



CITY OF MARTINEZ

CITY COUNCIL AGENDA November 17, 2010

TO: Mayor and City Council

FROM: Cathy Spinella, Finance Manager

SUBJECT: Comprehensive Annual Financial Report (CAFR) for Fiscal Year Ended June 30, 2010

DATE: November 5, 2010

RECOMMENDATION:

Receive and file the Comprehensive Annual Financial Report (CAFR) for Fiscal Year ended June 30, 2010. The City's auditor and staff reviewed the report with the Budget Subcommittee on November 4, 2010 and the Subcommittee recommended forwarding to the City Council.

BACKGROUND:

Each fiscal year the City is required to be audited annually by an independent certified public accountancy firm. The CPA firm of Maze and Associates is the City's independent external audit firm. Maze and Associates has completed its review and examination of the City's financial transactions and statements for the year ended June 30, 2010, and the audit was conducted in accordance with generally accepted auditing standards. Those standards require the auditor to plan and perform the audit to obtain reasonable assurances as to whether the financial statements are free of material misstatement. The audit included examining on a test basis evidence supporting the amounts and disclosures in the financial statement and assessing the accounting principles used and significant estimates made by management.

It is the opinion of the auditors that the financial statements fairly represent the financial position of the City as of June 30, 2010, and that the statements were prepared in conformity with generally accepted accounting principles. Maze and Associates also agreed with the City's Appropriations Limit Calculation (GANN) for 2009-10. The Finance Division was responsible for the coordination of the audit process, the completion of the year-end closing, and the preparation of the Comprehensive Annual Financial Report. (CAFR).

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

Complete financial information as of June 30, 2010 is contained in the CAFR. Key information contain in the CAFR is stated below:

- The General Fund ended at June 30, 2010 with revenues of \$18,232,332 and operating expenditures of \$19,535,549, with encumbrances amounting to \$200,036. The General Fund closed with an undesignated fund balance of \$3,915,136. The deficit was largely attributable to these one-time expenditures and revenue loss:
 - \$500,000 MUSD financial assistance
 - \$288,000 Legal costs for land use issue
 - \$210,000 Federal Stimulus not received
 - \$ 95,000 Assistance to Chamber and Main Street
 - \$ 18,000 Consultant for Ferry Project
 - \$ 15,000 Community Group Funding

In addition \$300,000 was transferred from undesignated to designated reserves for economic uncertainty and \$250,000 was transferred to designate for the 5 year rental commitment at 636 Ward Street for the Willows Theatre Company.

- The City has three Enterprise Funds, Water System, Marina, and Parking Services. Each is financed and operated in a manner similar to a private business enterprise. The intent is that costs of providing goods and services to the general public on a continuing basis are to be financed or recovered primarily through user charges. The Water Fund ended with assets restricted for capital projects of \$7,148,988 and unrestricted of \$6,217,965, which can be used for future projects and debt service. The Marina ended June 30, 2010 with negative unrestricted net assets of \$734,631, and Parking Services ended with unrestricted net assets of \$852,880.
- The City has two Internal Service Funds. The Equipment Replacement Fund accounts for the accumulation of funds for the maintenance and subsequent replacement of City equipment. The Information System Fund accounts for the I.T. services rendered to all City departments for management of hardware and software needs. The combined net assets of both funds, was \$2,595,589 at June 30, 2010.

In addition to conducting the financial audit and offering an opinion on the City's financial statements, the auditors provide a Memorandum on Internal Controls and Required Communications as per the Statement on Auditing Standards (SAS) No. 115. This report notes certain matters involving internal control and operational concerns. The auditors did not find any material weakness or significant deficiency in internal controls. No material findings were identified in the audit. The auditors did include a recommendation under schedule of other matters concerning capital asset identification, which the City will look to implement once funds are available. The auditors also noted that compliance with GASB Statement No. 54 is upcoming in fiscal year 2010-11. This statement substantially alters the categories and terminology used to describe fund balance. Staff will bring forward to Council a report to implement GASB 54 in this fiscal year.

FISCAL IMPACT:

None.

ACTION:

Motion accepting the Comprehensive Annual Financial Report (CAFR) for fiscal year ended June 30, 2010.

Attachments:

- Comprehensive Annual Financial Report
- Appropriations Limit Increment for 2009-10
- Memorandum on Internal Controls and Required Communication

A handwritten signature in black ink, appearing to read "Phil Vence". The signature is written in a cursive style with a large initial "P".

APPROVED BY: City Manager

**CITY OF MARTINEZ, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2010**



**Prepared by
ADMINISTRATIVE SERVICES DEPARTMENT**

CITY OF MARTINEZ, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
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CITY OF MARTINEZ

Comprehensive Annual Financial Report
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October 18, 2010

Honorable Mayor and Council Members

We are pleased to present the City of Martinez' Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010. The Administrative Services Department is responsible for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to fairly set forth the financial position and results of operations of the City measured by the financial activity of its funds. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

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

The City has included in its basic financial statements all funds and entities over which the City Council has control, including the City and the Martinez Public Improvement Corporation. Control by or dependence on the City was determined on the basis of budget adoption, outstanding debt secured by revenues, general obligations of the City, or receipt of significant subsidies from the City. The City Council also serves as the Board of the Martinez Public Improvement Corporation.

City Overview

Established in 1876, Martinez is the County seat of Contra Costa County. It is located along the Sacramento and San Joaquin rivers in the central part of the County. The City's roots can be traced to the late 1840's, when it served as a ferryboat transit point across the Carquinez straits on the way to the gold fields. By the time of its incorporation, Martinez had evolved into one of the area's most significant trading posts and shipping ports. Today, the City covers 12.5 square miles and has approximately 36,663 residents. As one of California's first towns, Martinez retains a strong sense of history and family. The renowned naturalist John Muir made Martinez his home for nearly a quarter century and in 1914, the year of Muir's death, the legendary baseball great Joe DiMaggio was born here. One of the unique aspects of Martinez is its architecture. Many of the downtown shops still retain their early 20th century look and charm, with some homes dating back more than 125 years.

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

Governmental Structure, Local Economic Condition and Outlook

The City provides a full range of services including police protection, community and economic development, recreation activities, parks and street maintenance, water utilities and general administration.

The City's General Fund supports most of these services. It is the primary reporting entity for general government operations of the City of Martinez. It accounts for all financial resources not required by law or administrative action to be accounted for in another fund. The General Fund is the City's largest operating fund.

General Fund revenues totaled \$18,232,332 in fiscal year 2009-10, a decrease of 4.9% from the prior fiscal year. Although all categories decreased, the largest decreases were in Taxes of \$299,489 (primarily in Property Tax), and Use of Money & Property of \$192,433, due to lower investment earnings. Taxes totaling \$15,602,345 represented approximately 86% of total General Fund revenues, with \$6,440,055 (or 41% of the General Fund revenues) coming from Property Taxes. Other revenue sources comprising the remaining 14% of General Fund revenues included Licenses, Permits and Fees; Intergovernmental; Charges for Services; Fines and Forfeits; and Use of Money and Property. General Fund expenditures totaled \$19,535,549 and transfers out totaled \$22,605 in fiscal year 2009-10. Actual expenditures were \$835,990 less than budgeted expenditures, with an additional \$200,036 in encumbrances. The General Fund ended fiscal year 2009-10 with an unreserved and undesignated fund balance of \$3.9 million.

The City's enterprise operations consist of the Parking Services, Water System, and Marina Services funds. Revenue to the Parking Services Fund is primarily generated from meter collections and parking permits, and expenditures represent enforcement and collection activities. The City's only parking district is the main downtown area. The Martinez Water System provides a reliable supply of high quality potable water in sufficient quantity to meet the needs of Martinez residents and businesses. The safety of the water and the health of the community are ensured through the use of advanced technology, proper water treatment, water quality analysis, treatment plant maintenance, backflow prevention, and maintenance of the water distribution system. The water system operates much in the same way as a private business. Revenues generated by the Martinez Water System are deposited into the Water System Fund. A private contractor operates the full-service Martinez Marina, with oversight by City staff and the Marina Commission. The City is working to establish a long-term lease arrangement to provide for the marina's financial stability and ensure that the facility is available for the enjoyment of marina users.

The outlook for Martinez is affected by the larger economies. The national economy increased at an annual rate (meaning from the first quarter to second quarter) of 1.7% in the second quarter

of 2010, a moderate increase when compared to the 3.7% increase in the first quarter, according to the third estimate released by the U.S. Bureau of Economic Analysis. The increase primarily reflected strength in personal consumption expenditures; nonresidential fixed investment; exports; private inventory investment; federal government spending; and residential fixed investment. These increases were partially offset by gains to imports (which are subtracted in the GDP calculation as dollars spent outside the U.S. economy) and a sharp decline in private inventory investment.

Although the longest and deepest recession since the 1930's officially ended in June 2009 according to the National Bureau of Economic Research (a full 18 months after the economic slide began), the recovery has been dogged by persistently high unemployment near 10%; continued tightness in the credit markets; and an unstable stock market. The recession wiped out 7.3 million jobs, cut 4.1% from economic output, and cost Americans 21% of their net worth, according to data compiled by the Wall Street Journal. It is estimated by leading economists that the U.S. unemployment rate is not likely to return to levels seen before the recession until at least 2013.

California's economy continues to struggle, in large part due to consistent increases to the unemployment rate, according to the UCLA Anderson Forecast. As is often the case, California leads the nation during boom times, and lags behind when the economy is bad. The meteoric rise in home prices from 2002-2005 was nearly wiped out with the housing market's collapse in 2008. National crises in the financial and construction sectors followed, with devastating impacts extending throughout California as tight credit markets contributed to home foreclosures and short sales, and residential development virtually ground to a halt. Unemployment continues to be double-digits throughout much of California, with a statewide unemployment rate of 12.8% as of August 2010. The benchmark sectors of Government, Construction, and Manufacturing continued to see significant losses. Median home values have posted annual increases, but the number of sales has decreased.

The East Bay's economy reflects the conditions of the State and Federal economies. According to the California Employment Development Department, the unemployment rate for Contra Costa County was 11.7% in August 2010, slightly higher than the 11.2% figure of the year before and markedly higher than the 6.7% figure from two years ago. The City's unemployment rate remained relatively steady at 9.1% compared to last year's rate of 9.0%. The median home sale value in Contra Costa County in July 2010 increased 13% to \$295,000, but 23% fewer homes were sold compared to the same period the year before. The median home sales price in Martinez dropped 10.6% in the same period (from \$328,000 to \$295,000), on a total of 52 homes sold compared to 53 from the year before. As a measuring stick of how far the local housing market has declined, the median home values in Contra Costa County and Martinez in 2007 were \$495,600 and \$485,000, respectively.

Martinez, like most local agencies, faces considerable challenges in the near term as financial conditions have affected most of its major revenue sources including property and sales taxes, and development fees. The City must also deal with its financial obligations for retirement and other post employment benefits (OPEB), as well as ever-escalating healthcare costs. To help meet these and other budgetary challenges, the City strives to develop and diversify its economy

in ways that will increase revenues and embrace its heritage. The downtown area accounted for less than 5% of the City's total sales tax revenues last year. Revitalization of the downtown and marina areas is crucial to the City's long-term economic health.

Major Initiatives and Objectives

Public Safety. Since updating the Emergency Operations Plan, the City facilitated a table top exercise in its Emergency Operations Center. This exercise identified the need for a more efficient emergency notification system for City employees, which is now in place. The department also completed its goal of acquiring a new 36 foot Tactical Command Vehicle to assist in major disasters, special events and tactical situations. This vehicle was purchased with grant funds and asset forfeiture. Our Community Emergency Response Team (CERT) members are now recognized by the State of California as Disaster Service Workers, which affords them insurance coverage through the State in the event of an injury during the performance of their duties. In an effort to target chronic problems within the City and better serve the citizens, each officer actively maintains a "Community Policing Project." This approach will be continued into the new fiscal year and assessed annually to evaluate its success.

General Plan Update. The City of Martinez is in the process of updating its General Plan, the comprehensive, long-term plan for the physical development of the City. Much of the City's existing General Plan was adopted in 1973. After more than three and half decades of use, it is appropriate to re-evaluate the scope and content of the City's General Plan, which exists as the community's statement of its fundamental values and as a shared vision for its future development. The General Plan is intended to articulate how the citizens of Martinez view the community, both now and in the future, and where the community stands on current and future planning and development issues. A Task Force similar to the one assembled for the recent update to the City's Housing Element has been formed to oversee the development of a new General Plan. Task Force members will play a key role in the process and provide a valuable service to the community. The Task Force, which represents the different interests and geographic areas of the City, has met twice already and will meet regularly, generally every other month, until completion of the draft updated General Plan. The City's updated General Plan will be in conformance with the State's climate action planning requirements and help support the goals of the City's own Climate Action Plan, which was adopted in 2009.

Alhambra Valley Annexation Project. The City is proceeding with the process to annex a portion of the unincorporated County located to the southwest of the City's jurisdictional boundary known as Alhambra Valley. Including this area in the City will have a beneficial impact on property tax generation. The annexation proposal has been reviewed by the City's Planning Commission. Their recommendation will be taken to the City Council shortly.

North Pacheco Annexation Project. The City is also in the process of annexing a portion of unincorporated County land adjacent to the City's eastern edge located north of the Highway 4/Interstate 680 junction along Pacheco Boulevard to the BNSF railroad trestle. This area serves as a gateway to Martinez and could facilitate economic revitalization and visual improvement once annexed. The project will go before the Planning Commission in November 2010.

Measure H Projects. The residents of Martinez approved a \$30 million Measure H Parks, Pool and Library Bond measure in November 2008, and \$15 million in bonds were issued in May 2009. The first projects supported by this bond include construction of a new municipal swimming pool; renovation and expansion of the City library; and numerous upgrades to Holiday Highlands, Hidden Lakes, Hidden Valley, and Waterfront parks.

The Rankin Aquatic Center project construction plans and specifications were completed with an estimated cost of \$6 million to complete the project. It is anticipated construction will be completed by July 2011. This project includes the complete demolition of the site and the construction of a play pool and recreational pool, pool house building with equipment rooms and administrative building, decking and miscellaneous site and frontage improvements.

The Library Renovation project construction plans and specifications were 75% completed with an estimated cost of \$2 million for completion. It is anticipated construction will be completed by the spring of 2011. The project includes a renovating the lower level of the library, new elevator and renovation of the main level counter so as to be handicap accessible along with other interior and exterior renovations.

Various park projects are either under construction or construction plans are under development.

Transportation Improvements. The Marina Vista Streetscape project was designed and construction bids awarded. The project includes the construction of paver sidewalks, sidewalk bulb outs, decorative street lights, handicap ramps, bicycle lanes, landscaping and undergrounding of utilities. The project limits are along Marina Vista from Berrellesa Street to the junction with Escobar Street.

Fourteen miles of streets were rehabilitated including the major Arterial Roadways, Marina Vista, Pacheco Boulevard, Alhambra Avenue and Berrellesa Street. Local streets included the Tavan Estates area, Bush Street and the surrounding areas and downtown area local streets.

Climate Action Plan/Sustainability Programs. The City made significant progress in 2009-10 implementing its newly-adopted Climate Action Plan. The City installed electric vehicle (EV) charging stations at three sites in the downtown area on Earth Day 2010 to accommodate the rapidly-growing market for electronic vehicles. The initial installs were 110V and suitable for charging vehicles for intra-city transportation, such as the GEM car. The City received upgrades to higher-capacity 240V stations and will be installing these in the fall of 2010 to accommodate a much larger market of electric vehicles capable of inter-city transportation on major highways and freeways, such as the Nissan Leaf and Chevy Volt.

The City also passed a resolution to join the Property Assessed Clean Energy (PACE) program in June 2010. This innovative program, when effective, will allow most property owners to finance the upfront cost of energy efficiency and renewable energy upgrades on their homes through their property tax bills as a lien to be repaid over a period of up to 20 years. The U.S. Congress is currently working to determine how the PACE financing program can function without impacting existing home loans secured through Fannie Mae and Freddie Mac and as

such, the program is on hold until this issue is resolved. Program representatives expect the City's residents to be eligible for participation by the end of Fiscal Year 2010-11.

The California Green Building Standards Code (CALGreen Code) will become effective on January 1, 2011. The provisions of the CALGreen Code were developed by the California Building Standards Commission; Department of Housing and Community Development; Division of the State Architect; and the Office of Statewide Health Planning and Development.

The development of the CALGreen Code is intended to cause a reduction in greenhouse gas emissions from buildings; promote environmentally responsible, cost-effective, healthier places to live and work; reduce energy and water consumption; and respond to the directives by the Governor. Establishing the CALGreen Code is an important step towards more efficient and responsible building designs. The California Air Resources Board estimates that the mandatory provisions in this new code will reduce green house gases by 3 million metric tons by the year 2020.

Economic Development. The City evaluated its options with respect to the two large concrete structures it owns across from the Amtrak/Intermodal Station (known as the "Zocchi" buildings). The City entered into a Letter of Agreement with a non-profit organization for use of one building as a research center for delta and watershed issues. The other property is slated for private development; to that end, the City released a Request for Proposals in September 2010 and will evaluate the formal responses in the coming fiscal year.

The City Council worked on an "Economic Stimulus Package" in late FY 2009-10 and into FY 2010-11. This program is designed to encourage commercial and residential development by reducing development impact and building permit fees over an 18 month timeframe. The program will also reduce building permit fees for unreinforced masonry (URM) projects; commercial tenant improvements; and non-URM rehabilitation projects during the eligibility period.

Unreinforced Masonry Ordinance. The City Council passed a Seismic Hazard Retrofit Ordinance (#1353 C.S.) on July 15, 2009, to require strengthening of all unreinforced masonry (URM) buildings in the City of Martinez by a prescribed timeline. An inventory of URM buildings was done in 1989 and 60 buildings were identified as being of URM construction. At the time this current ordinance was passed, approximately 40% of the URM buildings had been retrofitted. The new ordinance requires the remaining URM property owners to submit an engineering report which evaluates any and all structural deficiencies in their building's capacity to resist damage from an earthquake. This report must be prepared by a licensed engineer and submitted to the City by August 15, 2011, which represents two years from when the ordinance was passed. The ordinance also requires the owners of the remaining URM properties to submit construction drawings for retrofitting their buildings by August 15, 2013, which is four years from adoption of the ordinance. All of the remaining URM buildings must be retrofitted by August 15, 2015, or 6 years from when the ordinance was passed.

Community Interaction. The City applied for \$12 million worth of grants for park improvements and the reuse of the Zocchi buildings across from the Amtrak/Intermodal Station. These grants included extensive outreach to the community to determine scope and elements of

the proposed grant project for submission to the State. The City also applied for over \$2 million in grants through the Boating Infrastructure Grant program to support rebuilding of the City's Marina. The City will apply for \$5 million more to repair the fishing pier infrastructure and make improvements to Ferry Point Park. In addition to these grants, a Park Naming Policy was developed and a Park Fee Waiver Policy was created to help guide the decision making process.

Financial Information

Accounting System and Budgeting Controls. In developing and evaluating the City's accounting system, consideration is given to the accuracy of internal accounting control. Internal accounting controls are designed to provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposition, the accuracy and reliability of accounting data and the adherence to prescribed managerial policy.

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

As a recipient of federal, state, and county financial assistance, the City is responsible for ensuring that an adequate control structure is in place to comply with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management and the finance staff of the City.

Debt Administration. The City's capital financing and debt management policy sets parameters for issuing debt and providing guidance in the timing and structure of long-term debt commitments. The City generally incurs long-term debt to finance projects or purchase assets that will have useful lives equal to or greater than the related debt.

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

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

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

Cash Management Policies and Practices. The City's investment policy is to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flows demands of the City and conforming to all state and local statutes governing the investment of public funds. Under the City's investment policy, the City's primary investment objective is to achieve a reasonable rate of return on public funds while minimizing risk and preserving capital. Except for investments held by trustees related to debt service payments and State Local Agency Investment Fund (LAIF), all investments are held by the City in a safekeeping account with US Bank.

Reports are issued quarterly to the Council providing information regarding the City's investments. The investment policy is reviewed annually by the Finance Subcommittee to ensure its consistency with respect to the overall objectives of safety, liquid and yield, and its relevance to certain laws and financial trends. Proposed amendments to the Policy are forwarded to the City Council for consideration and approval.

One of the largest revenue reductions from Fiscal 2009 was interest earnings reflective of the lower investment rate the City received in Fiscal 2010.

Risk Management. The City is a member of the Municipal Pooling Authority (MPA). The Authority was formed to allow member agencies to pool together to provide cost effectiveness risk management services and programs to member agencies. The MPA provides for liability coverage to a maximum of \$30 million and Worker's Compensation coverage to the statutory limit. The City retains the risk for general liability in the amount of \$10,000 per claim and for all risk fire and property insurance up to \$5,000 per claim. The City's life and disability programs are through MPA.

Pension and Post Employment Benefits.

All full-time employees of the City are eligible to participate in the California Public Employees' Retirement System (CalPERS). CalPERS is an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provision and all other requirements are established by State statute and City ordinance. The amount of the City's required annual contribution is determined actuarially.

Retirees are also provided with medical coverage based on negotiated employee bargaining unit contracts. These, Other Post Employment Benefits (OPEB) were financed on a pay-as-you-go-

go-basis in the past. As directed by City Council, the City began fully pre-funding the OPEB obligation via an irrevocable trust in 2007-08 with CalPERS.

Please refer to the Management Discussion and Analysis (MD&A) and the notes to the financial statements for additional information. The City has refrained from duplicating information.

Other Information

Independent Audit. State statutes require an annual audit by independent certified public accountants. The City selected the accounting firm of Maze and Associates for these services. The auditor's opinion letter has been made a part of this report.

Awards. The Government Finance Officers Association of the United States and Canada (GFOA) has awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Martinez for our Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2009. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of State and local government financial reports.

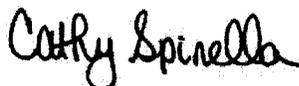
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR whose contents conform to program standards. This report must satisfy both U.S. generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City has received a Certificate of Achievement for the last nine years. We believe that our current CAFR continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of this Comprehensive Annual Financial Report is the result of the hard work and dedicated efforts of the staff in the Administrative Services Department. Special thanks to the Finance Division, in particular, Kristine Sosa, Accountant, and to Michael Chandler, Senior Management Analyst, for their efforts in preparing this report. I would also like to thank the City Council and the City Manager for their support in planning and directing the financial operations of the City.

