CITY OF MARTINEZ

WATER SYSTEM
ENTERPRISE FUND

FOR THE YEAR ENDED
JUNE 30, 2015

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CITY OF MARTINEZ
WATER SYSTEM
ENTERPRISE FUND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

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MAZE & ASSOCIATES

INDEPENDENT AUDITOR'S REPORT

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

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, 2015, and the related notes to the 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, 2015, 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.

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Emphasis of Matters

Management adopted the provisions of the following Governmental Accounting Standards Board Statements, which became effective during the year ended June 30, 2015 and required the restatement of net position as discussed in Note 7 to the financial statements:

- Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27.*
- Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.*

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, 2015, 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. Our opinion is not modified with respect to this matter.

The emphasis of these matters does not constitute a modification to our opinions.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Pension Plan Schedule of the Plan's Proportionate Share of the Net Pension Liability and Related Ratios as of the Measurement Date and Pension Plan Schedule of Contributions, 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 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.

Maze + Associates

Pleasant Hill, California
October 26, 2015

CITY OF MARTINEZ - WATER SYSTEM
ENTERPRISE FUND
STATEMENT OF NET POSITION
JUNE 30, 2015

ASSETS	
Current Assets:	
Cash and investments (Note 2):	
Available for operations	$15,495,597
Restricted Assets:	
Cash and cash equivalents (Note 2):	1,175,521
Accounts and other receivables	1,292,034
Total Current Assets	17,963,152
Noncurrent Assets:	
Capital assets - at cost: (Note 1D):	
Buildings	15,734,063
Improvements other than buildings	976,463
Equipment	1,645,276
Infrastructure	89,352,180
Total Depreciable Capital Assets	107,707,982
Less: Accumulated depreciation	(81,724,204)
Land	630,912
Construction in progress	5,647,019
Total Capital Assets - net	32,261,709
Other Non-Current Assets:	
Loan receivable (Note 3)	22,920
Total Noncurrent Assets	32,284,629
Total Assets	50,247,781
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions (Note 7)	217,287
LIABILITIES	
Current Liabilities:	
Accounts payable	591,767
Accrued liabilities	76,624
Deposits	48,190
Unearned revenue	1,435
Total Current Liabilities	718,016
Current Liabilities Payable from Restricted Assets:	
Accrued interest payable	24,825
Current portion of compensated absences (Note 1F)	138,000
Current maturities of certificates of participation (Note 6)	855,000
Total Current Liabilities Payable from Restricted Assets	1,017,825
Noncurrent Liabilities:	
Accrued compensated absences (Note 1F)	94,535
Certificates of participation (Note 6)	8,043,380
Net pension liability (Note 7)	1,585,346
Total Liabilities	11,459,102
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions (Note 7)	533,128
NET POSITION (Note 1C)	
Net investment in capital assets	23,363,329
Restricted for:	
Debt service	1,175,521
Capital improvements	6,705,947
Unrestricted	7,228,041
Total Net Position	$38,472,838

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, 2015

OPERATING REVENUES	
Water sales	$10,166,736
Rents and leases	51,109
Other fees	525
Charges for services	1,198,646
Other revenue	19,242
Total Operating Revenues	11,436,258
OPERATING EXPENSES	
Filtration plant	4,693,782
Maintenance, repairs and distribution	2,020,302
Administration	2,488,346
Depreciation and amortization	2,056,922
Total Operating Expenses	11,259,352
Operating income	176,906
NONOPERATING REVENUE (EXPENSE)	
Interest income	39,832
Interest expense	(260,303)
Income (loss) before transfers	(220,471)
Transfers in (Note 4)	21,238
Change in Net Position	(22,327)
Net position at beginning of year (as restated) (Note 7)	38,495,165
Net position at end of year	$38,472,838

