012. These funds are to finance the costs of acquiring and constructing parks, library improvements, and pool and safety improvements.

CAPITAL IMPROVEMENTS

To account for the expenditures spent and revenue received for various capital projects within the City.

CITY OF MARTINEZ
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2014

	General	Measure H	Capital Improvements	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments (Note 3)					
Available for operations	\$9,322,522		\$3,773,902	\$4,740,138	\$17,836,562
Restricted		\$6,861,044		1,127,736	7,988,780
Receivables:					
Accounts	444,714		73,411	31,266	549,391
Intergovernmental	419,881		829,922	744,788	1,994,591
Interest	19,546	3,755			23,301
Loans receivable (Note 5)	179,574		262,010		441,584
Prepays and inventory (Note 1I)	48,325				48,325
Advances to other funds (Note 4B)	29,644				29,644
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$10,464,206</u>	<u>\$6,864,799</u>	<u>\$4,939,245</u>	<u>\$6,643,928</u>	<u>\$28,912,178</u>
LIABILITIES					
Accounts payable	\$476,650	\$286,207	\$256,749	\$43,466	\$1,063,072
Accrued wages and benefits	600,622			13,118	613,740
Claims payable (Note 15)	80,000				80,000
Deposits	590,788			26,707	617,495
Unearned revenue	263,987		72,011		335,998
Advance from other funds (Note 4B)				29,644	29,644
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>2,012,047</u>	<u>286,207</u>	<u>328,760</u>	<u>112,935</u>	<u>2,739,949</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - miscellaneous receivables				29,644	29,644
Unavailable revenue - grants				577,146	577,146
Unavailable revenue - loans receivable	179,574		262,010		441,584
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
FUND BALANCES					
Fund balance (Note 10)					
Nonspendable	77,969				77,969
Restricted		6,578,592	2,171,418	5,953,847	14,703,857
Assigned	1,473,738		2,177,057		3,650,795
Unassigned	6,720,878			(29,644)	6,691,234
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>8,272,585</u>	<u>6,578,592</u>	<u>4,348,475</u>	<u>5,924,203</u>	<u>25,123,855</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$10,464,206</u>	<u>\$6,864,799</u>	<u>\$4,939,245</u>	<u>\$6,643,928</u>	<u>\$28,912,178</u>

See accompanying notes to financial statements

CITY OF MARTINEZ
 Reconciliation of the
 GOVERNMENTAL FUNDS -- FUND BALANCES
 with the
 GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION
 JUNE 30, 2014

Total fund balances reported on the governmental funds balance sheet \$25,123,855

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

CAPITAL ASSETS

Capital assets used in Governmental Activities are not current assets or financial resources and
 therefore are not reported in the Governmental Funds. 61,080,775

ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS

Internal Service Funds are not governmental funds. However, they are used by management to
 charge the costs of certain activities, such as insurance and central services and maintenance
 to individual governmental funds. The net current assets of the Internal Service Funds are therefore
 included in Governmental Activities in the following line items in the Statement of Net Position.

Cash and investments	1,678,129
Internal balances	19,549
Other receivables	1,472
Capital assets	1,232,775
Accounts payable	(85,788)
Accrued liabilities	(12,605)
Accrued compensated absences	(44,878)

ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES

Revenues which are unavailable on the Fund Balance Sheets because they are not available currently
 are taken into revenue in the Statement of Activities. 1,048,374

LONG-TERM ASSETS AND LIABILITIES

The assets and liabilities below are not due and payable in the current period and therefore are not
 reported in the Funds:

Long-term debt	(23,365,000)
Non-current portion of compensated absences	(1,532,394)
Net OPEB asset	4,285,285

NET POSITION OF GOVERNMENTAL ACTIVITIES \$69,429,549

See accompanying notes to financial statements

CITY OF MARTINEZ
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

	General	Measure H	Capital Improvements	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$17,310,873				\$17,310,873
Special assessments				\$1,667,428	1,667,428
Licenses, permits, and fees	683,826		\$950,389	350,124	1,984,339
Intergovernmental	548,988		4,348,761	1,837,365	6,735,114
Charges for services	1,166,751			1,501	1,168,252
Fines and forfeits	431,947			101,832	533,779
Use of money and property	145,489	\$21,024	3,817	8,065	178,395
Miscellaneous	240,398		328,702	118,125	687,225
Total Revenues	20,528,272	21,024	5,631,669	4,084,440	30,265,405
EXPENDITURES					
Current:					
General government	1,189,903				1,189,903
Nondepartmental services	1,206,920				1,206,920
Administrative services	890,080			216,147	1,106,227
Public works	3,569,702				3,569,702
Community & economic development	2,298,636		2,309,336	1,051,946	5,659,918
Police	9,848,290			165,336	10,013,626
Debt service (Note 7):					
Principal				550,000	550,000
Interest and fiscal charges				1,152,130	1,152,130
Capital outlay	78,041	4,977,009	2,569,782	30,537	7,655,369
Total Expenditures	19,081,572	4,977,009	4,879,118	3,166,096	32,103,795
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,446,700	(4,955,985)	752,551	918,344	(1,838,390)
OTHER FINANCING SOURCES (USES)					
Transfers in (Note 4A)			363,653	13,700	377,353
Transfers (out) (Note 4A)	(153,601)			(346,353)	(499,954)
Total Other Financing Sources (Uses)	(153,601)		363,653	(332,653)	(122,601)
NET CHANGE IN FUND BALANCES	1,293,099	(4,955,985)	1,116,204	585,691	(1,960,991)
BEGINNING FUND BALANCES	6,979,486	11,534,577	3,232,271	5,338,512	27,084,846
ENDING FUND BALANCES	\$8,272,585	\$6,578,592	\$4,348,475	\$5,924,203	\$25,123,855

See accompanying notes to financial statements

CITY OF MARTINEZ
 Reconciliation of the
 NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
 with the Change in
 GOVERNMENTAL NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2014

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS (\$1,960,991)

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

CAPITAL ASSETS TRANSACTIONS

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

The capital outlay expenditures are therefore added back to fund balances	7,655,369
Net retirements are deducted from the fund balance	(96,774)
Depreciation expense is deducted from the fund balance (Depreciation expense is net of internal service fund depreciation of \$238,048 which has already been allocated to serviced funds)	(2,376,300)

LONG-TERM DEBT PROCEEDS AND PAYMENTS

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Position the repayment reduces long-term liabilities.

Repayment of debt principal is added back to fund balances	550,000
--	---------

ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Unavailable revenue	230,040
Compensated absences	(55,059)
Net OPEB asset	29,285

ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY

Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, and maintenance to individual funds. The portion of the net revenue of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.

Change in Net Position - All Internal Service Funds	(118,388)
---	-----------

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$3,857,182
---	-------------

See accompanying notes to financial statements

CITY OF MARTINEZ
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes	\$16,358,763	\$17,085,763	\$17,310,873	\$225,110
Licenses, permits, and fees	666,500	666,500	683,826	17,326
Intergovernmental	476,300	517,095	548,988	31,893
Charges for services	741,594	880,294	1,166,751	286,457
Fines and forfeits	350,000	350,000	431,947	81,947
Use of money and property	101,500	128,950	145,489	16,539
Miscellaneous	208,000	221,357	240,398	19,041
Total Revenues	<u>18,902,657</u>	<u>19,849,959</u>	<u>20,528,272</u>	<u>678,313</u>
EXPENDITURES:				
Current:				
General government	1,086,629	1,201,386	1,189,903	11,483
Nondepartmental services	1,221,114	1,221,107	1,206,920	14,187
Administrative services	860,044	912,743	890,080	22,663
Public works	3,773,544	3,745,491	3,569,702	175,789
Community & economic development	2,143,896	2,308,782	2,298,636	10,146
Police	9,869,521	10,171,104	9,848,290	322,814
Capital outlay		78,041	78,041	
Total Expenditures	<u>18,954,748</u>	<u>19,638,654</u>	<u>19,081,572</u>	<u>557,082</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(52,091)</u>	<u>211,305</u>	<u>1,446,700</u>	<u>1,235,395</u>
OTHER FINANCING SOURCES (USES)				
Transfers (out) (Note 4A)	<u>(181,000)</u>	<u>(181,000)</u>	<u>(153,601)</u>	<u>27,399</u>
Total other financing sources (uses)	<u>(181,000)</u>	<u>(181,000)</u>	<u>(153,601)</u>	<u>27,399</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u><u>(\$233,091)</u></u>	<u><u>\$30,305</u></u>	<u><u>1,293,099</u></u>	<u><u>\$1,262,794</u></u>
BEGINNING FUND BALANCE			<u>6,979,486</u>	
ENDING FUND BALANCE			<u><u>\$8,272,585</u></u>	

See accompanying notes to financial statements

MAJOR PROPRIETARY FUNDS

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through user charges.

The concept of major funds established by GASB Statement 34 extends to Proprietary Funds. The City has identified all of its Proprietary Funds as major funds in Fiscal 2014.

GASB 34 does not provide for the disclosure of budget vs. actual comparisons regarding proprietary funds that are major funds.

WATER SYSTEM FUND

To account for the funds received from customers receiving water service provided by the City and the related expenditures for administration, system improvements, maintenance and repairs, and debt service for bond issues related to the provision of water to the customers.

MARINA SERVICES FUND

To account for the activities related to the operations at the municipal marina.

PARKING SERVICES FUND

To account for the activities related to the various parking lots in the downtown area, including parking meters and shuttle services.

CITY OF MARTINEZ
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2014

	Business-type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Water System	Marina Services	Parking Services	Totals	
ASSETS					
Current Assets:					
Cash and investments (Note 3)					
Available for operations	\$15,193,911	\$238,801	\$1,361,913	\$16,794,625	\$1,678,129
Restricted	3,505,242			3,505,242	
Receivables:					
Accounts and other	1,498,286	3,352	3,360	1,504,998	1,472
Total Current Assets	<u>20,197,439</u>	<u>242,153</u>	<u>1,365,273</u>	<u>21,804,865</u>	<u>1,679,601</u>
Capital Assets (Note 6)					
Land	630,912	32,532	234,077	897,521	
Buildings	15,793,743	308,594		16,102,337	
Improvements	150,584		245,122	395,706	
Equipment	1,347,994		642,729	1,990,723	4,066,540
Infrastructure	88,166,473		23,500	88,189,973	
Less: Accumulated depreciation	<u>(79,943,544)</u>	<u>(285,765)</u>	<u>(743,334)</u>	<u>(80,972,643)</u>	<u>(2,919,229)</u>
	26,146,162	55,361	402,094	26,603,617	1,147,311
Construction in progress (Note 6)	<u>4,935,611</u>			<u>4,935,611</u>	<u>85,464</u>
Net Capital Assets	31,081,773	55,361	402,094	31,539,228	1,232,775
Other Non-Current Assets:					
Loan receivable (Note 5)	<u>22,920</u>			<u>22,920</u>	
Total Non-Current Assets	<u>31,104,693</u>	<u>55,361</u>	<u>402,094</u>	<u>31,562,148</u>	<u>1,232,775</u>
Total Assets	<u>51,302,132</u>	<u>297,514</u>	<u>1,767,367</u>	<u>53,367,013</u>	<u>2,912,376</u>
LIABILITIES					
Current liabilities:					
Accounts payable	735,672	3,388	1,545	740,605	85,788
Accrued liabilities	65,680			65,680	12,605
Unearned revenue	1,436	317,815		319,251	
Deposits	50,816	46,867		97,683	
Accrued interest	26,755	61,734		88,489	
Current portion of compensated absences (Note 1H)	142,000			142,000	
Current portion of long-term debt (Note 7)	835,000			835,000	
Current portion of loans payable (Note 8)		<u>133,640</u>		<u>133,640</u>	
Total Current Liabilities	<u>1,857,359</u>	<u>563,444</u>	<u>1,545</u>	<u>2,422,348</u>	<u>98,393</u>
Noncurrent Liabilities:					
Accrued compensated absences (Note 1H)	47,559			47,559	44,878
Long-term debt (Note 7)	8,945,632			8,945,632	
Loans payable (Note 8)		<u>4,063,583</u>		<u>4,063,583</u>	
Total Liabilities	<u>10,850,550</u>	<u>4,627,027</u>	<u>1,545</u>	<u>15,479,122</u>	<u>143,271</u>
NET POSITION (Note 10)					
Net investment in capital assets	23,616,885	(4,141,862)	402,094	19,877,117	1,232,775
Restricted for debt service	1,189,498			1,189,498	
Restricted for capital projects	9,344,526		177,471	9,521,997	
Unrestricted	<u>6,300,673</u>	<u>(187,651)</u>	<u>1,186,257</u>	<u>7,299,279</u>	<u>1,536,330</u>
Total Net Position (Deficit)	<u>\$40,451,582</u>	<u>(\$4,329,513)</u>	<u>\$1,765,822</u>	<u>37,887,891</u>	<u>\$2,769,105</u>
Some amounts reported for <i>business-type activities</i> in the Statement of Net Position are different because certain internal service fund assets and liabilities are included with business-type activities.				<u>(19,549)</u>	
Net position business-type activities				<u>\$37,868,342</u>	

See accompanying notes to financial statements

CITY OF MARTINEZ
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN FUND NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2014

	Business-type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Water System	Marina Services	Parking Services	Totals	
OPERATING REVENUES					
Water sales	\$10,902,108			\$10,902,108	
Rents and leases	46,949	\$176,927		223,876	
Charges for services	709,190	90	\$479,791	1,189,071	\$1,334,833
Other fees	585			585	
Other revenue	19,795	1,000	1,372	22,167	21,764
Total Operating Revenues	11,678,627	178,017	481,163	12,337,807	1,356,597
OPERATING EXPENSES					
Filtration plant	4,824,682			4,824,682	
Maintenance, repairs, and distribution	1,881,177	28,235		1,909,412	1,225,572
Administration	1,997,385	112,134	212,795	2,322,314	
Depreciation	1,884,446	20,520	19,585	1,924,551	238,048
Total Operating Expenses	10,587,690	160,889	232,380	10,980,959	1,463,620
Operating Income (loss)	1,090,937	17,128	248,783	1,356,848	(107,023)
NONOPERATING REVENUES (EXPENSES)					
Interest income	43,385	291	2,628	46,304	4,034
Interest (expense)	(283,151)	(93,013)		(376,164)	
Gain on disposal of equipment					8,464
Taxes		13,915	55,254	69,169	
Total Nonoperating Revenues (Expenses)	(239,766)	(78,807)	57,882	(260,691)	12,498
Income (loss) before transfers	851,171	(61,679)	306,665	1,096,157	(94,525)
Transfers in (Note 4A)	22,601	100,000		122,601	
Change in net position	873,772	38,321	306,665	1,218,758	(94,525)
BEGINNING NET POSITION (DEFICIT)	39,577,810	(4,367,834)	1,459,157		2,863,630
ENDING NET POSITION (DEFICIT)	\$40,451,582	(\$4,329,513)	\$1,765,822		\$2,769,105

Some amounts reported for *business-type activities* in the Statement of Activities are different because the portion of the net income of certain internal service funds is reported with the business-type activities which those funds service 23,863

Change in net position of business-type activities \$1,242,621

See accompanying notes to financial statements

CITY OF MARTINEZ
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2014

	Business-type Activities-Enterprise Funds				Governmental Activities- Internal Service Funds
	Water System	Marina Services	Parking Services	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$11,791,508	\$168,865	\$479,131	\$12,439,504	\$1,355,125
Payments to suppliers	(6,371,827)	(161,978)	(193,007)	(6,726,812)	(793,217)
Payments to employees	(2,103,844)		(24,722)	(2,128,566)	(395,000)
Rent and lease payments received	19,795		1,372	21,167	
Cash Flows from Operating Activities	<u>3,335,632</u>	<u>6,887</u>	<u>262,774</u>	<u>3,605,293</u>	<u>166,908</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Taxes received		13,915	55,254	69,169	
Transfers in	22,601	100,000		122,601	
Cash Flows from Noncapital Financing Activities	<u>22,601</u>	<u>113,915</u>	<u>55,254</u>	<u>191,770</u>	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	(1,959,309)		(98,566)	(2,057,875)	(328,218)
Proceeds from sale of equipment					8,464
Principal payments on capital debt	(820,000)			(820,000)	
Interest paid	(332,272)	(69,349)		(401,621)	
Cash Flows from Capital and Related Financing Activities	<u>(3,111,581)</u>	<u>(69,349)</u>	<u>(98,566)</u>	<u>(3,279,496)</u>	<u>(319,754)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest	43,385	291	2,628	46,304	4,034
Cash Flows from Investing Activities	<u>43,385</u>	<u>291</u>	<u>2,628</u>	<u>46,304</u>	<u>4,034</u>
Net Cash Flows	290,037	51,744	222,090	563,871	(148,812)
Cash and investments at beginning of period	18,409,116	187,057	1,139,823	19,735,996	1,826,941
Cash and investments at end of period	<u>\$18,699,153</u>	<u>\$238,801</u>	<u>\$1,361,913</u>	<u>\$20,299,867</u>	<u>\$1,678,129</u>
Reconciliation of Operating Income to Cash Flows from Operating Activities:					
Operating income (loss)	\$1,090,937	\$17,128	\$248,783	\$1,356,848	(\$107,023)
Adjustments to reconcile operating income (loss) to cash flows from operating activities:					
Depreciation	1,884,446	20,520	19,585	1,924,551	238,048
Change in assets and liabilities:					
Accounts receivable	132,676	(788)	(660)	131,228	(1,472)
Accounts payable and other liabilities	231,356	(21,609)	(2,564)	207,183	46,860
Deposits	4,264			4,264	
Accrued vacation and other fringe benefits	(8,047)		(2,370)	(10,417)	(9,697)
Accrued wages and benefits					192
Unearned revenue		(8,364)		(8,364)	
Cash Flows from Operating Activities	<u>\$3,335,632</u>	<u>\$6,887</u>	<u>\$262,774</u>	<u>\$3,605,293</u>	<u>\$166,908</u>

See accompanying notes to financial statements

FIDUCIARY FUNDS

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the City as an agent or in trust for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the Entity-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

CITY OF MARTINEZ
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET POSITION
 JUNE 30, 2014

	<u>Trust Fund</u>	<u>Agency Funds</u>
ASSETS		
Restricted cash and investments (Note 3)	<u>\$92,738</u>	<u>\$407,895</u>
Total Assets	<u><u>\$92,738</u></u>	<u><u>\$407,895</u></u>
LIABILITIES		
Accounts payable		\$9,418
Due to bondholders		213,534
Due to members		<u>184,943</u>
Total Liabilities		<u><u>\$407,895</u></u>
NET POSITION		
Restricted for private purpose activities	<u>92,738</u>	
Total Net Position	<u><u>\$92,738</u></u>	

See accompanying notes to financial statements

CITY OF MARTINEZ
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2014

	Trust Fund
ADDITIONS:	
Donations	\$2,864
Interest	166
Total Additions	3,030
DEDUCTIONS:	
Supplies	257
Beneficiary payments	1,318
Improvements	33,427
Total Deductions	35,002
CHANGE IN NET POSITION	(31,972)
NET POSITION, BEGINNING OF YEAR	124,710
NET POSITION, END OF YEAR	\$92,738

See accompanying notes to financial statements

This Page Left Intentionally Blank

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Martinez was incorporated in 1876 and operates under an elected Mayor/Council form of government. The City's major operations include public safety, water system, marina, parking, community and economic development, public works, recreation and parks, and general administrative services.

A. Reporting Entity

The financial statements of the City of Martinez include the financial activities of the City as well as the Martinez Public Improvement Corporation which is controlled by and dependent on the City. While the Corporation is a separate legal entity, the City Council serves in a separate session as its governing body and the financial activities of the Corporation are integral to those of the City. Corporation financial activities have been aggregated and merged (termed "blended") with those of the City in the accompanying financial statements.

The **Martinez Public Improvement Corporation** is a nonprofit public benefit corporation organized and existing under the Nonprofit Public Benefit Corporation Law of the State of California. The purposes for which the Corporation was formed include, among others, (i) rendering financial assistance to the City by financing, refinancing, acquiring, constructing, improving, leasing and selling of buildings, building improvements, equipment, electrical, water, sewer, road and other public improvements, lands and any other real or personal property for the benefits of the City and surrounding areas; (ii) acquiring by lease, purchase or otherwise, real or personal property or any interest therein; and (iii) constructing, reconstructing, modifying, adding to, improving or otherwise acquiring or equipping buildings, structures or improvements and (by sale, lease, sublease, leaseback, gift or otherwise) making any part or all of any such real or personal property available to or for the benefit of the residents of the City. The Corporation is reported as part of the City's operations because of its purpose to provide financing for the City.

The **Pleasant Hill/Martinez Joint Facilities Agency** is established for the purpose of providing cost-effective services for employees participating in the Miscellaneous CALPERS retirement plan. The Agency is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Agency.

Separate financial statements for the Martinez Public Improvement Corporation and the Pleasant Hill/Martinez Joint Facilities Agency are not issued.

B. Basis of Presentation

The City's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The 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.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

These Standards require that the financial statements described below be presented:

Government-wide Statements: The Statement of Net Position and the Statement of Activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities, except for interfund services provided and used. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

C. Major Funds

Major funds are defined as funds that have either assets, and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. Major governmental and business-type funds are identified and presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City reported the following major governmental funds in the accompanying financial statements:

General Fund - The General Fund is used for all the general revenues of the City not specifically levied or collected for other City funds and the related expenditures. The General Fund accounts for all financial resources of the City which are not accounted for in another fund.

Measure H Fund - Accounts for the \$25,000,000 of General Obligation Bonds issued in May 2009 and March 2012. These funds are to finance the costs of acquiring and constructing parks, library improvements, and pool and safety improvements.

Capital Improvements Fund - To account for the funds spent and revenue received for various capital projects within the City.