Respectfully submitted,



Cathy Spinella
Finance Manager

City of Martinez Key Personnel

June 30, 2010

City Council

Rob Schroder, Mayor

Lara Delaney, Vice Mayor

Janet Kennedy, Councilmember

Michael Menesini, Councilmember

Mark Ross, Councilmember

Council Appointees

Philip Vince, City Manager

Tom Simonetti, Chief of Police

Elected Officials

Gary Hernandez, City Clerk

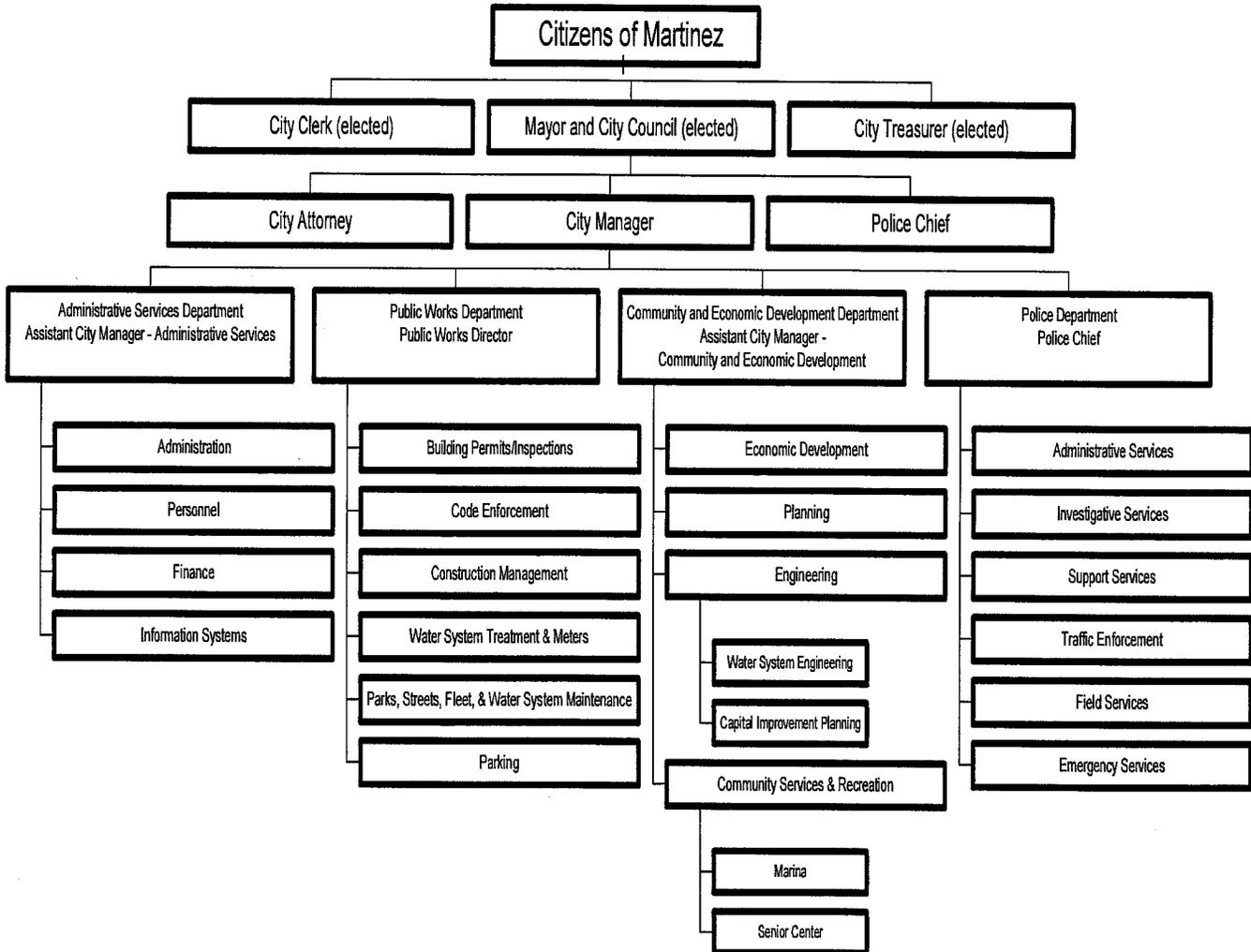
Carolyn Robinson, City Treasurer

City Staff

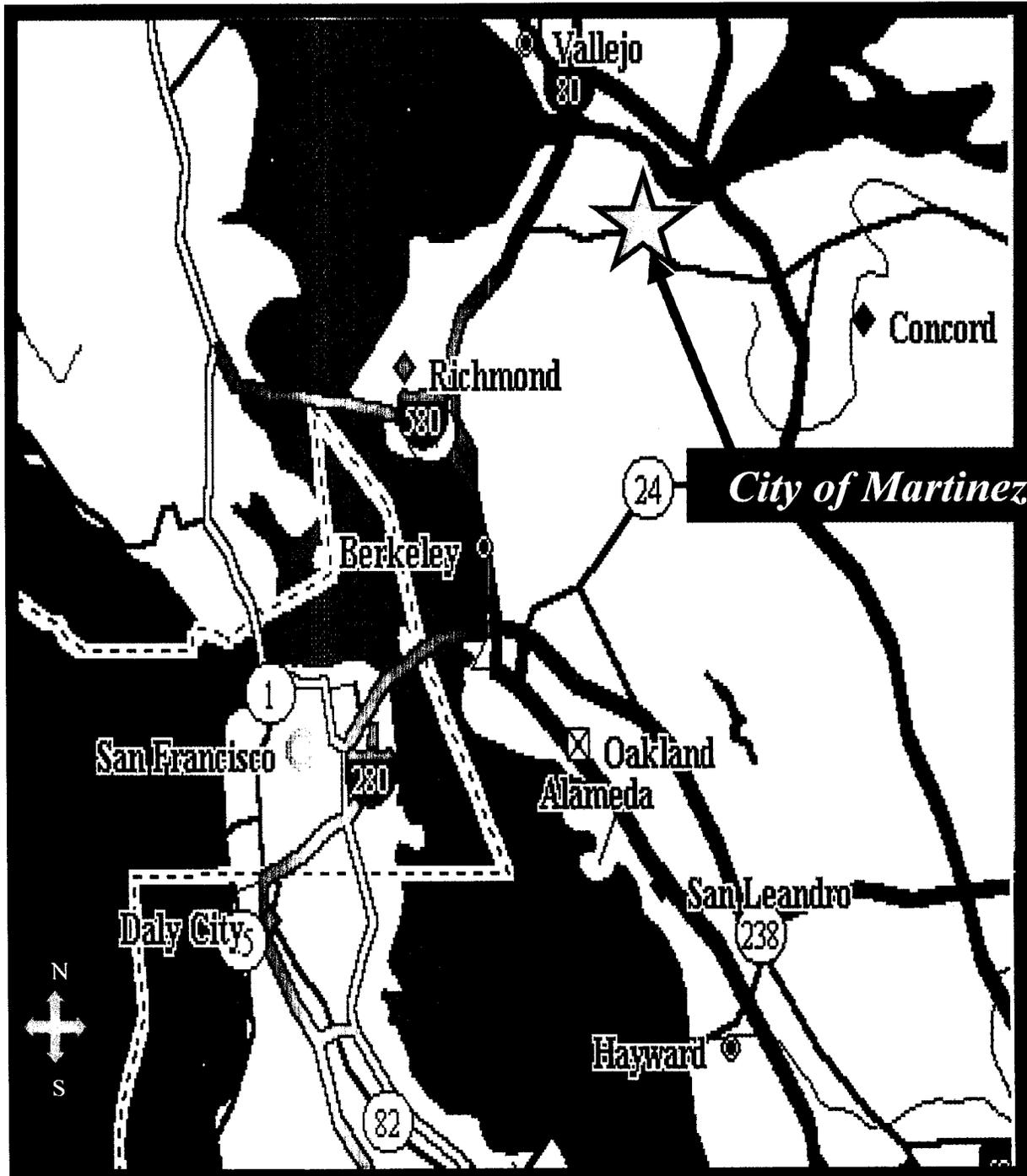
Cathy Spinella, Finance Manager

David Scola, Public Works Director

CITY OF MARTINEZ



AREA MAP



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Martinez
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

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ACCOUNTANCY CORPORATION
3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
(925) 930-0902 • FAX (925) 930-0135
maze@mazeassociates.com
www.mazeassociates.com

**INDEPENDENT AUDITOR'S REPORT ON
BASIC FINANCIAL STATEMENTS**

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

We have audited the accompanying basic financial statements of the governmental activities, business-type activities, each major fund and aggregate remaining fund information of the City of Martinez, California, as of June 30, 2010 and for the year then ended, as listed in the table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly in all material respects the financial position of the governmental activities, business-type activities, each major fund and aggregate remaining fund information of the City of Martinez at June 30, 2010 and the respective changes in financial position and cash flows, where applicable there of, and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended, in conformity with principles generally accepted accounting in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2010 on our consideration of the City of Martinez's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The supplemental section listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Maze + Associates

September 16, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Martinez's Financial Statements are issued in the format prescribed by the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). This discussion and analysis of the City's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2010. Please read it in conjunction with the accompanying transmittal letter, the Basic Financial Statements and the accompanying notes to the financial statements.

FINANCIAL HIGHLIGHTS

Financial highlights of the year include the following:

City-wide Activities:

- The City's total net assets were \$102,857,970 at June 30, 2010, down \$1,786,085 from the prior year. Of this total, \$63,831,885 were Governmental assets and \$39,026,085 were Business-type assets.
- Total City revenues were \$33,580,332 in Fiscal 2010. General Revenues, which result from both Governmental and Business-type Activities, totaled \$17,024,564. Program Revenues from the Governmental Activities were \$6,081,672, and Program Revenues from the Business-type Activities were \$10,474,096.
- Total City expenses were \$35,366,417 in Fiscal 2010. Program Expenses from the Governmental Activities were \$24,325,662 and Program Expenses from the Business-type Activities were \$11,040,755.

General Fund Activities:

- General Fund revenues of \$18,232,332 in Fiscal 2010 represented a decrease of \$937,878 from the prior year. General Fund expenditures, including transfers, of \$19,558,154 in Fiscal 2010 represented a decrease of \$1,016,999 over the prior year expenditures.
- General Fund balance of \$8,501,524 at June 30, 2010 was \$1,325,822 lower than Fiscal 2009's fund balance of \$9,827,346.

OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report is in six parts:

- 1) Introductory section, which includes the Transmittal Letter and general information,
- 2) Management's Discussion and Analysis (this part),
- 3) The Basic Financial Statements, which include the City-wide and the Fund financial statements, along with the Notes to these financial statements,
- 4) Required Supplemental Information,
- 5) Combining Statements for Non-major Governmental Funds and Fiduciary Funds,
- 6) Statistical information.

THE BASIC FINANCIAL STATEMENTS

The Basic Financial Statements comprise the City-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the City's financial activities and financial position both long term and short term. The Fiduciary Funds are excluded from the Basic Financial Statements because the City cannot use these assets to finance its own operations.

The City-wide Financial Statements provide a longer-term view of the City's activities as a whole, and comprise the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of the City in its entirety, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all the City's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each of the City's programs. The Statement of Activities explains in detail the Change in Net Assets for the year.

The City-wide Financial Statements group all the City's activities into Governmental Activities and Business-type Activities, as explained below. All the amounts in the Statement of Net Assets and the Statement of Activities are separated into Governmental Activities and Business-type Activities in order to provide a summary of these two activities of the City as a whole.

The Fund Financial Statements report the City's operations in more detail than the City-wide statements and focus primarily on the short-term activities of the City's General Fund and other Major Funds. The Fund Financial Statements measure only current revenues and expenditures, current assets, liabilities and fund balances; they exclude capital assets, long-term debt and other long-term obligation amounts.

Major Funds account for the major financial activities of the City and are presented individually, while the activities of Non-major Funds are presented in summary, with subordinate schedules presenting the detail for each of these other funds. Major Funds are explained below.

The City acts solely as a depository agent for various community groups and functions, as well as an Assessment District. The fiduciary statements provide information about the cash balances and activities of these functions. These statements are separate from, and their balances are excluded from, the City's financial statements.

The City-wide Financial Statements

The Statement of Net Assets and the Statement of Activities present information about the following:

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

Citywide Financial Statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the City as a whole.

Fund Financial Statements

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

Fund Financial Statements include governmental, enterprise and internal service funds as discussed in the following:

Governmental Fund Financial Statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

Enterprise and Internal Service Fund financial statements are prepared on the full accrual basis, as in the past, and include all their assets and liabilities, current and long-term.

Since the City's Internal Service Funds are proprietary funds used by the City to account for the financing of goods and services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis, their activities are reported only in total at the Fund level. Internal Service Funds may not be Major Funds because their revenues are derived from other City funds. These revenues are eliminated in the City-wide Financial Statements and any related profits or losses are returned to the activities that created them, along with any residual net assets of the Internal Service Funds.

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

Fiduciary Statements

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

FINANCIAL ACTIVITIES OF THE CITY AS A WHOLE

This analysis focuses on the net assets and changes in net assets of the City as a whole. Tables 1, 2 and 3 focus on the City's Governmental Statement of Net Assets and Statement of Activities, while Table 4, 5 and 6 focus on the City's Business-type Statement of Net Assets and Statement of Activities that follow.

Governmental Activities

Table 1
Governmental Net Assets at June 30, 2010

	Governmental Activities	
	2010	2009
Cash and investments	\$ 31,284,644	\$ 33,954,808
Other assets	7,786,616	8,227,002
Capital assets	44,602,743	43,842,250
Total Assets	83,674,003	86,024,060
Long-term debt outstanding	15,965,000	16,185,000
Other Liabilities	3,877,118	4,608,085
Total Liabilities	19,842,118	20,793,085
Net assets:		
Invested in capital assets, net of debt	43,328,577	42,645,250
Restricted	17,697,648	17,960,565
Unrestricted	2,805,660	4,625,160
Total Net Assets	\$ 63,831,885	\$ 65,230,975

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by \$63,831,885 at the close of Fiscal 2010.

- Cash and investments of \$31,284,644 is comprised of \$15,713,316 available for operations and \$15,571,328 restricted for debt service and Measure H capital projects which came from bond proceeds. The decrease of \$2,670,164 from the prior year was due to the general fund expenses exceeding revenues, capital improvements spending revenue received in prior year and offset by an increase in other governmental funds due to lower receivables.
- Other assets at \$7,786,616 decreased by \$440,386 due primarily in intergovernmental receivables.
- Capital assets increased \$760,493, net of depreciation charges, due primarily in infrastructure due to street reconstruction.
- Long-term debt declined \$220,000 as no new debt was issued in 2010 and principal payments were made to reduce existing debt.

- Other liabilities decreased \$730,967 due mostly to reductions in accounts payable of \$373,532, reflecting lower capital project payables at year end and a reduction in development deposits of \$276,508.
- Net assets invested in capital assets, net of related debt of \$43,328,577, represents the City's investment in capital assets net of amounts borrowed to finance that investment.
- Restricted net assets totaling \$17,697,648, may be used for capital projects \$16,285,238, debt service \$921,320 and special revenue projects of \$491,090.
- Unrestricted net assets are normally the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements. Unrestricted net assets were \$2,805,660 at June 30, 2010.

Table 2 presents the revenues and expenses for the City as a whole, which are elements in the changes in governmental net assets that decreased \$1,399,090 in Fiscal 2010.

Table 2
Changes in Governmental Net Assets for the Year Ended June 30, 2010

	Governmental Activities	
	2010	2009
Expenses		
General government	\$ 1,860,433	\$ 1,463,959
Administrative Services	695,828	812,734
Public works	3,842,513	3,839,973
Community & economic development	6,725,653	5,550,061
Police	10,616,620	10,638,497
Interest on LTD	584,615	291,152
Total expenses	24,325,662	22,596,376
Revenues		
Program revenues:		
Charges for services	1,542,819	1,817,816
Operating contributions & grants	2,414,403	2,645,990
Capital grants	2,124,450	13,319,245
Total program revenues	6,081,672	17,783,051
General revenues:		
Property tax	6,440,055	6,833,240
Sales tax	2,890,078	2,548,963
VLF Property tax swap	2,553,503	2,663,236
Franchise Fees	1,355,211	1,380,404
Other taxes	2,363,498	2,475,992
Intergovernmental	178,083	192,805
Investment earnings	187,135	412,821
Miscellaneous	893,942	1,055,423
General revenues	16,861,505	17,562,884
Total revenues	22,943,177	35,345,935
Change in net assets before transfers	(1,382,485)	12,749,559
Transfers	(16,605)	49,529
Change in net assets	\$ (1,399,090)	\$ 12,799,088

Expenses are defined by governmental function and were \$24,325,662 in Fiscal 2010, up \$1,729,286 from the prior year. General government's increase of \$396,474 is largely in part to an advance to the school district of \$500,000, offset by a reduction in operating expenses. Administrative Services decreased by \$116,906 due to the vacancy of the Assistant City Manager and a reduction in operating expenses. Public Works increased slightly by \$2,540. Community and Economic Development expenses increased by \$1,175,592, which is reflective of an increase in depreciation and an increase in capital expenditures. Police decreased by \$21,877 from reductions in operating expenses. Interest on long term debt increased by \$293,463 due to the first interest expense payment on the bond issued in 2009.

Program revenues totaled \$6,081,672, or 26.5% of total revenues for Fiscal 2010, down \$11,701,379 from 2009. The City's program revenues include developer fees, plan check fees, building inspections, traffic fines, recreation fees, police fees, grants, assessment revenues, and other charges for services. Program revenues are categorized in three groups: Charges for Services of \$1,542,819, which are intended to help cover the expenses incurred in providing a variety of City services; Operating Contributions and Grants of \$2,414,403, which is attributable to special revenue funds such as Gas Tax, Measure J and police services; and Capital Grants of \$2,124,450, which includes federal, state and local funding. The large decrease is in Capital Grants due to funding of \$10,990,000 received in 2009 to purchase property not accounted for in program expenses.

General revenues are not allocable to programs but are used to pay for the net cost of government services. General revenues totaled \$16,861,505 or 73.5% of total revenues, down \$701,379 from Fiscal 2009. Table 2 shows that \$15,602,345 or 92.5% of general revenues came from taxes and the balance of \$1,259,160 or 7.5% came from intergovernmental, investment earnings and miscellaneous.

Table 3 presents the net (expense) or revenue of each of the City's governmental activities. Net expense is defined as total program costs less the program revenues generated by those specific activities. In the City's case, net expenses (meaning expenses less program revenues) were reduced by an average of 25%.

**Table 3
Governmental Activities**

	Net (Expense) Revenue From Services	
	2010	2009
Governmental Activities:		
General government	\$ (1,765,898)	\$ (1,343,479)
Administrative Services	(695,828)	(812,734)
Public works	(3,243,371)	(3,075,982)
Community & economic development	(2,224,480)	10,314,557
Police	(9,729,798)	(9,604,535)
Interest on long term debt	(584,615)	(291,152)
Total Governmental Activities	<u>\$ (18,243,990)</u>	<u>\$ (4,813,325)</u>

As is clear in Table 3 above, the City's program revenues do not approach the cost of program expenses. This table shows how dependent the City is on taxes to pay for City services.

Business-type Activities

Table 4
Business-type Net Assets at June 30, 2010

	Business-type Activities	
	2010	2009
Cash and investments	\$ 13,621,620	\$ 12,922,810
Other assets	1,610,249	1,802,834
Capital assets	37,631,541	38,953,152
Total Assets	52,863,410	53,678,796
Long-term debt outstanding	12,527,215	13,044,958
Other Liabilities	1,310,110	1,220,758
Total Liabilities	13,837,325	14,265,716
Net assets:		
Invested in capital assets, net of debt	25,104,326	25,908,195
Restricted	7,148,988	7,224,675
Unrestricted	6,772,771	6,280,210
Total Net Assets	\$ 39,026,085	\$ 39,413,080

As seen in Table 4, Business-type activities net assets totaled \$39,026,085 at June 30, 2010, a decrease of \$386,995 from the prior year.

Table 5
Changes in Business-type Net Assets

	2010	2009
Expenses		
Water System	\$ 10,200,676	\$ 10,317,436
Marina Services	388,591	345,533
Parking Services	451,488	454,122
Total expenses	11,040,755	11,117,091
Revenues		
Program revenues:		
Charges for services	10,474,096	10,673,554
Operating contributions & grants	0	0
Capital grants	0	0
Total program revenues	10,474,096	10,673,554
General revenues:		
Taxes	61,579	64,263
Investment earnings	82,093	263,207
Miscellaneous	19,387	1,460
General revenues	163,059	328,930
Total revenues	10,637,155	11,002,484
Change in net assets before transfers	(403,600)	(114,607)
Transfers	16,605	(49,529)
Change in net assets	\$ (386,995)	\$ (164,136)

Table 5 shows that the Business-type activities expenses were \$11,040,755 in Fiscal 2010, with most of the \$76,336 decrease from Fiscal 2009 in the Water System, partially offset by an increase in the Marina.

Total Business-type activities revenues of \$10,637,155 before transfers were down \$365,329 in Fiscal 2010, with decreases in both program revenues of \$199,458 and general revenues of \$165,871.

Table 6
Business-type Activities

	Net (Expense) Revenue From Services	
	2010	2009
Business-type Activities:		
Water System	\$ (370,328)	\$ (272,517)
Marina Services	(143,434)	(104,286)
Parking Services	(52,897)	(66,734)
Total Business-type Activities	\$ (566,659)	\$ (443,537)

THE CITY'S FUND FINANCIAL STATEMENTS

Governmental Funds

At June 30, 2010, the City's governmental funds reported a combined fund balance of \$29,129,903, a decrease of \$2,005,075 compared to the prior year. The General Fund decreased by \$1,325,822. Capital Improvements decreased by \$447,579 and Measure H decreased by \$455,797. These decreases were slightly offset by an increase of \$224,123 in Non-major Funds.

ANALYSES OF MAJOR GOVERNMENTAL FUNDS

General Fund

At year end, the fund balance for the City's General Fund was \$8,501,524, a decline of \$1,325,822 over last year. The decrease is attributable to expenditures exceeding revenues of \$803,217; a \$500,000 advance to Martinez Unified School District to retain teachers in grades K-3; and a transfer of \$22,605. General Fund revenues declined by \$937,878 over the previous fiscal year, with a reduction in taxes of \$299,489 as the primary decrease. Property taxes decreased by \$393,185 due to a continued decline in property values. Sales tax increased by \$341,115 due to a new business locating in Martinez. Other taxes declined by \$351,559, in Property tax swap, sales tax in-lieu, franchise fees, business license and transient occupancy tax. Licenses, permits and fees declined by \$106,294, mainly in building permits due to the slump in the construction industry. Intergovernmental decreased \$170,659 due to reductions in federal grants received, state mandates, post certified reimbursement, vehicle license fees and public safety sales tax. Charges for services declined by \$153,984 with the majority of the decreases in planning and engineering plan check fees. Fines and forfeits declined slightly by \$10,809. Use of money declined by \$192,433 with the greatest decrease in investment earnings. Miscellaneous also declined slightly by \$4,210.

General Fund expenditures increased \$98,454 from Fiscal 2009 to a total of \$19,535,549, but were less than originally budgeted. Transfers out of the General Fund decreased \$615,453 in Fiscal 2010 to \$22,605. This decrease was attributable to various capital projects being funded in 2009.

Final expenditures for the General Fund at year-end were \$835,990 below budget; however, the fiscal year ended with encumbrances of \$200,036. Budget amendments and supplemental appropriations of \$602,914 were made during the year for unanticipated expenditures after adoption of the original budget. Total appropriations came in at \$20,371,539.

At June 30, 2010, the General Fund balance was comprised of \$809,098 in reserved balances (of which \$200,036 were the encumbrances); \$3,915,1360 in unreserved, undesignated balances; and \$3,777,290 in unreserved, designated balances which were designated by Council for certain purposes as referred to in Note 10C of the financial statements. Only the unreserved portion represents available liquid resources, since the reserved portion is represented by non-cash assets or by open purchase orders.