See accompanying notes to financial statements

CITY OF MARTINEZ - WATER SYSTEM
ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$11,623,268
Payments to suppliers	(6,328,872)
Payments to employees	(2,264,141)
Rent and lease payments received	19,242
Cash Flows from Operating Activities	3,049,497
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer in	21,238
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(3,994,117)
Principal payments on capital debt	(835,000)
Interest paid	(309,485)
Cash Flows from Capital and Related Financing Activities	(5,138,602)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	39,832
Cash Flows from Investing Activities	39,832
Net Cash Flows	(2,028,035)
Cash and investments at beginning of period	18,699,153
Cash and investments at end of period	$16,671,118
Financial Statement Presentation:	
Cash and Investments	$15,495,597
Restricted Cash and Cash Equivalents	1,175,521
Total	$16,671,118
Reconciliation of Operating Income to Cash Flows from Operating Activities:	
Operating income	$176,906
Adjustments to reconcile operating income to cash flows from operating activities:	
Depreciation	2,056,922
Retirement of capital assets	757,258
Change in assets and liabilities:	
Accounts and other receivables	206,252
Accounts payable and accrued liabilities	(132,961)
Deposits	(2,626)
Accrued compensated absences	42,976
Retirement system	(55,230)
Cash Flows from Operating Activities	$3,049,497
Non cash transactions:	
Retirement of capital assets	$757,258

See accompanying notes to the financial statements

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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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 is amortized 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	$189,559
Additions	162,748
Payments	(119,772)
Ending Balance	$232,535
Current Portion	$138,000

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.

H. Deferred Outflows/Inflows of Resources

In additions to assets, the statement of financial position reports 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 has one item that qualifies for reporting in this category, deferred outflows related to pensions.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition to liabilities, the statement of financial position reports 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 has one item that qualifies for reporting in this category, deferred inflows related to pensions.

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:

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, 2015, Restricted Assets consisted of $1,175,521 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, 2015 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, 2015, the City's General Fund transferred $21,238 to the Water System Fund to fund operations.

NOTE 5 – RATE SCHEDULES

Monthly service charges, service line and meter installation fees and consumption rates are as follows for fiscal year 2015:

Meter Size (Inches)	Monthly Service Charges	Service Line Installation Charges	Meter Installation Charges
5/8	$27.28	$2,848.69	$178.04
1	61.36	2,848.69	356.09
1-1/2	118.15	3,560.87	437.01
2	186.30	3,560.87	606.42
3	367.99	Actual Costs	Actual Costs
4	572.41		
6	1,140.25		
8	2,048.78		
10	3,297.99		

Consumption Rate	Zone 1	Zone 2	Zone 3	Zone 4
Per hundred cubic feet	$3.78	$4.01	$4.16	$4.41

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, 2014	Retirements	Balance at June 30, 2015	Current Portion
Certificates of Participation:					
2003 Refinancing Project, 2-4%, due 12/01/18	$5,595,000	$2,055,000	$380,000	$1,675,000	$395,000
2012 Refunding Water System Improvements, 2-4%, due 12/01/26	8,025,000	7,135,000	455,000	6,680,000	460,000
Plus: Unamortized bond premium	696,947	590,632	47,252	543,380	
Total Enterprise Long-Term Debt		$9,780,632	$882,252	$8,898,380	$855,000

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 $1,809,183. The Water System's principal and interest paid for the current year is $452,184.

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 $8,301,525. The City's principal and interest paid for the current fiscal year is $692,300.

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 16.71 percent and 3.17 percent of net water revenues. Annual principal and interest payments on the 2012 bonds are expected to require less than 20.01 percent and 10.44 percent of net water revenues. The Water Fund's total principal and interest remaining to be paid on the bonds is $10,110,708. The Water Fund's principal and interest paid for the current year and total customer net revenues were $1,144,485 and $2,273,660 respectively. The City is in compliance with its debt covenants for the year ended June 30, 2015.

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
2016	$855,000	$285,799
2017	890,000	258,528
2018	920,000	227,681
2019	940,000	195,725
2020	520,000	171,650
2021 - 2025	2,900,000	562,725
2026 - 2027	1,330,000	53,600
Total	8,355,000	$1,755,708
Plus: Unamortized Bond Premium	543,380	
Gross Long-term debt	$8,898,380	

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, 2015.

NOTE 7 – PENSION PLANS

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

A. General Information about the Pension Plans

Plan Descriptions – All qualified permanent and probationary employees are eligible to participate in the City's Miscellaneous Joint Facilities Agency Employee Pension Plan, a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

NOTE 7 – PENSION PLANS (Continued)

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 to 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The City's labor contracts of miscellaneous employees require the City to pay 4% of the employee contribution of 7% and the full employer contribution.