The City reported all its enterprise funds as major funds in the accompanying financial statements:

Water System Fund - To account for the funds received from customers receiving water service provided by the City and the related expenditures for administration, system improvements, maintenance and repairs, and debt service for bond issues related to the provision of water to the customers.

Marina Services Fund - To account for the activities related to the operations at the municipal marina.

Parking Services Fund - To account for the activities related to the various parking lots in the downtown area, including parking meters and shuttle services.

The City also reports the following fund types:

Internal Service Funds - To account for equipment replacement and management information Services; all of which are provided to other departments on a cost-reimbursement basis.

Fiduciary Funds - The City maintains two types of Fiduciary Funds - Trust Funds and Agency Funds. Trust Funds account for activities of individual private trust funds for the benefit of the Alhambra Cemetery. Agency Funds are used to account for assets held by the City as an agent for the Alhambra Creek Assessment District and the Senior Center Club. The financial activities of these funds are excluded from the Government-wide financial statement, but are presented in separate Fiduciary Fund financial statements.

D. Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *full accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured.

Governmental capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Those revenues susceptible to accrual are property, sales and franchise taxes, certain other intergovernmental revenues, special assessments and interest revenue. Fines, permits, licenses and charges for services are not susceptible to accrual because they are not measurable until received in cash.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The City may fund programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

E. *Deferred Outflows/Inflows of Resources*

In addition 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 City does not have any items that qualify for reporting in this category this fiscal year.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item *unavailable revenue*, is reported in the governmental funds balance sheet. The governmental funds report unavailable revenues from miscellaneous receivables, grants and loans receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

F. *Revenue Recognition for Water System Enterprise Fund*

Revenues are recognized based on cycle billings rendered to customers. Revenues for services provided but not billed at the end of the year are accrued.

G. *Property Taxes and Special Assessment Revenue*

Revenue is recognized in the fiscal year for which the tax and assessment is levied. The County of Contra Costa levies, bills and collects property taxes for the City; the County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on January 1 of the preceding fiscal year.

Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1 and becomes delinquent on August 31.

The term “unsecured” refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the personal property being taxed. Property tax revenues are recognized by the City in the fiscal year they are assessed provided they become available as defined above.

H. *Compensated Absences*

Compensated absences comprise unused vacation leave, vested sick pay and other employee benefits which are accrued as earned. The City’s liability for compensated absences is recorded in various Governmental funds or Proprietary funds as appropriate. The liability for compensated absences is determined annually. For all governmental funds, amounts expected to be permanently liquidated are recorded as fund liabilities; the remaining portion is recorded in the Statement of Net Position.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The changes of the compensated absences during the fiscal year ended June 30, 2014 were as follows:

	Governmental Activities	Business-Type Activities	Total
Beginning Balance	\$1,531,910	\$199,976	\$1,731,886
Additions	1,063,415	148,546	1,211,961
Payments	(1,018,053)	(158,963)	(1,177,016)
Ending Balance	<u>\$1,577,272</u>	<u>\$189,559</u>	<u>\$1,766,831</u>
Current Portion	<u>\$1,024,000</u>	<u>\$142,000</u>	<u>\$1,166,000</u>

Compensated absences are liquidated by the fund that has recorded the liability. The long-term portion of governmental activities compensated absences is liquidated primarily by the General Fund.

I. *Prepays and Inventory*

Prepaid items in governmental funds are equally offset by a fund balance reserve which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

Inventories are valued at cost (on the first-in, first-out basis). Inventories of the General Fund consist of expendable supplies held for consumption. The cost is recorded as an expenditure in the General Fund at the time individual inventory items are consumed. Reported General Fund inventories are equally offset by a fund balance reserve which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

J. *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.

K. *New and Closed Funds*

The Housing In-Lieu Special Revenue Fund was created during the fiscal year. The funds are to be used to provide affordable housing to low and moderate income households.

The 2003 Debt Service Fund was closed as of June 30, 2014.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

The City adopts a biennial budget for the General Fund and all Special Revenue Funds, on or before June 30 of even-numbered years for each of the ensuing two fiscal years. The operating budget takes the form of a two-year budget, which is adopted in its entirety by the City Council by resolution. This budget is adopted on a basis consistent with generally accepted accounting principles (GAAP). All annual appropriations lapse at fiscal year-end. Capital Projects Funds are budgeted on a project-length basis.

On or before the last day in March of each year, all departments of the City submit requests for appropriations to the City Manager so that a budget may be prepared on or by May 1, for even-numbered years. The proposed budget is presented to the City's Council for review. The Council holds public hearings and a final budget must be prepared and adopted no later than June 30.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. The City Manager is authorized to make revisions up to 1% any single budget year. Council approval is required for additional appropriation from fund balances or new revenue sources. The legal level of budgetary control is at the departmental level.

The budget is revised in February to take into consideration information available during the fiscal year. Budget amounts presented in the accompanying financial statements reflect original appropriations modified by supplemental amendments discussed above which were not material.

NOTE 3 - CASH AND INVESTMENTS

The City pools cash from all sources and all funds, except Cash and Investments held by Trustees, so that it can be invested at the maximum yield consistent with safety and liquidity, while individual funds can make expenditures at any time.

A. Policies

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the City's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the City's name and places the City ahead of general creditors of the institution.

The City invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to increase security, the City employs the Trust Department of a bank as the custodian of certain City managed investments, regardless of their form.

The City's investments are carried at fair value, as required by generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 3 - CASH AND INVESTMENTS (Continued)

B. Classification

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of City debt instruments or Agency agreements.

Cash and investments available for operations	\$36,309,316
Restricted cash and investments	<u>11,494,022</u>
Total Primary Government cash and investments	47,803,338
Restricted cash and investments in Fiduciary Funds (separate statement)	<u>500,633</u>
Total cash and investments	<u><u>\$48,303,971</u></u>

Cash and Investments Available for Operations is used in preparing proprietary fund statements of cash flows because these assets are highly liquid and are expended to liquidate liabilities arising during the year.

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

The City's Investment Policy and the California Government Code allow the City to invest in the following, provided the credit ratings of the issuers are acceptable to the City; and approved percentages and maturities are not exceeded.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage Allowed
Shares of Beneficial Interest	N/A	Top rating category	20%
California Local Agency Investment Fund (LAIF Pool)	Upon Demand	N/A	No limit
U.S. Treasury Obligations	5 Years	N/A	No limit
U.S. Agency Securities and U.S. Government Sponsored Enterprise Obligations	5 Years	N/A	No limit

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 3 - CASH AND INVESTMENTS (Continued)

D. Investments Authorized by Debt Agreements

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:

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

E. Interest Rate Risk and Credit Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City generally manages its interest rate risk by holding investments to maturity.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 3 - CASH AND INVESTMENTS (Continued)

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity or earliest call date:

Investment Type	12 Months or less	13 to 24 Months	25 to 36 Months	Total
California Local Agency Investment Fund	\$46,021,784			\$46,021,784
Money market funds	6,214			6,214
Certificates of deposit		\$330,000	\$480,000	810,000
Total Investments	<u>46,027,998</u>	<u>\$330,000</u>	<u>\$480,000</u>	46,837,998
Cash in banks and on hand				<u>1,465,973</u>
Total Cash and Investments				<u>\$48,303,971</u>

The City is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2014, these investments have an average maturity of 232 days and were not rated.

Money Market mutual funds are available for withdrawal on demand and at June 30, 2014, have an average maturity of 39 to 40 days. Money Market Mutual funds were rated AAAm by Standard and Poor's investment rating system. The certificates of deposit were not rated as of June 30, 2014.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 4 – INTERFUND TRANSACTIONS

A. Transfers Between Funds

With Council approval, resources may be transferred from one City fund to another. Transfers between funds during the fiscal year ended June 30, 2014 were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
Capital Improvements Funds	General Fund	\$25,000 A
	Non-Major Funds	338,653 A
Non-Major Funds	General Fund	6,000 B
	Non-Major Funds	7,700 B
Water System Enterprise Fund	General Fund	22,601 B
Marina Services Enterprise Fund	General Fund	100,000 B
	Total Interfund Transfers	\$499,954

A: To fund capital projects

B: To fund operations

B. Long-Term Interfund Advance

In fiscal year 2007-08 the General Fund made an advance to the Alhambra Creek Improvements Capital Projects Fund in the amount of \$65,828, to be repaid in annual installments. The advance bears no interest. As of June 30, 2014, the balance was \$29,644.

C. Internal Balances

Internal balances are presented in the Entity-wide financial statements only. They represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities.

NOTE 5 – LOAN RECEIVABLE AND UNAVAILABLE REVENUE

A. Riverhouse Associates

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, 2014 the loan balances of \$262,010 and \$22,920 were owed to the Capital Improvements Capital Projects Fund and Water System Enterprise Fund, respectively.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 5 – LOAN RECEIVABLE AND UNAVAILABLE REVENUE (Continued)

B. *Martinez Unified School District*

The Martinez Unified School District (MUSD) requested financial assistance from the City in order to retain 17 teachers. Without the City’s assistance the District would not have been able to maintain classroom sizes in the District’s Kindergarten – 3rd grades. On July 27, 2009 the City advanced the MUSD \$500,000 and entered into a Fee Service and Joint Facility Use Agreement for repayment which terminates on July 27, 2014. It is anticipated that the Fee for Service and Joint Facilities Agreement shall provide the City an amount equal to the \$500,000 over the five years. As of June 30, 2014 the MUSD owed the City \$179,574.

NOTE 6 - CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The City capitalizes all capital assets with values greater than \$5,000.

Capital assets with limited useful lives are depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year’s pro rata share of the cost of capital assets. Depreciation is provided using the straight-line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The City has assigned the useful lives listed below to capital assets:

Buildings	30-50 years
Improvements	30-50 years
Equipment	3-25 years
Infrastructure	10-67 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 6 - CAPITAL ASSETS (Continued)

A. Capital Asset Additions and Retirements

Capital asset activities for the year ended June 30, 2014 comprise:

	Balance at June 30, 2013	Additions	Retirements	Transfers	Balance at June 30, 2014
Governmental activities					
Capital assets not being depreciated:					
Land	\$16,055,114				\$16,055,114
Construction in progress	3,037,950	\$7,177,513	(\$16,151)	(\$8,915,833)	1,283,479
Total capital assets not being depreciated	<u>19,093,064</u>	<u>7,177,513</u>	<u>(16,151)</u>	<u>(8,915,833)</u>	<u>17,338,593</u>
Capital assets being depreciated:					
Buildings	12,458,570	223,404	(310,112)	102,582	12,474,444
Improvements	36,920				36,920
Equipment	6,665,379	242,754	(138,691)	367,440	7,136,882
Infrastructure	55,952,772	339,916	(618,804)	8,445,811	64,119,695
Total capital assets being depreciated	<u>75,113,641</u>	<u>806,074</u>	<u>(1,067,607)</u>	<u>8,915,833</u>	<u>83,767,941</u>
Less accumulated depreciation:					
Buildings	(3,024,496)	(371,922)	249,969		(3,146,449)
Improvements	(4,924)	(1,231)			(6,155)
Equipment	(4,202,569)	(487,619)	138,691		(4,551,497)
Infrastructure	(29,933,631)	(1,753,576)	598,324		(31,088,883)
Total accumulated depreciation	<u>(37,165,620)</u>	<u>(2,614,348)</u>	<u>986,984</u>		<u>(38,792,984)</u>
Net capital assets being depreciated	<u>37,948,021</u>	<u>(1,808,274)</u>	<u>(80,623)</u>	<u>8,915,833</u>	<u>44,974,957</u>
Governmental activities capital assets, net	<u>\$57,041,085</u>	<u>\$5,369,239</u>	<u>(\$96,774)</u>		<u>\$62,313,550</u>
	Balance at June 30, 2013	Additions	Retirements	Transfers	Balance at June 30, 2014
Business-type activities					
Capital assets, not being depreciated:					
Land	\$897,521				\$897,521
Construction in progress	2,976,302	\$1,959,309			4,935,611
Total capital assets not being depreciated	<u>3,873,823</u>	<u>1,959,309</u>			<u>5,833,132</u>
Capital assets being depreciated:					
Buildings	16,102,337				16,102,337
Improvements	395,706				395,706
Equipment	1,892,157	98,566			1,990,723
Infrastructure	88,299,973		(\$110,000)		88,189,973
Net capital assets being depreciated	<u>106,690,173</u>	<u>98,566</u>	<u>(110,000)</u>		<u>106,678,739</u>
Less accumulated depreciation for:					
Buildings	(9,392,777)	(449,129)			(9,841,906)
Improvements	(250,403)	(11,914)			(262,317)
Equipment	(1,698,145)	(40,932)			(1,739,077)
Infrastructure	(67,816,767)	(1,422,576)	110,000		(69,129,343)
Total accumulated depreciation	<u>(79,158,092)</u>	<u>(1,924,551)</u>	<u>110,000</u>		<u>(80,972,643)</u>
Net capital assets being depreciated	<u>27,532,081</u>	<u>(1,825,985)</u>			<u>25,706,096</u>
Business-type activities capital assets, net	<u>\$31,405,904</u>	<u>\$133,324</u>			<u>\$31,539,228</u>

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 6 - CAPITAL ASSETS (Continued)

B. Capital Asset Contributions

Some capital assets may be acquired using federal and State grant funds, or they may be contributed by developers or other governments. GASB Statement 34 requires that these contributions be accounted for as revenues at the time the capital assets are contributed.

C. Depreciation Allocation

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function, or program, are as follows:

<i>Governmental Activities</i>	
General Government	\$39,041
Public Works	22,090
Community & Economic Development	2,214,385
Police	100,784
Capital assets held by the City's Internal Service Funds	238,048
Total Governmental Activities	\$2,614,348
 <i>Business-Type Activities</i>	
Water System	\$1,884,446
Marina Services	20,520
Parking Services	19,585
Total Business-Type Activities	\$1,924,551

NOTE 7 – LONG-TERM DEBT

The City generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt.

Proprietary Fund (Enterprise and Internal Service) long-term debt is accounted for in the proprietary funds which will repay the debt because these funds are accounted for on the full-accrual basis in a similar manner to commercial operations.

For governmental fund types, bond premiums and discounts are recognized during the period of issuance. For proprietary fund types, bond premiums and discounts, are deferred and amortized over the life of the bonds using the straight-line method. All issuance costs are expensed when incurred. Bonds payable are reported net of the applicable bond premium or discount.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 7 – LONG TERM DEBT (Continued)

The City'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, 2013	Retirements	Balance at June 30, 2014	Current Portion
Governmental Activity Debt					
<i>General Long-Term Debt</i>					
2003 Certificates of Participation					
Refinancing Project, 2-4%, due 12/01/13	\$2,200,000	\$255,000	\$255,000		
2009 General Obligation Bonds					
Election of 2008, Series A, 4-5.875%, due 2/01/39	15,000,000	14,140,000	5,000	\$14,135,000	\$45,000
2012 General Obligation Bonds					
Election of 2008, Series B, 4-5%, due 8/01/42	10,000,000	9,520,000	290,000	9,230,000	265,000
Total governmental activity debt		<u>\$23,915,000</u>	<u>\$550,000</u>	<u>\$23,365,000</u>	<u>\$310,000</u>
Business-Type Activity Debt					
<i>Enterprise Long-Term Debt</i>					
Certificates of Participation:					
2003 Refinancing Project, 2-4%, due 12/01/18	\$5,595,000	\$2,425,000	\$370,000	\$2,055,000	\$380,000
2012 Refunding Water System Improvements, 2-4%, due 12/01/26	8,025,000	7,585,000	450,000	7,135,000	455,000
Plus: Unamortized Bond Premium	696,947	637,884	47,252	590,632	
Total business-type activity debt		<u>\$10,647,884</u>	<u>\$867,252</u>	<u>\$9,780,632</u>	<u>\$835,000</u>

B. 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. Interest payments on the 2003 COPs are due semi-annually on June 1 and December 1, and annual principal payments are due on December 1. Interest and principal payments are payable from lease revenues on City Hall and net revenues derived from the operation of the water system. The governmental portion of the bonds were fully repaid as of June 30, 2014. The City's total principal and interest remaining to be paid on the business type portion of the bonds is \$2,261,367. The City's principal and interest paid for the current year for both the governmental and business type portions of the bonds is \$715,542.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 7 – LONG TERM DEBT (Continued)

C. General Obligation Bonds

On May 5, 2009, the City issued the General Obligation Election of 2008, Series A Bonds (GOs) in the amount of \$15,000,000 to finance the costs of acquiring and constructing parks, library improvements, and pool and safety improvements in the City.

On March 21, 2012, the City issued the General Obligation Election of 2008, Series B Bonds (GOs) in the amount of \$10,000,000 to finance the costs of acquiring and constructing parks, library improvements, and pool and safety improvements in the City.

The Bonds were authorized at an election held on November 4, 2008, at which more than two-thirds of the voters approved. Interest payments on the GOs are due semi-annually on February 1 and August 1, and annual principal payments are due on February or August 1. Interest and principal payments are payable from ad valorem property taxes levied by the City and collected by the County. The total principal and interest remaining to be paid on the bonds is \$23,365,000 and \$23,428,389, respectively. Principal and interest paid for the current fiscal year and total Ad Valorem Property Tax Revenues were \$1,441,863 and \$1,547,677, respectively.

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 COPs and for the acquisition and construction of improvements to the City's existing 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 \$8,993,825. The City's principal and interest paid for the current fiscal year is \$696,350.

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 the 2003 bonds are expected to require less than 12.26 percent and 2.85 percent of net water revenues. Annual principal and interest payments on the 2012 bonds are expected to require less than 14.91 percent and 8.16 percent of net water revenues. The Water Fund's total principal and interest remaining to be paid on the bonds is \$11,255,192. The Water Fund's principal and interest paid for the current year and total customer net revenues were \$1,152,270 and \$3,018,768 respectively. The City is in compliance with its debt covenants for the year ended June 30, 2014.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 7 – LONG TERM DEBT (Continued)

E. Debt Service Requirements

Annual debt service requirements are shown below:

For the Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2015	\$310,000	\$1,134,762	\$835,000	\$309,484
2016	110,000	1,126,362	855,000	285,799
2017	125,000	1,121,662	890,000	258,528
2018	145,000	1,116,262	920,000	227,681
2019	175,000	1,109,862	940,000	195,725
2020 - 2024	1,410,000	5,405,309	2,790,000	668,575
2025 - 2029	2,620,000	4,958,551	1,960,000	119,400
2030 - 2034	4,300,000	4,113,620		
2035 - 2039	8,060,000	2,705,559		
2040 - 2043	6,110,000	636,440		
Total	\$23,365,000	\$23,428,389	9,190,000	\$2,065,192
Plus: Unamortized Bond Premium			590,632	
Gross Long-term debt			\$9,780,632	

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, 2014.

In addition, the City issued General Obligation Election of 2008, Series A Bonds (GOs) that were ratified by two-thirds of the voters on November 4, 2008 in the amount of \$30,000,000. \$5,000,000 remains authorized but unissued as of June 30, 2014.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 8 – LOANS PAYABLE TO STATE OF CALIFORNIA

At June 30, 2014, the Marina Services Fund owed \$4,197,223 in loans to the State. The City made an interest payment of \$69,349 to the Department of Boating and Waterways in fiscal 2014 to cover current year interest accrued on the unpaid loan balances.

A. Current Year Transactions and Balances

	Original Issue Amount	Balance at June 30, 2013	Additions	Balance at June 30, 2014	Current Portion
Marina Loans					
Loan Payable - 1964	\$1,300,000	\$850,000		\$850,000	
Accrued interest		1,738,014	\$25,500	1,763,514	
Loan Payable - 1973	450,000	251,136		251,136	\$37,908
Loan Payable - 1978	175,000	131,574		131,574	15,372
Loan Payable - 1982	300,000	323,922		323,922	26,106
Loan Payable - 1984	750,000	877,077		877,077	54,254
Total Marina Loans		<u>\$4,171,723</u>	<u>\$25,500</u>	<u>\$4,197,223</u>	<u>\$133,640</u>

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, 2014, the amount payable to the State including interest amounted to \$2,613,574.

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.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 8 – LOANS PAYABLE TO STATE OF CALIFORNIA (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, 2014, 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, 2014 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.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 8 – LOANS PAYABLE TO STATE OF CALIFORNIA (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, 2014, 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, 2014, 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*

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 current year principal payment of \$44,579, in addition to the non-payment of principal in the prior fiscal year in the amount of \$42,599, the City has not made total principal payments in the amount of \$87,118 since August 1, 2013. The past due amounts have been included in the current portion of the loans payable. The State has assessed a late penalty fee of 6% of the unpaid balances. See discussion in Note 10D.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 8 – LOANS PAYABLE TO STATE OF CALIFORNIA (Continued)

H. Debt Service Requirements

For the Year Ending June 30	Marina Activities	
	Principal	Interest
2015	\$133,640	\$67,344
2016	48,616	65,250
2017	50,803	63,063
2018	53,090	60,776
2019	55,477	58,389
2020 - 2024	317,164	252,167
2025 - 2029	347,373	175,141
2030 - 2034	306,513	102,584
2035 - 2039	271,033	35,606
Total	1,583,709	<u>\$880,320</u>
Plus: Marina Loan 1964	850,000	
Plus: Accrued interest	<u>1,763,514</u>	
Total	<u>\$4,197,223</u>	

NOTE 9 – DEBT WITHOUT CITY COMMITMENT

A. Special Assessment Bonds

The Alhambra Creek Assessment District issued Assessment Bonds of 1999, but the City has no legal or moral liability with respect to the payment of this debt, which is secured only by assessments on the properties in this District. Therefore, this debt is not included as debt of the City. At June 30, 2014, the District's outstanding debt amounted to \$505,000.