Measure H Fund

The Measure H Fund accounts for the bond proceeds of \$15,000,000 received in 2009. The Fund is budgeted on a project length basis and therefore is not comparable on an annual basis.

The only revenue received is investment earnings which was \$72,728 higher than last year due to bond funds received in May 2009 and therefore not invested for the full Fiscal 2009. Expenses are based on project activity which did not start until Fiscal 2010.

Capital Improvement Fund

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

Revenue received in Fiscal 2010 included funding for projects from Contra Costa Transportation Authority in the amount of \$263,576; State grants of \$364,290; Federal grants of \$262,572; and Federal Stimulus of \$998,090. Another \$390,010 in funding came from net transfers from the General Fund, Gas Tax revenue, NPDES grants, and Measure J funds. The Fund also received \$45,193 in mitigation fees, interest and other revenue. Total revenue received, including net transfers, was \$2,323,731, a decrease of \$11,909,344 over the prior year, primarily from grants received in 2009 for the purchase of property. Expenditures were down \$12,141,647 from Fiscal 2009, primarily from land purchased in 2009 for \$10,900,000.

Other Governmental Funds

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

Internal Service Funds

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

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

Enterprise Funds

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

- *Parking Services*—Parking Services Fund revenue is generated from parking meters and parking permits. Operating revenues increased slightly, by \$11,203, in Fiscal 2010 to a total of \$398,591. Operating expenses decreased by \$1,833 to \$449,146. Non-operating revenues decreased by \$9,740 to \$59,066. Net assets increased by \$27,898 to \$1,305,278. The Parking Services Fund's fiscal year end unrestricted Net Assets were \$852,880.
- *Water System*—The Water System Fund is financed and operated in a manner similar to that of a private business. Net assets of the Water System Fund decreased \$244,412 in Fiscal 2010. Overall operating revenues decreased by \$216,031, and operating expenses decreased by \$96,346. Non-operating expenses decreased by \$39,544, and non-operating revenues decreased by \$163,428 due to lower investment earnings. As of June 30, 2010, the Fund's Net Assets were \$40,224,740, with \$26,386,287 invested in capital assets, \$471,500 restricted for debt service and \$7,148,988 restricted for capital projects. Only \$6,217,965 of the Fund's Net Assets was unrestricted at the close of Fiscal 2010. Due to the age of the Water System, significant investments will be required in future years to update water lines and equipment and enhance security.
- *Marina Services*—Marina Fund revenues include lease payments, charges for services, property taxes, and State grants for capital improvement projects. Operating revenues increased by \$3,910 and operating expenses increased \$28,401 in 2010. The Fund's Net Assets decreased by \$134,566.

CAPITAL ASSETS

GASB 34 requires the City to record all of its capital assets including infrastructure, which was not recorded in prior years. Infrastructure includes roads, bridges, signals and similar assets used by the entire population.

In accordance with GASB 34, the City began recording the cost of all its infrastructure assets and computing the amount of accumulated depreciation for these assets based on their original acquisition dates in Fiscal 2003.

At the end of Fiscal 2010, Governmental Activities and Business-type Activities had invested in a broad range of capital assets, net of depreciation, in the amounts of \$44,602,743 and \$37,631,541, respectively, as shown in Table 7 on the following page.

Table 7
Capital Assets at Year-end

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
<i>Governmental Activities</i>		
Land	\$ 16,002,732	\$ 15,911,044
Construction in progress	8,391,086	8,389,914
Building and improvements	5,924,584	5,883,432
Equipment	5,705,731	5,356,438
Infrastructure	40,103,936	38,219,961
Less accumulated depreciation	<u>(31,525,326)</u>	<u>(29,918,539)</u>
Totals	<u>\$ 44,602,743</u>	<u>\$ 43,842,250</u>
<i>Business-Type Activities</i>		
Land	\$ 1,665,154	\$ 1,665,154
Construction in progress	1,919,026	1,183,052
Building and improvements	18,269,930	18,269,930
Equipment	1,841,366	1,820,979
Infrastructure	87,608,173	87,608,173
Less accumulated depreciation	<u>(73,672,108)</u>	<u>(71,594,136)</u>
Totals	<u>\$ 37,631,541</u>	<u>\$ 38,953,152</u>

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

DEBT ADMINISTRATION

Each of the City's debt issues is discussed in detail in Note 7 to the financial statements.

Debt Service Funds are used to account for the accumulation of resources for and the payment of general long-term debt principal, interest and related costs (other than those paid for by the Enterprise Funds). In March 2003, the City issued Certificates of Participation (COPs) in the amount of \$2,200,000 to refund and retire the outstanding 1992 proceeds that were used to finance the rehabilitation and expansion of the Martinez City Hall. In May 2009, the City issued General Obligation Bonds in the amount of \$15,000,000 to finance the costs of acquiring and constructing parks, library improvements, and pool and safety equipment.

The Water Fund has two outstanding debt issues. In 1999 and 2003, the City issued Certificates of Participation (COPs) in the amounts of \$6,040,000 and \$5,595,000, respectively. COP proceeds were used to finance improvements to the Water Plant.

The table on the following page represents the City's debt as of June 30, 2010.

Table 8
Outstanding Debt

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Governmental Activity Debt		
<i>General Long-Term Debt</i>		
2003 Certificates of Participation	\$ 965,000	\$ 1,185,000
2003 Certificates of Participation	15,000,000	15,000,000
Total governmental activity debt	<u>\$ 15,965,000</u>	<u>\$ 16,185,000</u>
Business-Type Activity Debt		
<i>Water Fund Long-Term Debt</i>		
1999 Water System Improvements	\$ 4,820,000	\$ 4,995,000
2003 Refinancing Project	3,460,000	3,785,000
Total principal	<u>\$ 8,280,000</u>	<u>\$ 8,780,000</u>
<i>Marina Long-term Debt, including accrued interest</i>		
1960 State of California	\$ 2,515,114	\$ 2,483,527
1973 State of California	285,058	291,390
1978 State of California	146,556	153,514
1982 State of California	353,506	363,094
1985 State of California	946,981	973,433
Total Marina Fund debt	<u>\$ 4,247,215</u>	<u>\$ 4,264,958</u>
Total business-type activity debt	<u>\$ 12,527,215</u>	<u>\$ 13,044,958</u>

SPECIAL ASSESSMENT DISTRICT DEBT

A special assessment district in the City has also issued debt to finance infrastructure and facilities construction for that district. No special assessment debt was issued in Fiscal 2010.

At June 30, 2010, a total of \$790,000 in special assessment district debt was outstanding, issued by one special assessment district. This debt is secured only by special assessments on the real property in the district issuing the debt and is not the City's responsibility, although the City does act as the district's agent in the collection and remittance of assessments.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

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CITY OF MARTINEZ

STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

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

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

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

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

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

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

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

CITY OF MARTINEZ
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments (Note 3):			
Available for operations	\$15,713,316	\$13,150,120	\$28,863,436
Restricted	15,571,328	471,500	16,042,828
Receivables (net of allowance for uncollectible):			
Accounts and other	382,051	1,272,988	1,655,039
Intergovernmental	2,004,752	1,071	2,005,823
Interest	58,578		58,578
Loans receivable (Note 5)	659,822	22,920	682,742
Internal balances (Note 4)	535,466	(535,466)	
Prepays and inventory (Note 1H)	19,947		19,947
Bond issuance costs, net of amortization		848,736	848,736
Net OPEB Asset (Note 12)	4,126,000		4,126,000
Capital assets (Note 6):			
Land and construction in progress	24,393,818	3,584,180	27,977,998
Depreciable assets, net	20,208,925	34,047,361	54,256,286
Total Assets	83,674,003	52,863,410	136,537,413
LIABILITIES			
Accounts payable	939,557	560,871	1,500,428
Accrued wages and benefits	680,401	80,402	760,803
Deposits	629,461	93,304	722,765
Unearned revenue	98,641	351,271	449,912
Claims payable due within one year (Note 15)	80,000		80,000
Accrued interest		42,274	42,274
Accrued compensated absences (Note 1G):			
Due within one year	150,000	30,500	180,500
Due in more than one year	1,299,058	151,488	1,450,546
Long-term debt (Notes 7 and 8):			
Due within one year	570,000	559,009	1,129,009
Due in more than one year	15,395,000	11,968,206	27,363,206
Total Liabilities	19,842,118	13,837,325	33,679,443
NET ASSETS (Note 10)			
Invested in capital assets, net of related debt	43,328,577	25,104,326	68,432,903
Restricted for:			
Capital projects	16,285,238		16,285,238
Debt service	921,320	471,500	1,392,820
Special revenue projects	491,090	7,148,988	7,640,078
Total Restricted Net Assets	17,697,648	7,620,488	25,318,136
Unrestricted	2,805,660	6,301,271	9,106,931
Total Net Assets	\$63,831,885	\$39,026,085	\$102,857,970

See accompanying notes to financial statements

**CITY OF MARTINEZ
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental Activities:						
General government	\$1,860,433	\$32,079	\$9,951	\$52,505	(\$1,765,898)	(\$1,765,898)
Administrative services	695,828				(695,828)	(695,828)
Public works	3,842,513	585,117	14,025		(3,243,371)	(3,243,371)
Community & economic development	6,725,653	549,109	1,880,119	2,071,945	(2,224,480)	(2,224,480)
Police	10,616,620	376,514	510,308		(9,729,798)	(9,729,798)
Interest on long-term debt	584,615				(584,615)	(584,615)
Total Governmental Activities	24,325,662	1,542,819	2,414,403	2,124,450	(18,243,990)	(18,243,990)
Business-type Activities:						
Water system	10,200,676	9,830,348			(\$370,328)	(370,328)
Marina services	388,591	245,157			(143,434)	(143,434)
Parking services	451,488	398,591			(52,897)	(52,897)
Total Business-type Activities	11,040,755	10,474,096			(566,659)	(566,659)
Total	\$35,366,417	\$12,016,915	\$2,414,403	\$2,124,450	(18,243,990)	(566,659)
General revenues:						
Property taxes					6,440,055	6,440,055
Sales taxes					2,890,078	2,890,078
VLF Property Tax Swap					2,553,503	2,553,503
Franchise fees					1,355,211	1,355,211
Other taxes					2,363,498	2,425,077
Intergovernmental, unrestricted					178,083	178,083
Investment earnings					187,135	269,228
Miscellaneous					893,942	893,942
Contributions						19,387
Transfers (Note 4A)					(16,605)	16,605
Total general revenues and transfers					16,844,900	17,024,564
Change in Net Assets					(1,399,090)	(386,995)
Net Assets-Beginning					65,230,975	39,413,080
Net Assets-Ending					\$63,831,885	\$39,026,085

See accompanying notes to financial statements

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FUND FINANCIAL STATEMENTS

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

MAJOR GOVERNMENTAL FUNDS

The funds described below are determined to be major funds by the City in Fiscal 2010. Individual non-major funds may be found in the Supplemental Section.

GENERAL FUND

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

MEASURE H FUND

Accounts for the \$15,000,000 of General Obligation Bonds issued in May 2009. These funds are to finance the costs of acquiring and constructing parks, library improvements, and pool and safety improvements.

CAPITAL IMPROVEMENTS

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

CITY OF MARTINEZ
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2010

	General	Measure H	Capital Improvements	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments (Note 3):					
Available for operations	\$8,709,836	\$1,146	\$2,196,197	\$2,111,215	\$13,018,394
Restricted		14,690,834		880,494	15,571,328
Receivables:					
Accounts:	369,420			12,631	382,051
Intergovernmental	524,634		1,261,836	218,282	2,004,752
Interest	37,903	20,675			58,578
Loans receivable (Note 5)	397,812		262,010		659,822
Prepays and inventory (Note 1H)	19,947				19,947
Advances to other funds (Note 4 B)	554,490				554,490
Total Assets	\$10,614,042	\$14,712,655	\$3,720,043	\$3,222,622	\$32,269,362
LIABILITIES					
Accounts payable	\$251,036	\$155,053	\$473,335	\$15,901	\$895,325
Accrued wages and benefits	665,108			3,168	668,276
Claims payable (Note 15)	80,000				80,000
Deposits	619,921			9,540	629,461
Advance to other funds (Note 4B)				53,967	53,967
Deferred revenue	496,453		262,010	53,967	812,430
Total Liabilities	2,112,518	155,053	735,345	136,543	3,139,459
FUND BALANCES					
Fund balance (Note 10)					
Reserved for:					
Debt service				921,320	921,320
Prepays and inventory	19,947				19,947
Special events	20,155				20,155
Police grants				102,155	102,155
Advances to other funds	554,490				554,490
Grants	14,470				14,470
Encumbrances	200,036		2,095,657	30,441	2,326,134
Unreserved:					
Designated					
General Fund	3,777,290				3,777,290
Special Revenue Funds				110,090	110,090
Capital Projects Funds		14,557,602	243,456		14,801,058
Undesignated:					
General Fund	3,915,136				3,915,136
Special Revenue Funds				1,727,636	1,727,636
Capital Projects Funds			645,585	194,437	840,022
Total Fund Balances	8,501,524	14,557,602	2,984,698	3,086,079	29,129,903
Total Liabilities and Fund Balances	\$10,614,042	\$14,712,655	\$3,720,043	\$3,222,622	\$32,269,362

See accompanying notes to financial statements

CITY OF MARTINEZ
 Reconciliation of the
 GOVERNMENTAL FUNDS – FUND BALANCES
 with the
 GOVERNMENTAL ACTIVITIES STATEMENT OF NET ASSETS
 JUNE 30, 2010

Total fund balances reported on the governmental funds balance sheet	\$29,129,903
<p>Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds above because of the following:</p>	
CAPITAL ASSETS	
<p>Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.</p>	43,635,648
ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS	
<p>Internal Service Funds are not governmental funds. However, they are used by management to charge the costs of certain activities, such as insurance and central services and maintenance to individual governmental funds. The net current assets of the Internal Service Funds are therefore included in Governmental Activities in the following line items in the Statement of Net Assets.</p>	
Cash and investments	2,694,922
Internal balances	34,943
Capital assets	967,095
Accounts payable	(44,232)
Accrued liabilities	(12,125)
Accrued compensated absences	(42,976)
ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES	
<p>Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities.</p>	713,789
LONG-TERM ASSETS AND LIABILITIES	
<p>The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:</p>	
Long-term debt	(15,965,000)
Non-current portion of compensated absences	(1,406,082)
Net OPEB asset	4,126,000
NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$63,831,885

See accompanying notes to financial statements

CITY OF MARTINEZ
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2010

	General	Measure H	Capital Improvements	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$15,602,345				\$15,602,345
Special assessments				\$1,391,343	1,391,343
Licenses, permits, and fees	428,192		\$23,780		451,972
Intergovernmental	580,881		1,888,528	1,516,174	3,985,583
Charges for services	562,189				562,189
Fines and forfeits	344,133			16,298	360,431
Use of money and property	119,075	\$98,127	21,413	10,428	249,043
Miscellaneous	595,517			315,857	911,374
Total Revenues	18,232,332	98,127	1,933,721	3,250,100	23,514,280
EXPENDITURES					
Current:					
General government	1,324,418				1,324,418
Nondepartmental services	816,510				816,510
Administrative services	725,585				725,585
Public works	3,693,564			48,835	3,742,399
Community & economic development	2,564,028	34,864	1,609,944	1,113,067	5,321,903
Police	9,861,956			110,286	9,972,242
Debt service (Note 7):					
Principal				220,000	220,000
Interest and fiscal charges				584,615	584,615
Capital outlay	49,488	519,060	1,161,366	565,164	2,295,078
Total Expenditures	19,035,549	553,924	2,771,310	2,641,967	25,002,750
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(803,217)	(455,797)	(837,589)	608,133	(1,488,470)
OTHER FINANCING SOURCES (USES)					
Transfers in (Note 4A)			496,460	113,150	609,610
Transfers (out) (Note 4A)	(22,605)		(106,450)	(497,160)	(626,215)
Total Other Financing Sources (Uses)	(22,605)		390,010	(384,010)	(16,605)
SPECIAL ITEM (Note 5C):					
Advance to Martinez Unified School District	(500,000)				(500,000)
NET CHANGE IN FUND BALANCES	(1,325,822)	(455,797)	(447,579)	224,123	(2,005,075)
BEGINNING FUND BALANCES	9,827,346	15,013,399	3,432,277	2,861,956	31,134,978
ENDING FUND BALANCES	\$8,501,524	\$14,557,602	\$2,984,698	\$3,086,079	\$29,129,903

See accompanying notes to financial statements

CITY OF MARTINEZ
 Reconciliation of the
 NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
 with the Change in
 GOVERNMENTAL NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2010

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS (\$2,005,075)

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

CAPITAL ASSETS TRANSACTIONS

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

The capital outlay expenditures are therefore added back to fund balances	2,295,078
Net retirements are deducted from the fund balance	(9,049)
Depreciation expense is deducted from the fund balances (Depreciation expense is net of internal service fund depreciation of \$289,672 which has already been allocated to serviced funds)	(1,476,614)

LONG-TERM DEBT PROCEEDS AND PAYMENTS

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

Repayment of debt principal is added back to fund balances	220,000
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ACCRUAL OF NON-CURRENT ITEMS

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

Deferred revenue	(302,229)
Compensated absences	282
Net OPEB asset	61,000

ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY

Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, and maintenance to individual funds.

The portion of the net revenue of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.

Change in Net Assets - All Internal Service Funds	(182,483)
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	(\$1,399,090)
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See accompanying notes to financial statements

CITY OF MARTINEZ
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes	\$15,755,384	\$15,785,384	\$15,602,345	(\$183,039)
Licenses, permits, and fees	568,000	568,000	428,192	(139,808)
Intergovernmental	942,818	728,294	580,881	(147,413)
Charges for services	721,050	638,050	562,189	(75,861)
Fines and forfeits	373,200	373,200	344,133	(29,067)
Use of money and property	402,740	202,740	119,075	(83,665)
Miscellaneous	528,870	598,870	595,517	(3,353)
Total Revenues	<u>19,292,062</u>	<u>18,894,538</u>	<u>18,232,332</u>	<u>(662,206)</u>
EXPENDITURES:				
Current:				
General government	1,143,343	1,475,843	1,324,418	151,425
Nondepartmental services	1,309,501	1,002,711	816,510	186,201
Administrative services	807,487	795,987	725,585	70,402
Public works	3,819,013	3,852,858	3,693,564	159,294
Community & economic development	2,439,720	2,651,261	2,564,028	87,233
Police	10,249,561	10,043,391	9,861,956	181,435
Capital outlay		49,488	49,488	
Total Expenditures	<u>19,768,625</u>	<u>19,871,539</u>	<u>19,035,549</u>	<u>835,990</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(476,563)</u>	<u>(977,001)</u>	<u>(803,217)</u>	<u>173,784</u>
OTHER FINANCING SOURCES (USES)				
Transfers (out) (Note 4A)	(16,605)	(22,605)	(22,605)	
Total other financing sources (uses)	<u>(16,605)</u>	<u>(22,605)</u>	<u>(22,605)</u>	
SPECIAL ITEM:				
Advance to Martinez Unified School District		(500,000)	(500,000)	
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>(\$493,168)</u>	<u>(\$1,499,606)</u>	<u>(1,325,822)</u>	<u>\$173,784</u>
BEGINNING FUND BALANCES			<u>9,827,346</u>	
ENDING FUND BALANCES			<u>\$8,501,524</u>	

See accompanying notes to financial statements

MAJOR PROPRIETARY FUNDS

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

The concept of major funds established by GASB Statement 34 extends to Proprietary Funds. The City has identified all of its Proprietary Funds as major funds in Fiscal 2010.

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

WATER SYSTEM FUND

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

MARINA SERVICES FUND

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

PARKING SERVICES FUND

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

CITY OF MARTINEZ
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 JUNE 30, 2010

	Business-type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Water System	Marina Services	Parking Services	Totals	
ASSETS					
Current Assets:					
Cash and investments (Note 3):					
Available for operations	\$12,123,445	\$161,326	\$865,349	\$13,150,120	\$2,694,922
Restricted	471,500			471,500	
Receivables:					
Intergovernmental		1,071		1,071	
Accounts and other	1,267,535	5,453		1,272,988	
Total Current Assets	13,862,480	167,850	865,349	14,895,679	2,694,922
Capital Assets (Note 6):					
Land	630,912	800,165	234,077	1,665,154	
Buildings	15,657,214	282,821		15,940,035	
Improvements	150,584	1,934,189	245,122	2,329,895	
Equipment	1,297,203		544,163	1,841,366	3,448,946
Infrastructure	87,584,673		23,500	87,608,173	
Less: Accumulated depreciation	(72,573,325)	(504,319)	(594,464)	(73,672,108)	(2,508,688)
	32,747,261	2,512,856	452,398	35,712,515	940,258
Construction in progress (Note 6)					
	1,919,026			1,919,026	26,837
Net Capital Assets	34,666,287	2,512,856	452,398	37,631,541	967,095
Other Non-Current Assets:					
Loan receivable (Note 5)	22,920			22,920	
Bond issuance costs, net	848,736			848,736	
Total Non-Current Assets	35,537,943	2,512,856	452,398	38,503,197	967,095
Total Assets	49,400,423	2,680,706	1,317,747	53,398,876	3,662,017
LIABILITIES					
Current liabilities:					
Accounts payable	549,056	3,820	7,995	560,871	44,232
Accrued liabilities	77,693		2,709	80,402	12,125
Deferred revenue		351,271		351,271	
Deposits	46,437	46,867		93,304	
Accrued interest	42,274			42,274	
Current portion of compensated absences (Note 1G)	30,500			30,500	
Current portion of long-term debt (Note 7)	520,000			520,000	
Current portion of loans payable (Note 8)		39,009		39,009	
Total Current Liabilities	1,265,960	440,967	10,704	1,717,631	56,357
Noncurrent Liabilities:					
Accrued compensated absences (Note 1G)	149,723		1,765	151,488	42,976
Advance from other funds (Note 4B)		500,523		500,523	
Long-term debt (Note 7)	7,760,000			7,760,000	
Loans payable (Note 8)		4,208,206		4,208,206	
Total Liabilities	9,175,683	5,149,696	12,469	14,337,848	99,333
NET ASSETS (Note 10)					
Invested in capital assets, net of related debt	26,386,287	(1,734,359)	452,398	25,104,326	967,095
Restricted for debt service	471,500			471,500	
Restricted for capital projects	7,148,988			7,148,988	
Unrestricted	6,217,965	(734,631)	852,880	6,336,214	2,595,589
Total Net Assets (Deficit)	\$40,224,740	(\$2,468,990)	\$1,305,278	39,061,028	\$3,562,684

Some amounts reported for *business-type activities* in the Statement of Net Assets are different because certain internal service fund assets and liabilities are included with business-type activities.