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Miscellaneous Joint Facilities Agency		
	Tier 1	Tier 2	PEPRA
Hire date	Prior to July 1, 2012*	On or after July 1, 2012*	On or after January 1, 2013
Benefit formula	2% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50	50	52
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.092% to 2.418%	1.000% to 2.500%
Required employee contribution rates	7%	7%	6.25%
Required employer contribution rates	11.522%	8.005%	6.25%

*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.

Contributions – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

NOTE 7 – PENSION PLANS (Continued)

For the year ended June 30, 2015, the contributions recognized as part of pension expense in the Water System for each Plan were as follows:

	Miscellaneous Joint Facilities Agency		
	Tier 1	Tier 2	PEPRA
Contributions - employer	$143,874	$4,119	$5,778
Contributions - employee (paid by employer)	49,425	2,269	1,658

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2015, the Water System reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous Joint Facilities Agency:	
Tier 1	$1,584,931
Tier 2	322
PEPRA	93
Total Net Pension Liability	$1,585,346

The City's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The City's proportionate share of the net pension liability for each Plan as of June 30, 2013 and 2014 was as follows:

	Miscellaneous Joint Facilities Agency		
	Tier 1	Tier 2	PEPRA
Proportion - June 30, 2013	0.33%	0.01%	0.00%
Proportion - June 30, 2014	0.32%	0.01%	0.00%
Change - Increase (Decrease)	-0.01%	0.00%	0.00%

NOTE 7 – PENSION PLANS (Continued)

For the year ended June 30, 2015, the Water System recognized pension expense of $55,230. At June 30, 2015, the Water System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$207,124	
Differences between actual and expected experience		
Changes in assumptions		
Net difference between projected and actual earnings on pension plan investments		($532,750)
Adjustments due to differences in proportion	10,163	(378)
Total	$217,287	($533,128)

$207,124 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	
2015	($129,693)
2016	(129,693)
2017	(130,391)
2018	(133,188)

NOTE 7 – PENSION PLANS (Continued)

Actuarial Assumptions – For the measurement period ended June 30, 2014, the total pension liabilities were determined by rolling forward the June 30, 2013 total pension liability. The June 30, 2013 and June 30, 2014 total pension liabilities were based on the following actuarial methods and assumptions:

	Miscellaneous Joint Facilities Agency
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.5%
Inflation	2.75%
Projected Salary Increase	(1)
Investment Rate of Return	7.5% (2)
Mortality	Derived using CalPERS' Membership Data for all funds (3)
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75 % thereafter

(1) Depending on age, service and type of employment
(2) Net of pension plan investment expenses, including inflation
(3) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2014 experience study report available on CalPERS website.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found on the CalPERS website under Forms and Publications.

Discount Rate – The discount rate used to measure the total pension liability was 7.50% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 %. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

NOTE 7 – PENSION PLANS (Continued)

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as they have changed their methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound geometric returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	100%		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

NOTE 7 – PENSION PLANS (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Water System's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the Water System's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Miscellaneous Joint Facilities Agency		
	Tier 1	Tier 2	PEPRA
1% Decrease	6.50%	6.50%	6.50%
Net Pension Liability	$13,972,578	$2,839	$815
Current Discount Rate	7.50%	7.50%	7.50%
Net Pension Liability	$1,584,931	$322	$93
1% Increase	8.50%	8.50%	8.50%
Net Pension Liability	$2,754,776	$560	$161

Pension Plan Fiduciary Net Position – Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

C. Prior Period Adjustment

Management adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statements, which became effective during the year ended June 30, 2015.

GASB Statement No. 68 – In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The intension of this Statement is to improve the decision-usefulness of information in employer and governmental non-employer contributing entity financial reports and enhance its value for assessing accountability and inter-period equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

GASB Statement No. 71 – In 2014, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The intension of this Statement is to 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.

The implementation of the above Statements required the Water System to make a prior period adjustment. As a result, the beginning net positions of the Water System Enterprise Fund was reduced by $1,956,417. See Notes 7A and 7B above for additional information.

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.

The cost of retiree health care benefits is recognized as an expenditure when health care premiums are paid. For the year ending June 30, 2015, those costs totaled $49,451 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%

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

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, 2015, there were approximately 9 Water System's employees that were eligible to receive retirement health care benefits.

A. *Funding Policy and Actuarial Assumptions*

The annual required contribution (ARC) was determined as part of a July 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 3.0% and (d) 4.64%-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, 2015, the City contributed the ARC amounting to $1,166,595 to the Plan which represented 11.9% 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.