B. Home Mortgage Revenue Bonds

Home mortgage revenue bonds have been issued to finance secured mortgage loans for low-income housing projects. The bonds do not constitute indebtedness to which the good faith and credit of the City is pledged. The City is not obligated to pay the principal, interest or other payments associated with the bonds. The payments on the bonds are payable solely from monies received from mortgage loans, security agreements or insurance. Accordingly, the bonds have not been recorded in the basic financial statements of the City. The total amount of mortgage revenue bonds outstanding as of June 30, 2014 was \$2,070,000.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 10 – NET POSITION AND FUND BALANCES

A. Net Position

Net Position is the excess of all the City's assets and deferred outflows of resources over all its liabilities and deferred inflows of resources, regardless of fund. Net Position is divided into three captions. These captions apply only to Net Position, which is determined only at the Government-wide level, and are described below:

Net investment in capital assets describes the portion of Net Position which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include capital projects, debt service requirements, and special revenue programs restricted to special revenue purposes such as transportation grants and revenues, stormwater and COPs grants.

Unrestricted describes the portion of Net Position which is not restricted to use.

B. Fund Balances

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities.

The City's fund balances are classified in accordance with Governmental Accounting Standards Board Statement Number 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which requires the City to classify its fund balances based on spending constraints imposed on the use of resources. For programs with multiple funding sources, the City prioritizes and expends funds in the following order: Restricted, Committed, Assigned, and Unassigned. Each category in the following hierarchy is ranked according to the degree of spending constraint:

Nonspendable represents balances set aside to indicate items not available as spendable resources even though they are a component of assets. Fund balances required to be maintained intact, such as Permanent Funds, and assets not expected to be converted to cash, such as prepaids, notes receivable, and land held for redevelopment are included. However, if proceeds realized from the sale or collection of nonspendable assets are restricted, committed or assigned, then nonspendable amounts are required to be presented as a component of the applicable category.

Restricted fund balances have external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation which requires the resources to be used only for a specific purpose. Encumbrances and nonspendable amounts subject to restrictions are included along with spendable resources.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

Committed fund balances have constraints imposed by formal action of the City Council which may be altered only by formal action of the City Council. Encumbrances and nonspendable amounts subject to council commitments are included along with spendable resources. As of June 30, 2014, the City does not have committed fund balance.

Assigned fund balances are amounts constrained by the City's intent to be used for a specific purpose, but are neither restricted nor committed. Intent is expressed by the City Council or the City Manager and may be changed at the discretion of the City Council or the City Manager. This category includes encumbrances; nonspendables, when it is the City's intent to use proceeds or collections for a specific purpose, and residual fund balances, if any, of Special Revenue, Capital Projects and Debt Service Funds which have not been restricted or committed.

Unassigned fund balance represents residual amounts that have not been restricted, committed, or assigned. This includes the residual general fund balance and residual fund deficits, if any, of other governmental funds.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

Detailed classifications of the City’s Fund Balances, as of June 30, 2014, are below:

<u>Fund Balance Classifications</u>	<u>General Fund</u>	<u>Special Revenue Measure H</u>	<u>Capital Project Capital Improvements</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Nonspendable:					
Advance to Other Funds	\$29,644				\$29,644
Inventory and prepaids	48,325				48,325
Total Nonspendable Fund Balances	<u>77,969</u>				<u>77,969</u>
Restricted for:					
Debt Service				\$1,127,736	1,127,736
Park & Facilities Improvements		\$6,578,592	\$326,961		6,905,553
Street Improvements				3,461,012	3,461,012
Housing				350,361	350,361
Recycle				112,595	112,595
PEG Access				438,060	438,060
Lighting & Landscape				226,673	226,673
Traffic Mitigation			528,353		528,353
Park Impact			643,209		643,209
Child Care			44,909		44,909
Drainage			117,317		117,317
Cultural Facilities			460,013		460,013
Public Safety			50,656	237,410	288,066
Total Restricted Fund Balances		<u>6,578,592</u>	<u>2,171,418</u>	<u>5,953,847</u>	<u>14,703,857</u>
Assigned to:					
Insurance	582,425				582,425
Pension Obligation	250,000				250,000
Improvements	166,553		2,177,057		2,343,610
Health Benefits	360,363				360,363
Rent at 636 Ward Street	28,000				28,000
Professional Service Consultants	35,131				35,131
Special Events	43,949				43,949
SB1186 - Disability Access	2,738				2,738
Seismic	3,019				3,019
Supplies	1,560				1,560
Total Assigned Fund Balances	<u>1,473,738</u>		<u>2,177,057</u>		<u>3,650,795</u>
Unassigned:					
General Fund	6,720,878				6,720,878
Other Governmental Fund Deficit				(29,644)	(29,644)
Total Unassigned Fund Balances	<u>6,720,878</u>			<u>(29,644)</u>	<u>6,691,234</u>
Total Fund Balances	<u>\$8,272,585</u>	<u>\$6,578,592</u>	<u>\$4,348,475</u>	<u>\$5,924,203</u>	<u>\$25,123,855</u>

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

C. Contingency Arrangements

The City’s annual budget requires the City to implement and maintain fund balance to handle any unforeseen contingencies in the future, rather than continued reliance on the City’s operating General Fund reserves. These unforeseen contingencies include Economic Uncertainty, Catastrophes and Contingencies. As of June 30, 2014, the following are reported within the unassigned fund balance of the General Fund:

	<u>Amount</u>
Economic Uncertainty	\$600,000
Catastrophes	300,000
Contingencies	<u>100,000</u>
Total	<u><u>\$1,000,000</u></u>

D. Fund Balance and Net Position Deficits

At June 30, 2014 the Alhambra Creek Improvements Capital Projects Fund had a deficit fund balance of \$29,644. Future revenues are expected to offset this fund deficit.

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 \$4,329,513 as of June 30, 2014 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 and 2014 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, 2014, 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.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 11 – 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 separate Safety (police), Miscellaneous (all other), and Miscellaneous Joint Facilities Agency Employee Plans. Benefit provisions under the Plans are established by State statute and City ordinance or resolution. 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 of miscellaneous employees require it to pay 5% of the employee contribution of 7% and the full employer contribution. The City’s labor contracts for safety employees require it to pay the full 9% of the employee contribution, with the employees paying 2% of the employer contribution. The Plans’ provisions and benefits in effect at June 30, 2014, are summarized as follows:

Safety Plan

	<u>3 @ 50</u>	<u>3 @ 55</u>	<u>2.7 @ 57</u>
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	50
Monthly benefit as % of annual salary	3%	2.4% - 3%	2.0% - 2.7%
EE contribution rate	9%	9%	11.500%
ER contribution rate	47.278%	20.774%	11.500%

Miscellaneous

	<u>2 @ 55</u>	<u>2 @ 60</u>	<u>2 @ 62</u>
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	10.781%	8.049%	6.250%

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 11 – EMPLOYEES’ RETIREMENT SYSTEM (Continued)

Miscellaneous Joint Facilities Agency

	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	10.781%	8.049%	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.

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:

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 11 – EMPLOYEES’ RETIREMENT SYSTEM (Continued)

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
<i>Safety Plan</i>			
June 30, 2012	\$1,618,813	100%	\$0
June 30, 2013	1,539,780	100%	0
June 30, 2014	1,511,825	100%	0
<i>Miscellaneous Plan</i>			
June 30, 2012	\$26,259	100%	\$0
June 30, 2013	26,337	100%	0
June 30, 2014	10,868	100%	0
<i>Miscellaneous Joint Facilities Agency</i>			
June 30, 2012	\$690,701	100%	\$0
June 30, 2013	692,455	100%	0
June 30, 2014	707,373	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 Safety, Miscellaneous and 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 March 2007, the City paid off the unfunded liability of the Miscellaneous Plan. In April 2011 the City satisfied its Miscellaneous Joint Facilities Agency Plan’s unfunded liability. For the Safety Plan, the City will satisfy its Plans’ unfunded liability of \$5,784,617 by contributing to the Side Fund through an addition to its normal contribution rates over the next 8 years.

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:

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 11 – EMPLOYEES’ RETIREMENT SYSTEM (Continued)

Safety 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
2010	\$10,165,475,166	\$8,470,235,152	\$1,695,240,014	83.3%	\$955,980,815	177.3%
2011	10,951,745,049	9,135,654,246	1,816,090,803	83.4%	949,833,090	191.2%
2012	11,724,021,480	9,854,787,710	1,869,233,770	84.1%	947,734,809	197.2%

The City’s Safety Plan represents approximately 0.37%, 0.40%, and 0.40% of the State-wide pool for the years ended June 30, 2012, 2011, and 2010, respectively, based on covered payroll of \$3,475,460, \$3,765,849, and \$3,802,257 for those years.

Miscellaneous 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
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%
2012	4,175,139,166	3,686,598,343	488,540,823	88.3%	757,045,663	64.5%

The City’s Miscellaneous Plan represents approximately 0.03%, 0.03%, and 0.03% of the State-wide pool for the years ended June 30, 2012, 2011, and 2010, respectively, based on covered payroll of \$260,500, \$261,051, and \$258,724 for those years.

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
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%
2012	4,175,139,166	3,686,598,343	488,540,823	88.3%	757,045,663	64.5%

The City’s Miscellaneous Joint Facilities Agency Plan represents approximately 0.89%, 0.95%, and 0.96% of the State-wide pool for the years ended June 30, 2012, 2011, and 2010, respectively, based on covered payroll of \$6,758,536, \$7,227,796 and \$7,160,574 for those years.

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

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS

The City provides health care benefits for retired employees and spouses based on negotiated employee bargaining unit contracts. 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%; 10-15 years of service = 25%; 15-20 years of service = 50%; 20-25 years of service = 75%; 26 years or more of service = 100%. Currently, 43 retirees meet the eligibility requirements and receive reimbursements.

Additionally, the City provides the option of postretirement health benefits to sworn Police Personnel through the Public Employees' Retirement System (PERS) in lieu of the reimbursement plan, in accordance with the MOU for that represented group. The City covers 100% of the Kaiser cost for retirees prior to January 1, 2005. Those employees who retire after January 1, 2005 pay a percentage of the cost increase. Currently, 48 retirees meet the eligibility requirements and are either receiving reimbursements or health benefits paid directly by the City to PERS.

The cost of retiree health care benefits is recognized as an expenditure when health care premiums are paid. For the year ending June 30, 2014, those costs totaled \$938,810.

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:

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

Martinez Police Officers’ Association

Health Benefits - Employees represented by the Association who retire for service or disability on PERS shall receive retirement health benefits in accordance with the PERS Health Plan provisions. The City shall pay one hundred percent of the premium cost at the Kaiser North premium level. Employees selecting plans other than Kaiser North shall receive the same dollar contribution as for Kaiser.

Effective January 1, 2005, the City shall pay eighty percent of the increase in the Kaiser premium.

Effective January 1, of each successive year of the Memorandum of Understanding when the premiums are increased by the carrier, the City will pay seventy-five percent of any increase in the Kaiser premium.

Dental Benefits – The City agrees to pay ten dollars per month to Police Officers who retire after July 1, 1991 toward the retirement dental benefit. Such payment will be discontinued for employees who retire after January 1, 2006.

Non-Sworn Employees; Management Association; and Laborers’ International Union of North America (LiUNA) Local #324

Health Benefits – Employees 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 ninety-three and a half percent reimbursed the amount of the Kaiser premium in effect on January 1, 2007 plus eighty 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, 2014, approximately 84 plan participants were eligible to receive retirement health care benefits.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

A. *Funding Policy and Actuarial Assumptions*

The annual required contribution (ARC) was determined as part of a January 1, 2013 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 3.25% and (d) 4.5% - 8.5% 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.

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, 2014, the City contributed the ARC amounting to \$1,073,620 to the Plan which represented 11% of the \$9,802,211 of covered payroll. The City also contributed additional funds to CERBT 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.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

Annual required contribution (ARC)	(\$1,073,620)
Interest on net OPEB asset	326,377
Adjustment to annual required contribution	<u>(297,092)</u>
Annual OPEB cost	<u>(1,044,335)</u>
Contributions made:	
City portion of current year premiums paid	938,810
Additional contributions to CERBT	<u>134,810</u>
Total contributions	<u>1,073,620</u>
Change in net OPEB asset	29,285
Net OPEB Asset at June 30, 2013	<u>4,256,000</u>
Net OPEB Asset at June 30, 2014	<u><u>\$4,285,285</u></u>

The actuarial accrued liability (AAL) representing the present value of future benefits, included in the actuarial study dated January 1, 2013, amounted to \$16,612,936 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 \$8,725,111 as of June 30, 2014, which partially reduced the unfunded actuarial accrued liability. The Plan's annual OPEB cost and actual contributions for fiscal years ended June 30, 2012, 2013 and 2014 are set forth below:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of OPEB Cost Contributed	Net OPEB (Obligation) Asset
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
June 30, 2014	1,044,335	1,073,620	103%	4,285,285

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, 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%
January 1, 2013	6,667,146	16,612,936	9,945,790	40.13%	9,802,211	101.46%

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 13 – SOCIAL SECURITY

The Omnibus Budget Reconciliation Act of 1990 (OBRA) mandates that public sector employees who are not members of their employers existing system as of January 1, 1992 be covered by either Social Security or an alternative plan.

The City's part-time, seasonal, and temporary employees are covered under Social Security, which requires these employees and the City to each contribute 6.2% of the employees' pay. Total contributions to Social Security during the year ended June 30, 2014 amounted to \$76,782 of which the City paid \$38,391.

NOTE 14 – 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.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 15 – RISK MANAGEMENT

A. *Municipal Pooling Authority*

The City is a member of the Municipal Pooling Authority. The Authority provides coverage against the following types of loss risks under the terms of a joint-powers agreement with the City and several other cities and governmental agencies as follows:

Type of Coverage (Deductible)	Coverage Limits
Liability (\$25,000)	\$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
Government Crime (no deductible)	1,000,000
Workers' Compensation (no deductible)	Statutory Limits
All Risk Fire & Property (\$25,000)	1,000,000,000
Earthquake (20% of replacement cost values, \$25,000 minimum)	7,125,797
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

The Authority is governed by a Board consisting of representatives from member municipalities. The Board controls the operations of the Authority, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the Board.

The City's deposits with the Authority are in accordance with formulas established by the Authority. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

Audited financial statements for the Authority are available from Municipal Pooling Authority, 1911 San Miguel Drive, Suite 200, Walnut Creek, CA 94596.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 15 – RISK MANAGEMENT (Continued)

B. Liability for Uninsured Claims

The City provides for the uninsured portion of claims and judgments, including a provision for claims incurred but not reported, when a loss is deemed probable of assertion and the amount of the loss is reasonably determinable.

The City’s liability for uninsured claims at June 30 was estimated by management based on claims experience reported by Municipal Pooling Authority and was computed as follows:

	2014	2013
Beginning balance	\$80,000	\$80,000
Liability for current fiscal year claims	30,978	48,884
Increase (decrease) in liability for prior fiscal year claims and claims incurred but not reported (IBNR)	(11,212)	(20,504)
Claims paid	(19,766)	(28,380)
Ending balance	\$80,000	\$80,000

NOTE 16 - COMMITMENTS AND CONTINGENCIES

A. Litigation

The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney there is no presently filed litigation which is likely to have a material adverse effect on the financial position of the City.

B. Encumbrances

The City uses an encumbrance system as an extension of normal budgetary accounting for governmental funds. Under this system, purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of applicable appropriations. Encumbrances outstanding at year-end are recorded as restricted, committed or assigned fund balance, depending on the classification of the resources to be used to liquidate the encumbrance, since they do not constitute expenditures or liabilities. Outstanding encumbrances at year-end are automatically re-appropriated for the following year. Unencumbered and unexpended appropriations lapse at year-end. Encumbrances outstanding as of June 30, 2014 were as listed below:

Governmental funds:	Amount
General Fund	\$36,691
Measure H Special Revenue Fund	123,088
Capital Improvements	532,534
Other Governmental Funds	193,536
Total	\$885,849

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE 16 - COMMITMENTS AND CONTINGENCIES

C. *Midhill/Morello Sales Tax Sharing Agreement*

In fiscal year 1992, the City entered into a sales tax sharing agreement with Contra Costa County. The lease became effective in fiscal year 1992 and the City is to make semi-annual payments each year equal to 60% of the total sales tax generated by the Midhill/Morello Annexation Area and received by the City. During fiscal year 2014, payments made to the County under the agreement totaled \$184,636.

D. *Golden Gate Petroleum Sales Tax Sharing Agreement*

In fiscal year 2010, the City entered into a sales tax sharing agreement with Golden Gate Petroleum. The lease became effective in fiscal year 2010 and the City is to make quarterly payments each year equal to 60% of the total sales tax generated by Golden Gate Petroleum and received by the City. The agreement terminates on December 31, 2021, however there are two five year renewal options that may follow the termination date. During fiscal year 2014, payments made to Golden Gate Petroleum under the agreement totaled \$266,978.

This Page Left Intentionally Blank

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Gas Tax Funds

To account for the funds received from the State of California under code 2105, 2106, and 2107 to use for street and highway related projects.

NPDES Stormwater Fund

To account for the revenues and expenditures from assessments levied on all real property in the City in compliance with the provisions of the National Pollutant Discharge Elimination System for prevention of stormwater and flood related damage.

Measure J Fund

This fund receives voter-approved, half cent countywide sales taxes levied to fund transportation improvements and disburses these funds to pay for local street improvements.

COPS Grant Fund

To account for the funds received from the federal government and State of California to be used specifically for public safety equipment and personnel.

Housing In-Lieu Fund

This fund accounts for developer fees which are paid in-lieu of affordable housing. The funds are to be used at the City's discretion for the provision of affordable housing to low and moderate income households.

PEG Access Fund

This fund accounts for the payments received by the City's cable provider to be used for public, educational and governmental capital support as provided by the City's franchise agreement.

Recycling Fund

This fund accounts for grants the City receives for the disposal of used oil and recycling of material and for monies received to cover the implementation of the City's Assembly Bill 939 programs and Climate Action Plan initiatives.

DEBT SERVICE FUNDS

2003 Debt Service Fund

To account for the accumulation of resources for, and the payment of long-term debt principal, interest and related costs for the 2003 Certificates of Participation (other than those paid for by Proprietary Funds).

Measure H Debt Service Fund

Accounts for funds to be used for payment of debt service on the General Obligation Bonds issued in May, 2009 and March, 2012. Debt service is funded from *ad valorem* taxes levied upon all property within the City subject to taxation.

NON-MAJOR GOVERNMENTAL FUNDS (Continued)

CAPITAL PROJECTS FUNDS**Alhambra Creek Improvements**

To account for the funds spent on the Alhambra Creek channel improvements in an effort to curb flooding and related damage to property within the special assessment district.

Lighting and Landscaping Fund

To account for the installation, maintenance and improvement of subdivision landscape and lighting within the special districts. Monies are collected through an annual levy on the property owners within each district.