(34,943)

Net assets business-type activities

\$39,026,085

See accompanying notes to financial statements

CITY OF MARTINEZ
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN FUND NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2010

	Business-type Activities - Enterprise Funds			Governmental Activities- Internal Service Funds
	Water System	Marina Services	Parking Services	
OPERATING REVENUES				
Water sales	\$9,484,712			\$9,484,712
Rents and leases	26,467	\$245,157		271,624
Charges for services	298,565		\$390,989	689,554
Other fees	790		1,300	2,090
Other revenue	19,814		6,302	26,116
Total Operating Revenues	9,830,348	245,157	398,591	10,474,096
OPERATING EXPENSES				
Filtration plant	4,271,183			4,271,183
Maintenance, repairs, and distribution	1,487,298	113,038		1,600,336
Administration	2,065,328	27,505	371,213	2,464,046
Depreciation and amortization	1,961,199	128,026	77,933	2,167,158
Total Operating Expenses	9,785,008	268,569	449,146	10,502,723
Operating Income (loss)	45,340	(23,412)	(50,555)	(28,627)
NONOPERATING REVENUES (EXPENSES)				
Interest income	75,738	1,162	5,193	82,093
Interest (expense)	(382,095)	(120,022)		(502,117)
Gain on disposal of equipment				8,921
Taxes		7,706	53,873	61,579
Total Nonoperating Revenues (Expenses)	(306,357)	(111,154)	59,066	(358,445)
Income (Loss) Before Contributions and Transfers	(261,017)	(134,566)	8,511	(387,072)
Contributions			19,387	19,387
Transfers in (Note 4A)	16,605			16,605
Net Contributions and Transfers	16,605		19,387	35,992
Change in net assets	(244,412)	(134,566)	27,898	(351,080)
BEGINNING NET ASSETS (DEFICIT)	40,469,152	(2,334,424)	1,277,380	3,781,082
ENDING NET ASSETS (DEFICIT)	\$40,224,740	(\$2,468,990)	\$1,305,278	\$3,562,684

Some amounts reported for *business-type activities* in the Statement of Activities are different because the portion of the net income of certain internal service funds is reported with the business-type activities which those funds service (35,915)

Change in net assets of business-type activities (\$386,995)

See accompanying notes to financial statements

CITY OF MARTINEZ
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2010

	Business-type Activities-Enterprise Funds				Governmental Activities- Internal Service Funds
	Water System	Marina Services	Parking Services	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$9,897,274	\$246,776	\$392,289	\$10,536,339	\$1,188,946
Payments to suppliers	(5,882,276)	(139,911)	(294,373)	(6,316,560)	(758,681)
Payments to employees	(1,842,369)		(71,374)	(1,913,743)	(360,191)
Rent and lease payments received	19,814		6,302	26,116	
Cash Flows from Operating Activities	2,192,443	106,865	32,844	2,332,152	70,074
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Taxes received		7,706	53,873	61,579	
Interfund receipt (payment), net	16,605			16,605	
Cash Flows from Noncapital Financing Activities	16,605	7,706	53,873	78,184	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Advances from other funds		(29,237)		(29,237)	
Acquisition of capital assets	(735,974)	(1)	(1,000)	(736,975)	(248,290)
Proceeds from sale of equipment					16,461
Principal payments on capital debt	(500,000)	(17,743)		(517,743)	
Interest paid	(389,642)	(120,022)		(509,664)	
Cash Flows from Capital and Related Financing Activities	(1,625,616)	(167,003)	(1,000)	(1,793,619)	(231,829)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest	75,738	1,162	5,193	82,093	17,117
Cash Flows from Investing Activities	75,738	1,162	5,193	82,093	17,117
Net Cash Flows	659,170	(51,270)	90,910	698,810	(144,638)
Cash and investments at beginning of period	11,935,775	212,596	774,439	12,922,810	2,839,560
Cash and investments at end of period	<u>\$12,594,945</u>	<u>\$161,326</u>	<u>\$865,349</u>	<u>\$13,621,620</u>	<u>\$2,694,922</u>
Reconciliation of Operating Income to Cash Flows					
from Operating Activities:					
Operating income (loss)	\$45,340	(\$23,412)	(\$50,555)	(\$28,627)	(\$244,436)
Adjustments to reconcile operating income to cash flows from operating activities:					
Depreciation and amortization	1,961,199	128,026	77,933	2,167,158	289,672
Change in assets and liabilities:					
Accounts receivable	86,740	9,983		96,723	
Accounts payable and other liabilities	92,134	632	4,691	97,457	21,397
Deposits	(1,754)			(1,754)	
Accrued vacation and other fringe benefits	8,784		775	9,559	3,053
Accrued wages and benefits					388
Deferred revenue		(8,364)		(8,364)	
Cash Flows from Operating Activities	\$2,192,443	\$106,865	\$32,844	\$2,332,152	\$70,074

See accompanying notes to financial statements

FIDUCIARY FUNDS

FIDUCIARY FUNDS

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

CITY OF MARTINEZ
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 JUNE 30, 2010

	Agency Funds	Trust Fund
ASSETS		
Restricted cash and investments (Note 3)	\$380,289	\$151,705
Total Assets	\$380,289	\$151,705
LIABILITIES		
Accounts payable	\$5,718	\$2,384
Due to bondholders	222,245	
Due to members	152,326	
Total Liabilities	\$380,289	2,384
NET ASSETS		
Reserved for private purpose activities		149,321
Total Net Assets		\$149,321

See accompanying notes to financial statements

CITY OF MARTINEZ
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2010

	Trust Funds
ADDITIONS:	
Donations	\$20,444
Interest	484
Total Additions	20,928
DEDUCTIONS:	
Supplies	5,799
Beneficiary payments	2,650
Total Deductions	8,449
CHANGE IN NET ASSETS	12,479
NET ASSETS, BEGINNING OF YEAR	136,842
NET ASSETS, END OF YEAR	\$149,321

See accompanying notes to financial statements

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CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

B. Basis of Presentation

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

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

C. Major Funds

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

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

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

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measure H Fund - Accounts for the \$15,000,000 of General Obligation Bonds issued in May 2009. These funds are to finance the costs of acquiring and constructing parks, library improvements, and pool and safety improvements.

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

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

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

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

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

The City also reports the following fund types:

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

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

D. Basis of Accounting

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

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

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

The City follows those Financial Accounting Standards Board Statements issued before November 30, 1989 unless they conflict with Governmental Accounting Standards Board Statements.

E. Revenue Recognition for Water System Enterprise Fund

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

F. Property Taxes and Special Assessment Revenue

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

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

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

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. *Compensated Absences*

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

The changes of the compensated absences during the fiscal year ended June 30, 2010 were as follows:

	Governmental Activities	Business-Type Activities	Total
Beginning Balance	\$1,446,287	\$172,429	\$1,618,716
Additions	1,174,542	151,443	1,325,985
Payments	(1,171,771)	(141,884)	(1,313,655)
Ending Balance	<u>\$1,449,058</u>	<u>\$181,988</u>	<u>\$1,631,046</u>
Current Portion	<u>\$150,000</u>	<u>\$30,500</u>	<u>\$180,500</u>

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

H. *Prepays and Inventory*

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

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

I. *Renamed Funds*

During the fiscal year the City renamed the Measure C Special Revenue Fund to the Measure J Special Revenue Fund.

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2010

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

A. *Budgeting Procedures*

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

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

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. The City Manager is authorized to revise the budget so long as the total revisions in any single budget year do not exceed 5% of the budget, and provided that sufficient revenues are available to offset such revisions. Council approval is required for additional appropriation from fund balances or new revenue sources. The legal level of budgetary control is at the departmental level.

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

B. *Excess of Expenditures over Appropriations*

During fiscal 2010, the NPDES Stormwater Special Revenue fund had expenditures in excess of budget in the Community Development department in the amount of \$22,824. The fund had sufficient resources to finance these expenditures.

NOTE 3 - CASH AND INVESTMENTS

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

A. *Policies*

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

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2010

NOTE 3 - CASH AND INVESTMENTS (Continued)

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

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

B. Classification

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

Cash and investments available for operations	\$28,863,436
Restricted cash and investments	16,042,828
Total Primary Government cash and investments	44,906,264
Restricted cash and investments	
in Fiduciary Funds (separate statement)	531,994
Total cash and investments	\$45,438,258

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

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

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

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

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2010

NOTE 3 - CASH AND INVESTMENTS (Continued)

D. Investments Authorized by Debt Agreements

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>
Repurchase Agreements	6 months	Top Four Rating Categories
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	A
Commercial Paper	270 days	Top Rating Category
Negotiable Certificates of Deposit	365 days	Top Rating Category
Time Certificates of Deposit	365 days	Top Rating Category
Guaranteed Investment Contract	N/A	Not lower than the bond rating of certain bonds of the City of Martinez
Shares of Beneficial Interest	N/A	Top Rating Category
Money Market Funds	N/A	AAAm or AAAm-G
Bankers' Acceptances	365 days	Top Rating Category
California Local Agency Investment Fund (LAIF Pool)	Upon Demand	N/A
California Asset Management Program (CAMP)	Upon Demand	N/A

E. Interest Rate Risk

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

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2010

NOTE 3 - CASH AND INVESTMENTS (Continued)

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

Investment Type	12 Months or less	Total
California Local Agency Investment Fund	\$44,173,906	\$44,173,906
Money Market Funds	1,062,015	1,062,015
Total Investments	<u>\$45,235,921</u>	45,235,921
Cash in banks and on hand		<u>202,337</u>
Total Cash and Investments		<u>\$45,438,258</u>

The City is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2010, these investments have an average maturity of 203 days.

Money market funds are available for withdrawal on demand and at June 30, 2010, have an average maturity of 34 days.

F. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2010 for each investment type as provided by Standard and Poor's.

Investment Type	AAAm	Total
Money Market Funds	<u>\$1,062,015</u>	<u>\$1,062,015</u>
Totals	<u>\$1,062,015</u>	1,062,015
<i>Not rated:</i>		
California Local Agency Investment Fund		44,173,906
Cash in banks and on hand		<u>202,337</u>
Total Cash and Investments		<u>\$45,438,258</u>

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2010

NOTE 4 – INTERFUND TRANSACTIONS

A. Transfers Between Funds

With Council approval, resources may be transferred from one City fund to another. Transfers between funds during the fiscal year ended June 30, 2010 were as follows:

<u>Fund Receiving Transfers</u>	<u>Fund Making Transfers</u>	<u>Amount Transferred</u>
Capital Improvements Fund	Non-Major Governmental Funds	\$496,460 A
Non-Major Governmental Funds	General Fund	6,000 A
	Capital Improvements Fund	106,450 A
	Non-Major Governmental Funds	700 A
Water System Fund	General Fund	<u>16,605 B</u>
	Total Interfund Transfers	<u><u>\$626,215</u></u>

A: To fund Capital Projects

B: To fund operations

B. Long-Term Interfund Advances

In fiscal year 2004-2005 the General Fund made an advance to the Marina Services Enterprise Fund in the amount of \$225,000, to be repaid monthly until 2018. Annual interest at 4.96% is accrued on the unpaid balance. As of June 30, 2010, the balance was \$147,449.

In fiscal year 2005-2006 the General Fund made two additional advances to the Marina Services Enterprise Fund in the amount of \$82,000 and \$275,000. The \$82,000 advance is to be repaid at the same repayment terms as the original \$225,000 advance discussed above. As of June 30, 2010 its balance was \$57,781. The second advance for \$275,000 is to be repaid over the next 45 years. Annual interest at 4.53% is accrued on the unpaid balance. As of June 30, 2010 its balance was \$266,594.

In fiscal year 2007-08 the General Fund made an advance to the Marina Services Enterprise Fund in the amount of \$110,000, to be repaid monthly until 2023 at an interest rate of 3.11%. The project was completed under budget and \$67,408 of the loan was unused and returned to the General Fund leaving a loan balance at June 30, 2010 of \$28,699. This adjusted balance will be repaid in 2016.

In fiscal year 2007-08 the General Fund made an advance to the Alhambra Creek Improvements Capital Projects Fund in the amount of \$65,828, to be repaid in annual installments. The advance bears no interest. As of June 30, 2010, the balance was \$53,967.

C. Internal Balances

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

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2010

NOTE 5 – LOAN RECEIVABLE AND DEFERRED REVENUE

A. *Riverhouse Associates*

The City made a loan to Riverhouse Associates, which was used to rehabilitate the Riverhouse Hotel, an affordable housing project. The loan is secured by a deed of trust, bears no interest, and is due August 14, 2021. At June 30, 2010 the loan balances of \$262,010 and \$22,920 were owed to the Capital Improvements Capital Projects Fund and Water System Enterprise Fund, respectively.

B. *Willows Theatre Company*

On February 25, 2008 the City made a construction loan to the Willows Theatre Company in an amount up to \$75,000 for the renovation for the Campbell Theater. The renovations were completed and \$62,900 of the loan was expended. On December 17, 2008 the City loaned the Willows Theater Company \$40,000 to pay operating expenses in order to continue to provide live theater performances. Both loans bear no interest and are due on December 1, 2010. As of June 30, 2010 the Willows Theater Company owes the City \$102,900.

C. *Martinez Unified School District (Special Item)*

The Martinez Unified School District (MUSD) requested financial assistance from the City in order to retain 17 teachers. Without the City's assistance the District would not have been able to maintain classroom sizes in the District's Kindergarten – 3rd grades. On July 27, 2009 the City advanced the MUSD \$500,000 and entered into a Fee Service and Joint Facility Use Agreement for repayment which terminates on July 27, 2014. It is anticipated that the Fee for Service and Joint Facilities Agreement shall provide the City an amount equal to the \$500,000 over the five years. As of June 30, 2010 the MUSD owes the City \$294,912.

NOTE 6 - CAPITAL ASSETS

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

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

Buildings	30-50 years
Improvements	40-50 years
Equipment	3-25 years
Infrastructure	10-67 years

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

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2010

NOTE 6 - CAPITAL ASSETS (Continued)

A. Capital Asset Additions and Retirements

Capital asset activities for the year ended June 30, 2010 comprise:

	Balance at June 30, 2009	Additions	Retirements	Transfers	Balance at June 30, 2010
Governmental activities					
Capital assets not being depreciated:					
Land	\$15,911,044	\$91,688			\$16,002,732
Construction in progress	8,389,914	1,006,394	(\$9,049)	(\$996,173)	8,391,086
Total capital assets not being depreciated	<u>24,300,958</u>	<u>1,098,082</u>	<u>(9,049)</u>	<u>(996,173)</u>	<u>24,393,818</u>
Capital assets being depreciated:					
Buildings	5,883,432	4,232			5,887,664
Improvements		36,920			36,920
Equipment	5,356,438	516,333	(167,040)		5,705,731
Infrastructure	38,219,961	887,802		996,173	40,103,936
Total capital assets being depreciated	<u>49,459,831</u>	<u>1,445,287</u>	<u>(167,040)</u>	<u>996,173</u>	<u>51,734,251</u>
Less accumulated depreciation:					
Buildings	(2,795,967)	(130,525)			(2,926,492)
Improvements		(1,231)			(1,231)
Equipment	(2,929,648)	(484,393)	159,499		(3,254,542)
Infrastructure	(24,192,924)	(1,150,137)			(25,343,061)
Total accumulated depreciation	<u>(29,918,539)</u>	<u>(1,766,286)</u>	<u>159,499</u>		<u>(31,525,326)</u>
Net capital assets being depreciated	<u>19,541,292</u>	<u>(320,999)</u>	<u>(7,541)</u>	<u>996,173</u>	<u>20,208,925</u>
Governmental activities capital assets, net	<u>\$43,842,250</u>	<u>\$777,083</u>	<u>(\$16,590)</u>		<u>\$44,602,743</u>
Business-type activities					
Capital assets, not being depreciated:					
Land	\$1,665,154				\$1,665,154
Construction in progress	1,183,052	\$735,974			1,919,026
Total capital assets not being depreciated	<u>2,848,206</u>	<u>735,974</u>			<u>3,584,180</u>
Capital assets being depreciated:					
Buildings	15,940,035				15,940,035
Improvements	2,329,895				2,329,895
Equipment	1,820,979	20,387			1,841,366
Infrastructure	87,608,173				87,608,173
Net capital assets being depreciated	<u>107,699,082</u>	<u>20,387</u>			<u>107,719,469</u>
Less accumulated depreciation for:					
Buildings	(7,626,025)	(425,102)			(8,051,127)
Improvements	(385,792)	(138,341)			(524,133)
Equipment	(1,408,579)	(102,821)			(1,511,400)
Infrastructure	(62,173,740)	(1,411,708)			(63,585,448)
Total accumulated depreciation	<u>(71,594,136)</u>	<u>(2,077,972)</u>			<u>(73,672,108)</u>
Net capital assets being depreciated	<u>36,104,946</u>	<u>(2,057,585)</u>			<u>34,047,361</u>
Business-type activities capital assets, net	<u>\$38,953,152</u>	<u>(\$1,321,611)</u>			<u>\$37,631,541</u>

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2010

NOTE 6 - CAPITAL ASSETS (Continued)

B. Capital Asset Contributions

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

C. Depreciation Allocation

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

<i>Governmental Activities</i>	
Community Development	\$1,297,372
Police	138,148
General Government	33,674
Public Works	2,831
Administrative Services	4,589
Capital assets held by the City's Internal Service Funds	289,672
Total Governmental Activities	<u><u>\$1,766,286</u></u>
 <i>Business-Type Activities</i>	
Water System	\$1,872,013
Marina Services	128,026
Parking Services	77,933
Total Business-Type Activities	<u><u>\$2,077,972</u></u>

NOTE 7 - LONG-TERM DEBT

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

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

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

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2010

NOTE 7 – LONG TERM DEBT (Continued)

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

A. Current Year Transactions and Balances

	Original Issue Amount	Balance at June 30, 2009	Retirements	Balance at June 30, 2010	Current Portion
Governmental Activity Debt					
<i>General Long-Term Debt</i>					
2003 Certificates of Participation					
Refinancing Project, 2-4%, due 12/01/13	\$2,200,000	\$1,185,000	\$220,000	\$965,000	\$230,000
2009 General Obligation Bonds					
Election of 2008, Series A, 4-5%, due 2/01/39	15,000,000	15,000,000		15,000,000	340,000
Total governmental activity debt		<u>\$16,185,000</u>	<u>\$220,000</u>	<u>\$15,965,000</u>	<u>\$570,000</u>
Business-Type Activity Debt					
<i>Enterprise Long-Term Debt</i>					
Certificates of Participation:					
1999 Water System Improvements, 4.2-5.375%, due 12/01/26	\$6,040,000	\$4,995,000	\$175,000	\$4,820,000	\$185,000
2003 Refinancing Project, 2-4%, due 12/01/18	5,595,000	3,785,000	325,000	3,460,000	335,000
Total business-type activity debt		<u>\$8,780,000</u>	<u>\$500,000</u>	<u>\$8,280,000</u>	<u>\$520,000</u>

B. 2003 Certificates of Participation

On March 11, 2003, the City issued Certificates of Participation (COPs) in the amount of \$7,795,000 to refund and retire the outstanding 1992 City Hall Refurbishment Certificates of Participation and the 1993 Water System Improvements Certificates of Participation. Interest payments on the 2003 COPs are due semi annually on June 1 and December 1, and annual principal payments are due on December 1. Interest and principal payments are payable from lease revenues on City Hall and net revenues derived from the operation of the water system.

The City has pledged future Water System Enterprise Fund revenues, net of specified operating expenses, to repay the Installment Agreement portion of the Certificates of Participation through 2019. Annual principal and interest payments on the bonds are expected to require less than 15.61 percent and 6.36 percent of net water revenues. The Water Fund's total principal and interest remaining to be paid on the bonds is \$4,084,576. The Water Fund's principal and interest paid for the current year and total customer net revenues were \$457,471 and \$2,082,277 respectively. The City is in compliance with its' debt covenants for the year ended June 30, 2010.

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2010

NOTE 7 – LONG TERM DEBT (Continued)

C. 2009 General Obligation Bonds

On May 5, 2009, the City issued the General Obligation Election of 2008, Series A Bonds (GOs) in the amount of \$15,000,000 to finance the costs of acquiring and constructing parks, library improvements, and pool and safety improvements in the City. The Bonds were authorized at an election held on November 4, 2008, at which more than two-thirds of the voters approved. Interest payments on the 2009 GOs are due semi annually on February 1 and August 1, and annual principal payments are due on February or August 1. Interest and principal payments are payable from ad valorem property taxes levied by the City and collected by the County. The first interest installment is due on February 1, 2010 and the initial principal payment is due February 1, 2011. The total principal and interest remaining to be paid on the bonds is \$32,121,046. Interest paid for the current fiscal year and total Ad Valorem Property Tax Revenues were \$546,025 and \$774,714 respectively.

D. 1999 Certificates of Participation

On August 1, 1999, the City issued Certificates of Participation (COPs) in the amount of \$6,040,000 to fund and retire the construction of various 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 City has pledged future Water System Enterprise Fund revenues, net of specified operating expenses, to repay the Certificates of Participation through 2027. Annual principal and interest payments on the bonds are expected to require less than 8.40 percent and 12.35 percent of net water revenues. The Water Fund's total principal and interest remaining to be paid on the bonds is \$7,315,601. The Water Fund's principal and interest paid for the current year and total customer net revenues were \$432,172 and \$2,082,277 respectively. The City is in compliance with its debt covenants for the year ended June 30, 2010.

E. Debt Service Requirements

Annual debt service requirements are shown below:

For the Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2011	\$570,000	\$812,782	\$520,000	\$371,092
2012	595,000	779,075	540,000	350,698
2013	405,000	757,875	555,000	328,769
2014	260,000	745,066	580,000	305,598
2015	45,000	739,444	605,000	280,822
2016 - 2020	560,000	3,646,720	2,980,000	985,041
2021 - 2025	1,295,000	3,460,568	1,690,000	454,062
2026 - 2030	2,340,000	3,050,624	810,000	44,095
2031 - 2035	3,860,000	2,290,780		
2036 - 2039	6,035,000	907,834		
Total	\$15,965,000	\$17,190,768	\$8,280,000	\$3,120,177

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2010

NOTE 7 – LONG TERM DEBT (Continued)

F. *Authorized but Unissued Debt*

The City has previously issued Water Revenue Bonds authorized by the electorate at a bond election held on June 7, 1966. Series A, B, and C Bonds in the amount of \$3,250,000 were previously issued and have been fully retired. \$1,400,000 remains authorized but unissued as of June 30, 2010.

In addition, the City issued General Obligation Election of 2008, Series A Bonds (GOs) that were ratified by two-thirds of the voters on November 4, 2008 in the amount of \$30,000,000. \$15,000,000 remains authorized but unissued as of June 30, 2010.

NOTE 8 – LOANS PAYABLE TO STATE OF CALIFORNIA

At June 30, 2010, the Marina Services Fund owed \$4,247,215 in loans to the State. The City made an interest payment of \$76,537 in fiscal 2010 to cover current year interest accrued on the unpaid loan balances. Principal payments were made in the amount of \$37,329 in fiscal year 2010.

A. *Loan Payable – 1960*

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. At June 30, 2010, the amount payable to the State including interest amounted to \$2,515,114.

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.

B. *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, 2010, the amount payable to the State was \$285,058 including accrued interest. 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.

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2010

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

- 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, 2004.

During fiscal year 2005 the State amended the agreement to allow the City to make interest only annual payments until August 2008, at which time the City commenced making principal payments on the loan. As of June 30, 2010, the City was still in negotiations with the State for the terms of these loans.

- 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.

C. *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, 2010 the amount payable to the State was \$146,556 including accrued interest. 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, 2008.