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

Annual required contribution (ARC)	($1,166,595)
Interest on net OPEB asset	326,093
Adjustment to annual required contribution	(304,402)
Annual OPEB cost	(1,144,904)
Contributions made:	
City portion of current year premiums paid	943,750
Additional contributions to CERBT	222,845
Total contributions	1,166,595
Change in net OPEB asset	21,691
Net OPEB Asset at June 30, 2014	4,285,285
Net OPEB Asset at June 30, 2015	$4,306,976

The actuarial accrued liability (AAL) representing the present value of future benefits, included in the actuarial study dated July 1, 2013 amounted to $17,039,752 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 $8,925,767 as of June 30, 2015, which partially reduced the unfunded actuarial accrued liability.

The Plan's annual OPEB cost and actual contributions for the fiscal year ended 2015 is set forth below. Multi-year trend information is presented in the required supplementary information immediately following the notes to the financial statements.

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of OPEB Cost Contributed	Net OPEB (Obligation) Asset
June 30, 2015	$1,144,904	$1,166,595	102%	$4,306,976

The Schedule of Funding Progress below and the required supplementary information immediately following the notes to the financial statements 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 most recent actuarial study 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, 2013	$7,257,908	$17,039,752	$9,781,844	42.59%	$9,802,211	99.79%

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.

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)	2,000,000
Vehicle - Physical Damage ($3,000 for police vehicles, $2,000 for all others)	250,000
Government Crime ($10,000)	1,000,000
Worker's Compensation (no deductible)	Statutory Limits
All Risk Fire & Property ($25,000, except water claims $150,000)	1,000,000,000
Earthquake (20% replacement cost values, $25,000 minimum)	7,317,864
Flood ($100,000 per occurrence)	25,000,000
Boiler & Machinery ($5,000)	100,000,000
Cyber Liability ($50,000)	2,000,000
Public Entity Pollution Liability ($100,000)	1,000,000

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Pleasant Hill-Martinez Joint Facilities Agency

During the fiscal year ended June 30, 2015, the California Public Employees' Retirement System (CalPERS) issued an audit report concerning the Pleasant Hill-Martinez Joint Facilities Agency (Agency). CalPERS found that the Agency was unable to provide the information necessary to determine the correctness of retirement benefits, enrollment processes and changes to its initial formation and structure. CalPERS also found that individuals enrolled in by the Agency appeared to be common law employees of the City.

As a result of the findings noted above, employees that are included in the Agency's Miscellaneous pension plans will need to be transferred into the City's Miscellaneous pension plans. The City is currently working with CalPERS to determine the effect of the above findings on the City and any potential cost or liability related to the issue cannot be determined at this time.

REQUIRED SUPPLEMENTARY INFORMATION

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REQUIRED SUPPLEMENTARY INFORMATION

COST-SHARING MULTIPLE-EMPLOYER DEFINED PENSION PLAN – LAST 10 YEARS*

SCHEDULE OF PLAN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND RELATED RATIOS AS OF THE MEASUREMENT DATE

	Miscellaneous Joint Facilities Agency		
	Tier 1	Tier 2	PEPRA
	6/30/2015	**6/30/2015**	**6/30/2015**
Plan's proportion of the Net Pension Liability (Asset)	0.12603%	0.00003%	0.00001%
Plan's proportion share of the Net Pension Liability (Asset)	$1,584,931	$322	$93
Plan's Covered Employee Payroll	$1,342,056	$26,842	$11,150
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	118.10%	1.20%	83.00%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	83.03%	83.04%	83.02%

* Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

REQUIRED SUPPLEMENTARY INFORMATION

COST-SHARING MULTIPLE-EMPLOYER DEFINED PENSION PLAN – LAST 10 YEARS*

SCHEDULE OF CONTRIBUTIONS

	Miscellaneous Joint Facilities Agency		
	Tier 1	Tier 2	PEPRA
	2015	**2015**	**2015**
Actuarially determined contribution	$193,299	$6,388	$7,436
Contributions in relation to the actuarially determined contributions	(193,299)	(6,388)	(7,436)
Contribution deficiency (excess)	$0	$0	$0
Covered-employee payroll	$1,342,056	$26,842	$11,150
Contributions as a percentage of covered-employee payroll	23.54%	23.80%	66.69%

Notes to Schedule

Valuation date: 6/30/2013

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Inflation	2.75%
Salary increases	3.3% to 14.2%, depending on Age, Service and type of employment
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Retirement age	59 yrs. Misc., 54 yrs. Safety
Mortality	The probabilities of mortality are derived from CalPERS' Membership Data for all Funds based on CalPERS' specific data from a 2014 CalPERS Experience Study. The table includes 20 years of mortality improvements using the Society of Actuaries Scale BB.

* Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

POST-RETIREMENT HEALTH CARE DEFINED BENEFIT PLAN

SCHEDULE OF CONTRIBUTIONS

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of OPEB Cost Contributed	Net OPEB (Obligation) Asset
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
June 30, 2015	1,144,904	1,166,595	102%	4,306,976

SCHEDULE OF FUNDING PROGRESS

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]
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%
July 1, 2013	7,257,908	17,039,752	9,781,844	42.59%	9,802,211	99.79%

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SUPPLEMENTAL INFORMATION

CITY OF MARTINEZ - WATER SYSTEM
ENTERPRISE FUND
SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015

	Filtration Plant	Maintenance, Repairs and Distribution	Administration
Salaries	$736,824	$517,436	$114,420
Salaries - overtime and temporary	27,745	74,434	26,426
Fringe benefits	373,200	310,554	38,517
Retirement medical			83,582
Labor provided by other departments, net	394	196,730	447,314
Rent and utilities	382,067	172,761	
Communications	4,460	34,710	1,282
Operating supplies	131,964	238,736	12,559
Travel and entertainment	184	70	781
Dues and subscriptions		1,159	2,149
Office supplies	4,290	2,886	16,249
Postage			6,036
Equipment rental	50,010	157,199	19,372
Repairs and maintenance	19,793	50,802	20,999
Professional fees	183,106	168,560	790,106
Raw water and chemicals purchase	2,724,174		
Training	13,340	3,461	
Contractual services	135	927	58,208
Operating charges by other departments		24,737	393,867
Insurance	42,096	65,140	28,478
Tax in lieu			428,001
	$4,693,782	$2,020,302	$2,488,346

CITY OF MARTINEZ

MARINA SERVICES ENTERPRISE FUND

FOR THE YEAR ENDED
JUNE 30, 2015

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CITY OF MARTINEZ – MARINA SERVICES
ENTERPRISE FUND

Financial Statements
For the Year Ended June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

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

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, 2015, and the related notes to the 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.

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Pleasant Hill, CA 94523

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W **mazeassociates.com**

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, 2015, 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 $3,367,692 as of June 30, 2015 made up primarily of State loans which the City has not had sufficient operating revenues to pay. During the fiscal year ended June 30, 2015, the City did not pay the principal portion of the State loans during the fiscal year as discussed in Note 6. 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, 2015, 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.

Maze + Associates

Pleasant Hill, California
October 26, 2015

CITY OF MARTINEZ - MARINA SERVICES
ENTERPRISE FUND
STATEMENT OF NET POSITION
JUNE 30, 2015

ASSETS	
Current Assets:	
Cash and cash equivalents (Note 3)	$209,025
Receivables:	
Accounts	3,854
Total Current Assets	212,879
Noncurrent Assets:	
Capital assets - at cost (Note 1D)	
Buildings	308,594
Less: accumulated depreciation	(291,472)
	17,122
Land	1,052,455
Total Capital Assets - net	1,069,577
Total Assets	1,282,456
LIABILITIES	
Current Liabilities:	
Accounts payable	11,292
Deposits	46,867
Accrued interest	59,815
Unearned revenue (Note 4)	309,451
Current portion of loans payable (Note 6)	182,256
Total Current Liabilities	609,681
Noncurrent Liabilities:	
Loans payable (Note 6)	4,040,467
Total Noncurrent Liabilities	4,040,467
NET POSITION (DEFICIT) (Note 1C)	
Net investment in capital assets	(3,153,146)
Unrestricted	(214,546)
Total Net Position (Deficit) (Note 2)	($3,367,692)

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, 2015

OPERATING REVENUES	
Rents and leases (Note 8)	$136,590
Charges for services	140
Total Operating Revenues	136,730
OPERATING EXPENSES	
Administration	69,196
Maintenance and repair	44,754
Depreciation	5,707
Total Operating Expenses	119,657
Operating income	17,073
NON OPERATING REVENUES (EXPENSE)	
Interest income	389
Interest expense	(90,928)
Taxes	15,364
Total Non Operating Revenues (Expense)	(75,175)
Income (Loss) Before contributions	
Contributions (Note 6)	1,019,923
Change in Net Position	961,821
Net Position (deficit) at beginning of year	(4,329,513)
Net Position (deficit) at end of year	($3,367,692)