This Page Left Intentionally Blank

CITY OF MARTINEZ
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2014

	SPECIAL REVENUE FUNDS				
	Gas Tax Funds	NPDES Stormwater Fund	Measure J Fund	COPS Grant Fund	Housing In-Lieu Fund
ASSETS					
Cash and investments					
Available for operations	\$1,653,563	\$548,260	\$900,769	\$245,500	\$350,361
Restricted					
Receivables:					
Accounts receivables (net of allowance for uncollectibles)				6,432	
Intergovernmental	111,505		577,146	26,493	
Interest					
Total Assets	<u>\$1,765,068</u>	<u>\$548,260</u>	<u>\$1,477,915</u>	<u>\$278,425</u>	<u>\$350,361</u>
LIABILITIES					
Accounts payable	\$4,338	\$24	\$2,873	\$4,583	
Accrued wages and benefits		3,393		9,725	
Deposits				26,707	
Advance from other funds					
Total Liabilities	<u>4,338</u>	<u>3,417</u>	<u>2,873</u>	<u>41,015</u>	
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - miscellaneous receivables					
Unavailable revenue - grants			577,146		
FUND EQUITY					
Fund balances					
Restricted	1,760,730	544,843	897,896	237,410	\$350,361
Unassigned					
Total Fund Balances (Deficit)	<u>1,760,730</u>	<u>544,843</u>	<u>897,896</u>	<u>237,410</u>	<u>350,361</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$1,765,068</u>	<u>\$548,260</u>	<u>\$1,477,915</u>	<u>\$278,425</u>	<u>\$350,361</u>

SPECIAL REVENUE FUNDS		DEBT SERVICE FUNDS		CAPITAL PROJECTS FUNDS		Total Nonmajor Governmental Funds
PEG Access	Recycling Fund	2003 Debt Service Fund	Measure H Debt Service Fund	Alhambra Creek Improvements	Lighting and Landscaping Fund	
442,021	361,592		1,127,736		238,072	4,740,138 1,127,736
14,656	10,178			29,644		31,266 744,788
<u>456,677</u>	<u>371,770</u>		<u>1,127,736</u>	<u>29,644</u>	<u>238,072</u>	<u>6,643,928</u>
18,617	1,632			29,644	11,399	43,466 13,118 26,707 29,644
<u>18,617</u>	<u>1,632</u>			<u>29,644</u>	<u>11,399</u>	<u>112,935</u>
				29,644		29,644 577,146
438,060	370,138		1,127,736	(29,644)	226,673	5,953,847 (29,644)
<u>438,060</u>	<u>370,138</u>		<u>1,127,736</u>	<u>(29,644)</u>	<u>226,673</u>	<u>5,924,203</u>
<u>456,677</u>	<u>371,770</u>		<u>1,127,736</u>		<u>238,072</u>	<u>6,037,138</u>

CITY OF MARTINEZ
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

	SPECIAL REVENUE FUNDS				
	Gas Tax Funds	NPDES Stormwater Fund	Measure J Fund	COPS Grant Fund	Housing In-Lieu Fund
REVENUES					
Special assessments					
Licenses, permits, and fees					\$350,000
Intergovernmental	\$1,157,477	\$492,954		\$160,601	
Charges for services		1,107			
Fines and forfeits				1,588	
Use of money and property	3,050	824	\$1,851	200	361
Miscellaneous				8,562	
Total Revenues	<u>1,160,527</u>	<u>494,885</u>	<u>1,851</u>	<u>170,951</u>	<u>350,361</u>
EXPENDITURES					
Current:					
Administrative services					
Community & economic development	415,022	356,876	126,044		
Police				165,336	
Debt Service:					
Principal					
Interest and fiscal charges					
Capital outlay				30,537	
Total Expenditures	<u>415,022</u>	<u>356,876</u>	<u>126,044</u>	<u>195,873</u>	
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>745,505</u>	<u>138,009</u>	<u>(124,193)</u>	<u>(24,922)</u>	<u>350,361</u>
OTHER FINANCING SOURCES (USES)					
Transfers in					
Transfers (out)	(117,000)	(700)	(8,653)		
Total Other Financing Sources (Uses)	<u>(117,000)</u>	<u>(700)</u>	<u>(8,653)</u>		
NET CHANGE IN FUND BALANCES	628,505	137,309	(132,846)	(24,922)	350,361
BEGINNING FUND BALANCES (DEFICIT)	<u>1,132,225</u>	<u>407,534</u>	<u>1,030,742</u>	<u>262,332</u>	
ENDING FUND BALANCES (DEFICIT)	<u><u>\$1,760,730</u></u>	<u><u>\$544,843</u></u>	<u><u>\$897,896</u></u>	<u><u>\$237,410</u></u>	<u><u>\$350,361</u></u>

SPECIAL REVENUE FUNDS		DEBT SERVICE FUNDS		CAPITAL PROJECTS FUNDS		Total Nonmajor Governmental Funds
PEG Access	Recycling Fund	2003 Debt Service Fund	Measure H Debt Service Fund	Alhambra Creek Improvements	Lighting and Landscaping Fund	
	\$124		\$1,547,677		\$119,751	\$1,667,428
	20,424			\$5,909		350,124
	394					1,837,365
	100,244					1,501
		\$79	1,125		575	101,832
\$58,196	51,367					8,065
						118,125
<u>58,196</u>	<u>172,553</u>	<u>79</u>	<u>1,548,802</u>	<u>5,909</u>	<u>120,326</u>	<u>4,084,440</u>
43,727	172,420					216,147
				80	153,924	1,051,946
						165,336
		255,000	295,000			550,000
		5,267	1,146,863			1,152,130
						30,537
<u>43,727</u>	<u>172,420</u>	<u>260,267</u>	<u>1,441,863</u>	<u>80</u>	<u>153,924</u>	<u>3,166,096</u>
14,469	133	(260,188)	106,939	5,829	(33,598)	918,344
					13,700	13,700
		(220,000)				(346,353)
		(220,000)			13,700	(332,653)
14,469	133	(480,188)	106,939	5,829	(19,898)	585,691
423,591	370,005	480,188	1,020,797	(35,473)	246,571	5,338,512
<u>\$438,060</u>	<u>\$370,138</u>		<u>\$1,127,736</u>	<u>(\$29,644)</u>	<u>\$226,673</u>	<u>\$5,924,203</u>

CITY OF MARTINEZ
 BUDGETED NON-MAJOR FUNDS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2014

	GAS TAX FUNDS			NPDES STORMWATER FUND		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Special assessments						
Licenses, permits, and fees						
Intergovernmental	\$1,076,300	\$1,157,477	\$81,177	\$492,000	\$492,954	\$954
Charges for services					1,107	1,107
Fines and forfeits						
Use of money and property	1,100	3,050	1,950	800	824	24
Miscellaneous						
Total Revenues	1,077,400	1,160,527	83,127	492,800	494,885	2,085
EXPENDITURES						
Current:						
Administrative services						
Community development	570,650	415,022	155,628	458,527	356,876	101,651
Police						
Capital outlay						
Total Expenditures	570,650	415,022	155,628	458,527	356,876	101,651
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	506,750	745,505	238,755	34,273	138,009	103,736
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)	(882,000)	(117,000)	765,000	(700)	(700)	
Total Other Financing Sources (Uses)	(882,000)	(117,000)	765,000	(700)	(700)	
NET CHANGE IN FUND BALANCES	(\$375,250)	628,505	\$1,003,755	\$33,573	137,309	\$103,736
BEGINNING FUND BALANCES		1,132,225			407,534	
ENDING FUND BALANCES		\$1,760,730			\$544,843	

MEASURE J FUND			COPS GRANT FUND			HOUSING IN-LIEU FUND		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
\$415,000		(\$415,000)	\$361,551	\$160,601	(\$200,950)	\$350,000	\$350,000	
2,000	\$1,851	(149)	1,588	1,588			361	\$361
			2,380	8,562	6,182			
<u>417,000</u>	<u>1,851</u>	<u>(415,149)</u>	<u>365,675</u>	<u>170,951</u>	<u>(194,724)</u>	<u>350,000</u>	<u>350,361</u>	<u>361</u>
210,915	126,044	84,871	226,730	165,336	61,394			
			300,878	30,537	270,341			
<u>210,915</u>	<u>126,044</u>	<u>84,871</u>	<u>527,608</u>	<u>195,873</u>	<u>331,735</u>			
206,085	(124,193)	(330,278)	(161,933)	(24,922)	137,011	350,000	350,361	361
(408,654)	(8,653)	400,001						
(408,654)	(8,653)	400,001						
<u>(\$202,569)</u>	<u>(132,846)</u>	<u>\$69,723</u>	<u>(\$161,933)</u>	<u>(24,922)</u>	<u>\$137,011</u>	<u>\$350,000</u>	<u>350,361</u>	<u>\$361</u>
	<u>1,030,742</u>			<u>262,332</u>				
	<u>\$897,896</u>			<u>\$237,410</u>			<u>\$350,361</u>	

(Continued)

CITY OF MARTINEZ
 BUDGETED NON-MAJOR FUNDS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2014

	PEG ACCESS			RECYCLING FUND		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Special assessments						
Licenses, permits, and fees					\$124	\$124
Intergovernmental				\$20,424	20,424	
Charges for services					394	394
Fines and forfeits				19,000	100,244	81,244
Use of money and property						
Miscellaneous	\$55,000	\$58,196	\$3,196	51,900	51,367	(533)
Total Revenues	55,000	58,196	3,196	91,324	172,553	81,229
EXPENDITURES						
Current:						
Administrative services	68,556	43,727	24,829	264,541	172,420	92,121
Community development						
Police						
Capital outlay						
Total Expenditures	68,556	43,727	24,829	264,541	172,420	92,121
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(13,556)	14,469	28,025	(173,217)	133	173,350
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)						
Total Other Financing Sources (Uses)						
NET CHANGE IN FUND BALANCES	<u>(\$13,556)</u>	14,469	<u>\$28,025</u>	<u>(\$173,217)</u>	133	<u>\$173,350</u>
BEGINNING FUND BALANCES		423,591			370,005	
ENDING FUND BALANCES		<u>\$438,060</u>			<u>\$370,138</u>	

INTERNAL SERVICE FUNDS

Internal Service Funds are used to finance and account for special activities and services performed by a designated department for other departments in the City on a cost reimbursement basis.

The concept of major funds introduced by GASB Statement 34 does not extend to Internal Service Funds because they do not do business with outside parties. GASB Statement 34 requires that for the Statement of Activities, the net revenues or expenses of each internal service fund be eliminated by netting them against the operations of the other City departments which generated them. The remaining balance sheet items are consolidated with these same funds in the Statement of Net Assets.

However, Internal Service Funds are still presented separately in the Fund financial statements, including the funds below.

Equipment Replacement

To account for the accumulation of funds for equipment replacement and the subsequent replacement and maintenance of the equipment under City control.

Management Information System

To account for the services rendered to all City departments for management of the City's hardware and software needs.

CITY OF MARTINEZ
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2014

	<u>Equipment Replacement</u>	<u>Management Information System</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and investments available for operations	\$1,070,116	\$608,013	\$1,678,129
Accounts Receivable	<u>1,472</u>		<u>1,472</u>
Total Current Assets	<u>1,071,588</u>	<u>608,013</u>	<u>1,679,601</u>
Capital Assets:			
Equipment	3,671,884	394,656	4,066,540
Accumulated depreciation	<u>(2,532,304)</u>	<u>(386,925)</u>	<u>(2,919,229)</u>
	1,139,580	7,731	1,147,311
Construction in process	<u>85,464</u>		<u>85,464</u>
Net Capital Assets	<u>1,225,044</u>	<u>7,731</u>	<u>1,232,775</u>
Total Assets	<u>2,296,632</u>	<u>615,744</u>	<u>2,912,376</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	81,044	4,744	85,788
Accrued liabilities	6,911	5,694	12,605
Accrued vacation and other fringe benefits	<u>27,048</u>	<u>17,830</u>	<u>44,878</u>
Total Liabilities	<u>115,003</u>	<u>28,268</u>	<u>143,271</u>
NET POSITION			
Net investment in capital assets	1,225,044	7,731	1,232,775
Unrestricted	<u>956,585</u>	<u>579,745</u>	<u>1,536,330</u>
Total Net Position	<u>\$2,181,629</u>	<u>\$587,476</u>	<u>\$2,769,105</u>

CITY OF MARTINEZ
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Equipment Replacement</u>	<u>Management Information System</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$934,633	\$400,200	\$1,334,833
Other revenue	200	21,564	21,764
	<u>934,833</u>	<u>421,764</u>	<u>1,356,597</u>
OPERATING EXPENSES			
Maintenance and repairs	812,271	413,301	1,225,572
Depreciation	232,562	5,486	238,048
	<u>1,044,833</u>	<u>418,787</u>	<u>1,463,620</u>
Total Operating Revenues	<u>934,833</u>	<u>421,764</u>	<u>1,356,597</u>
Total Operating Expenses	<u>1,044,833</u>	<u>418,787</u>	<u>1,463,620</u>
Operating Income (Loss)	<u>(110,000)</u>	<u>2,977</u>	<u>(107,023)</u>
NONOPERATING REVENUES			
Interest income	2,629	1,405	4,034
Gain on disposal of equipment	8,464		8,464
	<u>11,093</u>	<u>1,405</u>	<u>12,498</u>
Total Nonoperating Revenues	<u>11,093</u>	<u>1,405</u>	<u>12,498</u>
Income (Loss)	<u>(98,907)</u>	<u>4,382</u>	<u>(94,525)</u>
Change in Net Position	(98,907)	4,382	(94,525)
BEGINNING NET POSITION	<u>2,280,536</u>	<u>583,094</u>	<u>2,863,630</u>
ENDING NET POSITION	<u>\$2,181,629</u>	<u>\$587,476</u>	<u>\$2,769,105</u>

CITY OF MARTINEZ
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

	Equipment Replacement	Management Information System	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$933,361	\$421,764	\$1,355,125
Payments to suppliers	(550,868)	(242,349)	(793,217)
Payments to employees	(221,067)	(173,933)	(395,000)
	<u>161,426</u>	<u>5,482</u>	<u>166,908</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(328,218)		(328,218)
Proceeds from sale of equipment	8,464		8,464
	<u>(319,754)</u>		<u>(319,754)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest	2,629	1,405	4,034
	<u>2,629</u>	<u>1,405</u>	<u>4,034</u>
Net Cash Flows	(155,699)	6,887	(148,812)
Cash and investments at beginning of period	1,225,815	601,126	1,826,941
Cash and investments at end of period	<u>\$1,070,116</u>	<u>\$608,013</u>	<u>\$1,678,129</u>
Reconciliation of operating income (loss) to net cash flows from operating activities:			
Operating income (loss)	(\$110,000)	\$2,977	(\$107,023)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:			
Depreciation	232,562	5,486	238,048
Change in assets and liabilities:			
Other receivables	(1,472)		(1,472)
Accounts payable	44,033	2,827	46,860
Accrued wages and benefits	(40)	232	192
Accrued vacation and other fringe benefits	(3,657)	(6,040)	(9,697)
Cash Flows from Operating Activities	<u>\$161,426</u>	<u>\$5,482</u>	<u>\$166,908</u>

AGENCY FUNDS

Agency Funds account for assets held by the City as agent for individuals, governmental entities, and non-public organizations. These funds include the following:

Alhambra Creek Assessment District

To account for the special assessment district funds received from property owners within the district to repay the debt issued for the Alhambra Creek Channel improvements.

Senior Center Club

To account for the assets held for the Senior Center Club usage.

CITY OF MARTINEZ
AGENCY FUNDS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2014</u>
<hr/> <u>Alhambra Creek Assessment District</u> <hr/>				
<u>Assets</u>				
Restricted cash and investments	\$209,302	\$114,119	\$109,799	\$213,622
Total assets	<u>\$209,302</u>	<u>\$114,119</u>	<u>\$109,799</u>	<u>\$213,622</u>
<u>Liabilities</u>				
Accounts payable	\$117	\$88	\$117	\$88
Due to bondholders	209,185	114,031	109,682	213,534
Total liabilities	<u>\$209,302</u>	<u>\$114,119</u>	<u>\$109,799</u>	<u>\$213,622</u>
<hr/> <u>Senior Center Club</u> <hr/>				
<u>Assets</u>				
Restricted cash and investments	\$183,470	\$156,702	\$145,899	\$194,273
Total assets	<u>\$183,470</u>	<u>\$156,702</u>	<u>\$145,899</u>	<u>\$194,273</u>
<u>Liabilities</u>				
Accounts payable	\$8,620	\$9,330	\$8,620	\$9,330
Due to members	174,850	147,372	137,279	184,943
Total liabilities	<u>\$183,470</u>	<u>\$156,702</u>	<u>\$145,899</u>	<u>\$194,273</u>
<hr/> <u>Total Agency Funds</u> <hr/>				
<u>Assets</u>				
Restricted cash and investments	\$392,772	\$270,821	\$255,698	\$407,895
Total assets	<u>\$392,772</u>	<u>\$270,821</u>	<u>\$255,698</u>	<u>\$407,895</u>
<u>Liabilities</u>				
Accounts payable	\$8,737	\$9,418	\$8,737	\$9,418
Due to bondholders	209,185	114,031	109,682	213,534
Due to members	174,850	147,372	137,279	184,943
Total liabilities	<u>\$392,772</u>	<u>\$270,821</u>	<u>\$255,698</u>	<u>\$407,895</u>

STATISTICAL SECTION

This part of the City's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health. In contrast to the financial section, the statistical section information is not subject to independent audit.

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well being have changed over time:

1. Net Position by Component
2. Changes in Net Position
3. Fund Balances of Governmental Funds
4. Changes in Fund Balance of Governmental Funds

Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax:

1. Assessed and Estimated Actual Value of Taxable Property
2. Property Tax Rates, All Overlapping Governments
3. Water System Revenue
4. Principal Property Tax Payers
5. Property Tax Levies and Collections

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future:

1. Ratio of Outstanding Debt by Type
2. Computation of Direct and Overlapping Debt
3. Computation of Legal Bonded Debt Margin
4. Revenue Bond Coverage, Water Fund Certificates of Participation

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place:

1. Demographic and Economic Statistics
2. Principal Employers

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

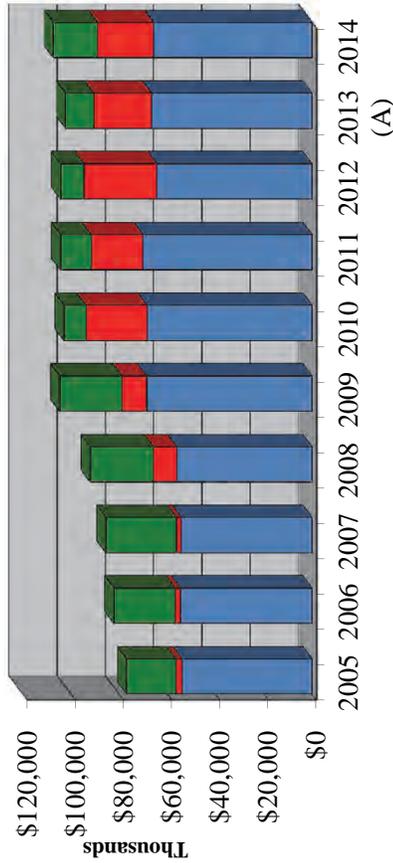
1. Full-Time Equivalent City Government Employees by Function
2. Operating Indicators by Function/Program
3. Capital Asset Statistics by Function/Program

STATISTICAL SECTION (Continued)
--

Sources

Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB Statement 34 in 2003; schedules presenting government-wide information include information beginning in that fiscal year.

CITY OF MARTINEZ
Net Position by Component
Last Ten Fiscal Years
(Accrual Basis of Accounting)



(A)

	Fiscal Year Ended June 30,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013 (A)	2014
Governmental activities										
Net investment in capital assets	\$23,001,061	\$24,072,792	\$24,450,822	\$29,045,551	\$42,645,250	\$43,328,577	\$46,268,501	\$44,385,099	\$45,011,693	\$45,809,594
Restricted	1,968,361	1,805,299	1,647,325	3,091,564	2,947,166	17,697,648	13,524,459	18,207,558	16,908,562	12,532,439
Unrestricted	12,652,888	16,956,596	20,301,070	20,294,772	19,638,559	2,805,660	5,722,653	3,189,334	3,652,112	11,087,516
Total governmental activities net position	\$37,622,310	\$42,834,687	\$46,399,217	\$52,431,887	\$65,230,975	\$63,831,885	\$65,515,613	\$65,781,991	\$65,572,367	\$69,429,549
Business-type activities										
Net investment in capital assets	\$30,894,163	\$30,405,353	\$29,680,363	\$27,073,604	\$25,908,195	\$25,104,326	\$23,863,759	\$19,898,904	\$21,503,114	\$19,877,117
Restricted	492,014	465,980	473,896	6,613,067	7,224,675	7,620,488	7,941,902	12,086,217	7,116,866	10,711,495
Unrestricted	7,880,511	8,472,990	8,954,539	5,890,545	6,280,210	6,301,271	6,960,954	6,466,983	8,005,741	7,279,730
Total business-type activities net position	\$39,266,688	\$39,344,323	\$39,108,798	\$39,577,216	\$39,413,080	\$39,026,085	\$38,766,615	\$38,452,104	\$36,625,721	\$37,868,342
Primary government										
Net investment in capital assets	\$53,895,224	\$54,478,145	\$54,131,185	\$56,119,155	\$68,553,445	\$68,432,903	\$70,132,260	\$64,284,003	\$66,514,807	\$65,686,711
Restricted	2,460,375	2,271,279	2,121,221	9,704,631	10,171,841	25,318,136	21,466,361	30,293,775	24,025,428	23,243,934
Unrestricted	20,533,399	25,429,586	29,255,609	26,185,317	25,918,769	9,106,931	12,683,607	9,656,317	11,657,853	18,367,246
Total primary government net position	\$76,888,998	\$82,179,010	\$85,508,015	\$92,009,103	\$104,644,055	\$102,857,970	\$104,282,228	\$104,234,095	\$102,198,088	\$107,297,891

(A) The City implemented the provisions of GASB Statement 63 in fiscal year 2013, which replaced the term "net assets" with the term "net position".