During fiscal year 2005 the State amended the agreement to allow the City to make interest only annual payments until August 2008, at which time the City commenced making principal payments on the loan. As of June 30, 2010, the City was still in negotiations with the State for the terms of these loans.

D. *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, 2010, the amount payable to the State was \$353,506 including accrued interest. 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, 2014.

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2010

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

E. *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, 2010, the amount payable to the State was \$946,981 including accrued interest. 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, 2017.
- 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.

F. *Extensions and Loan Modifications*

The above loan agreements, except for the 1960 loan which has no specified repayment terms, require the Marina to remit approximately \$170,000 per year in each of the subsequent five years for debt service, and additional amounts thereafter. However, the Marina did not make any principal or interest payments on the above loans between fiscal 1996 and fiscal 2004. In June 2005, the State of California approved an extension which permitted the City to postpone principal payments on the above loans until fiscal year 2009. In fiscal year 2006-07, the State further 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. As of June 30, 2010, the City was still in negotiations with the State for the terms of the loans.

G. *Commitments*

The City has commitments for two additional loans in the amounts of \$2.77 million and \$338,000. The City also has an application for an additional \$3.75 million from the State to finance certain Marina improvements.

NOTE 9 – DEBT WITHOUT CITY COMMITMENT

A. *Special Assessment Bonds*

The Alhambra Creek Assessment District issued Assessment Bonds of 1999, but the City has no legal or moral liability with respect to the payment of this debt, which is secured only by assessments on the properties in this District. Therefore, this debt is not included as debt of the City. At June 30, 2010, the District's outstanding debt amounted to \$790,000.

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2010

NOTE 9 – DEBT WITHOUT CITY COMMITMENT (Continued)

B. Home Mortgage Revenue Bonds

Home mortgage revenue bonds have been issued to finance secured mortgage loans for low-income housing projects. The bonds do not constitute indebtedness to which the good faith and credit of the City is pledged. The City is not obligated to pay the principal, interest or other payments associated with the bonds. The payments on the bonds are payable solely from monies received from mortgage loans, security agreements or insurance. Accordingly, the bonds have not been recorded in the basic financial statements of the City. The total amount of mortgage revenue bonds outstanding as June 30, 2010 was \$2,445,000.

NOTE 10 – NET ASSETS AND FUND BALANCES

A. Net Assets

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

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

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

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

B. Fund Equity

Fund equity consists of reserved and unreserved amounts. Reserved fund equity represents that portion of a fund balance or net assets which has been appropriated for expenditure or is legally segregated for a specific future use. The remaining portion is unreserved.

A portion of unreserved fund balance may be designated to indicate plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans are subject to change and may never be legally authorized or result in expenditures.

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2010

NOTE 10 – NET ASSETS AND FUND BALANCES (Continued)

C. Designation

The City has designated portions of Unreserved Fund Balance for certain purposes. These designations may be changed by the City. Details are as follows:

	General	Measure H	Capital Improvements	Other Governmental Funds
Designated for:				
General liability	\$1,824,702			
Improvements	298,108	\$14,557,602	\$243,456	
Petty cash	1,625			
Pollution elimination				\$110,090
Marina loan	350,000			
Willows theater	226,000			
Catastrophe	300,000			
Contingencies	100,000			
Deferred maintenance	76,855			
Economic uncertainty	600,000			
Total	<u>3,777,290</u>	<u>14,557,602</u>	<u>243,456</u>	<u>110,090</u>
Undesignated	<u>3,915,136</u>		<u>645,585</u>	<u>1,922,073</u>
 Total Unreserved	 <u><u>\$7,692,426</u></u>	 <u><u>\$14,557,602</u></u>	 <u><u>\$889,041</u></u>	 <u><u>\$2,032,163</u></u>

D. Fund Balance and Net Assets Deficits

At June 30, 2010 the Alhambra Creek Improvements Capital Projects Fund had a deficit fund balance of \$53,967. Future revenues are expected to offset this fund deficit.

The Marina Services Enterprise Fund has an accumulated net deficit of \$2,468,990 as of June 30, 2010 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, by entering into an operating agreement with an independent company to manage the Marina. In fiscal year 2006-07, the State of California approved an extension which permitted the City to postpone principal payments on the loans until fiscal year 2008-09. In fiscal year 2009 the City commenced making the principal payments on the loans. 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, 2010, the City had not received such notice.

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2010

NOTE 11 – EMPLOYEES’ RETIREMENT SYSTEM

Substantially all City employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City’s employees participate in the separate Safety (police), Miscellaneous (all other), and Miscellaneous Joint Facilities Agency Employee Plans. Benefit provisions under the Plans are established by State statute and City ordinance. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts. The City’s labor contracts require it to pay employee contributions as well as its own. The Plans’ provisions and benefits in effect at June 30, 2010, are summarized as follows:

	<u>Safety</u>	<u>Miscellaneous</u>	<u>Miscellaneous Joint Facilities Agency</u>
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	50
Monthly benefits, as a % of annual salary	3%	1.426% - 2.418%	1.426% - 2.418%
Required employee contribution rates	9%	7%	7%
Required employer contribution rates	37.034%	9.263%	10.343%
*Rates include amortization of side fund			

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

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2010

NOTE 11 – EMPLOYEES’ RETIREMENT SYSTEM (Continued)

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
<i>Safety Plan</i>			
June 30, 2008	\$1,101,183	100%	\$0
June 30, 2009	1,278,550	100%	0
June 30, 2010	1,417,950	100%	0
<i>Miscellaneous Plan</i>			
June 30, 2008	\$30,326	100%	\$0
June 30, 2009	24,422	100%	0
June 30, 2010	23,966	100%	0
<i>Miscellaneous Joint Facilities Agency</i>			
June 30, 2008	\$677,135	100%	\$0
June 30, 2009	731,653	100%	0
June 30, 2010	740,618	100%	0

CALPERS uses the market related value method of valuing the Plan’s assets. An investment rate of return of 7.75% is assumed, including inflation at 3.00%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and amortized over a rolling thirty year period.

As required by State law, effective July 1, 2005, the City’s Safety, Miscellaneous and Miscellaneous Joint Facilities Agency Plans were terminated, and the employees in those plans were required by CALPERS to join new State-wide pools. One of the conditions of entry to these pools was that the City true-up any unfunded liabilities in the former Plans, either by paying cash or by increasing its future contribution rates through a Side Fund offered by CALPERS. In March 2007, the City paid off the unfunded liability of the Miscellaneous Plan. For the Safety and Miscellaneous Joint Facilities Agency Plan, the City will satisfy its Plans’ unfunded liability by contributing to the Side Fund through an addition to its normal contribution rates over the next 12 years for Safety, and 7 years for the Miscellaneous Joint Facilities Agency Plans.

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

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2010

NOTE 11 – EMPLOYEES’ RETIREMENT SYSTEM (Continued)

Safety Plan:

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2006	\$7,278,049,834	\$6,102,615,567	\$1,175,434,267	83.8%	\$754,730,438	155.7%
2007	7,986,055,176	6,826,599,459	1,159,455,717	85.5%	831,607,658	139.4%
2008	8,700,467,733	7,464,927,716	1,235,540,017	85.8%	914,840,596	135.1%

The City’s Safety Plan represents approximately 0.36%, 0.43%, and 0.46% of the State-wide pool for the years ended June 30, 2008, 2007, and 2006, respectively, based on covered payroll of \$3,361,440, \$3,608,420, and \$3,438,597 for those years.

Miscellaneous Plan:

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2006	\$2,754,396,608	\$2,492,226,176	\$262,170,432	90.5%	\$699,897,835	37.5%
2007	2,611,746,790	2,391,434,447	220,312,343	91.6%	665,522,859	33.1%
2008	2,780,280,768	2,547,323,278	232,957,490	91.6%	688,606,681	33.8%

The City’s Miscellaneous Plan represents approximately 0.04%, 0.02%, and 0.01% of the State-wide pool for the years ended June 30, 2008, 2007, and 2006, respectively, based on covered payroll of \$303,687, \$134,759, and \$42,021 for those years.

Miscellaneous Joint Facilities Agency Plan:

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2006	\$2,754,396,608	\$2,492,226,176	\$262,170,432	90.5%	\$699,897,835	37.5%
2007	2,611,746,790	2,391,434,447	220,312,343	91.6%	665,522,859	33.1%
2008	2,780,280,768	2,547,323,278	232,957,490	91.6%	688,606,681	33.8%

The City’s Miscellaneous Joint Facilities Agency Plan represents approximately 0.97%, 0.98%, and 0.92% of the State-wide pool for the years ended June 30, 2008, 2007, and 2006, respectively, based on covered payroll of \$6,688,211, \$6,542,304, and \$6,416,452 for those years.

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

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2010

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS

The City provides health care benefits for retired employees and spouses based on negotiated employee bargaining unit contracts. Substantially all of the City's employees may become eligible for those benefits if they reach the normal retirement age and have a minimum ten years of service while working for the City. The premium reimbursement benefits are as follows: 0-10 years of service = 0%; 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, 37 retirees meet the eligibility requirements and receive reimbursements.

Additionally, the City provides the option of postretirement health benefits to sworn Police Personnel through the Public Employees' Retirement System (PERS) in lieu of the reimbursement plan, in accordance with the MOU for that represented group. The City covers 100% of the Kaiser cost for retirees prior to January 1, 2005. Those employees who retire after January 1, 2005 pay a percentage of the cost increase. Currently, 39 retirees meet the eligibility requirements and are either receiving reimbursements or health benefits paid directly by the City to PERS.

The cost of retiree health care benefits is recognized as an expenditure when health care premiums are paid. For the year ending June 30, 2010, those costs totaled \$656,813.

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:

Martinez Police Officers' Association

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

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

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

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2010

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

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

Non-Sworn Employees; Management Association; and Public Employees' Union Local #324 (formerly Local One)

Health Benefits – Employees represented by the Association and by PEU, Local #1 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 10 years	0%
11 through 15 years	25%
16 through 20 years	50%
21 through 25 years	75%
Over 25 years	100%

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

As of June 30, 2010, approximately 69 participants were eligible to receive retirement health care benefits.

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2010

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

Funding Policy and Actuarial Assumptions

The annual required contribution (ARC) was determined as part of a March 10, 2008 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) 7.75% discount rate; (b) 3.25% projected annual salary increase, and (c) 5%-10% 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 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.

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, 2010, the City contributed the ARC amounting to \$903,000 to the Plan which represented 9.00% of the \$10,088,000 of covered payroll. The City also contributed additional funds to CERBT representing funds accumulated in prior years in the City's General Fund. As a result, the City has recorded the Net OPEB Asset, representing the difference between the ARC, the amortization of the Net OPEB Asset and actual contributions, as presented on the following page.

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2010

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

Annual required contribution (ARC)	(\$903,000)
Interest on net OPEB obligation	315,000
Adjustment to annual required contribution	<u>(254,000)</u>
Annual OPEB cost	<u>(842,000)</u>
Contributions made:	
City portion of current year premiums paid	656,813
Additional contributions to CERBT	<u>246,187</u>
Total contributions	<u>903,000</u>
Change in net OPEB asset	61,000
Net OPEB Asset at June 30, 2009	<u>4,065,000</u>
Net OPEB Asset at June 30, 2010	<u><u>\$4,126,000</u></u>

The actuarial accrued liability (AAL) representing the present value of future benefits, included in the actuarial study dated June 30, 2010, amounted to \$13,633,000 and was partially funded since assets have been transferred into CERBT. The City's prior year contributions, the current year annual required contribution, along with investment income net of current year premiums resulted in assets with CERBT of \$4,450,445 as of June 30, 2010, which partially reduced the unfunded actuarial accrued liability. The Plan's annual OPEB cost and actual contributions for fiscal years ended June 30, 2008, 2009 and 2010 are set forth below:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2008	\$1,102,000	\$5,102,000	463%	\$4,000,000
June 30, 2009	894,000	894,000	100%	4,065,000
June 30, 2010	842,000	903,000	107%	4,126,000

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

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

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2010

NOTE 13 – SOCIAL SECURITY

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

The City's part-time, seasonal, and temporary employees are covered under Social Security, which requires these employees and the City to each contribute 6.2% of the employees' pay. Total contributions to Social Security during the year ended June 30, 2010 amounted to \$59,726 of which the City paid half.

NOTE 14 – DEFERRED COMPENSATION PLAN

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

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

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2010

NOTE 15 – RISK MANAGEMENT

A. *Municipal Pooling Authority*

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

Type of Coverage (Deductible)	Coverage Limits
Liability (\$10,000)	\$29,000,000
Employment Risk Management Authority (\$50,000)	1,000,000
Vehicle - Physical Damage (\$3,000 for police vehicles, \$2,000 for all others)	250,000
Workers' Compensation (no deductible)	Statutory Limits
All Risk Fire & Property (\$5,000)	1,000,000,000
Earthquake (\$100,000)	50,000,000
Flood (\$100,000)	25,000,000
Boiler & Machinery (\$5,000)	100,000,000

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

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

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

B. *Liability for Uninsured Claims*

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

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2010

NOTE 15 – RISK MANAGEMENT (Continued)

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

	<u>2010</u>	<u>2009</u>
Beginning balance	\$80,000	\$80,000
Liability for current fiscal year claims	67,048	14,781
Increase (decrease) in liability for prior fiscal year claims and claims incurred but not reported (IBNR)	(42,317)	(13,753)
Claims paid	<u>(24,731)</u>	<u>(1,028)</u>
Ending balance	<u>\$80,000</u>	<u>\$80,000</u>

NOTE 16 – PROPOSITION 1A BORROWING BY THE STATE OF CALIFORNIA

Under the provisions of Proposition 1A and as part of the fiscal year 2009-10 budget package passed by the California State legislature on July 28, 2009, the State of California borrowed 8% of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fees, triple flip in lieu sales taxes, and supplemental property taxes, apportioned to the City. The State is required to repay the \$861,298 it borrowed from the City, plus interest, by June 30, 2013.

Authorized with the 2009-10 State budget package was the Proposition 1A Securitization Program (Program), administered by the California Statewide Communities Development Authority ("California Communities"), a joint powers authority sponsored by the California State Association of Counties and the League of California Cities. Under the Program, the participating cities receive cash equal to their share of State borrowings and forgo interest they otherwise would have received from the State on the unpaid borrowings. The City is a participant in the Program.

California Communities simultaneously purchased the Proposition 1A receivables from the City and other participants, and issued bonds to provide participants with proceeds to be remitted in two equal installments due on January 15, 2010 and May 3, 2010. All costs of issuance and interest were paid by the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the State. As of June 30, 2010, the City received both installments due under the Program and recorded them as property taxes in the same manner as if the State had not exercised its rights under Proposition 1A. Since sales proceeds to the City equal the book value of State borrowings no gain or loss was incurred.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

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

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Gas Tax Funds

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

NPDES Stormwater Fund

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

Measure J Fund

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

COPS Grant Fund

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

Traffic Congestion Relief

To account for the revenues received from the State of California under AB2928. The allocations must be spent on local streets and roads maintenance, rehabilitation and reconstruction projects according to the State's Traffic Congestion Relief Plan.

Housing In-Lieu Fund

As part of a development project, a developer may be required to pay a fee in lieu of affordable housing. This fund accounts for these deposit in-lieu fees from developers. The funds are to be used at the City's discretion for the provision of affordable housing to low and moderate income households.

Proposition 1B Fund

This fund accounts for the 2006 voter approved Proposition 1B funds to be used for street improvements, including pavement rehabilitation projects.

PEG Access Fund

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

DEBT SERVICE FUNDS

2003 Debt Service Fund

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

2009 Debt Service Fund

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

NON-MAJOR GOVERNMENTAL FUNDS (Continued)

CAPITAL PROJECTS FUNDS

Alhambra Creek Improvements

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

Lighting and Landscaping Fund

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

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CITY OF MARTINEZ
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2010

SPECIAL REVENUE FUNDS

	Gas Tax Funds	NPDES Stormwater Fund	Measure J Fund	COPS Grant Fund	Traffic Congestion Relief	Housing In-Lieu
ASSETS						
Cash and investments						
Available for operations	\$374,870	\$120,071	\$587,964	\$128,162	\$237,822	
Restricted						
Receivables:						
Accounts receivables (net of allowance for uncollectibles)						
Intergovernmental	58,525			13,974	91,816	
Total Assets	<u>\$433,395</u>	<u>\$120,071</u>	<u>\$587,964</u>	<u>\$142,136</u>	<u>\$329,638</u>	
LIABILITIES						
Accounts payable	\$2,941	\$6,813	\$1,474			
Accrued wages and benefits		3,168				
Deposits				\$9,540		
Advance from other funds						
Deferred revenue						
Total Liabilities	<u>2,941</u>	<u>9,981</u>	<u>1,474</u>	<u>9,540</u>		
FUND EQUITY						
Fund balances						
Reserved for:						
Debt service						
Grants				102,155		
Encumbrances				30,441		
Unreserved:						
Designated		110,090				
Undesignated:						
Special Revenue Funds	430,454		586,490		\$329,638	
Capital Projects Funds						
Total Fund Balances (Deficit)	<u>430,454</u>	<u>110,090</u>	<u>586,490</u>	<u>132,596</u>	<u>329,638</u>	
Total Liabilities and Fund Balances	<u>\$433,395</u>	<u>\$120,071</u>	<u>\$587,964</u>	<u>\$142,136</u>	<u>\$329,638</u>	

Proposition IB	PEG Access	DEBT SERVICE FUNDS		CAPITAL PROJECTS FUNDS		Total Nonmajor Governmental Funds
		2003 Debt Service Fund	2009 Debt Service Fund	Alhambra Creek Improvements	Lighting and Landscaping Fund	
	\$368,423	\$40,826 484,814	\$395,680		\$253,077	\$2,111,215 880,494
	12,631			\$53,967		12,631 218,282
	<u>\$381,054</u>	<u>\$525,640</u>	<u>\$395,680</u>	<u>\$53,967</u>	<u>\$253,077</u>	<u>\$3,222,622</u>
					\$4,673	\$15,901 3,168 9,540
				\$53,967 53,967		53,967 53,967
				107,934	4,673	136,543
		\$525,640	\$395,680			921,320 102,155 30,441 110,090
	\$381,054			(53,967)	248,404	1,727,636 194,437
	381,054	525,640	395,680	(53,967)	248,404	3,086,079
	<u>\$381,054</u>	<u>\$525,640</u>	<u>\$395,680</u>	<u>\$53,967</u>	<u>\$253,077</u>	<u>\$3,222,622</u>

CITY OF MARTINEZ
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2010

SPECIAL REVENUE FUNDS

	Gas Tax Funds	NPDES Stormwater Fund	Measure J Fund	COPS Grant Fund	Traffic Congestion Relief	Housing In-Lieu
REVENUES						
Special assessments		\$492,109				
Intergovernmental	\$610,749		\$446,851	\$129,087	\$329,487	
Fines and forfeits				16,298		
Use of money and property	1,473	364	3,678	563	533	
Miscellaneous		922		2,399		
Total Revenues	612,222	493,395	450,529	148,347	330,020	
EXPENDITURES						
Current:						
Administrative services						
Community & economic development	451,218	469,378	82,150			
Police				110,286		
Debt Service:						
Principal						
Interest and fiscal charges						
Capital outlay				116,267	152,854	
Total Expenditures	451,218	469,378	82,150	226,553	152,854	
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	161,004	24,017	368,379	(78,206)	177,166	
OTHER FINANCING SOURCES (USES)						
Transfers in	1,337	63,927	41,186			
Transfers (out)	(34,832)	(114,627)	(347,701)			
Total Other Financing Sources (Uses)	(33,495)	(50,700)	(306,515)			
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	127,509	(26,683)	61,864	(78,206)	177,166	
BEGINNING FUND BALANCES (DEFICIT)	302,945	136,773	524,626	210,802	152,472	
ENDING FUND BALANCES (DEFICIT)	\$430,454	\$110,090	\$586,490	\$132,596	\$329,638	

Proposition 1B	PEG Access	DEBT SERVICE FUNDS		CAPITAL PROJECTS FUNDS		Total Nonmajor Governmental Funds
		2003 Debt Service Fund	2009 Debt Service Fund	Alhambra Creek Improvements	Lighting and Landscaping Fund	
			\$774,714	\$5,844	\$118,676	\$1,391,343
						1,516,174
						16,298
\$914		\$134	1,279		1,490	10,428
	\$52,505	260,031				315,857
914	52,505	260,165	775,993	5,844	120,166	3,250,100
	48,835					48,835
					110,321	1,113,067
						110,286
		220,000				220,000
		38,190	546,425			584,615
296,043						565,164
296,043	48,835	258,190	546,425		110,321	2,641,967
(295,129)	3,670	1,975	229,568	5,844	9,845	608,133
					6,700	113,150
						(497,160)
					6,700	(384,010)
(295,129)	3,670	1,975	229,568	5,844	16,545	224,123
295,129	377,384	523,665	166,112	(59,811)	231,859	2,861,956
	\$381,054	\$525,640	\$395,680	(\$53,967)	\$248,404	\$3,086,079

CITY OF MARTINEZ
 BUDGETED NON-MAJOR FUNDS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2010

	GAS TAX FUNDS			NPDES STORMWATER FUND		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Special assessments					\$492,109	\$492,109
Intergovernmental	\$671,000	\$610,749	(\$60,251)			
Fines and forfeits						
Use of money and property	4,000	1,473	(2,527)	\$1,000	364	(636)
Miscellaneous					922	922
Total Revenues	675,000	612,222	(62,778)	1,000	493,395	492,395
EXPENDITURES						
Current:						
Administrative services						
Community development	534,463	451,218	83,245	446,554	469,378	(22,824)
Police						
Capital outlay						
Total Expenditures	534,463	451,218	83,245	446,554	469,378	(22,824)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	140,537	161,004	20,467	(445,554)	24,017	469,571
OTHER FINANCING SOURCES (USES)						
Transfers in	1,337	1,337		63,927	63,927	
Transfers (out)	(279,832)	(34,832)	245,000	(114,627)	(114,627)	
Total Other Financing Sources (Uses)	(278,495)	(33,495)	245,000	(50,700)	(50,700)	
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>(\$137,958)</u>	127,509	<u>\$265,467</u>	<u>(\$496,254)</u>	(26,683)	<u>\$469,571</u>
BEGINNING FUND BALANCES		302,945			136,773	
ENDING FUND BALANCES		<u>\$430,454</u>			<u>\$110,090</u>	

MEASURE J FUND			COPS GRANT FUND		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
\$403,200	\$446,851	\$43,651	\$171,138	\$129,087	(\$42,051)
8,000	3,678	(4,322)	1,500	16,298	16,298
				563	(937)
				2,399	2,399
411,200	450,529	39,329	172,638	148,347	(24,291)
134,003	82,150	51,853			
			169,944	110,286	59,658
			116,267	116,267	
134,003	82,150	51,853	286,211	226,553	59,658
277,197	368,379	91,182	(113,573)	(78,206)	35,367
41,186	41,186				
(347,701)	(347,701)				
(306,515)	(306,515)				
<u>(\$29,318)</u>	61,864	<u>\$91,182</u>	<u>(\$113,573)</u>	(78,206)	<u>\$35,367</u>
	524,626			210,802	
	<u>\$586,490</u>			<u>\$132,596</u>	