See accompanying notes to financial statements

CITY OF MARTINEZ - MARINA SERVICES
ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$127,864
Payments to suppliers	(106,046)
Cash Flows from Operating Activities	21,818
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Taxes received	15,364
Cash Flows from Noncapital Financing Activities	15,364
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Interest paid	(67,347)
Cash Flows from Capital and Related Financing Activities	(67,347)
CASH FLOWS FROM CAPITAL AND RELATED INVESTING ACTIVITIES	
Interest	389
Cash Flows from Investing Activities	389
Net Cash Flows	(29,776)
Cash and investments at beginning of period	238,801
Cash and investments at end of period	$209,025
Reconciliation of Operating Loss to Cash Flows from Operating Activities:	
Operating loss	$17,073
Adjustments to reconcile operating loss to cash flows	
Depreciation	5,707
Change in assets and liabilities:	
Accounts receivable	(502)
Accounts payable and other liabilities	7,904
Unearned revenue	(8,364)
Cash Flows from Operating Activities	$21,818
Non cash transactions:	
Contribution of capital assets	$1,019,923

See accompanying notes to financial statements

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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.

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.

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 $3,367,692 as of June 30, 2015 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, 2014, and 2015 the City was again unable to make principal payments on the loans. See discussion in Note 6. 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, 2015, 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 $309,451 at June 30, 2015.

NOTE 5 – MARINA FEES

Monthly berthing fees and other fees are as follows for 2015:

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

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

<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

NOTE 6 – LOANS PAYABLE

A. *Current Year Transactions and Balances*

	Original Issue Amount	Balance at June 30, 2014	Additions	Balance at June 30, 2015	Current Portion
Marina Loans					
Loan Payable - 1964	$1,300,000	$850,000		$850,000	
Accrued interest		1,763,514	$25,500	1,789,014	
Loan Payable - 1973	450,000	251,136		251,136	$51,698
Loan Payable - 1978	175,000	131,574		131,574	20,964
Loan Payable - 1982	300,000	323,922		323,922	35,603
Loan Payable - 1984	750,000	877,077		877,077	73,991
Total Marina Loans		$4,197,223	$25,500	$4,222,723	$182,256

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, 2015, the amount payable to the State including interest amounted to $2,639,014.

The agreement was modified in 1964 with the following conditions:

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

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

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

NOTE 6 – LOANS PAYABLE (Continued)

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, 2015, 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, 2015 the amount payable to the State was $131,574. The terms are as follows:

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

NOTE 6 – 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, 2015, 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, 2015, 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, 2015, the Marina Fund owed $4,222,723 in loans to the State. The City made an interest payment of $67,347 to the Department of Boating and Waterways in fiscal 2015 to cover current year interest accrued on the unpaid loan balances.

NOTE 6 – 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 $48,616, in addition to the non-payment of principal in the prior fiscal years in the amount of $87,178, the City has not made total principal payments in the amount of $135,794 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.

On September 26, 2014, Senate Bill 1424 (SB1424) was approved by the Governor. SB1424 grants four parcels of land in the amount of $1,019,923 at the marina to the City. In addition to the grant of lands and in recognition of the deteriorated condition of the City's marina, the City is able to defer its revenue sharing agreement with the State on an annual basis, until fiscal year 2021. This will make it possible for the City to retain the 10% payment to put towards corrective actions at the Marina.

H. Debt Service Transactions

	Marina Activities	
For the Year Ending June 30	Principal	Interest
2016	$182,256	$65,250
2017	50,803	63,063
2018	53,090	60,776
2019	55,477	58,389
2020	57,975	55,891
2021 - 2025	331,436	237,895
2026 - 2030	339,598	159,508
2031 - 2035	309,399	88,791
2036 - 2039	203,675	23,413
Total	1,583,709	$812,976
Plus: Marina Loan 1964	850,000	
Plus: Accrued interest	1,789,014	
Total	$4,222,723	

NOTE 7 - INSURANCE

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

Insurance coverage through the Municipal Pooling Authority is as follows:

Type of Coverage (Deductible)	Coverage Limits
Liability ($25,000)	$29,000,000
Employment Risk Management Authority ($50,000)	2,000,000
Vehicle - Physical Damage ($3,000 for police vehicles, $2,000 for all others)	250,000
Government Crime ($10,000)	1,000,000
Workers' Compensation (no deductible)	Statutory Limits
All Risk Fire & Property ($25,000, except water claims $150,000)	1,000,000,000
Earthquake (20% of replacement cost values, $25,000 to minimum)	7,317,864
Flood ($100,000 per occurrence)	25,000,000
Boiler & Machinery ($5,000)	100,000,000
Cyber Liability ($50,000)	2,000,000
Public Entity Pollution Liability ($100,000)	1,000,000

NOTE 8 – 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, 2015 were $54,279.

The Marina also entered into an operating lease with the Martinez Yacht Club. The current lease term expires on December 31, 2019. Lease payments are $725 per month. Lease payments received for the year ended June 30, 2015 were $8,525.

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, 2015 was $55,022.

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, 2015 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, 2015 were $10,400.

Revenue on leased land	
Eagle Marine	$54,279
Martinez Yacht Club	8,525
Almar Management, Inc.	55,022
Subtotal	117,826
Revenue from public trust lands	
Southern Pacific Transportation	8,364
Rooster Productions, LLC	10,400
Subtotal	18,764
Total rents and leases revenue	$136,590

SUPPLEMENTAL INFORMATION

CITY OF MARTINEZ - MARINA SERVICES
ENTERPRISE FUND
SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015

	Administration	Maintenance and Repair
Professional services	$3,612	
State Water Resource Control Board - permit	11,195	
Engineering services	4,418	
Legal services	6,223	
Consulting services	42,427	
Professional membership	1,300	
Travel	21	
Repair & maintenance		$6,514
Property insurance		380
Utilities		37,550
Labor provided by other departments, net		212
Equipment rental		60
Operating supplies		38
	$69,196	$44,754

CITY OF MARTINEZ
GRANTED PUBLIC TRUST LANDS
FOR THE YEAR ENDED JUNE 30, 2015

Fund Equity 06/30/14	$21,143
REVENUE	
Lease - Rooster Productions	10,400
Lease - Southern Pacific Transportation	8,364
TOTAL REVENUE	18,764
EXPENDITURES	
Utilities	5,367
Consultation for mitigation	34,150
TOTAL EXPENDITURES	39,517
Fund Equity 06/30/15	$390

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED UPON PROCEDURES FOR COMPLIANCE WITH THE PROPOSITION 111 2014-2015 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, 2015. These procedures, which were suggested by the League of California Cities and presented in their Article XIIIB Appropriations Limitation Uniform Guidelines, were performed solely to assist you in meeting the requirements of Section 1.5 of Article XIIIB of the California Constitution. Management is responsible for the Appropriations Limit Worksheet. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the City. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

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

A. We obtained the Appropriations Limit Worksheet and determined that the 2014-2015 Appropriations Limit of $164,220,944 and annual adjustment factors were adopted by Resolution of the 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 2014-2015 Appropriations Limit by multiplying the 2013-2014 Prior Year Appropriations Limit by the Total Growth Factor.

C. For the Appropriations Limitation Worksheet, we agreed the Per Capita Income Factor, 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.

Maze & Associates

Pleasant Hill, California
October 26, 2015

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CITY OF MARTINEZ
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

FOR THE YEAR ENDED JUNE 30, 2015

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CITY OF MARTINEZ
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

For The Year Ended June 30, 2015

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MAZE & ASSOCIATES

MEMORANDUM ON INTERNAL CONTROL

To the City Council of
the City of Martinez, California

We have audited the basic financial statements of the City of Martinez for the year ended June 30, 2015, and have issued our report thereon dated October 26, 2015. In planning and performing our audit of the basic financial statements of the City of Martinez, as of and for the year ended June 30, 2015, 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 audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 first 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 that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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

Management's written 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
October 26, 2015

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MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF MATERIAL WEAKNESSES

2015 - 01: 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 $3,367,692 as of June 30, 2015 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 $48,616 for the 1973, 1978, 1982 and 1984 marina loans that was due on August 1, 2014 in addition to the non-payment of the principal portion in the amount of $87,178 of the above mentioned loans that was payable in the previous two fiscal years, which constitutes a total of $135,794 of principal payments that have not been paid for the past three fiscal years. The past due amounts have been included in the current portion of loans payable. The City continues to only 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 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.