CITY OF MARTINEZ
Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)

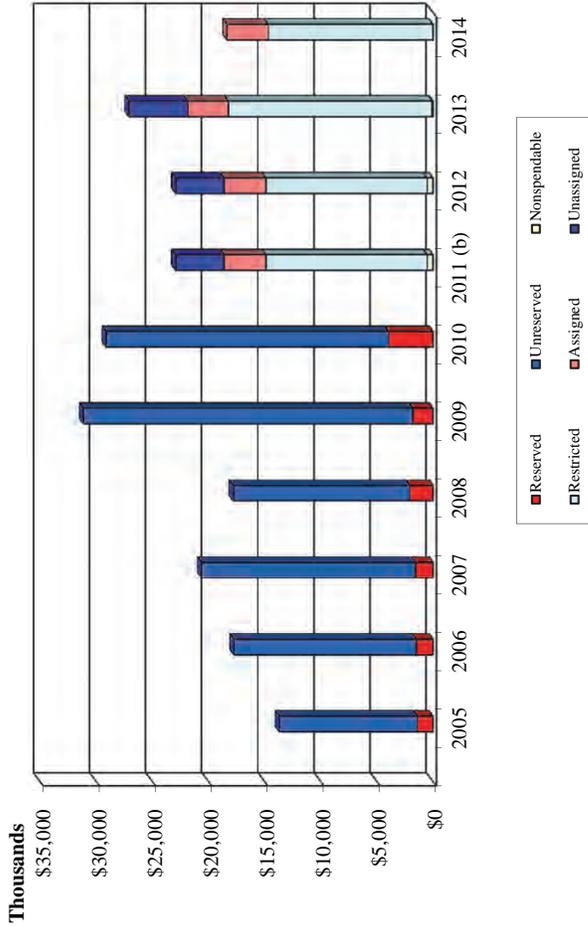
	Fiscal Year Ended June 30,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013 (A)	2014
Expenses										
Governmental Activities:										
General Government	\$1,064,838	\$1,220,112	\$1,275,521	\$982,551	\$1,328,858	\$1,860,433	\$1,888,212	\$1,545,222	\$1,628,907	\$1,372,623
Nondepartmental Services	602,262	722,957	2,100,557	1,295,821	1,114,785					
Administrative Services	611,904	704,534	813,629	724,408	781,593	695,828	912,678	945,076	1,000,933	1,132,197
Public Works	821,956	831,843	931,263	3,515,810	3,569,089	3,842,513	4,181,381	3,466,780	3,975,144	3,790,730
Community & Economic Development	8,871,098	7,281,906	7,640,086	6,000,157	5,856,950	6,725,653	6,024,757	5,917,326	5,887,738	8,103,341
Police	8,597,502	8,637,872	9,048,033	9,660,925	9,853,949	10,616,620	10,665,218	10,483,295	10,932,911	10,993,156
Interest on Long-Term Debt	60,943	55,823	52,506	50,630	291,152	584,615	813,299	1,102,335	1,106,817	1,152,130
Total Governmental Activities Expenses	20,630,503	19,455,047	21,861,595	22,230,302	22,596,376	24,325,662	24,485,545	23,460,034	24,532,450	26,544,177
Business-Type Activities:										
Water System	10,019,095	9,419,852	10,221,974	10,068,412	10,317,436	10,200,676	9,891,686	10,782,125	10,854,257	10,849,585
Marina Services	472,205	381,516	441,823	797,453	345,533	388,591	558,512	410,669	707,155	253,902
Parking Services	532,367	426,565	375,634	391,841	454,122	451,488	483,876	365,585	232,110	229,773
Total Business-Type Activities Expenses	11,023,667	10,227,933	11,039,431	11,257,706	11,117,091	11,040,755	10,934,074	11,538,379	11,793,522	11,333,260
Total Primary Government Expenses	\$31,654,170	\$29,682,980	\$32,901,026	\$33,488,008	\$33,713,467	\$35,366,417	\$35,419,619	\$35,018,413	\$36,325,972	\$37,877,437
Program Revenues										
Governmental Activities:										
Charges for Services:	\$123,738	\$112,254	\$127,720	\$48,383	\$27,359	\$32,079	\$26,863	\$29,694	\$37,921	\$58,935
General Government							49,145	49,492	3,511	109,688
Administrative Services							580,520	666,808	848,572	991,335
Public Works	533,355	804,965	933,307	775,303	660,516	585,117	547,115	708,532	1,143,313	1,921,226
Community & Economic Development	1,032,160	1,166,315	1,149,605	954,885	731,853	549,109	441,982	282,683	358,692	494,759
Police	457,654	339,697	428,723	381,602	398,088	376,514	411,982	282,683	358,692	494,759
Operating Grants and Contributions	1,896,096	3,004,055	2,928,894	2,978,771	2,645,990	2,414,403	3,034,131	2,617,726	2,472,936	2,643,701
Capital Grants and Contributions	798,967	1,460,056	963,982	5,166,574	1,331,924	2,124,450	4,308,479	1,861,281	2,882,306	4,658,843
Total Government Activities Program Revenues	4,841,970	6,887,342	6,532,231	10,305,518	17,783,051	6,081,672	8,988,235	6,216,216	7,747,251	10,878,487
Business-Type Activities:										
Charges for Services:										
Water System	9,241,189	9,397,659	9,721,022	9,844,373	10,044,919	9,830,348	9,746,857	10,438,993	11,244,347	11,678,627
Marina Services	166,080	219,207	291,919	273,732	241,247	245,157	227,759	362,067	143,244	178,017
Parking Services	273,001	346,457	365,488	405,351	387,388	398,591	368,673	327,253	367,904	481,163
Operating Grants and Contributions	1,404,646	1,114,843								
Capital Grants and Contributions				430,343						
Total Business-Type Activities Program Revenues	11,084,916	10,078,166	10,378,429	10,953,799	10,673,554	10,474,096	10,343,289	11,128,313	11,755,495	12,337,807
Total Primary Government Program Revenues	\$15,926,886	\$16,965,508	\$16,910,660	\$21,259,317	\$28,456,605	\$16,555,768	\$19,331,524	\$17,344,529	\$19,502,746	\$23,216,294
Net (Expense)/Revenue										
Governmental Activities	(\$15,788,533)	(\$12,567,705)	(\$15,329,364)	(\$11,924,784)	(\$4,813,325)	(\$18,243,990)	(\$15,497,310)	(\$17,243,818)	(\$16,785,199)	(\$15,665,690)
Business-Type Activities	61,249	(149,767)	(661,002)	(303,907)	(443,537)	(566,659)	(590,785)	(430,096)	(38,027)	1,004,547
Total Primary Government Net Expense	(\$15,727,284)	(\$12,717,472)	(\$15,990,366)	(\$12,228,691)	(\$5,256,862)	(\$18,810,649)	(\$16,088,095)	(\$17,673,914)	(\$16,823,226)	(\$14,661,143)

CITY OF MARTINEZ
Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(continued)

	Fiscal Year Ended June 30,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013 (A)	2014
General Revenues and Other Changes in Net Assets										
Governmental Activities:										
Taxes:										
Property Taxes	\$5,603,872	\$6,048,835	\$6,749,316	\$6,778,683	\$6,833,240	\$6,440,055	\$6,413,918	\$6,262,596	\$6,154,962	\$6,603,214
Sales Taxes	3,770,934	4,271,279	2,845,391	2,910,391	2,548,963	2,890,078	3,216,371	3,239,219	3,544,810	3,775,971
State Tax Shift - ERAF III	(399,067)	(399,067)								
VLF Property Tax Swap	1,971,541	2,387,675	2,438,135	2,619,831	2,663,236	2,553,503	2,516,117	2,465,909	2,428,253	2,538,617
Franchise fees	946,323	1,294,839	1,377,064	1,432,161	1,380,404	1,355,211	1,356,952	1,379,610	1,468,924	1,516,127
Other Taxes	1,328,281	1,390,701	2,639,579	2,502,998	2,475,992	2,363,498	2,257,290	2,667,102	2,779,809	4,424,621
Intergovernmental	881,895	344,160	281,669	231,037	192,805	178,083	238,498	85,068	72,276	62,369
Investment Earnings	267,746	533,475	1,019,116	955,422	412,821	187,035	123,304	75,843	74,686	61,227
Miscellaneous	282,749	1,744,370	1,404,792	760,256	1,055,423	893,942	1,259,193	1,157,849	775,704	631,486
Gain on sale of capital assets								177,000		
Transfers	(118,000)	163,815	138,832	(233,325)	49,529	(16,605)	(200,605)		(723,849)	(122,601)
Total Government Activities	14,536,274	17,780,082	18,893,894	17,957,454	17,612,413	16,844,800	17,181,038	17,510,196	16,575,575	16,575,575
Business-Type Activities:										
Other Taxes	56,769	48,292	56,545	63,240	64,263	61,579	67,403	62,620	70,237	69,169
Investment Earnings	184,977	317,631	507,764	475,760	263,207	82,093	63,307	52,965	45,531	46,304
Rentals & Leases	22,370	25,294								
Miscellaneous					1,460					
Contributions						19,387				
Transfers	118,000	(163,815)	(138,832)	233,325	(49,529)	16,605	200,605		723,849	122,601
Total Business-Type Activities	382,116	227,402	425,477	772,325	279,401	179,664	331,315	115,585	839,617	238,074
Total Primary Government	\$14,918,390	\$18,007,484	\$19,319,371	\$18,729,779	\$17,891,814	\$17,024,464	\$17,512,353	\$17,625,781	\$17,415,192	\$16,813,649
Change in Net Position										
Governmental Activities	(\$1,252,259)	\$5,212,377	\$3,564,530	\$6,032,670	\$12,799,088	(\$1,399,090)	\$1,683,728	\$266,378	(\$209,624)	\$3,857,182
Business-Type Activities	443,365	77,635	(235,525)	468,418	(164,136)	(386,995)	(259,470)	(314,511)	801,590	1,242,621
Total Primary Government	(\$808,894)	\$5,290,012	\$3,329,005	\$6,501,088	\$12,634,952	(\$1,786,085)	\$1,424,258	(\$48,133)	\$591,966	\$5,099,803

(A) The City implemented the provisions of GASB Statement 63 in fiscal year 2013, which replaced the term "net assets" with the term "net position".

CITY OF MARTINEZ
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)



	2005	2006	2007	2008	2009	2010	2011 (b)	2012	2013	2014
General Fund										
Reserved	\$573,040	\$793,427	\$787,770	\$1,041,261	\$853,371	\$809,098				
Unreserved	9,174,295	12,053,642	14,531,543	9,618,304	8,973,975	7,692,426				
Nonspendable							536,597	\$526,565	\$75,090	\$77,969
Restricted							2,974	1,053	1,633,745	1,473,738
Assigned							2,071,135	1,961,611	5,270,651	6,720,878
Unassigned							4,323,175	5,040,539		
Total General Fund	\$9,747,335	\$12,847,069	\$15,319,313	\$10,659,565	\$9,827,346	\$8,501,524	\$6,933,881	\$7,529,768 (a)	\$6,979,486	\$8,272,585
All Other Governmental Funds										
Reserved	\$803,791	\$686,781	\$767,264	\$1,036,074	\$951,122	\$3,149,573				
Unreserved, reported in:										
Special revenue funds	940,575	957,109	781,421	2,014,107	1,789,329	1,837,726				
Capital project funds	2,186,757	3,236,220	3,747,215	4,087,770	18,567,181	15,641,080				
Unreserved										
Nonspendable								1,250,684		
Restricted							14,361,436	\$19,116,926	18,159,246	\$14,703,857
Assigned							1,668,389	2,179,333	1,981,587	2,177,057
Unassigned							(48,017)	(41,976)	(35,473)	(29,644)
Total all other governmental funds	\$5,931,123	\$4,880,110	\$5,295,900	\$7,137,951	\$21,307,632	\$20,628,379	\$15,981,808	\$22,504,967	\$20,105,360	\$16,851,270

(a) The change in total fund balance for the General Fund and other governmental funds is explained in the Management's Discussion and Analysis.
(b) The City implemented the provisions of GASB Statement 54 in fiscal year 2011.

This Page Left Intentionally Blank

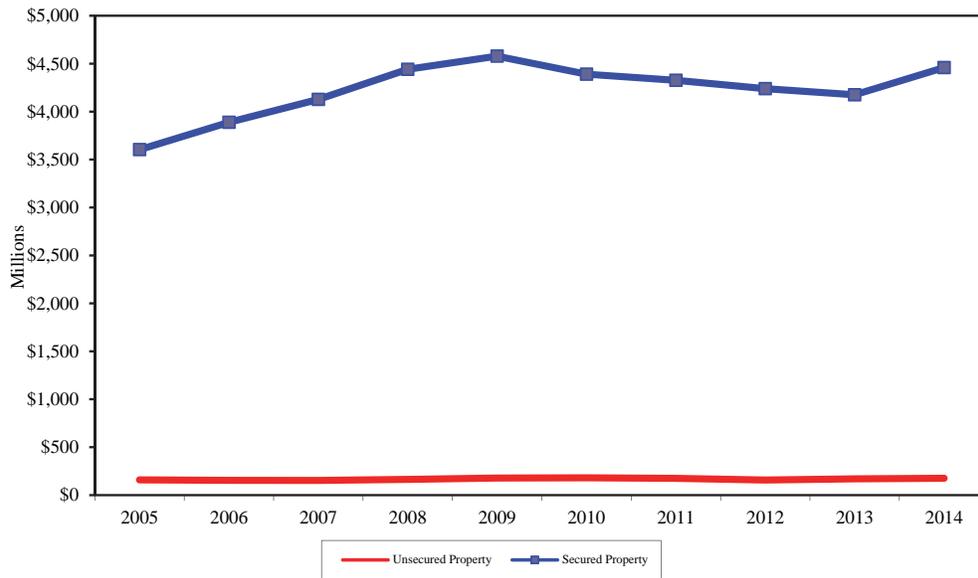
CITY OF MARTINEZ
Changes in Fund Balance of Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

	Fiscal Year Ended June 30,			2008
	2005	2006	2007	
Revenues				
Taxes	\$13,221,884	\$14,994,265	\$16,049,485	\$16,244,064
Special assessments	654,028	648,225	618,402	592,675
Licenses, permits and fees	779,784	829,438	1,206,310	901,504
Intergovernmental revenues	3,109,850	4,293,695	3,366,831	7,854,354
Charges for services	706,670	1,009,212	769,834	714,089
Fines and forfeits	333,075	284,486	295,334	360,409
Use of money and property	308,809	585,146	967,531	907,560
Miscellaneous	324,923	1,791,186	1,755,786	942,321
Total Revenues	19,439,023	24,435,653	25,029,513	28,516,976
Expenditures				
Current:				
General government	827,226	1,253,927	1,249,523	1,055,630
Nondepartmental services	602,262	722,957	2,100,557	1,294,070
Administrative services	596,296	691,218	791,144	710,163
Public works	763,635	826,781	904,338	3,515,167
Community & economic development	6,959,750	6,271,909	6,664,397	4,899,818
Police	8,589,785	8,532,786	9,029,159	9,744,360
Capital outlay	1,236,330	1,995,346	1,288,687	5,488,729
Debt service:				
Principal repayment	195,000	200,000	200,000	205,000
Interest and fiscal charges	60,943	55,823	52,506	50,630
Total Expenditures	19,831,227	20,550,747	22,280,311	26,963,567
Excess (deficiency) of revenues over (under) expenditures	(392,204)	3,884,906	2,749,202	1,553,409
Other Financing Sources (Uses)				
Transfers in	864,960	1,934,775	1,623,555	1,837,479
Transfers (out)	(982,960)	(1,770,960)	(1,484,723)	(2,208,585)
Issuance of long-term debt				
Bond premium				
Sale of property				
Total other financing sources (uses)	(118,000)	163,815	138,832	(371,106)
Special Item:				
OPEB funding				(4,000,000)
Loan to Martinez Unified School District				
Net Change in fund balances	(\$510,204)	\$4,048,721	\$2,888,034	\$1,182,303
Debt service as a percentage of noncapital expenditures	1.4%	1.4%	1.2%	1.2%

Fiscal Year Ended June 30,

2009	2010	2011	2012	2013	2014
\$15,901,834	\$15,602,345	\$15,809,271	\$16,063,061	\$16,376,758	\$17,310,873
593,327	1,391,343	2,110,101	2,131,149	2,103,941	1,667,428
569,653	451,972	537,305	599,672	1,073,745	1,984,339
14,976,879	3,985,583	5,536,564	2,351,629	3,074,644	6,735,114
716,173	562,189	470,550	658,908	771,351	1,168,252
376,179	360,431	429,593	260,961	328,365	533,779
403,693	249,043	172,727	131,211	136,927	178,395
1,126,603	911,374	1,281,478	1,338,225	840,525	687,225
<u>34,664,341</u>	<u>34,664,341</u>	<u>26,347,589</u>	<u>23,534,816</u>	<u>\$24,706,256</u>	<u>30,265,405</u>
1,327,384	1,324,418	1,312,555	1,119,861	1,232,407	1,189,903
1,156,191	816,510	1,712,090	1,140,089	1,248,093	1,206,920
757,298	725,585	816,218	881,894	913,886	933,807
3,773,961	3,742,399	3,627,781	3,551,258	3,764,743	3,569,702
4,975,417	5,321,903	4,162,888	3,692,811	3,741,772	5,832,338
9,755,501	9,972,242	10,013,872	9,651,789	10,064,111	10,013,626
14,524,632	2,295,078	9,332,495	6,766,413	2,724,783	7,655,369
215,000	220,000	570,000	595,000	885,000	550,000
291,152	584,615	813,299	1,102,335	1,106,817	1,152,130
<u>36,776,536</u>	<u>36,776,536</u>	<u>32,361,198</u>	<u>28,501,450</u>	<u>25,681,612</u>	<u>32,103,795</u>
<u>(2,112,195)</u>	<u>(2,112,195)</u>	<u>(6,013,609)</u>	<u>(4,966,634)</u>	<u>(975,356)</u>	<u>(1,838,390)</u>
1,514,146	609,610	963,037	1,135,700	529,742	377,353
(1,464,617)	(626,215)	(1,163,642)	(1,135,700)	(1,253,591)	(499,954)
15,000,000			10,000,000		
400,128			279,996		
			555,000		
<u>15,449,657</u>	<u>15,449,657</u>	<u>(200,605)</u>	<u>10,834,996</u>	<u>(723,849)</u>	<u>(122,601)</u>
	(500,000)				
<u>\$13,337,462</u>	<u>\$13,337,462</u>	<u>(\$6,214,214)</u>	<u>\$5,868,362</u>	<u>(1,699,205)</u>	<u>(\$1,960,991)</u>
2.3%	3.5%	6.0%	7.8%	8.7%	7.0%

**CITY OF MARTINEZ
 ASSESSED AND ESTIMATED ACTUAL
 VALUE OF TAXABLE PROPERTY
 LAST TEN FISCAL YEARS**



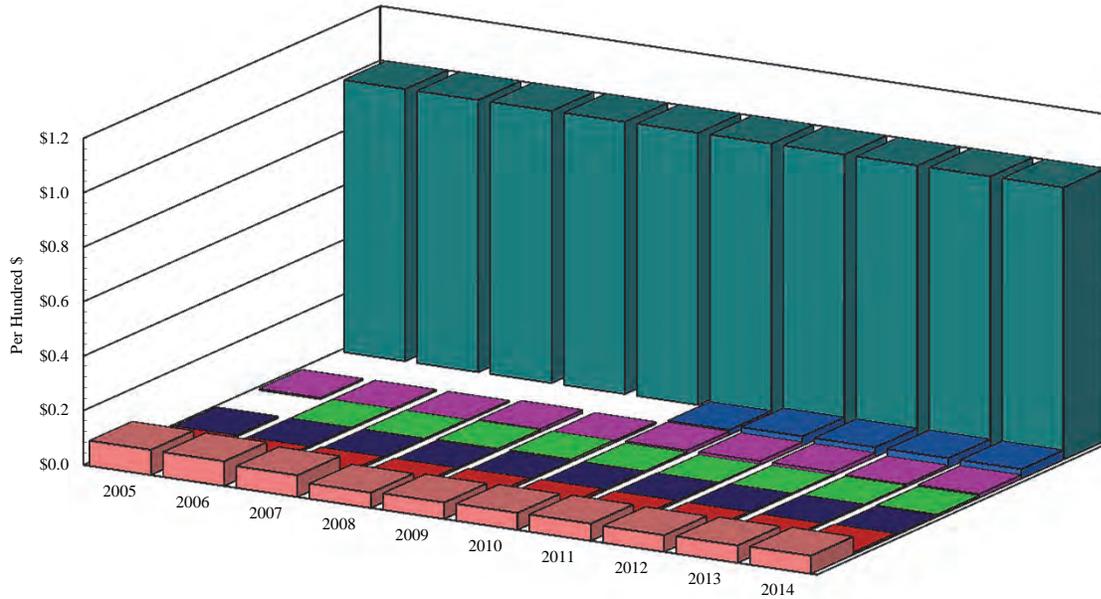
Fiscal Year	Real Property				Total Real Secured Property	Unsecured Property	Total Assessed (a)	Estimated Full Market (a)	Total Direct Tax Rate (b)
	Residential Property	Commercial Property	Industrial Property	Other					
2005	\$2,859,236,600	\$234,959,433	\$297,127,470	\$53,304,392	\$3,444,627,895	\$158,892,616	\$3,603,520,511	\$3,603,520,511	1%
2006	3,118,221,619	247,416,988	305,547,262	63,095,076	3,734,280,945	154,169,708	3,888,450,653	3,888,450,653	1%
2007	3,337,522,088	251,751,868	311,532,867	73,168,763	3,973,975,586	153,320,879	4,127,296,465	4,127,296,465	1%
2008	3,526,510,149	270,957,611	403,333,442	76,161,039	4,276,962,241	164,132,730	4,441,094,971	4,441,094,971	1%
2009	3,633,226,219	275,675,065	425,243,421	66,391,574	4,400,536,279	177,818,280	4,578,354,559	4,578,354,559	1%
2010	3,396,269,139	281,325,148	469,892,706	62,478,908	4,209,965,901	180,171,657	4,390,137,558	4,390,137,558	1%
2011	3,344,430,122	283,901,765	466,229,666	57,623,622	4,152,185,175	174,543,244	4,326,728,419	4,326,728,419	1%
2012	3,270,983,316	278,173,641	475,085,062	58,146,935	4,082,388,954	157,024,907	4,239,413,861	4,239,413,861	1%
2013	3,180,388,843	273,588,400	483,885,447	67,569,176	4,005,431,866	170,207,139	4,175,639,005	4,175,639,005	1%
2014	3,450,089,512	272,590,309	496,280,160	65,053,984	4,284,013,965	175,316,982	4,459,330,947	4,459,330,947	1%

(a) The State Constitution requires property to be assessed at one hundred percent of the most recent purchase price, plus an increment of no more than two percent annually, plus any local over-rides. These values are considered to be full market values.

(b) California cities do not set their own direct tax rate. The state constitution establishes the rate at 1% and allocates a portion of that amount, by an annual calculation, to all the taxing entities within a tax rate area. The City of Martinez encompasses more than 15 tax rate areas.