CITY OF MARTINEZ
 BUDGETED NON-MAJOR FUNDS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2010

	TRAFFIC CONGESTION RELIEF			PROPOSITION 1B		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Special assessments						
Intergovernmental	\$329,487	\$329,487		\$550,278		(\$550,278)
Fines and forfeits						
Use of money and property	382	533	\$151	914	\$914	
Miscellaneous						
Total Revenues	<u>329,869</u>	<u>330,020</u>	<u>151</u>	<u>551,192</u>	<u>914</u>	<u>(550,278)</u>
EXPENDITURES						
Current:						
Administrative services						
Community development						
Police						
Capital outlay	152,854	152,854		296,043	296,043	
Total Expenditures	<u>152,854</u>	<u>152,854</u>		<u>296,043</u>	<u>296,043</u>	
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>177,015</u>	<u>177,166</u>	<u>151</u>	<u>255,149</u>	<u>(295,129)</u>	<u>(550,278)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)						
Total Other Financing Sources (Uses)						
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>\$177,015</u>	<u>177,166</u>	<u>\$151</u>	<u>\$255,149</u>	<u>(295,129)</u>	<u>(\$550,278)</u>
BEGINNING FUND BALANCES		<u>152,472</u>			<u>295,129</u>	
ENDING FUND BALANCES		<u>\$329,638</u>				

PEG ACCESS

<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<u>\$55,000</u>	<u>\$52,505</u>	<u>(\$2,495)</u>
<u>55,000</u>	<u>52,505</u>	<u>(2,495)</u>
59,255	48,835	10,420
<u>59,255</u>	<u>48,835</u>	<u>10,420</u>
<u>(4,255)</u>	<u>3,670</u>	<u>7,925</u>
<u>(\$4,255)</u>	3,670	<u>\$7,925</u>
	<u>377,384</u>	
	<u>\$381,054</u>	

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INTERNAL SERVICE FUNDS

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

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

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

Equipment Replacement

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

Management Information System

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

CITY OF MARTINEZ
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2010

	<u>Equipment Replacement</u>	<u>Management Information System</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and investments available for operations	\$2,034,446	\$660,476	\$2,694,922
Total Current Assets	<u>2,034,446</u>	<u>660,476</u>	<u>2,694,922</u>
Capital Assets:			
Equipment	3,070,748	378,198	3,448,946
Accumulated depreciation	(2,147,784)	(360,904)	(2,508,688)
Construction in progress	26,837		26,837
Net Capital Assets	<u>949,801</u>	<u>17,294</u>	<u>967,095</u>
Total Assets	<u>2,984,247</u>	<u>677,770</u>	<u>3,662,017</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	19,093	25,139	44,232
Accrued liabilities	7,026	5,099	12,125
Accrued vacation and other fringe benefits	31,836	11,140	42,976
Total Liabilities	<u>57,955</u>	<u>41,378</u>	<u>99,333</u>
NET ASSETS			
Invested in capital assets	949,801	17,294	967,095
Unrestricted	1,976,491	619,098	2,595,589
Total Net Assets	<u><u>\$2,926,292</u></u>	<u><u>\$636,392</u></u>	<u><u>\$3,562,684</u></u>

CITY OF MARTINEZ
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010

	Equipment Replacement	Management Information System	Total
OPERATING REVENUES			
Charges for services	\$881,034	\$306,671	\$1,187,705
Other revenue	1,200	41	1,241
Total Operating Revenues	882,234	306,712	1,188,946
OPERATING EXPENSES			
Maintenance and repairs	781,766	361,944	1,143,710
Depreciation	273,516	16,156	289,672
Total Operating Expenses	1,055,282	378,100	1,433,382
Operating Income (Loss)	(173,048)	(71,388)	(244,436)
NONOPERATING REVENUES			
Interest income	12,876	4,241	17,117
Gain on disposal of equipment	8,921		8,921
Total Nonoperating Revenues	21,797	4,241	26,038
Income	(151,251)	(67,147)	(218,398)
Change in Net Assets	(151,251)	(67,147)	(218,398)
BEGINNING NET ASSETS	3,077,543	703,539	3,781,082
ENDING NET ASSETS	\$2,926,292	\$636,392	\$3,562,684

CITY OF MARTINEZ
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

	Equipment Replacement	Management Information System	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$882,234	\$306,712	\$1,188,946
Payments to suppliers	(556,970)	(201,711)	(758,681)
Payments to employees	(213,358)	(146,833)	(360,191)
Cash Flows from Operating Activities	111,906	(41,832)	70,074
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(248,290)		(248,290)
Proceeds from sale of equipment	16,461		16,461
Cash Flows from Capital and Related Financing Activities	(231,829)		(231,829)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest	12,876	4,241	17,117
Cash Flows from Investing Activities	12,876	4,241	17,117
Net Cash Flows	(107,047)	(37,591)	(144,638)
Cash and investments at beginning of period	2,141,493	698,067	2,839,560
Cash and investments at end of period	<u>\$2,034,446</u>	<u>\$660,476</u>	<u>\$2,694,922</u>
Reconciliation of operating income (loss) to net cash flows from operating activities:			
Operating income (loss)	(\$173,048)	(\$71,388)	(\$244,436)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:			
Depreciation	273,516	16,156	289,672
Change in assets and liabilities:			
Accounts payable	10,683	10,714	21,397
Accrued wages and benefits	301	87	388
Accrued vacation and other fringe benefits	454	2,599	3,053
Cash Flows from Operating Activities	\$111,906	(\$41,832)	\$70,074

FIDUCIARY FUNDS

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

Alhambra Creek Assessment District

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

Senior Center Club

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

CITY OF MARTINEZ
 AGENCY FUNDS
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE YEAR ENDED JUNE 30, 2010

	Balance June 30, 2009	Additions	Deductions	Balance June 30, 2010
<u>Alhambra Creek Assessment District</u>				
<u>Assets</u>				
Restricted cash and investments	\$224,516	\$113,492	\$115,763	\$222,245
Total assets	<u>\$224,516</u>	<u>\$113,492</u>	<u>\$115,763</u>	<u>\$222,245</u>
<u>Liabilities</u>				
Accounts payable	\$159		\$159	
Due to bondholders	224,357	\$113,492	115,604	\$222,245
Total liabilities	<u>\$224,516</u>	<u>\$113,492</u>	<u>\$115,763</u>	<u>\$222,245</u>
<u>Senior Center Club</u>				
<u>Assets</u>				
Restricted cash and investments	\$188,128	\$163,738	\$193,822	\$158,044
Total assets	<u>\$188,128</u>	<u>\$163,738</u>	<u>\$193,822</u>	<u>\$158,044</u>
<u>Liabilities</u>				
Accounts payable	\$1,027	\$5,719	\$1,028	\$5,718
Deposits in trust	187,101	158,019	192,794	152,326
Total liabilities	<u>\$188,128</u>	<u>\$163,738</u>	<u>\$193,822</u>	<u>\$158,044</u>
<u>Total Agency Funds</u>				
<u>Assets</u>				
Restricted cash and investments	\$412,644	\$277,230	\$309,585	\$380,289
Total assets	<u>\$412,644</u>	<u>\$277,230</u>	<u>\$309,585</u>	<u>\$380,289</u>
<u>Liabilities</u>				
Accounts payable	\$1,186	\$5,719	\$1,187	\$5,718
Due to bondholders	224,357	113,492	115,604	222,245
Due to members	187,101	158,019	192,794	152,326
Total liabilities	<u>\$412,644</u>	<u>\$277,230</u>	<u>\$309,585</u>	<u>\$380,289</u>

STATISTICAL SECTION

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

Financial Trends

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

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

Revenue Capacity

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

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

Debt Capacity

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

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

Demographic and Economic Information

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

1. Demographic and Economic Statistics
2. Principal Employers

Operating Information

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

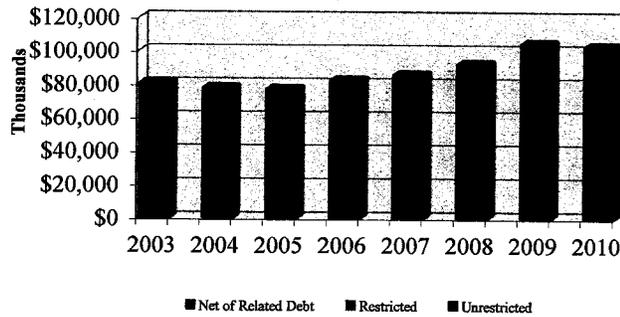
1. Full-Time Equivalent City Government Employees by Function
2. Operating Indicators by Function/Program
3. Capital Asset Statistics by Function/Program

STATISTICAL SECTION (Continued)

Sources

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

CITY OF MARTINEZ
Net Assets by Component
Last Eight Fiscal Years (A)
(Accrual Basis of Accounting)



	Fiscal Year Ended June 30,							
	2003	2004	2005	2006	2007	2008	2009	2010
Governmental activities								
Invested in capital assets, net of related debt	\$23,962,388	\$23,434,010	\$23,001,061	\$24,072,792	\$24,450,822	\$29,045,551	\$42,645,250	\$43,328,577
Restricted	2,758,880	1,860,177	1,968,361	1,805,299	1,647,325	3,091,564	2,947,166	17,697,648
Unrestricted	12,528,238	13,580,382	12,652,888	16,956,596	20,301,070	20,294,772	19,638,559	2,805,660
Total governmental activities net assets	\$39,249,506	\$38,874,569	\$37,622,310	\$42,834,687	\$46,399,217	\$52,431,887	\$65,230,975	\$63,831,885
Business-type activities								
Invested in capital assets, net of related debt	\$30,429,111	\$31,622,821	\$30,894,163	\$30,405,353	\$29,680,363	\$27,073,604	\$25,908,195	\$25,104,326
Restricted	465,144	478,686	492,014	465,980	473,896	6,613,067	7,224,675	7,620,488
Unrestricted	10,244,301	6,721,816	7,880,511	8,472,990	8,954,539	5,890,545	6,280,210	6,301,271
Total business-type activities net assets	\$41,138,556	\$38,823,323	\$39,266,688	\$39,344,323	\$39,108,798	\$39,577,216	\$39,413,080	\$39,026,085
Primary government								
Invested in capital assets, net of related debt	\$54,391,499	\$55,056,831	\$53,895,224	\$54,478,145	\$54,131,185	\$56,119,155	\$68,553,445	\$68,432,903
Restricted	3,224,024	2,338,863	2,460,375	2,271,279	2,121,221	9,704,631	10,171,841	25,318,136
Unrestricted	22,772,539	20,302,198	20,533,399	25,429,586	29,255,609	26,185,317	25,918,769	9,106,931
Total primary government net assets	\$80,388,062	\$77,697,892	\$76,888,998	\$82,179,010	\$85,508,015	\$92,009,103	\$104,644,055	\$102,857,970

(A) The City implemented GASB Statement 34 in 2003.

CITY OF MARTINEZ
Changes in Net Assets
Last Eight Fiscal Years (A)
(Accrual Basis of Accounting)

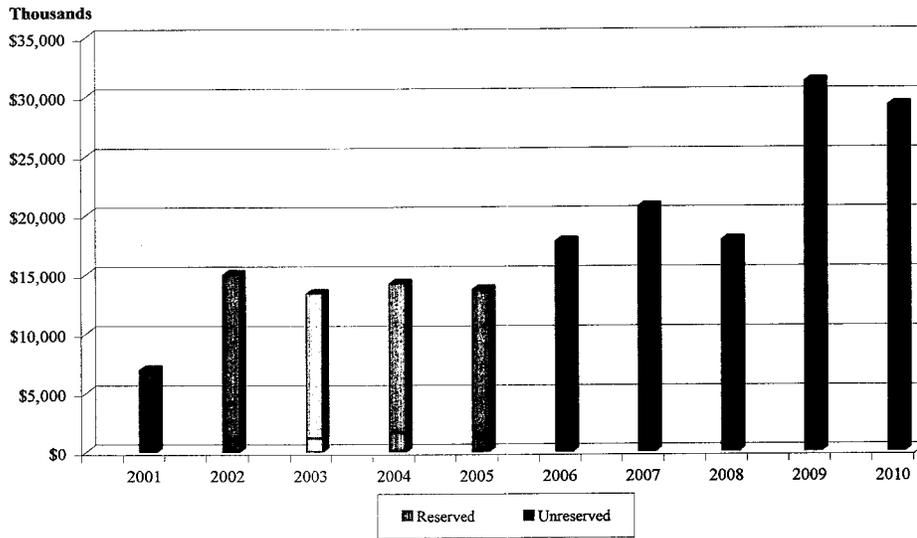
	Fiscal Year Ended June 30,							
	2003	2004	2005	2006	2007	2008	2009	2010
Expenses								
Governmental Activities:								
General Government	\$904,411	\$1,361,712	\$1,064,838	\$1,220,112	\$1,275,521	\$982,551	\$1,328,858	\$1,860,433
Nondepartmental Services	1,162,661	583,170	602,262	722,957	2,100,557	1,295,821	1,114,785	
Administrative Services	412,644	597,450	611,904	704,534	813,629	724,408	781,593	695,828
Public Works	633,565	742,330	821,956	831,843	931,263	3,515,810	3,369,089	3,842,513
Community & Economic Development	6,656,236	7,673,229	8,871,098	7,281,906	7,640,086	6,000,157	5,856,950	6,725,653
Police	7,882,901	7,852,448	8,597,502	8,637,872	9,048,033	9,660,925	9,853,949	10,616,620
Interest on Long-Term Debt	277,194	66,580	60,943	55,823	52,506	50,630	291,152	584,615
Total Governmental Activities Expenses	17,929,612	18,876,919	20,630,503	19,455,047	21,861,595	22,230,302	22,596,376	24,325,662
Business-Type Activities:								
Water System	8,994,202	10,088,366	10,019,095	9,419,852	10,221,974	10,068,412	10,317,436	10,200,676
Marina Services	404,774	470,175	472,205	381,516	441,823	797,453	345,533	388,591
Parking Services	330,031	547,454	532,367	426,565	375,634	391,841	454,122	451,488
Total Business-Type Activities Expenses	9,729,007	11,105,995	11,023,667	10,227,933	11,039,431	11,257,706	11,117,091	11,040,755
Total Primary Government Expenses	\$27,658,619	\$29,982,914	\$31,654,170	\$29,682,980	\$32,901,026	\$33,488,008	\$33,713,467	\$35,366,417
Program Revenues								
Governmental Activities:								
Charges for Services:								
General Government	\$1,447,732	\$112,806	\$123,738	\$112,254	\$127,720	\$48,383	\$27,359	\$32,079
Public Works	461,187	417,578	533,355	804,965	933,307	775,303	660,516	585,117
Community & Economic Development	897,812	819,377	1,032,160	1,166,315	1,149,605	954,885	731,853	549,109
Police	436,593	353,505	457,654	339,697	428,723	381,602	398,088	376,514
Operating Grants and Contributions	932,133	2,365,301	1,896,096	3,004,055	2,928,894	2,978,771	2,645,990	2,414,403
Capital Grants and Contributions	1,796,860	1,274,224	798,967	1,460,056	963,982	5,166,574	13,319,245	2,124,450
Total Governmental Activities Program Revenues	5,972,317	5,342,791	4,841,970	6,887,342	6,532,231	10,305,518	17,783,051	6,081,672
Business-Type Activities:								
Charges for Services:								
Water System	7,846,114	8,395,769	9,241,189	9,397,659	9,721,022	9,844,373	10,044,919	9,830,348
Marina Services	191,393	127,608	166,080	219,207	291,919	273,732	241,247	245,157
Parking Services	336,321	169,145	273,001	346,457	365,488	405,351	387,388	398,591
Operating Grants and Contributions				114,843				
Capital Grants and Contributions			1,404,646			430,343		
Total Business-Type Activities Program Revenues	8,373,828	8,692,522	11,084,916	10,078,166	10,378,429	10,953,799	10,673,554	10,474,096
Total Primary Government Program Revenues	\$14,346,145	\$14,035,313	\$15,926,886	\$16,965,508	\$16,910,660	\$21,259,317	\$28,456,605	\$16,555,768
Net (Expense)/Revenue								
Governmental Activities	(\$11,957,295)	(\$13,534,128)	(\$15,788,533)	(\$12,567,705)	(\$15,329,364)	(\$11,924,784)	(\$4,813,325)	(\$18,243,990)
Business-Type Activities	(1,355,179)	(2,413,473)	61,249	(149,767)	(661,002)	(303,907)	(443,537)	(566,659)
Total Primary Government Net Expense	(\$13,312,474)	(\$15,947,601)	(\$15,727,284)	(\$12,717,472)	(\$15,990,366)	(\$12,228,691)	(\$5,256,862)	(\$18,810,649)

CITY OF MARTINEZ
Changes in Net Assets
(continued)
Last Eight Fiscal Years (A)
(Accrual Basis of Accounting)

	Fiscal Year Ended June 30,							
	2003	2004	2005	2006	2007	2008	2009	2010
General Revenues and Other Changes in Net Assets								
Governmental Activities:								
Taxes:								
Property Taxes	\$4,591,561	\$5,072,317	\$5,603,872	\$6,048,835	\$6,749,316	\$6,778,683	\$6,833,240	\$6,440,055
Sales Taxes	2,981,530	3,683,973	3,770,934	4,271,279	2,845,391	2,910,391	2,548,963	2,890,078
State Tax Shift - ERAF III	3,634,912		(399,067)	(399,067)				
VLF Property Tax Swap			1,971,541	2,387,675	2,438,135	2,619,831	2,663,236	2,553,503
Franchise fees	474,473	962,045	946,323	1,294,839	1,377,064	1,432,161	1,380,404	1,355,211
Other Taxes	600	1,205,727	1,328,281	1,390,701	2,639,579	2,502,998	2,475,992	2,363,498
Intergovernmental	958,136	1,762,251	881,895	344,160	281,669	231,037	192,805	178,083
Investment Earnings		199,788	267,746	533,475	1,019,116	955,422	412,821	187,135
Rents & Leases								
Miscellaneous		83,090	282,749	1,744,370	1,404,792	760,256	1,055,423	893,942
Transfers		190,000	(118,000)	163,815	138,832	(233,325)	49,529	(16,605)
Total Government Activities	12,641,212	13,159,191	14,536,274	17,780,082	18,893,894	17,957,454	17,612,413	16,844,900
Business-Type Activities:								
Other Taxes		62,306	56,769	48,292	56,545	63,240	64,263	61,579
Investment Earnings	214,941	139,026	184,977	317,631	507,764	475,760	263,207	82,093
Rents & Leases	22,176	25,231	22,370	25,294				
Miscellaneous	65,920	61,677						
Contributions							1,460	
Transfers		(190,000)	118,000	(163,815)	(138,832)	233,325	(49,529)	19,387
Total Business-Type Activities	303,037	98,240	382,116	227,402	425,477	772,325	279,401	179,664
Total Primary Government	\$12,944,249	\$13,257,431	\$14,918,390	\$18,007,484	\$19,319,371	\$18,729,779	\$17,891,814	\$17,024,564
Change in Net Assets								
Governmental Activities	\$683,917	(\$374,937)	(\$1,252,259)	\$5,212,377	\$3,564,530	\$6,032,670	\$12,799,088	(\$1,399,090)
Business-Type Activities	(1,052,142)	(2,315,233)	443,365	77,635	(235,325)	468,418	(164,136)	(386,995)
Total Primary Government	(\$368,225)	(\$2,690,170)	(\$808,894)	\$5,290,012	\$3,329,005	\$6,501,088	\$12,634,952	(\$1,786,085)

(A) The City implemented GASB Statement 34 in 2003.

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



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Fund										
Reserved	\$128,256	\$48,397	\$278,429	\$659,139	\$573,040	\$793,427	\$787,770	\$1,041,261	\$853,371	\$809,098
Unreserved	9,021,010	10,092,248	9,834,407	8,573,920	9,174,295	12,053,642	14,531,543	9,618,304	8,973,975	7,692,426
Total General Fund	<u>\$9,149,266</u>	<u>\$10,140,645</u>	<u>\$10,112,836</u>	<u>\$9,233,059</u>	<u>\$9,747,335</u>	<u>\$12,847,069</u>	<u>\$15,319,313</u>	<u>\$10,659,565</u>	<u>\$9,827,346</u>	<u>\$8,501,524</u>
All Other Governmental Funds										
Reserved	\$5,596,525	\$887,177	\$855,382	\$977,684	\$803,791	\$686,781	\$767,264	\$1,036,074	\$951,122	\$3,149,573
Unreserved, reported in:										
Special revenue funds	949,895	2,427,125	1,424,758	670,733	940,575	957,109	781,421	2,014,107	1,789,329	1,837,726
Capital project funds	(8,758,499)	1,496,910	958,579	3,307,186	2,186,757	3,236,220	3,747,215	4,087,770	18,567,181	15,641,080
Total all other governmental funds	<u>(\$2,212,079)</u>	<u>\$4,811,212</u>	<u>\$3,238,719</u>	<u>\$4,955,603</u>	<u>\$3,931,123</u>	<u>\$4,880,110</u>	<u>\$5,295,900</u>	<u>\$7,137,951</u>	<u>\$21,307,632</u>	<u>\$20,628,379</u>

(a) The change in total fund balance for the General Fund and other governmental funds is explained in the Management's Discussion and Analysis.

