



CITY OF MARTINEZ

**CITY COUNCIL AGENDA
November 2, 2011**

TO: Mayor and City Council
FROM: Cathy Spinella, Finance Manager
SUBJECT: Comprehensive Annual Financial Report (CAFR) for Fiscal Year Ended June 30, 2011
DATE: October 26, 2011

RECOMMENDATION:

Receive and file the Comprehensive Annual Financial Report (CAFR) for Fiscal Year ended June 30, 2011. The City's auditor and staff reviewed the report with the Budget Subcommittee on October 25, 2011 and the Subcommittee recommended forwarding to the City Council.

BACKGROUND:

Each fiscal year the City is 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, 2011, and the audit was conducted in accordance with generally accepted auditing standards. Those standards require the auditor to plan and perform the audit to obtain reasonable assurances as to whether the financial statements are free of material misstatement. The audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and assessing the accounting principles used and significant estimates made by staff.

It is the opinion of the auditors that the financial statements fairly represent the financial position of the City as of June 30, 2011, 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 2010-11. The Finance Division was responsible for the coordination of the audit process, the completion of the year-end closing, and the preparation of the Comprehensive Annual Financial Report (CAFR).

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

Complete financial information as of June 30, 2011 is contained in the CAFR. Key information contained in the CAFR is stated below:

- The General Fund ended at June 30, 2011 with revenues of \$18,638,274, of which \$187,500 was in one-time revenues consisting of \$77,800 in annual VLF excess fees that hadn't been paid by the State since 2006; \$47,700 in permit fees; \$32,000 in building deposits not refunded; and \$30,000 in abandon vehicles due to a comprehensive clean-up effort in the City. Operating expenditures were \$19,538,821 and \$32,924 in encumbrances that will be re-appropriated to Fiscal Year 2011-12. Expenses, less encumbrances, were \$316,496 under budget due to expenses being held by reducing costs in Parks and Street Maintenance by \$166,000; \$40,000 in Building due to job costing on projects; and \$50,000 in Police salary and overtime savings. The \$900,547 operating deficit was largely attributable to the \$631,914 payoff of the Miscellaneous PERS Side Fund.

In addition, \$450,000 was transferred to fund the purchase of police radio equipment for a multi-county communication project, and \$184,000 was transferred to the Marina to fund technical studies associated with the permitting phase of the Marina Reconstruction Project.

The General Fund closed with an unassigned fund balance of \$3,323,175 with an additional \$1,000,000 designated for unforeseen contingencies.

- 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 \$7,351,236 and unrestricted of \$7,004,962, which can be used for future projects and debt service. The Marina ended June 30, 2011 with negative unrestricted net assets of \$759,646, and Parking Services ended with unrestricted net assets of \$749,742 and \$125,000 restricted for capital projects.
- Internal Service Funds account for the financing of goods and services provided by one department to other departments on a cost-reimbursement basis. The City has two Internal Service Funds. The Equipment Replacement Fund accounts for the accumulation of funds for the maintenance and subsequent replacement of City equipment. 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 were \$2,437,167 at June 30, 2011.

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. Last year the auditors included a recommendation under Schedule of Other Matters concerning capital asset identification, which the City was unable to implement due to funding. This recommendation has been restated this year. Also, the auditors noted that the City is in compliance with GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Types. The June 30, 2011 CAFR is stated with the new terminology.

FISCAL IMPACT:

None.

ACTION:

Motion to receive and file the Comprehensive Annual Financial Report (CAFR) for fiscal year ended June 30, 2011.

Attachments:

- Comprehensive Annual Financial Report
- Water System Financial Statements
- Marina System Financial Statements
- Appropriations Limit Increment for 2010-11
- Memorandum on Internal Controls and Required Communication

APPROVED BY:



City Manager

CITY OF MARTINEZ, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2011

Prepared by
ADMINISTRATIVE SERVICES DEPARTMENT

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Comprehensive Annual Financial Report
For the Year Ended June 30, 2011

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November 2, 2011

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, 2011. 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 (please see Note 1A to the Financial Statements for full description). 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 35,958 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 fund 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 \$18,638,274 in Fiscal Year 2010-11, an increase of 2.2% from the prior fiscal year. All categories, but charges for services and use of money & property, had increases. The largest increases were in Taxes of \$206,926 (primarily in Sales Tax), and Miscellaneous of \$109,334, due to an insurance rebate. Taxes totaling \$15,809,271 represented approximately 85% of total General Fund revenues, with \$6,413,918 (or 34% of the General Fund revenues) coming from Property Taxes. Other revenue sources comprising the remaining 15% of General Fund revenues included Licenses, Permits and Fees; Intergovernmental; Charges for Services; Fines and Forfeits; Use of Money and Property; and Miscellaneous. General Fund expenditures totaled \$19,538,821 and transfers out totaled \$667,096 in Fiscal Year 2010-11. Actual expenditures were \$349,420 less than budgeted expenditures, with an additional \$32,924 in encumbrances. The General Fund ended Fiscal Year 2010-11 with an unassigned fund balance of \$4.3 million with \$1 million designated for unforeseen circumstances.