Source: Contra Costa County Auditor Controller Office Certificate of Assessed Valuations and HDL Coren & Cone

**CITY OF MARTINEZ
PROPERTY TAX RATES
ALL OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS**



Fiscal Year	Basic County Wide Levy	Bay Area Rapid Transit	Contra Costa Community College	Contra Costa Water Land Levy	East Bay Regional Park	Martinez Unified School District	City of Martinez Bond	Total
2005	\$1.0000		\$0.0042	\$0.0057	\$0.0057	\$0.0923		\$1.1079
2006	1.0000	\$0.0048	0.0047	0.0050	0.0057	0.0904		1.1106
2007	1.0000	0.0050	0.0043	0.0043	0.0085	0.0794		1.1015
2008	1.0000	0.0076	0.0108	0.0039	0.0080	0.0557		1.0860
2009	1.0000	0.0090	0.0066	0.0041	0.0100	0.0597		1.0894
2010	1.0000	0.0057	0.0126	0.0048	0.0108	0.0619	\$0.0181	1.1139
2011	1.0000	0.0031	0.0133	0.0049	0.0084	0.0629	0.0347	1.1273
2012	1.0000	0.0041	0.0144	0.0051	0.0071	0.0608	0.0347	1.1262
2013	1.0000	0.0043	0.0087	0.0045	0.0051	0.0633	0.0347	1.1206
2014	1.0000	0.0075	0.0133	0.0042	0.0078	0.0658	0.0347	1.1333

Source: Contra Costa County Auditor Controller

**CITY OF MARTINEZ
Water System Revenue
Last Ten Fiscal Years**

Fiscal Year	Water Sales	Total Operating Revenue	Percentage of Water Sales to Operating Revenue
2005	\$8,718,295	\$9,241,189	94.34%
2006	8,937,741	9,422,953	94.85%
2007	9,215,311	9,721,022	94.80%
2008	9,523,618	9,844,373	96.74%
2009	9,603,050	10,046,379	95.59%
2010	9,484,712	9,830,348	96.48%
2011	9,413,940	9,746,857	96.58%
2012	10,058,440	10,438,993	96.35%
2013	10,688,120	11,244,347	95.05%
2014	10,902,108	11,678,627	93.35%

Source: City of Martinez Administrative Services Department

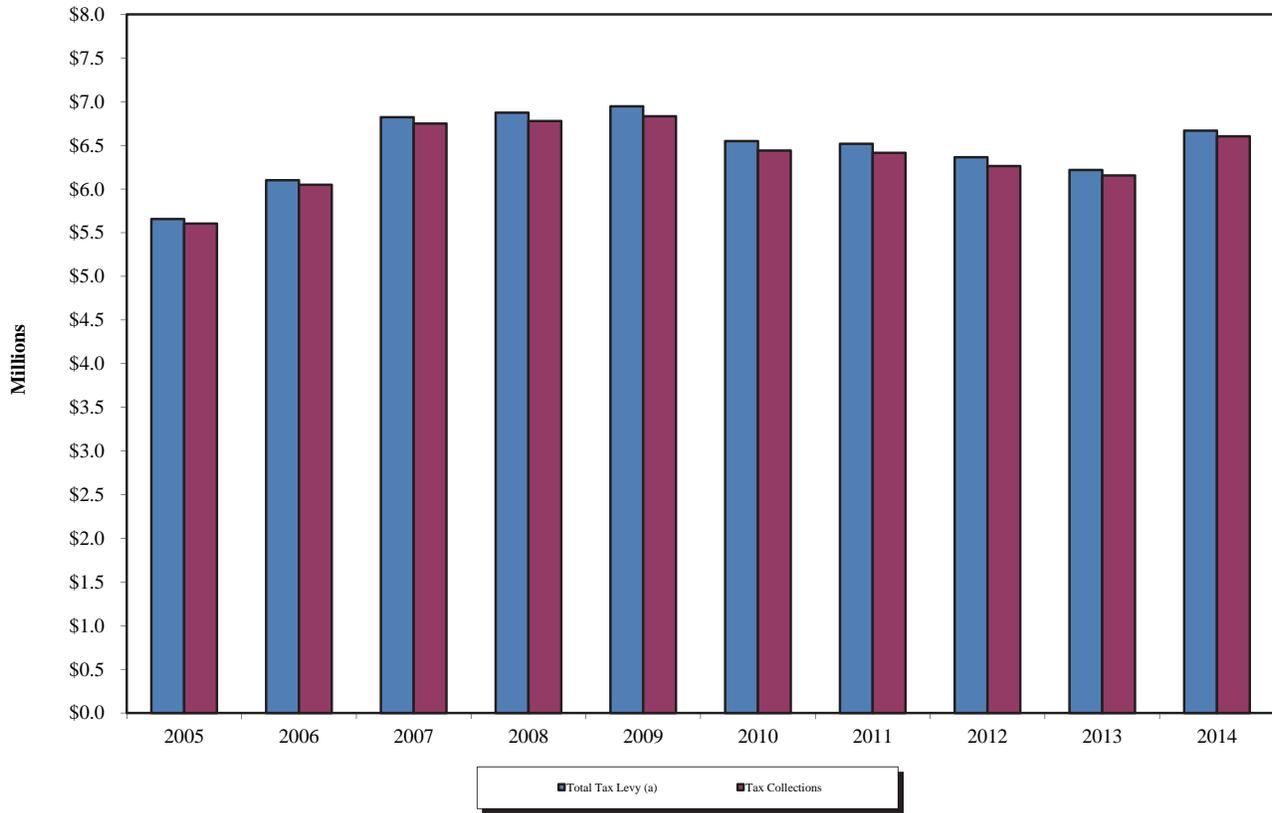
CITY OF MARTINEZ
Principal Property Tax Payers
Current Year and Eight Years Ago

<u>Taxpayer</u>	<u>2013-14</u>			<u>2005-06</u>		
	<u>Taxable Assessed Value Secured & Unsecured</u>	<u>Rank</u>	<u>Percentage of Total City Taxable Assessed Value</u>	<u>Taxable Assessed Value Secured & Unsecured</u>	<u>Rank</u>	<u>Percentage of Total City Taxable Assessed Value</u>
Equilon Enterprises LLC	\$195,436,193	1	4.6%	\$124,699,905	1	3.2%
Pacific Atlantic Terminals LLC	153,894,629	2	3.4%	44,989,466	2	1.2%
Tesoro Refining & Marketing Company	37,647,432	3	1.0%			
Stauffer Chemical Company	29,931,014	4	0.7%	31,472,017	3	0.8%
IEC Hidden Creek LLC	21,685,000	5	0.5%			
Wal Mart Real Estate	19,868,166	6	0.5%	17,541,275	6	0.5%
Muir Station Center LLC	19,809,167	7	0.5%	17,500,000	7	0.5%
Muirwood Square Investors	19,308,702	8	0.5%			
Swan Lake Apartments LP	18,461,019	9	0.4%	17,057,869	9	0.4%
Marine Spill Response Corporation	15,345,690	10	0.3%	17,452,993	8	0.4%
Shell Chemical Limited Partnership				21,373,750	4	0.5%
Kenneth H. & Martha Hofmann Trust				17,741,247	5	0.5%
Collier Village Oaks LLC				13,987,904	10	0.4%
Subtotal	<u>\$531,387,012</u>		<u>12.4%</u>	<u>\$323,816,426</u>		<u>8.3%</u>
Total Net Assessed Valuation:						
Fiscal Year 2013-2014	\$4,459,330,947					
Fiscal Year 2005-2006	\$3,888,450,653					

Source: HDL Coren & Cone

Note: Data for fiscal year 2004-2005 was not available.

**CITY OF MARTINEZ
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS**



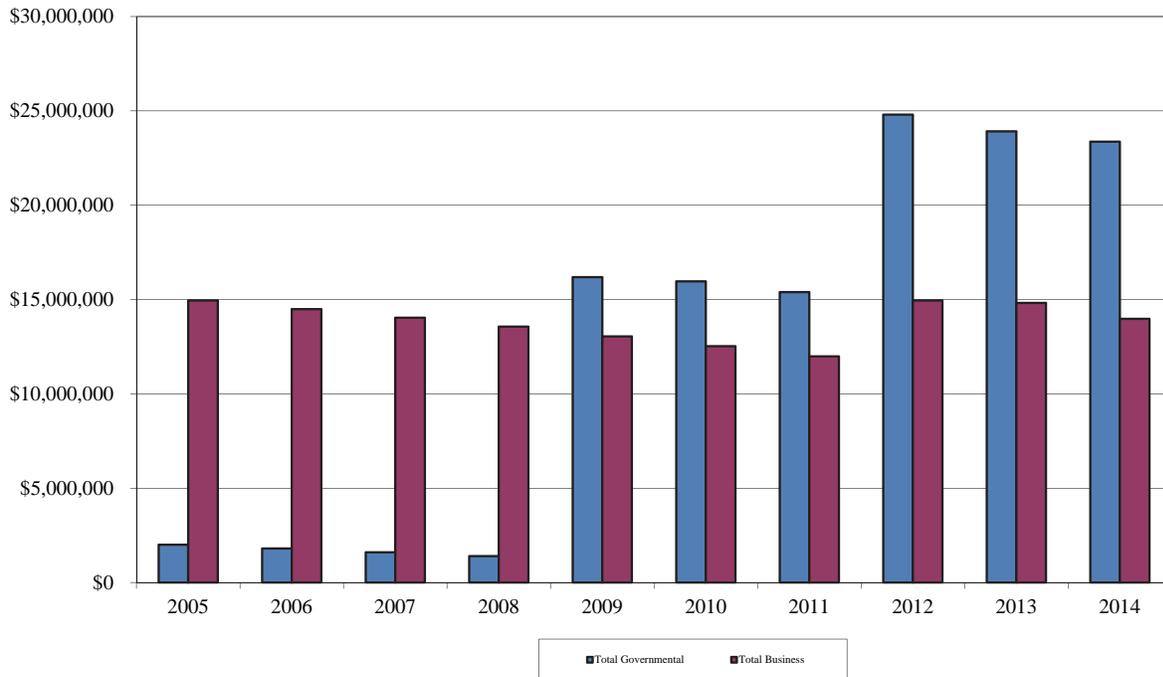
Fiscal Year	Total Tax Levy (a)	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	County Administrative Fee	Total Tax Collections	Percent of Total Tax Collections to Tax Levy
2005	\$5,655,854	\$5,655,854	100.00%	\$0	(\$51,982)	\$5,603,872	100.00%
2006	6,100,187	6,100,187	100.00%	0	(51,352)	6,048,835	100.00%
2007	6,822,167	6,822,167	100.00%	0	(72,851)	6,749,316	100.00%
2008	6,873,959	6,873,959	100.00%	0	(95,276)	6,778,683	100.00%
2009	6,946,652	6,946,652	100.00%	0	(113,412)	6,833,240	100.00%
2010	6,548,656	6,548,656	100.00%	0	(108,601)	6,440,055	100.00%
2011	6,517,643	6,517,643	100.00%	0	(103,726)	6,413,918	100.00%
2012	6,364,044	6,364,044	100.00%	0	(101,448)	6,262,596	100.00%
2013	6,218,195	6,218,195	100.00%	0	(63,233)	6,154,962	100.00%
2014	6,668,234	6,668,234	100.00%	0	(65,020)	6,603,214	100.00%

NOTE: Current tax collections beginning in 1993 have been reduced by a mandatory tax reallocation imposed by the State of California

(a) During fiscal year 1995, the County began providing the City 100% of its tax levy under an agreement which allows the County to keep all interest and delinquency charges collected.

Source: Contra Costa County Auditor-Controller

CITY OF MARTINEZ
Ratio of Outstanding Debt by Type
Last Ten Fiscal Years



Governmental Activities					
Fiscal Year	General Obligation Bonds	Certificates of Participation	Total	Percentage of Actual Taxable Value of Property	General Bonded Debt Per Capita
2005		\$2,005,000	\$2,005,000		
2006		1,805,000	1,805,000		
2007		1,605,000	1,605,000		
2008		1,400,000	1,400,000		
2009	\$15,000,000	1,185,000	16,185,000	0.33%	\$412.68
2010	15,000,000	965,000	15,965,000	0.34%	409.13
2011	14,660,000	735,000	15,395,000	0.34%	407.70
2012	24,300,000	500,000	24,800,000	0.57%	670.81
2013	23,660,000	255,000	23,915,000	0.57%	646.84
2014	23,365,000		23,365,000	0.52%	635.97

Business-Type Activities						
Fiscal Year	Certificates of Participation	Loans Payable	Total	Total Primary Government	Percentage of Personal Income (a)	Per Capita
2005	\$10,640,000	\$4,310,680	\$14,950,680	\$16,955,680	0.95%	\$460.53
2006	10,190,000	4,300,680	14,490,680	16,295,680	0.84%	445.46
2007	9,735,000	4,300,680	14,035,680	15,640,680	0.78%	432.31
2008	9,265,000	4,300,680	13,565,680	14,965,680	0.72%	414.06
2009	8,780,000	4,264,958	13,044,958	14,444,958	0.70%	397.41
2010	8,280,000	4,247,215	12,527,215	28,492,215	1.40%	777.14
2011	7,760,000	4,228,497	11,988,497	27,383,497	1.34%	761.54
2012	10,805,000	4,146,224	14,951,224	39,751,224	1.78%	1,097.34
2013	10,647,884	4,171,723	14,819,607	38,096,723	(a)	1,041.52
2014	9,780,632	4,197,223	13,977,855	37,342,855	(a)	1,016.44

(a) Personal Income data not available for fiscal years 2013 through 2014

Sources: City of Martinez
State of California, Department of Finance (population)
U.S. Department of commerce, Bureau of the Census (income)

CITY OF MARTINEZ
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
JUNE 30, 2014

2013-14 Assessed Valuation \$4,459,330,947

DIRECT LONG-TERM DEBT	Total Debt 06/30/14	(1) % Applicable	City's Share of Debt 6/30/14
City of Martinez	<u>\$23,365,000</u>	100.000%	<u>\$23,365,000</u>
Subtotal Direct Long-term Debt	<u>\$23,365,000</u>		<u>\$23,365,000</u>
OVERLAPPING LONG-TERM DEBT			
Bay Area Rapid Transit District	648,275,000	0.845%	\$5,477,924
East Bay Regional Park District	202,210,000	1.310%	\$2,648,951
Contra Costa Community College District	3,413,945,000	3.044%	\$103,920,486
Martinez Unified School District	49,148,563	51.627%	\$25,373,929
Mount Diablo Unified School District	434,220,057	5.242%	\$22,761,815
Mount Diablo Unified School District Community Facilities District #1	44,715,000	5.242%	\$2,343,960
Contra Costa County Certificates of Participation	274,600,304	3.032%	\$8,325,881
Contra Costa County Pension Obligations	258,500,000	0.153%	\$395,505
Contra Costa Community College District Certificates of Participation	700,000	3.044%	\$21,308
Contra Costa Fire Protection District Pension Obligations	<u>99,945,000</u>	6.574%	<u>\$6,570,384</u>
Subtotal Overlapping Long-term Debt	<u>5,426,258,924</u>		<u>177,840,143</u>
TOTAL GROSS DIRECT AND OVERLAPPING LONG-TERM DEBT			<u><u>\$201,205,143</u></u> (2)
Less: Contra Costa County supported obligations			<u>3,296,876</u>
TOTAL NET DIRECT AND OVERLAPPING LONG-TERM DEBT			<u><u>\$197,908,267</u></u>

(1) The percentage of overlapping agency's assessed valuation located within the boundaries of the city.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

RATIOS TO 2013-14 ASSESSED VALUATION:

Direct Debt	0.52%
Total Overlapping Debt	3.99%
Net Combined Total Debt	4.44%

Source: California Municipal Statistics, Inc.

**CITY OF MARTINEZ
COMPUTATION OF LEGAL BONDED DEBT MARGIN
JUNE 30, 2014**

ASSESSED VALUATION:

Secured property assessed value, net of exempt real property	\$4,459,330,947
---	-----------------

BONDED DEBT LIMIT (3.75% OF ASSESSED VALUE) (a)	\$167,224,911
---	---------------

AMOUNT OF DEBT SUBJECT TO LIMIT:

Total Bonded Debt	23,365,000
Less Tax Allocation Bonds and Sales Tax Revenue Bonds, Certificate of Participation not subject to limit	
Amount of debt subject to limit	23,365,000

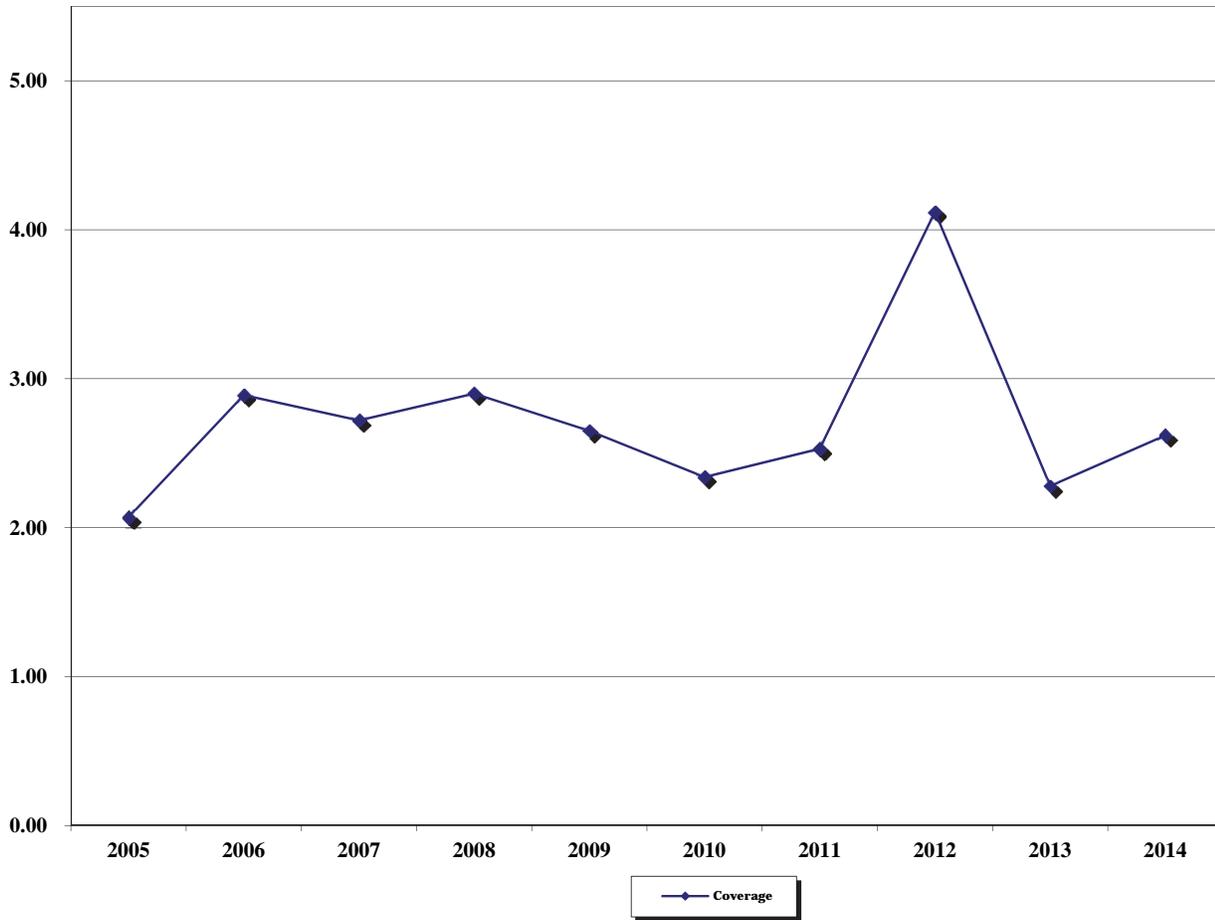
LEGAL BONDED DEBT MARGIN	\$143,859,911
--------------------------	---------------

Fiscal Year	Debt Limit	Total Net Debt Applicable to Limit	Legal Debt Margin	Total net debt applicable to the limit as a percentage of debt limit
2005	\$540,528,077		\$540,528,077	
2006	140,035,535		140,035,535	
2007	149,024,084		149,024,084	
2008	160,386,084		160,386,084	
2009	165,020,110	\$15,000,000	150,020,110	10.00%
2010	157,873,721	15,000,000	142,873,721	10.50%
2011	155,706,944	14,660,000	141,046,944	10.39%
2012	153,089,586	24,300,000	128,929,463	18.85%
2013	156,586,463	23,660,000	132,926,463	17.80%
2014	167,224,911	23,365,000	143,859,911	16.24%

NOTE:

- (a) California Government Code, Section 43605 sets the debt limit at 15%. The Code section was enacted prior to the change in basing assessed value to full market value when it was previously 25% of market value. Thus, the limit shown as 3.75% is one-fourth the limit to account for the adjustment of showing assessed valuation at full cash value.