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

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Revenues				
Taxes	\$9,497,109	\$11,116,572	\$10,670,402	\$11,295,326
Special assessments	803,240	633,183	654,990	604,659
Licenses, permits and fees	2,178,443	2,143,691	2,068,185	489,276
Intergovernmental revenues	4,924,247	9,244,563	2,493,944	4,613,687
Charges for services	1,146,787	1,243,195	1,475,313	722,266
Fines and forfeits	229,903	280,697	387,676	231,412
Use of money and property	1,002,092	723,871	493,025	200,309
Miscellaneous	810,365	491,171	132,326	202,556
Total Revenues	<u>20,592,186</u>	<u>25,876,943</u>	<u>18,375,861</u>	<u>18,359,491</u>
Expenditures				
Current:				
General government	2,033,269	981,212	801,417	850,845
Nondepartmental services		672,191	1,149,672	583,170
Administrative services		596,745	402,692	578,412
Public works		580,976	609,678	618,243
Community & economic development		5,606,656	5,628,996	6,651,965
Police	6,028,963	6,569,037	7,681,814	7,740,536
Streets & buildings	2,617,817			
Community services	1,117,326			
Miscellaneous				
Capital outlay	9,245,925	4,794,086	3,402,047	614,619
Debt service:				
Principal repayment	121,977	127,307	137,653	8,014
Interest and fiscal charges	386,902	287,275	172,212	66,580
Total Expenditures	<u>21,552,179</u>	<u>20,215,485</u>	<u>19,986,181</u>	<u>17,712,384</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(959,993)</u>	<u>5,661,458</u>	<u>(1,610,320)</u>	<u>647,107</u>
Other Financing Sources (Uses)				
Transfers in	265,422	565,447	920,164	5,074,830
Transfers (out)	(788,230)	(915,447)	(945,164)	(4,884,830)
Proceeds from the issuance of long term debt				
Proceeds from bond premium				
Certificates of participation issued			2,200,000	
Payments to refunded bond escrow			(2,164,982)	
Total other financing sources (uses)	<u>(522,808)</u>	<u>(350,000)</u>	<u>10,018</u>	<u>190,000</u>
Special Item:				
OPEB funding				
Loan to Martinez Unified School District				
Net Change in fund balances	<u>(\$1,482,801)</u>	<u>\$5,311,458</u>	<u>(\$1,600,302)</u>	<u>\$837,107</u>
Debt service as a percentage of noncapital expenditures	(a)	(a)	(a)	0.4%

NOTE:

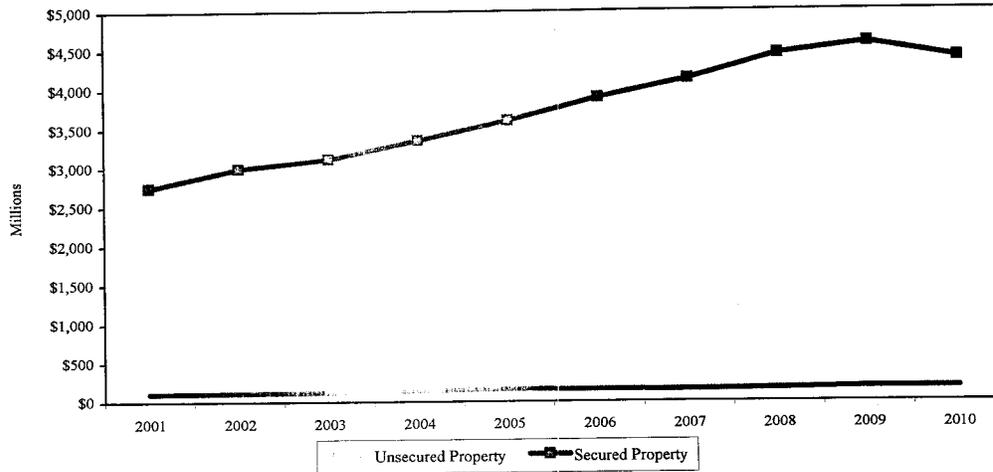
(a) The City implemented GASB Statement 34 in fiscal year 2003. Therefore this calculation is included only for fiscal years subsequent to that date.

(b) The City reorganized departments in 2002.

Fiscal Year Ended June 30,

<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
\$13,221,884	\$14,994,265	\$16,049,485	\$16,244,064	\$15,901,834	\$15,602,345
654,028	648,225	618,402	592,675	593,327	1,391,343
779,784	829,438	1,206,310	901,504	569,653	451,972
3,109,850	4,293,695	3,366,831	7,854,354	14,976,879	3,985,583
706,670	1,009,212	769,834	714,089	716,173	562,189
333,075	284,486	295,334	360,409	376,179	360,431
308,809	585,146	967,531	907,560	403,693	249,043
324,923	1,791,186	1,755,786	942,321	1,126,603	911,374
<u>19,439,023</u>	<u>24,435,653</u>	<u>25,029,513</u>	<u>28,516,976</u>	<u>34,664,341</u>	<u>23,514,280</u>
827,226	1,253,927	1,249,523	1,055,630	1,327,384	1,324,418
602,262	722,957	2,100,557	1,294,070	1,156,191	816,510
596,296	691,218	791,144	710,163	757,298	725,585
763,635	826,781	904,338	3,515,167	3,773,961	3,742,399
6,959,750	6,271,909	6,664,397	4,899,818	4,975,417	5,321,903
8,589,785	8,532,786	9,029,159	9,744,360	9,755,501	9,972,242
1,236,330	1,995,346	1,288,687	5,488,729	14,524,632	2,295,078
195,000	200,000	200,000	205,000	215,000	220,000
60,943	55,823	52,506	50,630	291,152	584,615
<u>19,831,227</u>	<u>20,550,747</u>	<u>22,280,311</u>	<u>26,963,567</u>	<u>36,776,536</u>	<u>25,002,750</u>
<u>(392,204)</u>	<u>3,884,906</u>	<u>2,749,202</u>	<u>1,553,409</u>	<u>(2,112,195)</u>	<u>(1,488,470)</u>
864,960	1,934,775	1,623,555	1,837,479	1,514,146	609,610
(982,960)	(1,770,960)	(1,484,723)	(2,208,585)	(1,464,617)	(626,215)
				15,000,000	
				400,128	
<u>(118,000)</u>	<u>163,815</u>	<u>138,832</u>	<u>(371,106)</u>	<u>15,449,657</u>	<u>(16,605)</u>
			(4,000,000)		(500,000)
<u>(\$510,204)</u>	<u>\$4,048,721</u>	<u>\$2,888,034</u>	<u>(\$2,817,697)</u>	<u>\$13,337,462</u>	<u>(\$2,005,075)</u>
1.4%	1.4%	1.2%	1.2%	2.3%	3.5%

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

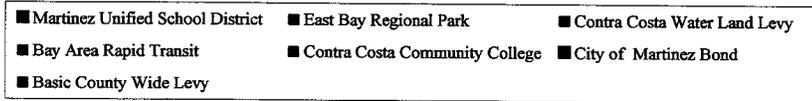
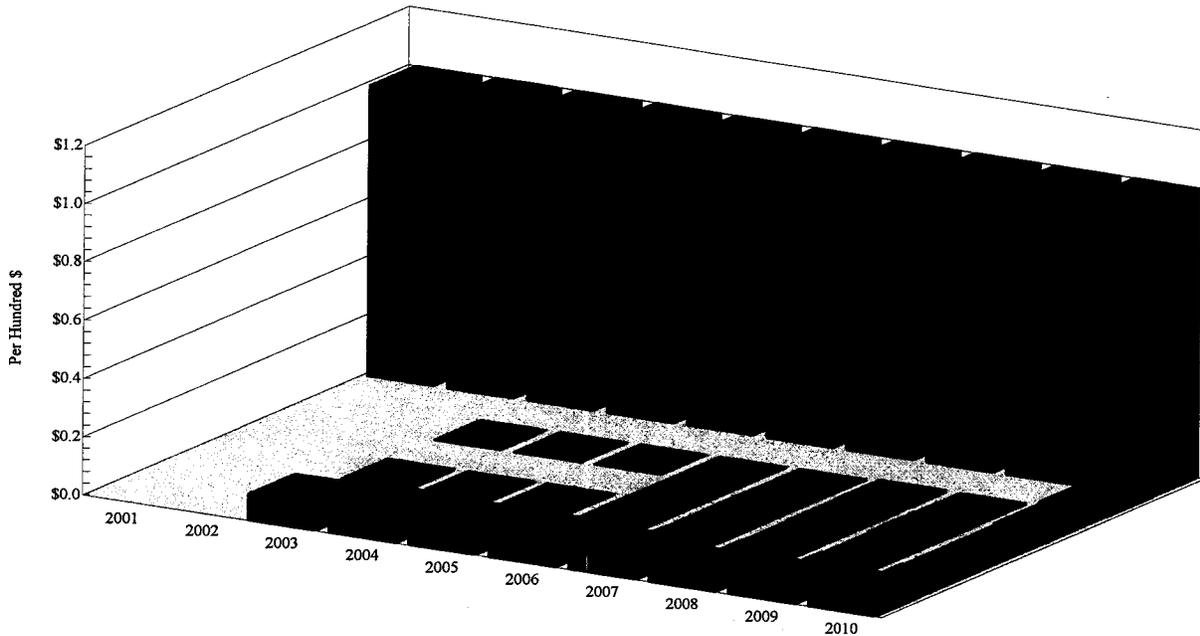


Fiscal Year	Real Property				Total Real Secured Property	Unsecured Property	Total Assessed (a)	Estimated Full Market (a)	Total Direct Tax Rate (b)
	Residential Property	Commercial Property	Industrial Property	Other					
2001	\$2,112,037,502	\$175,242,368	\$296,754,537	\$56,173,850	\$2,640,208,257	\$103,657,475	\$2,743,865,732	\$2,743,865,732	1%
2002	2,276,803,980	189,132,984	362,317,910	51,311,610	2,879,566,484	112,037,636	2,991,604,120	2,991,604,120	1%
2003	2,446,841,113	221,143,170	277,022,355	45,793,860	2,990,800,498	118,371,038	3,109,171,536	3,109,171,536	1%
2004	2,648,146,047	227,098,395	295,631,337	43,601,867	3,214,477,646	138,013,747	3,352,491,393	3,352,491,393	1%
2005	2,859,236,600	234,959,433	297,127,470	53,304,392	3,444,627,895	158,892,616	3,603,520,511	3,603,520,511	1%
2006	3,118,221,619	247,416,988	305,547,262	63,095,076	3,734,280,945	154,169,708	3,888,450,653	3,888,450,653	1%
2007	3,337,522,088	251,751,868	311,532,867	73,168,763	3,973,975,586	153,320,879	4,127,296,465	4,127,296,465	1%
2008	3,526,510,149	270,957,611	403,333,442	76,161,039	4,276,962,241	164,132,730	4,441,094,971	4,441,094,971	1%
2009	3,633,226,219	275,675,065	425,243,421	66,391,574	4,400,536,279	177,818,280	4,578,354,559	4,578,354,559	1%
2010	3,396,269,139	281,325,148	469,892,706	62,478,908	4,209,965,901	180,171,657	4,390,137,558	4,390,137,558	1%

- (a) The State Constitution requires property to be assessed at one hundred percent of the most recent purchase price, plus an increment of no more than two percent annually, plus any local over-rides. These values are considered to be full market values.
- (b) California cities do not set their own direct tax rate. The state constitution establishes the rate at 1% and allocates a portion of that amount, by an annual calculation, to all the taxing entities within a tax rate area. The City of Martinez encompasses more than 15 tax rate areas.
- (c) Information is not available.

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

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



<u>Fiscal Year</u>	<u>Basic County Wide Levy</u>	<u>Bay Area Rapid Transit</u>	<u>Contra Costa Community College (a)</u>	<u>Contra Costa Water Land Levy (a)</u>	<u>East Bay Regional Park (a)</u>	<u>Martinez Unified School District (a)</u>	<u>City of Martinez Bond</u>	<u>Total</u>
2001	\$1.0000							\$1.0000
2002	1.0000							1.0000
2003	1.0000		\$0.0040	\$0.0072	\$0.0065	\$0.0901		1.1078
2004	1.0000		0.0038	0.0063	0.0057	0.1000		1.1158
2005	1.0000		0.0042	0.0057	0.0057	0.0923		1.1079
2006	1.0000	\$0.0048	0.0047	0.0050	0.0057	0.0904		1.1106
2007	1.0000	0.0050	0.0043	0.0043	0.0085	0.0794		1.1015
2008	1.0000	0.0076	0.0108	0.0039	0.0080	0.0557		1.0860
2009	1.0000	0.0090	0.0066	0.0041	0.0100	0.0597		1.0894
2010	1.0000	0.0057	0.0126	0.0048	0.0108	0.0619	\$0.0181	1.1139

Note: (a) Information not available prior to FY 2003
Source: Contra Costa County Auditor Controller

CITY OF MARTINEZ
Water System Revenue
Last Ten Fiscal Years

Fiscal Year	Water Sales	Total Operating Revenue	Percentage of Water Sales to Operating Revenue
2001	\$7,560,252	\$7,703,625	98.14%
2002	7,547,981	7,705,142	97.96%
2003	7,581,904	7,909,137	95.86%
2004	8,058,204	8,402,307	95.90%
2005	8,718,295	9,241,189	94.34%
2006	8,937,741	9,422,953	94.85%
2007	9,215,311	9,721,022	94.80%
2008	9,523,618	9,844,373	96.74%
2009	9,603,050	10,046,379	95.59%
2010	9,484,712	9,830,348	96.48%

Source: City of Martinez Administrative Services Department

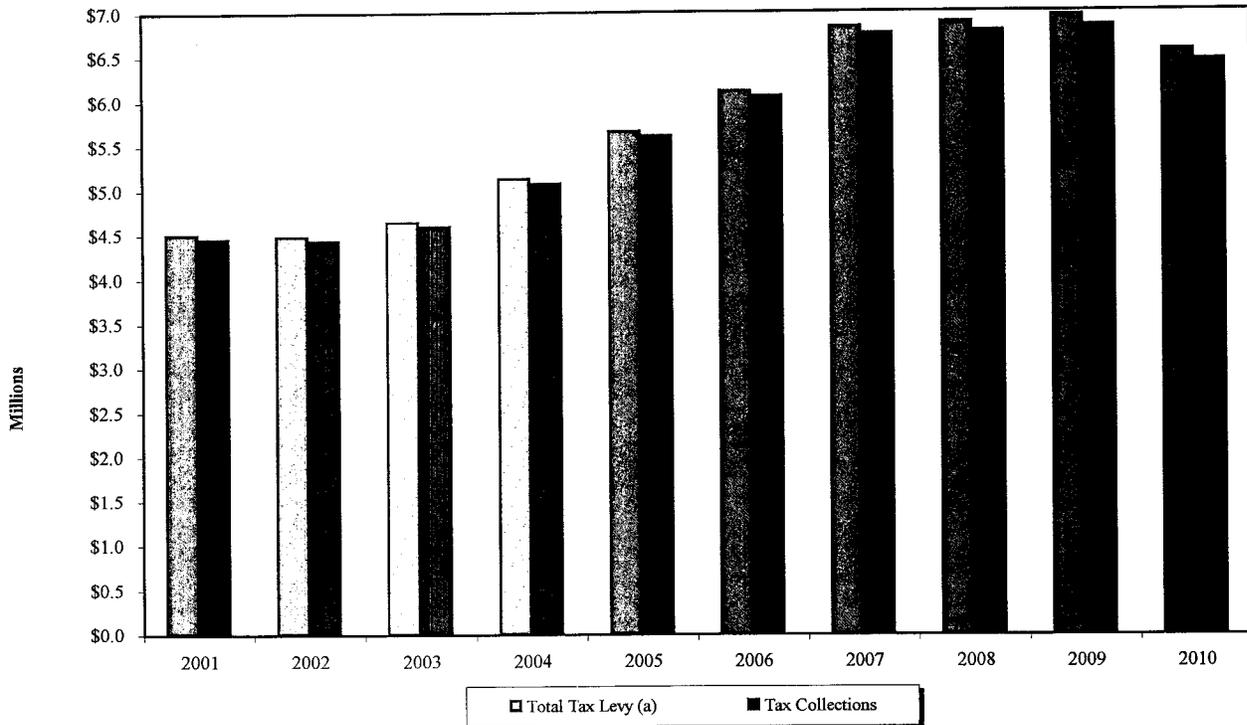
CITY OF MARTINEZ
Principal Property Tax Payers
Current Year and Six Years Ago

<u>Taxpayer</u>	<u>2009 - 2010</u>			<u>2003 - 2004</u>		
	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total City Taxable Assessed Value</u>	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total City Taxable Assessed Value</u>
Equilon Enterprises LLC	\$154,448,509	1	3.5%	\$120,246,026	1	3.6%
Pacific Atlantic Terminals LLC	134,426,322	2	3.1%			0.0%
Tesoro Refining & Marketing Company	41,370,364	3	0.9%			0.0%
Stauffer Chemical Company	25,772,398	4	0.6%	34,287,215	3	1.0%
Shell Chemical Limited Partnership	23,629,906	5	0.5%	20,765,178	4	0.6%
Marine Spill Response Corporation	21,643,132	6	0.5%			0.0%
Wal Mart Real Estate	20,514,781	7	0.5%	17,001,885	6	0.5%
Kenneth H. & Martha Hofmann Trust	19,203,684	8	0.4%	17,074,602	5	0.5%
KW Hidden Creek LLC	18,984,000	9	0.4%			0.0%
Muir Station Center LLC	18,942,554	10	0.4%			0.0%
Rhodia				44,946,225	2	1.3%
Muirwood Square Investors			0.0%	16,416,899	7	0.5%
George Ogino LLC				15,606,000	8	0.0%
Collier Village Oaks LLC			0.0%	13,462,297	9	0.4%
The Center Martinez				10,919,511	10	0.0%
Subtotal	<u>\$478,935,650</u>		<u>10.9%</u>	<u>\$310,725,838</u>		<u>9.3%</u>
Total Net Assessed Valuation:						
Fiscal Year 2009 - 2010	\$4,390,137,558					
Fiscal Year 2003 - 2004	\$3,352,491,393					

Note: The City was unable to obtain data back 10 years, this comparison is back six years.

Source: HDL Coren & Cone

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



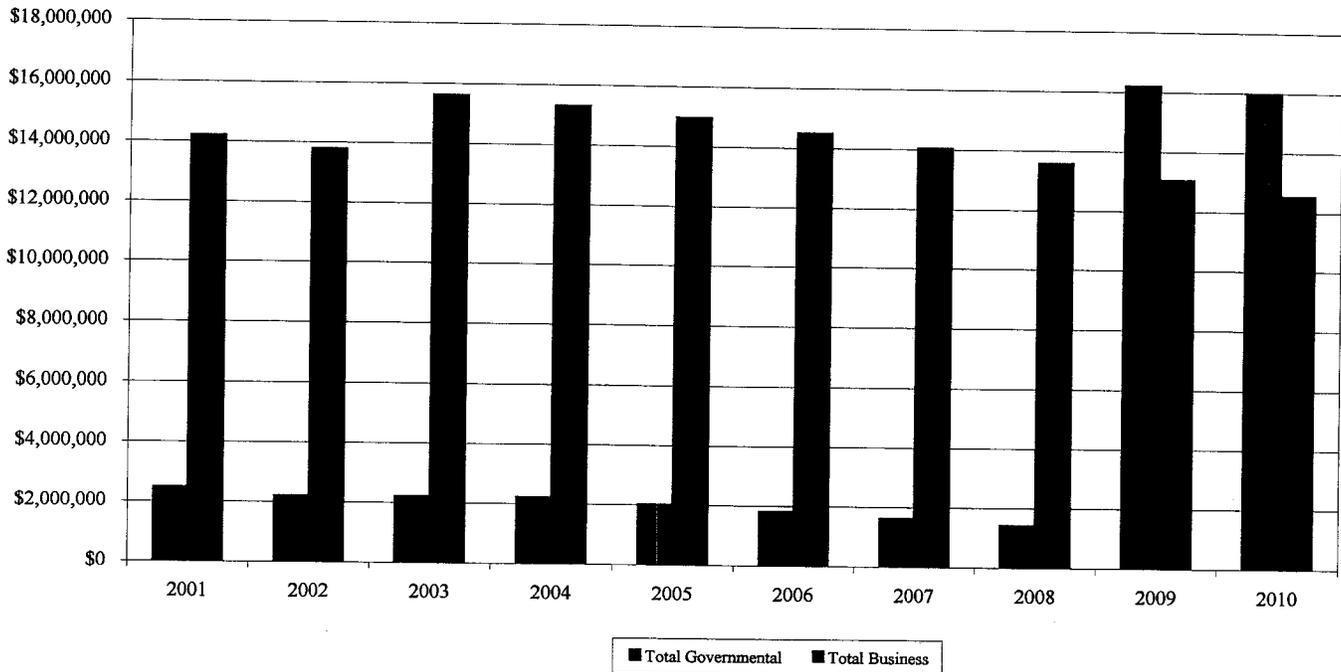
Fiscal Year	Total Tax Levy (a)	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	County Administrative Fee	Total Tax Collections	Percent of Total Tax Collections to Tax Levy
2001	\$4,502,805	\$4,502,805	100.00%	0	(\$48,589)	\$4,454,216	100.00%
2002	4,483,783	4,483,783	100.00%	0	(48,599)	4,435,184	100.00%
2003	4,646,442	4,646,442	100.00%	0	(54,881)	4,591,561	100.00%
2004	5,124,479	5,124,479	100.00%	0	(52,170)	5,072,309	100.00%
2005	5,655,854	5,655,854	100.00%	0	(51,982)	5,603,872	100.00%
2006	6,100,187	6,100,187	100.00%	0	(51,352)	6,048,835	100.00%
2007	6,822,167	6,822,167	100.00%	0	(72,851)	6,749,316	100.00%
2008	6,873,959	6,873,959	100.00%	0	(95,276)	6,778,683	100.00%
2009	6,946,652	6,946,652	100.00%	0	(113,412)	6,833,240	100.00%
2010	6,548,656	6,548,656	100.00%	0	(108,601)	6,440,055	100.00%

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

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

Source: Contra Costa County Auditor-Controller

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



Governmental Activities					Percentage of Actual Taxable Value of Property	General Bonded Debt Per Capita
Fiscal Year	General Obligation Bonds	Certificates of Participation	Special Assessment Debt	Total		
2001		\$2,310,000	\$150,000	\$2,460,000	0.01%	\$4.11
2002		2,190,000		2,190,000	0.00%	0.00
2003		2,200,000		2,200,000	0.00%	0.00
2004		2,200,000		2,200,000	0.00%	0.00
2005		2,005,000		2,005,000	0.00%	0.00
2006		1,805,000		1,805,000	0.00%	0.00
2007		1,605,000		1,605,000	0.00%	0.00
2008		1,400,000		1,400,000	0.00%	0.00
2009	\$15,000,000	1,185,000		16,185,000	0.33%	412.68
2010	15,000,000	965,000		15,965,000	0.34%	409.13

Business-Type Activities					Total Primary Government	Percentage of Personal Income	Per Capita
Fiscal Year	Water Revenue Bonds	Certificates of Participation	Loans Payable	Total			
2001	\$250,000	\$11,640,000	\$2,301,857	\$14,191,857	\$16,651,857	1.02%	\$456.22
2002		11,440,000	2,327,357	13,767,357	15,957,357	0.99%	434.63
2003		11,505,000	4,101,329	15,606,329	17,806,329	1.10%	485.19
2004		11,080,000	4,206,586	15,286,586	17,486,586	1.03%	475.11
2005		10,640,000	4,310,680	14,950,680	16,955,680	0.95%	460.53
2006		10,190,000	4,300,680	14,490,680	16,295,680	0.84%	445.46
2007		9,735,000	4,300,680	14,035,680	15,640,680	0.78%	432.31
2008		9,265,000	4,300,680	13,565,680	14,965,680	0.72%	414.06
2009		8,780,000	4,264,958	13,044,958	14,444,958	(a)	399.65
2010		8,280,000	4,247,215	12,527,215	28,492,215	(a)	777.14

Note : Debt amounts exclude any premiums, discounts, or other amortization amounts.