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 for fiscal year 2014 and 2015 and a 5% penalty on the unpaid portion of the debt service for fiscal year 2013.

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.

2015 - 01: Marina Going Concern and Technical Default of Marina Loans (Continued)

Management's Response:

The City has been working collaboratively with the State to seek a comprehensive solution to outstanding issues with the Marina, including the loans. Ongoing, 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 provided a new grant of marina trust lands to the City. The land grant allows 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.

MEMORANDUM ON INTERNAL CONTROL

STATUS OF PRIOR YEAR SCHEDULE OF MATERIAL WEAKNESSES

2014 - 01: 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 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.

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.

Current Status:
See current year comment 2015-01.

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MEMORANDUM ON INTERNAL CONTROL

STATUS OF PRIOR YEAR SCHEDULE OF SIGNIFICANT DEFICIENCIES

2014 - 02: 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.

Current Status:
Implemented.

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MEMORANDUM ON INTERNAL CONTROL

STATUS OF PRIOR YEAR 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).

- 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.

MEMORANDUM ON INTERNAL CONTROL

STATUS OF PRIOR YEAR SCHEDULE OF OTHER MATTERS

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.

MAZE & ASSOCIATES

REQUIRED COMMUNICATIONS

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, 2015. 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. No new accounting policies were adopted and the application of existing policies was not changed during the year except as follows:

GASB Statement No. 68 – ***Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27***

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

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.

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.

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In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a nonemployer entity has a legal requirement to make contributions directly to a pension plan.

The pronouncement became effective, and as disclosed in Note 10E to the financial statements required a prior period restatement for the cumulative effect on the financial statements.

GASB Statement No. 71 – ***Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68***

The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

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 pronouncement became effective, and as disclosed in Note 10E to the financial statements required a prior period restatement for the cumulative effect on the financial statements.

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.

Accounting 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 estimates affecting the City's financial statements were:

Estimated Fair Value of Investments: As of June 30, 2015, the City held approximately $49.6 million of cash and investments as measured by fair value as discussed in Note 3 to the financial statements. Fair value is essentially market pricing in effect as of June 30, 2015. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2015.

Estimate of Depreciation: Management's estimate of the depreciation is based on useful lives determined by management. These lives have been determined by management based on the expected useful life of assets as disclosed in Note 6 to the financial statements. We evaluated the key factors and assumptions used to develop the depreciation estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Estimate of Compensated Absences: Accrued compensated absences which are comprised of accrued vacation leave, vested sick leave and other employee benefits which are accrued as earned are estimated using accumulated unpaid leave hours and hourly pay rates in effect at the end of the fiscal year as disclosed in Note 1H to the financial statements. We evaluated the key factors and assumptions used to develop the accrued compensated absences and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Estimated Claims Liability: Management's estimate of the claims liability is disclosed in Note 15 to the financial statements and is based on the prior year claims experience of the City. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Estimated Net Pension Liability and Pension-Related Deferred Outflows and Inflows of Resources: Management's estimate of the net pension liability and deferred outflows/inflows of resources are disclosed in Note 11 to the financial statements and are based on actuarial studies determined by a consultant, which are based on the experience of the City. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Estimated Net OPEB Obligation: Management's estimate of the Net OPEB Obligation is disclosed in Note 12 to the financial statements and is based on actuarial study determined by a consultant, which is based on the experience of the City. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic 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 2015-01 above. The Marina Services Enterprise Fund has an accumulated net deficit of $3,367,692 as of June 30, 2015 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. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregated, to each opinion unit's financial statements taken as a whole.

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 October 26, 2015.

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 $3,367,692 as of June 30, 2015 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 2015, 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, 2015, 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

We applied certain limited procedures to the required supplementary information that accompanies and supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 audit the required supplementary information and do not express an opinion or provide any assurance on the required supplementary information.

We were engaged to report on the supplementary information, which accompanying the financial statements but are not required supplementary information. With respect to this supplementary information, 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.

We were not engaged to report on the Introductory and Statistical Sections included as part of the Comprehensive Annual Financial Report but are not required supplementary information. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on them.

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

Maze + Associates

Pleasant Hill, California
October 26, 2015