**CITY OF MARTINEZ
REVENUE BOND COVERAGE
WATER FUND CERTIFICATES OF PARTICIPATION
LAST TEN FISCAL YEARS**



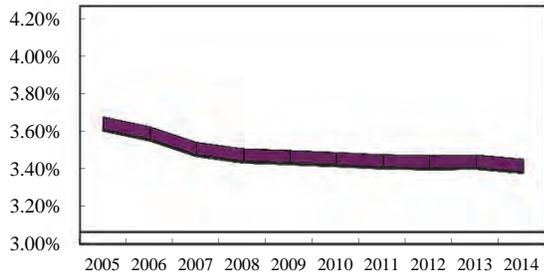
Fiscal Year	Gross Revenue (1)	Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
2005	\$9,435,677	\$7,573,964	\$1,861,713	\$440,000	\$461,238	\$899,143	2.07
2006	9,726,463	7,160,841	2,565,622	450,000	449,143	888,661	2.89
2007	10,188,402	7,760,258	2,428,144	455,000	433,661	893,808	2.72
2008	10,287,823	7,706,998	2,580,825	470,000	423,808	891,326	2.90
2009	10,285,545	7,924,631	2,360,914	485,000	406,326	889,642	2.65
2010	9,906,086	7,823,809	2,082,277	500,000	389,642	891,092	2.34
2011	9,805,813	7,548,774	2,257,039	520,000	371,092	890,698	2.53
2012	10,488,260	8,318,126	2,170,134	345,000	181,771	526,771	4.12
2013	11,286,802	8,670,144	2,616,658	795,000	354,089	1,149,089	2.28
2014	11,722,012	8,703,244	3,018,768	820,000	332,370	1,152,370	2.62

Notes: (1) Includes all Water Operating Revenues, Non-operating Interest Revenue, Connection Fees and other Non-operating Revenues

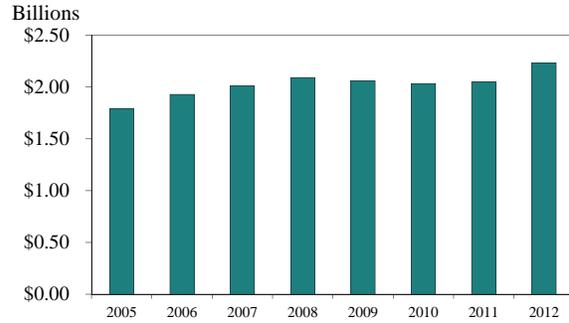
(2) Includes all Water Operating Expenses less Depreciation and Interest

Source: City of Martinez Annual Financial Statements

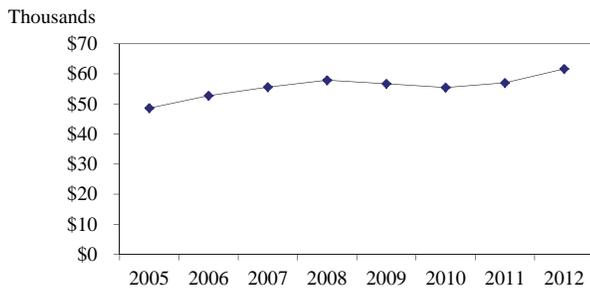
**CITY OF MARTINEZ
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS**



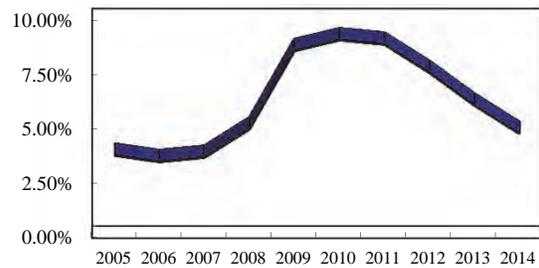
■ City Population as a % of County Population



■ Total Personal Income (a)



◆ Per Capita Personal Income (a)



■ Unemployment Rate (%)

Fiscal Year	City Population	Total Personal Income (a)	Per Capita Personal Income (a)	Unemployment Rate (%)	Contra Costa County Population	City Population % of County
2005	36,818	\$1,790,017,524	\$48,618	3.8%	1,020,898	3.61%
2006	36,582	1,928,968,860	52,730	3.5%	1,029,377	3.55%
2007	36,179	2,010,828,820	55,580	3.7%	1,042,341	3.47%
2008	36,144	2,091,797,856	57,874	5.0%	1,051,674	3.44%
2009	36,348	2,061,040,644	56,703	8.6%	1,060,435	3.43%
2010	36,663	2,033,513,295	55,465	9.1%	1,073,055	3.42%
2011	35,958	2,050,001,538	57,001	8.9%	1,056,064	3.40%
2012	36,225	2,232,836,550	61,638	7.6%	1,065,117	3.40%
2013	36,578	(b)	(b)	6.1%	1,074,702	3.40%
2014	36,739	(b)	(b)	4.8%	1,086,553	3.38%

NOTES: (a) Per capita personal income are only available for Contra Costa County.

Personal income is the product of the countywide per capita amount multiplied by the City's population.

(b) Data for fiscal years 2013 - 2014 not available

Source: California State Department of Finance
Bureau of Economic Analysis
California State Employment Development Department

CITY OF MARTINEZ
Principal Employers
Current Year and Eight Years Ago

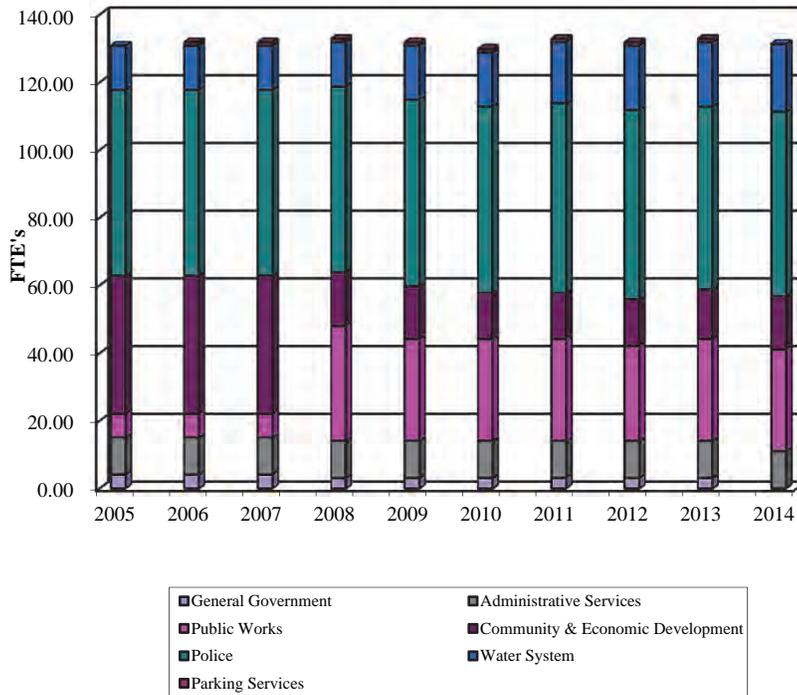
<u>Employer</u>	<u>2013-14</u>			<u>2005-06</u>		
	<u>Number of Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	<u>Number of Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
Contra Costa County (a)	8,400	1	37.17%	1,700	1	8.06%
Veterans Admin Medical Center	873	2	3.86%	950	3	4.50%
Shell Oil Refinery	743	3	3.29%	700	4	3.32%
Kaiser Permanente	730	4	3.23%	1,000	2	4.74%
Martinez Unified School District	660	5	2.92%	425	6	2.01%
Wal-Mart Store	267	6	1.18%	350	7	1.66%
Safeway Stores	169	7	0.75%			
City of Martinez	124	8	0.55%	170	9	0.81%
Home Depot	116	9	0.51%	250	8	1.18%
Muir Senior Care	112	10	0.50%			
Contra Costa Electric				500	5	2.37%
Telfer Oil Lines				100	10	0.47%
Total Top Employers	<u>12,194</u>		<u>53.96%</u>	<u>6,145</u>		<u>27.19%</u>
Total City Employment	<u><u>22,600</u></u>			<u><u>21,100</u></u>		

(a) Contra Costa County employee count represents the entire county.

Note: Data for fiscal year 2004-2005 was not available.

Source: Muni Services, LLC

CITY OF MARTINEZ
Full-Time Equivalent City Government Employees by Function
Last Ten Fiscal Years



	June 30,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Function										
General Government	4.00	4.00	4.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Administrative Services	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00
Public Works	7.00	7.00	7.00	34.00	30.00	30.00	30.00	28.00	30.00	30.00
Community & Economic Development	40.80	40.80	40.80	15.80	15.80	13.80	13.80	13.80	14.80	15.80
Police	55.00	55.00	55.00	55.00	55.00	55.00	56.00	56.00	54.00	54.50
Water System	13.00	13.00	13.00	13.00	16.00	16.00	18.00	19.00	19.00	20.00
Parking Services		1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	
Total	130.80	131.80	131.80	132.80	131.80	129.80	132.80	131.80	132.80	134.30

Source: City of Martinez Administrative Services Department

CITY OF MARTINEZ
Operating Indicators by Function/Program
Last Ten Fiscal Years

	Fiscal Year			
	2005	2006	2007	2008
Function/Program				
Public safety:				
Police:				
Police calls for Service	35,621	32,071	30,710	30,354
Law violations:				
Part I and Part II crimes	5,989	5,753	5,460	5,970
Physical arrests (adult and juvenile)	2,213	1,886	1,693	1,714
Traffic violations	3,117	1,872	1,642	1,340
Parking violations	8,267	4,992	5,929	8,895
Public works				
Street resurfacing				
Seal Coat (miles)	n/a	6	5.42	5.60
Asphalt overlay (miles)	1.89	2.40	0.70	0.57
Culture and recreation:				
Community Services:				
Number of recreation classes	434	459	595	596
Number of community events	45	52	55	55
Number of facility rentals	415	413	253	286
Water				
Water service connections - active	9,728	9,731	9,739	9,745
Water main breaks	51	54	35	52
Average daily consumption (thousands of gallons)	5,060	5,210	5,214	4,948

Note: n/a denotes information not available.

Source: City of Martinez

Fiscal Year					
2009	2010	2011	2012	2013	2014
30,794	29,463	27,501	24,700	27,584	28,782
4,923	4,343	4,079	3,612	3,857	3,854
1,585	1,655	1,622	1,162	1,348	1,417
2,598	2,985	1,738	1,040	1,012	1,464
8,790	8,864	9,226	3,143	7,554	12,153
3.41	14.75	0.00	0.00	0.00	1.82
0.89	1.70	1.90	0.50	0.87	0.15
462	504	458	520	726	730
67	69	72	72	150	162
273	290	416	263	521	532
9,751	9,755	9,767	9,777	9,768	9,807
46	38	34	40	52	33
4,663	3,970	3,470	3,594	3,770	3,779

CITY OF MARTINEZ
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

Function/Program	Fiscal Year			
	2005	2006	2007	2008
Public safety:				
Police stations	1	1	1	1
Police sworn officers	39	39	39	39
Public works				
Miles of streets	122	122	122	122
Street lights	4,994	4,994	4,994	4,996
Traffic Signals	253	253	253	265
Culture and recreation:				
Community services:				
City parks	16	16	17	17
City parks acreage	271	271	271	271
Playgrounds	10	10	14	14
City trails	9	9	9	9
Roadway landscaping acreage	11	11	11	12
Community gardens	1	1	1	1
Senior centers	1	1	1	1
Performing arts centers	1	1	1	1
Swimming pools	1	1	1	1
Tennis courts	9	9	10	10
Skateboard Park	1	1	1	1
Baseball/softball diamonds	8	8	11	11
Soccer fields	7	7	7	7
Water				
Miles of water lines	100	100	100	100
Storage capacity (thousands of gallons)	9,522,000	9,522,000	9,522,000	9,522,000

Note: n/a denotes information is not available.

Source: City of Martinez

Fiscal Year					
2009	2010	2011	2012	2013	2014
1	1	1	1	1	1
39	39	39	37	37	37
122	122	122	122	122	122
5,005	5,005	5,005	5,005	5,017	5,017
265	265	265	265	265	265
17	17	17	17	17	17
271	271	271	271	271	271
14	14	14	14	14	14
9	9	9	9	9	9
12	12	12	12	12	12
1	1	1	1	1	1
1	1	1	1	1	1
1	1	1	1	1	1
1	1	1	1	1	1
10	10	10	10	10	10
1	1	1	1	1	1
11	11	11	11	11	11
7	7	7	7	7	7
100	100	100	100	100	100
9,522,000	9,522,000	9,522,000	9,522,000	9,522,000	9,522,000

This Page Left Intentionally Blank

CITY OF MARTINEZ

**WATER SYSTEM
ENTERPRISE FUND**

**FOR THE YEAR ENDED
JUNE 30, 2014**

This Page Left Intentionally Blank

**CITY OF MARTINEZ
WATER SYSTEM
ENTERPRISE FUND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Basic Financial Statements	
Statement of Net Position	3
Statement of Revenues, Expenses and Changes in Net Position.....	4
Statement of Cash Flows	5
Notes to Financial Statements	7
Supplemental Information	
Schedule of Operating Expenses	22

This Page Left Intentionally Blank

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, 2014, 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. 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.

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, 2014, 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.

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, 2014, 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.

Mage & Associates

Pleasant Hill, California
September 22, 2014

CITY OF MARTINEZ - WATER SYSTEM
ENTERPRISE FUND
STATEMENT OF NET POSITION
JUNE 30, 2014

ASSETS	
Current Assets:	
Cash and investments (Note 2):	
Available for operations	\$15,193,911
Restricted Assets:	
Cash and cash equivalents (Note 2):	3,505,242
Accounts and other receivables	<u>1,498,286</u>
Total Current Assets	<u>20,197,439</u>
Noncurrent Assets:	
Capital assets - at cost: (Note 1D):	
Buildings	15,793,743
Improvements other than buildings	150,584
Equipment	1,347,994
Infrastructure	<u>88,166,473</u>
Total Depreciable Capital Assets	105,458,794
Less: Accumulated depreciation	<u>(79,943,544)</u>
Land	630,912
Construction in progress	<u>4,935,611</u>
Total Capital Assets - net	<u>31,081,773</u>
Other Non-Current Assets:	
Loan receivable (Note 3)	<u>22,920</u>
Total Noncurrent Assets	<u>31,104,693</u>
Total Assets	<u>51,302,132</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	735,672
Accrued liabilities	65,680
Deposits	50,816
Unearned revenue	<u>1,436</u>
Total Current Liabilities	<u>853,604</u>
Current Liabilities Payable from Restricted Assets:	
Accrued interest payable	26,755
Current portion of compensated absences (Note 1F)	142,000
Current maturities of certificates of participation (Note 5)	<u>835,000</u>
Total Current Liabilities Payable from Restricted Assets	<u>1,003,755</u>
Noncurrent Liabilities:	
Accrued compensated absences (Note 1F)	47,559
Certificates of participation (Note 5)	<u>8,945,632</u>
Total Liabilities	<u>10,850,550</u>
NET POSITION (Note 1C)	
Net investment in capital assets	23,616,885
Restricted for:	
Debt service	1,189,498
Capital improvements	9,344,526
Unrestricted	<u>6,300,673</u>
Total Net Position	<u>\$40,451,582</u>

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, 2014

OPERATING REVENUES	
Water sales	\$10,902,108
Rents and leases	46,949
Other fees	585
Charges for services	709,190
Other revenue	<u>19,795</u>
Total Operating Revenues	<u>11,678,627</u>
OPERATING EXPENSES	
Filtration plant	4,824,682
Maintenance, repairs and distribution	1,881,177
Administration	1,997,385
Depreciation and amortization	<u>1,884,446</u>
Total Operating Expenses	<u>10,587,690</u>
Operating income	<u>1,090,937</u>
NONOPERATING REVENUE (EXPENSE)	
Interest income	43,385
Interest expense	<u>(283,151)</u>
Income (loss) before transfers	<u>(239,766)</u>
Transfers in (Note 4)	<u>22,601</u>
Change in Net Position	873,772
Net position at beginning of year	<u>39,577,810</u>
Net position at end of year	<u><u>\$40,451,582</u></u>

See accompanying notes to financial statements

CITY OF MARTINEZ - WATER SYSTEM
ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$11,791,508
Payments to suppliers	(6,371,827)
Payments to employees	(2,103,844)
Rent and lease payments received	<u>19,795</u>
Cash Flows from Operating Activities	<u>3,335,632</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer in	<u>22,601</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(1,959,309)
Principal payments on capital debt	(820,000)
Interest paid	<u>(332,272)</u>
Cash Flows from Capital and Related Financing Activities	<u>(3,111,581)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>43,385</u>
Cash Flows from Investing Activities	<u>43,385</u>
Net Cash Flows	290,037
Cash and investments at beginning of period	<u>18,409,116</u>
Cash and investments at end of period	<u><u>\$18,699,153</u></u>
Financial Statement Presentation:	
Cash and Investments	\$15,193,911
Restricted Cash and Cash Equivalents	<u>3,505,242</u>
Total	<u><u>\$18,699,153</u></u>
Reconciliation of Operating Income to Cash Flows from Operating Activities:	
Operating income	\$1,090,937
Adjustments to reconcile operating income to cash flows from operating activities:	
Depreciation	1,884,446
Change in assets and liabilities:	
Accounts and other receivables	132,676
Accounts payable and accrued liabilities	231,356
Deposits	4,264
Accrued compensated absences	<u>(8,047)</u>
Cash Flows from Operating Activities	<u><u>\$3,335,632</u></u>

See accompanying notes to the financial statements

This Page Left Intentionally Blank

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014**

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. This net position is 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 "net investment in capital assets". Amounts included as unrestricted net position are available for designation for specific purposes as established by the City Council.

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014**

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	\$197,606
Additions	148,546
Payments	(156,593)
Ending Balance	\$189,559
Current Portion	\$142,000

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.

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014**

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:

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014**

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, 2014, Restricted Assets consisted of \$3,505,242 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, 2014 the loan balance was \$284,930 of which \$22,920 is owed to the Water System Enterprise Fund.

NOTE 4 – TRANSFER FROM THE CITY

During the fiscal year ended June 30, 2014, the City's General Fund transferred \$22,601 to the Water System Fund to fund operations.

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014**

NOTE 5 – RATE SCHEDULES

Monthly service charges, service line and meter installation fees and consumption rates are as follows for fiscal year 2014:

Meter Size (Inches)	Monthly Service Charges	Service Line Installation Charges	Meter Installation Charges	
5/8	\$26.36	\$2,843.61	\$177.73	
1	59.29	2,843.61	355.45	
1-1/2	114.15	2,554.51	436.23	
2	180.00	2,554.51	605.33	
3	355.55	Actual Costs	Actual Costs	
4	553.05			
6	1,101.69			
8	1,979.50			
10	3,186.46			
<u>Consumption Rate</u>	<u>Zone 1</u>	<u>Zone 2</u>	<u>Zone 3</u>	<u>Zone 4</u>
Per hundred cubic feet	\$3.66	\$3.89	\$4.03	\$4.27

NOTE 6 – 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, 2013	Retirements	Balance at June 30, 2014	Current Portion
Certificates of Participation:					
2003 Refinancing Project, 2-4%, due 12/01/18	\$5,595,000	\$2,425,000	\$370,000	\$2,055,000	\$380,000
2012 Refunding Water System Improvements, 2-4%, due 12/01/26	8,025,000	7,585,000	450,000	7,135,000	455,000
Plus: Unamortized bond premium	696,947	637,884	47,252	590,632	
Total Enterprise Long-Term Debt		<u>\$10,647,884</u>	<u>\$867,252</u>	<u>\$9,780,632</u>	<u>\$835,000</u>

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014**

NOTE 6 – CERTIFICATES OF PARTICIPATION (Continued)

B. 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 \$2,261,367. The Water System's principal and interest paid for the current year is \$455,920.

C. 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 \$8,993,825. The City's principal and interest paid for the current fiscal year is \$696,350.

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 12.26 percent and 2.85 percent of net water revenues. Annual principal and interest payments on the 2012 bonds are expected to require less than 14.91 percent and 8.16 percent of net water revenues. The Water Fund's total principal and interest remaining to be paid on the bonds is \$11,255,192. The Water Fund's principal and interest paid for the current year and total customer net revenues were \$1,152,270 and \$3,018,768 respectively. The City is in compliance with its debt covenants for the year ended June 30, 2014.

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014**

NOTE 6 – CERTIFICATES OF PARTICIPATION (Continued)

D. Debt Service Requirements

Annual debt service requirements are shown below:

For the Year Ending June 30	Principal	Interest
2015	\$835,000	\$309,484
2016	855,000	285,799
2017	890,000	258,528
2018	920,000	227,681
2019	940,000	195,725
2020 - 2024	2,790,000	668,575
2025 - 2027	1,960,000	119,400
Total	9,190,000	\$2,065,192
Plus: Unamortized Bond Premium	590,632	
Gross Long-term debt	\$9,780,632	

E. 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, 2014.

NOTE 7 – 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 of miscellaneous employees require it to pay 5% of the employee contribution of 7% and the full employer contribution. The Plans' provisions and benefits in effect at June 30, 2014, are summarized as follows:

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014**

NOTE 7 – EMPLOYEES’ RETIREMENT SYSTEM (Continued)

Miscellaneous Joint Facilities Agency

	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	10.781%	8.049%	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.

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, 2012	\$229,295	100%	\$0
June 30, 2013	226,562	100%	0
June 30, 2014	209,938	100%	0

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014**

NOTE 7 – EMPLOYEES’ RETIREMENT SYSTEM (Continued)

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.

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:

Valuation Date	Actuarial		Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
	Entry Age Accrued Liability	Value of Assets				
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%
2012	4,175,139,166	3,686,598,343	488,540,823	88.3%	757,045,663	64.5%

The City’s Miscellaneous Joint Facilities Agency Plan represents approximately 0.89%, 0.95%, and 0.96% of the State-wide pool for the years ended June 30, 2012, 2011, and 2010, respectively, based on the City’s total covered payroll of \$6,758,536, \$7,227,796, and \$7,160,574.

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

NOTE 8 – 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.

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014**

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

The cost of retiree health care benefits is recognized as an expenditure when health care premiums are paid. For the year ending June 30, 2014, those costs totaled \$55,534 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:

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, 2014, there were approximately 9 Water System's employees that were eligible to receive retirement health care benefits.

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014**

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

A. *Funding Policy and Actuarial Assumptions*

The annual required contribution (ARC) was determined as part of a January 1, 2013 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 3.25% and (d) 4.5%-8.5% 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.

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, 2014, the City contributed the ARC amounting to \$1,073,620 to the Plan which represented 11% of the \$9,802,211 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:

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014**

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

Annual required contribution (ARC)	(\$1,073,620)
Interest on net OPEB asset	326,377
Adjustment to annual required contribution	<u>(297,092)</u>
Annual OPEB cost	<u>(1,044,335)</u>
Contributions made:	
City portion of current year premiums paid	938,810
Additional contributions to CERBT	<u>134,810</u>
Total contributions	<u>1,073,620</u>
Change in net OPEB asset	29,285
Net OPEB Asset at June 30, 2013	<u>4,256,000</u>
Net OPEB Asset at June 30, 2014	<u><u>\$4,285,285</u></u>

The actuarial accrued liability (AAL) representing the present value of future benefits, included in the actuarial study dated January 1, 2013 amounted to \$16,612,936 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 \$8,725,111 as of June 30, 2014, which partially reduced the unfunded actuarial accrued liability.