(a) Personal Income data not available for Fiscal Years 2009 through 2010

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

**CITY OF MARTINEZ
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
JUNE 30, 2010**

2009 - 2010 Assessed Valuation

\$4,390,137,558

	Net Total Debt 06/30/10	(1) % Applicable	City's Share 06/30/10
<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</u>			
Bay Area Rapid Transit District	\$420,000,000	1.005%	\$4,221,000
East Bay Regional Park District	\$196,775,000	1.532%	3,014,593
Contra Costa Community College District	245,795,000	3.402%	8,361,946
Martinez Unified School District	20,969,777	49.169%	10,310,630
Mount Diablo Unified School District	207,525,000	5.945%	12,337,361
Mount Diablo Unified School District Community Facilities District #1	60,080,000	5.945%	3,571,756
City of Martinez	15,000,000	100.000%	15,000,000
City of Martinez Special Assessment District 1915 Act Bonds	790,000	100.000%	790,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT	<u><u>1,166,934,777</u></u>		<u><u>57,607,286</u></u>
 <u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>			
Contra Costa County Certificates of Participation	\$270,430,000	3.389%	\$9,164,873
Contra Costa County Pension Obligations	435,310,000	3.389%	14,752,656
Contra Costa Fire Protection District Pension Obligations	990,000	3.402%	33,680
Contra Costa Community College District Certificates of Participation	5,440,000	5.945%	323,408
City of Martinez Certificates of Participation	965,000	100.000%	965,000
Mount Diablo Unified School District Certificates of Participation	120,180,000	7.633%	9,173,339
TOTAL DIRECT OVERLAPPING GENERAL FUND OBLIGATION DEBT	<u><u>\$833,315,000</u></u>		<u><u>\$34,412,956</u></u>
 COMBINED TOTAL DEBT			 <u><u>\$92,020,242</u></u> (2)

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

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

RATIOS TO 2009 - 2010 ASSESSED VALUATION:

Combined Direct Debt (\$15,000,000)	0.34%
Combined Direct Debt (\$16,185,000)	0.36%
Total Direct and Overlapping Tax Assessment Debt	1.31%
Combined Total Debt	2.10%

Source: California Municipal Statistics, Inc.

**CITY OF MARTINEZ
COMPUTATION OF LEGAL BONDED DEBT MARGIN
JUNE 30, 2010**

ASSESSED VALUATION:

Secured property assessed value, net of exempt real property	<u>\$4,209,965,901</u>
---	------------------------

BONDED DEBT LIMIT (3.75% OF ASSESSED VALUE) (a)	<u>\$157,873,721</u>
---	----------------------

AMOUNT OF DEBT SUBJECT TO LIMIT:

Total Bonded Debt	\$15,965,000
-------------------	--------------

Less Tax Allocation Bonds and Sales Tax Revenue Bonds, Certificate of Participation not subject to limit	<u>965,000</u>
---	----------------

Amount of debt subject to limit	<u>15,000,000</u>
---------------------------------	-------------------

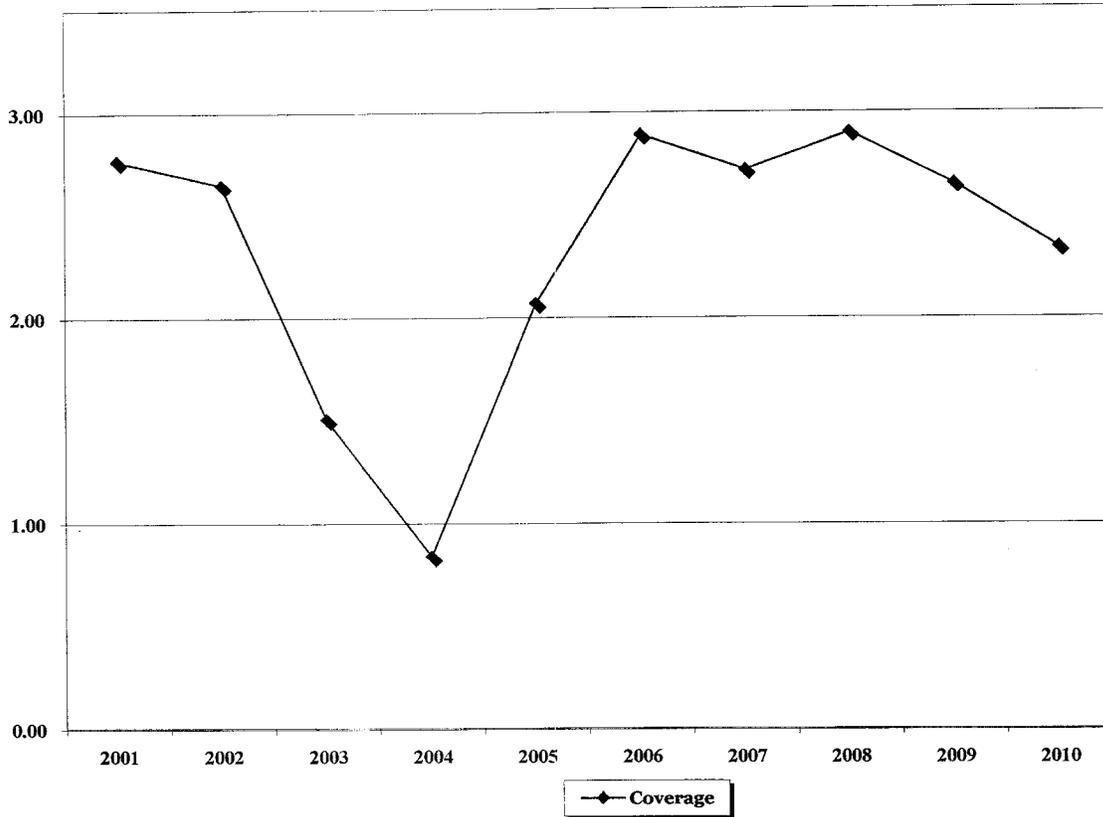
LEGAL BONDED DEBT MARGIN	<u>\$172,873,721</u>
--------------------------	----------------------

Fiscal Year	Debt Limit	Total Net Debt Applicable to Limit	Legal Debt Margin	Total net debt applicable to the limit as a percentage of debt limit
2001	\$411,579,860		\$411,579,860	
2002	448,740,618		448,740,618	
2003	466,375,730		466,375,730	
2004	502,873,709		502,873,709	
2005	540,528,077		540,528,077	
2006	140,035,535		140,035,535	
2007	149,024,084		149,024,084	
2008	160,386,084		160,386,084	
2009	180,020,110	\$15,000,000	165,020,110	9.09%
2010	179,630,158	15,000,000	164,630,158	9.11%

NOTE:

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

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

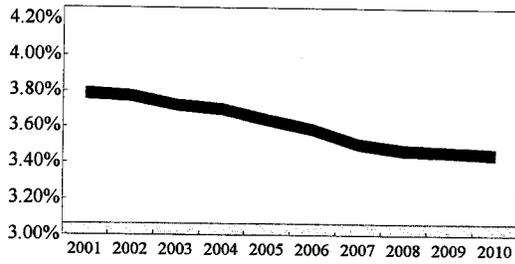


Fiscal Year	Gross Revenue (1)	Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
2001	\$8,237,045	\$5,421,206	\$2,815,839	\$450,000	\$568,295	\$1,018,295	2.77
2002	7,993,114	6,394,582	1,598,532	130,000	472,599	602,599	2.65
2003	8,113,806	6,745,535	1,368,271	425,000	481,589	906,589	1.51
2004	8,545,760	7,795,532	750,228	440,000	457,036	897,036	0.84
2005	9,435,677	7,573,964	1,861,713	450,000	449,143	899,143	2.07
2006	9,726,463	7,160,841	2,565,622	455,000	433,661	888,661	2.89
2007	10,188,402	7,760,258	2,428,144	470,000	423,808	893,808	2.72
2008	10,287,823	7,706,998	2,580,825	485,000	406,326	891,326	2.90
2009	10,285,545	7,924,631	2,360,914	500,000	389,642	889,642	2.65
2010	9,906,086	7,823,809	2,082,277	520,000	371,092	891,092	2.34

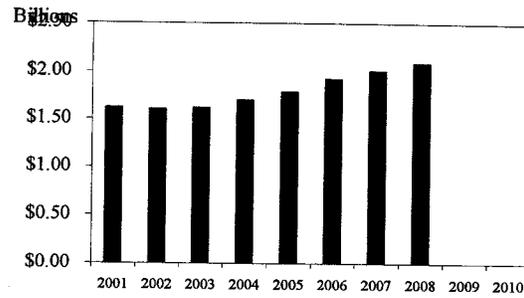
Notes: (1) Includes all Water Operating Revenues, Non-operating Interest Revenue, Connection Fees and other Non-operating Revenue
(2) Includes all Water Operating Expenses less Depreciation and Interest

Source: City of Martinez Annual Financial Statements

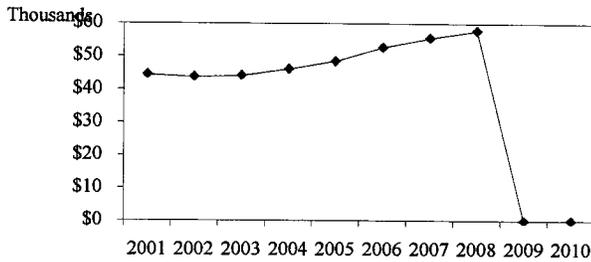
**CITY OF MARTINEZ
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS**



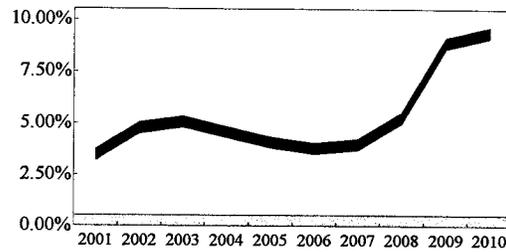
■ City Population as a % of County Population



■ Total Personal Income (a)



◆ Per Capita Personal Income (a)



■ Unemployment Rate (%)

Fiscal Year	City Population	Total Personal Income (a)	Per Capita Personal Income (a)	Unemployment Rate (%)	Contra Costa County Population	City Population % of County
2001	36,500	\$1,624,578,500	\$44,509	3.2%	972,103	3.75%
2002	36,715	1,608,594,295	43,813	4.5%	981,600	3.74%
2003	36,700	1,621,846,400	44,192	4.8%	994,900	3.69%
2004	36,805	1,700,795,855	46,211	4.3%	1,003,909	3.67%
2005	36,818	1,790,017,524	48,618	3.8%	1,020,898	3.61%
2006	36,582	1,928,968,860	52,730	3.5%	1,029,377	3.55%
2007	36,179	2,010,828,820	55,580	3.7%	1,042,341	3.47%
2008	36,144	2,091,797,856	57,874	5.0%	1,051,674	3.44%
2009	36,348	(b)	(b)	8.6%	1,060,435	3.43%
2010	36,663	(b)	(b)	9.1%	1,073,055	3.42%

NOTES: (a) Per capita personal income are only available for Contra Costa County.
 Personal income is the product of the countywide per capita amount multiplied by the City's population.
 (b) Data for Fiscal Years 2009 - 2010 not available

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

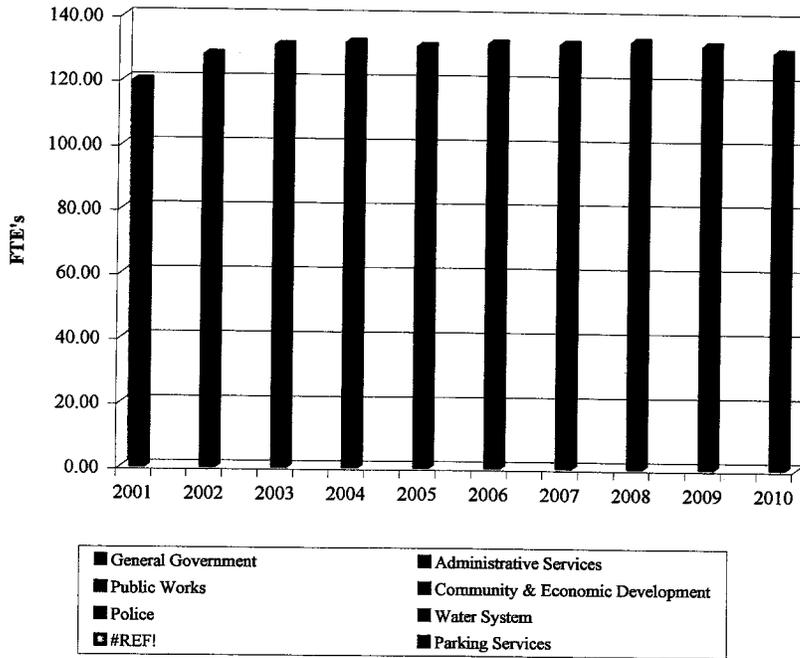
CITY OF MARTINEZ
Principal Employers
Current Year and Four Years Ago

<u>Employer</u>	<u>2009 - 2010</u>			<u>2005 - 2006</u>		
	<u>Number of Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	<u>Number of Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
Contra Costa County (a)	9,847	1	45.0%	1,700	1	8.1%
Shell Oil Refinery	742	2	3.4%	700	4	3.3%
Kaiser Permanente	722	3	3.3%	1,000	2	4.7%
Veterans Admin Medical Center	650	4	3.0%	950	3	4.5%
Martinez Unified School District	380	5	1.7%	425	6	2.0%
Wal-Mart Store	234	6	1.1%	350	7	1.7%
Safeway Stores	174	7	0.8%			0.0%
Contra Costa Electric	150	8	0.7%	500	5	2.4%
City of Martinez	127	9	0.6%	170	9	0.8%
Home Depot	120	10		250	8	1.2%
Telfer Oil Lines				100	10	0.5%
Subtotal	<u>13,146</u>		<u>60.0%</u>	<u>6,145</u>		<u>28.1%</u>
Total City Labor Force	<u>21,900</u>			<u>21,100</u>		

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

Source: Muni Services, LLC

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



	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Function										
General Government	3.00	3.00	3.00	3.00	4.00	4.00	4.00	3.00	3.00	3.00
Administrative Services	9.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00
Public Works	5.00	7.00	7.00	7.00	7.00	7.00	7.00	34.00	30.00	30.00
Community & Economic Development	38.50	40.80	41.80	41.80	40.80	40.80	40.80	15.80	15.80	13.80
Police	50.00	53.00	55.00	56.00	55.00	55.00	55.00	55.00	55.00	55.00
Water System	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	16.00	16.00
Parking Services						1.00	1.00	1.00	1.00	1.00
Total	<u>118.50</u>	<u>127.80</u>	<u>130.80</u>	<u>131.80</u>	<u>130.80</u>	<u>131.80</u>	<u>131.80</u>	<u>132.80</u>	<u>131.80</u>	<u>129.80</u>

Source: City of Martinez Administrative Services Department

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

Function/Program	2001	2002	2003
Public safety:			
Police:			
Police calls for Service	25,298	26,439	26,621
Law violations:			
Part I and Part II crimes	7,711	5,123	5,663
Physical arrests (adult and juvenile)	1,351	1,556	1,716
Traffic violations	2,625	2,233	2,507
Parking violations	9,662	16,976	8,454
Public works			
Street resurfacing			
Seal Coat (miles)	n/a	2	3.68
Asphalt overlay (miles)	n/a	3	n/a
Culture and recreation:			
Community Services:			
Number of recreation classes	n/a	n/a	n/a
Number of community events	n/a	n/a	n/a
Number of facility rentals	n/a	n/a	n/a
Water			
Water service connections	9,766	n/a	9,714
Water main breaks	66	45	n/a
Average daily consumption (thousands of gallons)	5,390	5,650	5,290

Note: n/a denotes information not available.

Source: City of Martinez

Fiscal Year						
2004	2005	2006	2007	2008	2009	2010
31,013	35,621	32,071	30,710	30,354	30,794	29,463
5,742	5,989	5,753	5,460	5,970	4,923	4,343
1,828	2,213	1,886	1,693	1,714	1,585	1,655
3,477	3,117	1,872	1,642	1,340	2,598	2,985
7,505	8,267	4,992	5,929	8,895	8,790	8,864
9.47	n/a	6	5.42	5.60	3.41	14.75
1	1.89	2.40	0.70	0.57	0.89	1.70
413	434	459	595	596	462	504
48	45	52	55	55	67	69
323	415	413	253	286	273	290
9,814	9,900	9,902	9,900	9,988	10,012	9,869
61	51	54	35	52	46	38
5,770	5,060	5,210	5,214	4,948	4,663	3,970

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

Function/Program	2001	2002	2003
Public safety:			
Police stations	1	1	1
Police sworn officers	38	39	39
Public works			
Miles of streets	122	122	122
Street lights	n/a	n/a	4,994
Traffic Signals	n/a	n/a	253
Culture and recreation:			
Community services:			
City parks	16	16	16
City parks acreage	271	271	271
Playgrounds	10	10	10
City trails	9	9	9
Roadway landscaping acreage	11	11	11
Community gardens	1	1	1
Senior centers	1	1	1
Performing arts centers			1
Swimming pools	1	1	1
Tennis courts	9	9	9
Skateboard Park			
Baseball/softball diamonds	8	8	8
Soccer fields	7	7	7
Water			
Miles of water lines	100	100	100
Storage capacity (thousands of gallons)	9,522,000	9,522,000	9,522,000

Note: n/a denotes information is not available.
Source: City of Martinez

Fiscal Year						
2004	2005	2006	2007	2008	2009	2010
1	1	1	1	1	1	1
39	39	39	39	39	39	39
122	122	122	122	122	122	122
4,994	4,994	4,994	4,994	4,996	5,005	5,005
253	253	253	253	265	265	265
16	16	16	17	17	17	17
271	271	271	271	271	271	271
10	10	10	14	14	14	14
9	9	9	9	9	9	9
11	11	11	11	12	12	12
1	1	1	1	1	1	1
1	1	1	1	1	1	1
1	1	1	1	1	1	1
1	1	1	1	1	1	1
9	9	9	10	10	10	10
1	1	1	1	1	1	1
8	8	8	11	11	11	11
7	7	7	7	7	7	7
100	100	100	100	100	100	100
9,522,000	9,522,000	9,522,000	9,522,000	9,522,000	9,522,000	9,522,000

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**CITY OF MARTINEZ
AGREED UPON PROCEDURES REPORT ON
COMPLIANCE WITH THE PROPOSITION 111
2009-2010 APPROPRIATIONS LIMIT INCREMENT**

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

We have applied the procedures below to the Appropriations Limit Computation Worksheet for the City of Martinez for the year ended June 30, 2010. These procedures, which were suggested by the League of California Cities and presented in their Article XIII B Appropriations Limitation Uniform Guidelines, were performed solely to assist you in meeting the requirements of Section 1.5 of Article XIII B of the California Constitution. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the AICPA. The sufficiency of the procedures is solely the responsibility of the specified users of this report. 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 response. This report is intended for the information 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.

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

- A. We obtained the Appropriations Limitation Worksheet and determined that the 2009-2010 limit of \$144,475,902 and annual adjustment factors were adopted by resolution of City Council. We also determined that the population and inflation options were selected by a recorded vote of the City Council.
- B. We recomputed the 2009-2010 Current Appropriations Limit by multiplying the 2008-2009 Prior Year Appropriations Limit by the annual adjustment factors.
- C. For the Appropriations Limitation Worksheet, we agreed the Per Capita Income, County and City Population Factors to California State Department of Finance Worksheets.

These agreed-upon procedures are substantially less in scope than an audit, the objective of which is the expression of an opinion on the Appropriations Limitation Worksheet. Accordingly, we do not express such an opinion. Had we performed additional procedures or had we made an audit of the Worksheet and the other completed worksheets described above, matters might have come to our attention which would have been reported to you.

Maze & Associates

September 16, 2010

CITY OF MARTINEZ
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS
FOR THE YEAR ENDED
JUNE 30, 2010

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

For the Year Ended June 30, 2010

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MEMORANDUM ON INTERNAL CONTROL

September 16, 2010

To the City Council of
the City of Martinez, California

We have audited the financial statements of the City of Martinez for the year ended June 30, 2010, and have issued our report thereon dated September 16, 2010. In planning and performing our audit of the financial statements of the City of Martinez as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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 did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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

The City'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 generally accepted government auditing standards, and is not intended to be and should not be used by anyone other than these specified parties.

Maye & Associates

**CITY OF MARTINEZ
MEMORANDUM ON INTERNAL CONTROL
SCHEDULE OF OTHER MATTERS
JUNE 30, 2010**

2010-01 Capital Asset Identification

- **Criteria** – The City should identify its Capital Assets with a sticker or tag that shows the asset is property of the City of Martinez and give the asset an identifying number to be able to easily identify it for capital asset inventory.
- **Condition** – The City identifies its assets by description and/or location, and serial number if applicable and vehicles are identified by vehicle identification number (VIN) number. However, the City does not identify the equipment with metal tags or bar codes.
- **Cause and Effect** – Without any sticker or bar codes, keeping track of the City’s assets becomes a more difficult task than necessary.
- **Recommendation** – The City should consider including identifying numbers or tags on all of its capital assets in order to track the assets and assist with the inventory process.

Management Response:

All vehicles, except unmarked police vehicles, are given a unit number and tagged with that number and the City emblem. Unmarked police vehicles are given a unit number, but are untagged with that number or carry the City emblem. The City capitalizes assets over \$5,000 and will look into tagging those pieces of equipment that fall under the capitalization policy. Most capitalized assets are infrastructure and therefore are unable to be tagged.

Upcoming GASB

2010-02 – Upcoming GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (Effective for fiscal 10/11)

This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered **nonspendable**, such as fund balance associated with inventories. This Statement also provides for additional classification as **restricted, committed, assigned, and unassigned** based on the relative strength of the constraints that control how specific amounts can be spent.

The **restricted** fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

The **committed** fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority. Amounts in the **assigned** fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds *other than the general fund*, assigned fund balance represents the remaining amount that is not restricted or committed.

CITY OF MARTINEZ
MEMORANDUM ON INTERNAL CONTROL
SCHEDULE OF OTHER MATTERS
JUNE 30, 2010

Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. *In other funds*, the unassigned classification should be *used only to report a deficit balance* resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

Disclosure of the policies in the notes to the financial statements is required.

This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements.

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

REQUIRED COMMUNICATIONS

September 16, 2010

City Council
City of Martinez,
Martinez, California

We have audited the financial statements of the City of Martinez as of and for the year ended June 30, 2010 and have issued our report thereon dated September 16, 2010. Professional standards require that we advise you of the following matters relating to our audit.

Financial Statement Audit Assurance: Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit in accordance with generally accepted auditing standards does not provide absolute assurance about, or guarantee the accuracy of, the financial statements. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is an inherent risk that material errors, fraud, or illegal acts may exist and not be detected by us.

Other Information Included with the Audited Financial Statements: Pursuant to professional standards, our responsibility as auditors for other information in documents containing the City's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. Our responsibility also includes communicating to you any information that we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements. This other information and the extent of our procedures is explained in our audit report.

Accounting Policies: Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in Note 1 to the financial statements. There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during 2010.

Unusual Transactions, Controversial or Emerging Areas: No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Estimates: Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments.

The most sensitive accounting estimate affecting the financial statements is the fair value of investments.

- *Estimated Fair Value of Investments:* As of June 30, 2010, the City held approximately \$45.4 million of cash and investments as measured by fair value. Fair value is essentially market pricing in effect as of June 30, 2010. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2010.

Disagreements with Management: For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the City's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Retention Issues: We did not discuss any major issues with management regarding the application of accounting principles and auditing standards that resulted in a condition to our retention as the City's auditors.

Difficulties: We encountered no serious difficulties in dealing with management relating to the performance of the audit.

Audit Adjustments: For purposes of this communication, professional standards define an audit adjustment, whether or not recorded by the City, as a proposed correction of the financial statements that, in our judgment, may not have been detected except through the audit procedures performed. These adjustments may include those proposed by us but not recorded by the City that could potentially cause future financial statements to be materially misstated, even though we have concluded that the adjustments are not material to the current financial statements.

We did not propose any audit adjustments that, in our judgment, could have a significant effect, either individually or in the aggregate, on the City's financial reporting process.

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

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

Maye & Associates