The Plan's annual OPEB cost and actual contributions for fiscal years ended June 30, 2012, 2013 and 2014 are set forth below:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of OPEB Cost Contributed	Net OPEB (Obligation) Asset
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
June 30, 2014	1,044,335	1,073,620	103%	4,285,285

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:

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014**

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

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, 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%
January 1, 2013	6,667,146	16,612,936	9,945,790	40.13%	9,802,211	101.46%

NOTE 9 – 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.

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014**

NOTE 10 - 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.

Insurance coverage through the Municipal Pooling Authority is as follows:

Type of Coverage (Deductible)	Coverage Limits
Liability (\$25,000)	\$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
Government Crime (no deductible)	1,000,000
Worker's Compensation (no deductible)	Statutory Limits
All Risk Fire & Property (\$25,000)	1,000,000,000
Earthquake (20% replacement cost values, \$25,000 minimum)	7,125,797
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

SUPPLEMENTAL INFORMATION

CITY OF MARTINEZ - WATER SYSTEM
ENTERPRISE FUND
SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

	Filtration Plant	Maintenance, Repairs and Distribution	Administration
Salaries	\$610,208	\$561,314	\$81,822
Salaries - overtime and temporary	66,564	98,783	
Fringe benefits	343,875	324,622	27,676
Retirement medical			65,000
Labor provided by other departments, net		117,533	457,918
Rent and utilities	398,726	185,495	
Communications	4,421	32,655	802
Operating supplies	101,632	257,172	
Dues and subscriptions		570	1,853
Office supplies	769	2,194	13,493
Postage			6,000
Equipment rental	44,938	172,540	18,851
Repairs and maintenance	27,648	29,803	
Professional fees	188,743	14,585	398,313
Raw water and chemicals purchase	2,986,743		
Training	10,802	1,632	1,387
Contractual services	920	1,590	76,543
Operating charges by other departments		32,029	396,516
Insurance	38,693	48,660	27,448
Tax in lieu			423,763
	<u>\$4,824,682</u>	<u>\$1,881,177</u>	<u>\$1,997,385</u>

CITY OF MARTINEZ
MARINA SERVICES ENTERPRISE FUND
FOR THE YEAR ENDED
JUNE 30, 2014

This Page Left Intentionally Blank

**CITY OF MARTINEZ – MARINA SERVICES
ENTERPRISE FUND**

**Financial Statements
For the Year Ended June 30, 2014**

Table of Contents

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT	1
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	3
Statement of Revenues, Expenses and Changes in Net Position	4
Statement of Cash Flows	5
Notes to Financial Statements	7
SUPPLEMENTAL INFORMATION	
Schedule of Operating Expenses	18
Granted Public Trust Lands	19

This Page Left Intentionally Blank

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, 2014, 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. 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.

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, 2014, 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 \$4,329,513 as of June 30, 2014 made up primarily of State loans which the City has not had sufficient operating revenues to pay. During the fiscal year ended June 30, 2014, the City did not pay the principal portion of the State loans during the fiscal year as discussed in Note 7. 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.

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, 2014, 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.


Pleasant Hill, California
September 22, 2014

CITY OF MARTINEZ - MARINA SERVICES
ENTERPRISE FUND
STATEMENT OF NET POSITION
JUNE 30, 2014

ASSETS

Current Assets:	
Cash and cash equivalents (Note 3)	\$238,801
Receivables:	
Accounts	<u>3,352</u>
Total Current Assets	<u>242,153</u>
Noncurrent Assets:	
Capital assets - at cost (Note 1D)	
Buildings	308,594
Less: accumulated depreciation	<u>(285,765)</u>
	<u>22,829</u>
Land	<u>32,532</u>
Total Capital Assets - net	<u>55,361</u>
Total Assets	<u>297,514</u>

LIABILITIES

Current Liabilities:	
Accounts payable	3,388
Deposits	46,867
Accrued interest	61,734
Unearned revenue (Note 4)	317,815
Current portion of loans payable (Note 7)	<u>133,640</u>
Total Current Liabilities	<u>563,444</u>
Noncurrent Liabilities:	
Loans payable (Note 7)	<u>4,063,583</u>
Total Noncurrent Liabilities	<u>4,063,583</u>
NET POSITION (DEFICIT) (Note 1C)	
Net investment in capital assets	(4,141,862)
Unrestricted	<u>(187,651)</u>
Total Net Position (Deficit) (Note 2)	<u><u>(\$4,329,513)</u></u>

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, 2014

OPERATING REVENUES	
Rents and leases (Note 9)	\$176,927
Charges for services	90
Other revenue	<u>1,000</u>
 Total Operating Revenues	 <u>178,017</u>
OPERATING EXPENSES	
Administration	112,134
Maintenance and repair	28,235
Depreciation	<u>20,520</u>
 Total Operating Expenses	 <u>160,889</u>
 Operating income	 <u>17,128</u>
NON OPERATING REVENUES (EXPENSE)	
Interest income	291
Interest expense	(93,013)
Taxes	<u>13,915</u>
 Total Non Operating Revenues (Expense)	 <u>(78,807)</u>
 Income (loss) before transfers	 <u>(61,679)</u>
 Transfers in (Note 5)	 <u>100,000</u>
 Change in Net Position	 38,321
 Net Position (deficit) at beginning of year	 <u>(4,367,834)</u>
 Net Position (deficit) at end of year	 <u><u>(\$4,329,513)</u></u>

See accompanying notes to financial statements

CITY OF MARTINEZ - MARINA SERVICES
ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$168,865
Payments to suppliers	<u>(161,978)</u>
Cash Flows from Operating Activities	<u>6,887</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Taxes received	13,915
Transfers in	<u>100,000</u>
Cash Flows from Noncapital Financing Activities	<u>113,915</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Interest paid	<u>(69,349)</u>
Cash Flows from Capital and Related Financing Activities	<u>(69,349)</u>
CASH FLOWS FROM CAPITAL AND RELATED INVESTING ACTIVITIES	
Interest	<u>291</u>
Cash Flows from Investing Activities	<u>291</u>
Net Cash Flows	51,744
Cash and investments at beginning of period	<u>187,057</u>
Cash and investments at end of period	<u><u>\$238,801</u></u>
Reconciliation of Operating Loss to Cash Flows from Operating Activities:	
Operating loss	\$17,128
Adjustments to reconcile operating loss to cash flows	
Depreciation	20,520
Change in assets and liabilities:	
Accounts receivable	(788)
Accounts payable and other liabilities	(21,609)
Unearned revenue	<u>(8,364)</u>
Cash Flows from Operating Activities	<u><u>\$6,887</u></u>

See accompanying notes to financial statements

This Page Left Intentionally Blank

CITY OF MARTINEZ – MARINA SERVICES
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

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. This net position is 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 "net investment in capital assets". Amounts included as unrestricted net position are available for designation for specific purposes as established by the City Council.

CITY OF MARTINEZ – MARINA SERVICES
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

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. 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.

**CITY OF MARTINEZ – MARINA SERVICES
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014**

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 \$4,329,513 as of June 30, 2014 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 and 2014 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, 2014, 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 position 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 \$317,815 at June 30, 2014.

NOTE 5 – TRANSFER FROM THE CITY

During the fiscal year ended June 30, 2014, the City's General Fund transferred \$100,000 to the Marina Services Fund to fund operations.

**CITY OF MARTINEZ – MARINA SERVICES
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014**

NOTE 6 – MARINA FEES

Monthly berthing fees and other fees are as follows for 2014:

<u>Berthing Fees</u>		<u>Charges</u>		
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		C 80 Feet	\$721.00
	A 35 Feet	\$286.00	D 70 Feet	\$631.00
	A 90 Feet	\$906.00	E 60 Feet	\$519.00
	B 90 Feet	\$906.00		
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	
<u>Other Fees</u>				
a.	Use of Launch Ramp	\$ 10.00	/day	
b.	R.V. Parking	\$ 15.00	/day	
c.	Key deposit fee	\$ 25.00	/key	

**CITY OF MARTINEZ – MARINA SERVICES
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014**

NOTE 7 – LOANS PAYABLE

A. Current Year Transactions and Balances

	Original Issue Amount	Balance at June 30, 2013	Additions	Balance at June 30, 2014	Current Portion
Marina Loans					
Loan Payable - 1964	\$1,300,000	\$850,000		\$850,000	
Accrued interest		1,738,014	\$25,500	1,763,514	
Loan Payable - 1973	450,000	251,136		251,136	\$37,908
Loan Payable - 1978	175,000	131,574		131,574	15,372
Loan Payable - 1982	300,000	323,922		323,922	26,106
Loan Payable - 1984	750,000	877,077		877,077	54,254
Total Marina Loans		<u>\$4,171,723</u>	<u>\$25,500</u>	<u>\$4,197,223</u>	<u>\$133,640</u>

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, 2014, the amount payable to the State including interest amounted to \$2,613,574.

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.

**CITY OF MARTINEZ – MARINA SERVICES
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014**

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, 2014, 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, 2014 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.

**CITY OF MARTINEZ – MARINA SERVICES
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014**

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, 2014, 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, 2014, 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, 2014, the Marina Fund owed \$4,197,223 in loans to the State. The City made an interest payment of \$69,349 in fiscal 2014 to cover current year interest accrued on the unpaid loan balances.

**CITY OF MARTINEZ – MARINA SERVICES
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014**

NOTE 7 – LOANS PAYABLE (Continued)

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 current year principal payment of \$44,579, in addition to the non-payment of principal in the prior fiscal year in the amount of \$42,599, the City has not made total principal payments in the amount of \$87,118 since August 1, 2013. The past due amounts have been included in the current portion of loans payable. The State has assessed a late penalty fee of 6% of the unpaid balances.

H. Debt Service Transactions:

	Marina Activities	
For the Year Ending June 30	Principal	Interest
2015	\$133,640	\$67,344
2016	48,616	65,250
2017	50,803	63,063
2018	53,090	60,776
2019	55,477	58,389
2020 - 2024	317,164	252,167
2025 - 2029	347,373	175,141
2030 - 2034	306,513	102,584
2035 - 2039	271,033	35,606
Total	1,583,709	\$880,320
Plus: Marina Loan 1964	850,000	
Plus: Accrued interest	1,763,514	
Total	\$4,197,223	

**CITY OF MARTINEZ – MARINA SERVICES
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014**

NOTE 8 - INSURANCE

The City participates in the Municipal Pooling Authority (MPA) pool in which there is a transfer or a 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 (\$25,000)	\$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
Government Crime (no deductible)	1,000,000
Workers' Compensation (no deductible)	Statutory Limits
All Risk Fire & Property (\$25,000)	1,000,000,000
Earthquake (20% of replacement cost values, \$25,000 to minimum)	7,125,797
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

CITY OF MARTINEZ – MARINA SERVICES
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

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, 2014 were \$53,378.

The Marina also entered into an operating lease with the Martinez Yacht Club. The current lease term expired on November 1, 2013, therefore the operating lease payments are being paid on a month to month basis. Lease payments received for the year ended June 30, 2014 were \$8,338.

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, 2014 was \$97,646.

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. The lease payment for the year ended June 30, 2014 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. On February 1, 2014 the lease was increased from \$750 to \$773. With additional square footage added to the lease, on June 1, 2014 the lease payment was increased to \$855 and will increase annually on January 23rd by 3%. Lease payments received for the year ended June 30, 2014 were \$9,201.

Revenue on leased land	
Eagle Marine	\$53,378
Martinez Yacht Club	8,338
Almar Management, Inc.	97,646
Subtotal	159,362
Revenue from public trust lands	
Southern Pacific Transportation	8,364
Rooster Productions, LLC	9,201
Subtotal	17,565
Total rents and leases revenue	\$176,927

SUPPLEMENTAL INFORMATION

CITY OF MARTINEZ - MARINA SERVICES
 ENTERPRISE FUND
 SCHEDULE OF OPERATING EXPENSES
 FOR THE YEAR ENDED JUNE 30, 2014

	<u>Administration</u>	<u>Maintenance and Repair</u>
Professional services	\$5,837	
State lands lease	23,412	
Engineering services	13,337	
Legal services	16,079	
Consulting services	30,065	
Repair & maintenance		\$1,831
Property insurance		359
Utilities		26,045
Professional membership	1,275	
Mitigation plan	21,940	
Travel	189	
	<u>\$112,134</u>	<u>\$28,235</u>

CITY OF MARTINEZ
GRANTED PUBLIC TRUST LANDS
FOR THE YEAR ENDED JUNE 30, 2014

Fund Equity 06/30/13	\$11,492
<u>REVENUE</u>	
Lease - Rooster Productions	9,201
Lease - Southern Pacific Transportation	<u>8,364</u>
 TOTAL REVENUE	 <u>17,565</u>
<u>EXPENDITURES</u>	
Utilities	5,478
Consultation for mitigation	1,055
Rock for parking lot	<u>1,381</u>
 TOTAL EXPENDITURES	 <u>7,914</u>
 Fund Equity 06/30/14	 <u><u>\$21,143</u></u>

This Page Left Intentionally Blank

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED UPON PROCEDURES FOR
COMPLIANCE WITH THE PROPOSITION 111
2013-2014 APPROPRIATIONS LIMIT INCREMENT**

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

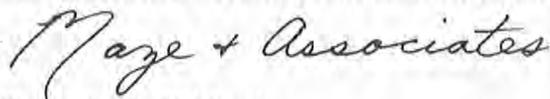
We have performed the procedures below to the Appropriations Limit Worksheet which were agreed to by the City of Martinez for the year ended June 30, 2014. These procedures, which were suggested by the League of California Cities and presented in their Article XIII B Appropriations Limitation Uniform Guidelines, were performed solely to assist you in meeting the requirements of Section 1.5 of Article XIII B 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 2013-2014 Appropriations Limit of \$162,998,456 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 2013-2014 Appropriations Limit by multiplying the 2012-2013 Prior Year Appropriations Limit by the Total Growth Factor.
- C. For the Appropriations Limitation Worksheet, we agreed the Per Capita Income, City Population Factor and County Population Factor 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.

A handwritten signature in cursive script that reads 'Maze + Associates'.

Pleasant Hill, California
September 22, 2014

**CITY OF MARTINEZ
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS
FOR THE YEAR ENDED JUNE 30, 2014**

This Page Left Intentionally Blank

**CITY OF MARTINEZ
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS**

For The Year Ended June 30, 2014

Table of Contents

	<u>Page</u>
<i>Memorandum on Internal Control</i>	1
Schedule of Material Weaknesses	3
Schedule of Significant Deficiencies.....	5
Schedule of Other Matters	7
Current Status of Prior Year Schedule of Material Weaknesses	9
Current Status of Prior Year Schedule of Other Matters	11
<i>Required Communications</i>	13
Significant Audit Findings.....	13
<i>Accounting Policies</i>	13
<i>Unusual Transactions, Controversial or Emerging Areas</i>	13
<i>Estimates</i>	14
<i>Disclosures</i>	14
<i>Difficulties Encountered in Performing the Audit</i>	14
<i>Corrected and Uncorrected Misstatements</i>	14
<i>Disagreements with Management</i>	14
<i>Management Representations</i>	15
<i>Management Consultations with Other Independent Accountants</i>	15
<i>Other Audit Findings and Issues</i>	15
Other Matters:	
Other Information Accompanying the Financial Statements	16

This Page Left Intentionally Blank

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, 2014, and have issued our report thereon dated September 22, 2014. 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 that are appropriate under 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 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.

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. We consider the deficiency in internal control included on the Schedule of Material Weaknesses to be a material weakness.

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 consider the deficiencies in internal control included on the Schedule of Significant Deficiencies to be significant deficiencies.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe to be of potential benefit to the City.

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 *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 22, 2014

Accountancy Corporation

3478 Buskirk Avenue, Suite 215

Pleasant Hill, CA 94523

T 925.930.0902

F 925.930.0135

E maze@mazeassociates.com

W www.mazeassociates.com

This Page Left Intentionally Blank

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF MATERIAL WEAKNESSES

2014 - 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 \$4,329,513 as of June 30, 2014 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 \$44,579 for the 1973, 1978, 1982 and 1984 marina loans that was due on August 1, 2013 in addition to the non-payment of the principal portion in the amount of \$42,599 of the above mentioned loans that was payable in the prior fiscal year, which constitutes a total of \$87,118 of principal payments that have not been made to date. The past due amounts have been included in the current portion of loans payable. The City only paid 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, repair the seawall at the Marina entrance 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 6% penalty on the unpaid portion of the debt service in the current year and a 5% penalty on the unpaid portion of the debt service in the prior year.

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.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF MATERIAL WEAKNESSES

Management Response:

The City has been working collaboratively with the State to seek a comprehensive solution to outstanding issues with the Marina, including the loans. During the past year, the City has met with representatives from the Departments of Finance and Parks and Recreation respectively, as well as State legislators, to understand the value of the Marina to the region and the State as an important asset. The first part of this comprehensive solution was the recent enactment of SB 1424. This legislation provides a new grant of marina trust lands to the City. A land grant will allow the City to manage and lease the granted lands according to the public trust doctrine with 100% of the revenue generated from the marina going back into the City's enterprise fund that supports the operation of the marina. The legislation also includes a six-year deferment period of revenue sharing between the City and the State. The City can now focus on developing a plan for the possible repair and renovation of the Marina, landside development, and renegotiation of the loan terms. The City recently presented the State with a repayment proposal for the loans, which, if accepted, will place the Marina in a more financially stable position.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF SIGNIFICANT DEFICIENCIES

2014 - 2: Cash Receipt - Incorrect Rate Charge and Building Permit System Override

Criteria: The City should be charging all customers the rates that are reflected in the City's Master Fee Schedule.

Condition: During our testing, we selected 25 cash receipts for testing and recalculated the fees using the Master Fee Schedule, and found one error for a building permit that was charged incorrectly due to manual calculations being used. Building permits amount to annual revenue of over \$450,000. In addition, the City should have controls in place over the ability to override the calculation of various types of building permits. We noted that the Permit Technician had the ability to override the Accela permit calculation software. In addition, the City cannot tell when an override has taken place in the Accela System.

Effect: The City undercharged the building permit customer by \$287. Therefore, the City did not receive the proper amount of revenue for the building permit.

Cause: We understand that the City had turnover of new staff who didn't understand how to properly account for some of the charges in the building permit fee and therefore tried to perform a manual calculation and overrode the values in the Accela System to compute building permit fee.

Recommendation: The City should ensure that all permit fees are processed in a consistent manner in accordance with the Master Fee Schedule. The City should also ensure that staff understands how to properly calculate permit fees to charge to customers. The City should lock staff out of the ability to override the charges in the Accela System so manual calculations cannot be completed.

Management Response:

The City has changed the Accela permitting system to not allow the ability to override the calculation of permits. A review with Permit Staff was also conducted to ensure that fees are calculated according to the fee schedule. If the need arises for a manual permit, the permit will be reviewed and approved.

This Page Left Intentionally Blank

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

NEW GASB PRONOUNCEMENTS OR PRONOUNCEMENTS NOT YET EFFECTIVE

The following comment represents new pronouncements taking affect in the next few years. We have cited them here to keep you abreast of developments:

EFFECTIVE FISCAL YEAR 2015:

2014 – 04: GASB 68 - Accounting and Financial Reporting for Pensions (an amendment of GASB 27)

This Statement will have material impact on the City's financial statements. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a single or agent employer that does not have a special funding situation is required to recognize a liability equal to the net pension liability. The net pension liability is required to be measured as of a date no earlier than the end of the employer's prior fiscal year (the measurement date), consistently applied from period to period.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared.

The following are the major impacts:

- This Statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit pensions (**net pension liability**) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (**total pension liability**), less the amount of the pension plan's **fiduciary net position**.
- Actuarial valuations of the total pension liability are required to be performed at least every two years, with more frequent valuations encouraged. If a valuation is not performed as of the measurement date, the total pension liability is required to be based on update procedures to roll forward amounts from an earlier actuarial valuation (performed as of a date no more than 30 months and 1 day prior to the employer's most recent year-end).

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

2014 – 04: GASB 68 - Accounting and Financial Reporting for Pensions (an amendment of GASB 27) (Continued)

- The actuarial present value of projected benefit payments is required to be attributed to periods of employee service using the entry age actuarial cost method with each period's service cost determined as a level percentage of pay. The actuarial present value is required to be attributed for each employee individually, from the period when the employee first accrues pensions through the period when the employee retires.

2014 – 05: GASB 69 – Government Combinations and Disposals of Government Operations

This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

2014 – 06: GASB 71 - Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68

This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and non-employer contributing entities. This benefit will be achieved without the imposition of significant additional costs.

MEMORANDUM ON INTERNAL CONTROL

CURRENT STATUS OF PRIOR YEAR 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.

Current Status Prepared by Management:

See response at item 2014-1.

This Page Left Intentionally Blank

MEMORANDUM ON INTERNAL CONTROL

CURRENT STATUS OF PRIOR YEAR SCHEDULE OF OTHER MATTERS

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.

Current Status Prepared by Management:

The City has always had procedures on submitting reimbursement requests in a timely manner, however last year, 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 of 2013 and has continued with contract engineering services to support the engineering staff. This added contract service has provided project management from the beginning of the project through completion, which includes final billing from all funding sources. Finance tracks notice of completions from the council agenda in order to transfer the asset, as required by GASB 34, by year end.

This Page Left Intentionally Blank

REQUIRED COMMUNICATIONS

September 22, 2014

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, 2014. Professional standards require that we communicate to you the following information related to our audit under generally accepted 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 66 – Technical Corrections – 2012 – an Amendment of GASB Statements No. 10 and No. 62

GASB 67 – Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25

GASB 70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees

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, 2014. The City held approximately \$48.3 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 2014-1 above. The Marina Services Enterprise Fund has an accumulated net deficit of \$4,329,513 as of June 30, 2014 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 not 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 22, 2014.

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 \$4,329,513 as of June 30, 2014 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 2014 and 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, 2014, 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.

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.

Mage & Associates

Pleasant Hill, California
September 22, 2014