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 Parks, Recreation, Marina and Cultural Commission (PRMCC). The City is working to establish a long-term lease arrangement to provide for the marina's financial stability and ensure that the facility is available for the enjoyment of marina users, residents and visitors for years to come.

The outlook for Martinez is affected by the larger economies. The depths of the recent recession that began in December 2007 were not fully realized until June 2009, according to statistical data of the nation's economic activity evaluated by the National Bureau of Economic Research. Despite almost two years of improving economic activity (measured by the nation's Gross Domestic Product), fundamental concerns remain. The most recent national unemployment data released by the Bureau of Labor Statistics indicated that 13.9 million Americans were unemployed for a rate of 9.2% in June 2011, with almost half of those (6.3 million) considered long-term unemployed for a period of 27 weeks or longer.

The latest data released by the US Bureau of Economic Analysis revealed that the GDP increased at an annual rate of just 1.0% in the second quarter of 2011, up from the marginal 0.4% increase seen in the first quarter of 2011. Not surprising, state and local government spending continued to decline. This latest rash of poor economic news has stoked fears of a double-dip recession. Many of the fundamental problems that compounded the recession, such as tightness in the credit markets following the housing market collapse, persist with no clear end in sight. As was almost uniformly predicted by leading economists, the duration and severity of the national economic crisis – the likes of which had not been seen since the Great Depression of the 1930's – was so widespread and impactful that true and lasting recovery will be measured in years and not months.

The economy in California continues to struggle. As is often the case, California's economy leads the nation during the boom times, but often lags behind during recessionary periods and the resultant aftermath. The June 2011 figures from the California Economic Development Department showed the State's unemployment rate at 12.1%, and the rate is not projected to dip below double digits until 2013 according to the UCLA Anderson Forecast. The County's unemployment rate for the same period was 11.0, with the City's rate trending slightly lower at 8.9%. As a point of reference, the County's unemployment rate for the entire year of calendar 2007 was at or below 5%, and the City's annualized rate was 3.7%. True economic recovery at the national, state and local levels is not expected until the rate drops well below 10%.

The East Bay continues to struggle with the housing slowdown. After the precipitous falls to housing values in 2008 and 2009, median home sales prices stabilized overall to some degree, but fluctuated both up and down throughout the majority of 2010, with any increases minimal at best. The median home sale value in Martinez increased 1.8% from the first to second quarters of 2011, but still declined 14.3% in the second quarter of 2011 compared to the same period a year ago (from \$345,991 to \$296,646). As a point of reference, the median home sale value in Martinez in June 2008 was \$415,000. The number of foreclosed properties in Martinez through the second quarter of 2011 was 172, up 21.9% for the same period of 2010, and a sign that the local housing market has not yet reached the stability needed to begin a lasting upward trend.

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

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

Major Initiatives and Objectives

Public Safety. In an effort to expand our Community Policing efforts and improve police-citizen interaction, the City's Police Department implemented a Neighborhood Policing Initiative that calls for each patrol officer to address issues and take responsibility for one of twenty four geographic neighborhoods. This approach will be continuously evaluated and include citizen feedback. Another significant milestone will occur in the coming fiscal year, when the Department completes a major communications project which will allow for interoperability throughout the region. The project will require the purchase of "P25" portable and mobile radios and will be completed through a combination of grant support and other funding already reserved for the project.

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 included construction of the 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 was completed in July 2011. This project, supported through a Council-designated allocation of \$6 million in Measure H funds, included the complete demolition of the site and the construction of a play pool and recreational pool; pool house building with equipment rooms and administrative spaces; decking and miscellaneous site and frontage improvements. The City reopened the pool on July 23, 2011 and achieved record participation rates through the end of the pool season in September. The pool reopens in May 2012, and in the interim, the City will look at ways to further market the pool to a wider audience and bring in additional revenue to help support the increased costs of the new facility.

The Library Renovation and Expansion project was completed in August 2011 at a cost of just under \$2 million in Council-designated Measure H funding. The project included the installation of an elevator to both make the area ADA-accessible and improve circulation. A community meeting room was added to the lower level, along with research and reading spaces. The enhanced facility has received glowing reviews since reopening.

A variety of other parks projects funded through Measure H are underway, including construction at Holiday Highlands Park and Rankin Park which will involve ADA compliance, playground, and turf improvements. Similar improvements planned for Hidden Lakes Park, Hidden Valley Park, and Waterfront Park and expected to commence this fiscal year.

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 was formed to oversee the development of a new General Plan. The Task Force, which represents the different interests and geographic areas of the City, participated in four public workshops in Fall 2010 to develop a working vision for the General Plan Update. The Task Force generally meets every month and will do so until the draft updated General Plan has been completed.

Simultaneously, the City has been hosting a series of workshops and tours designed to "refresh" the vision for Downtown Martinez. This series is part of the General Plan Update process and will identify the choices, trade-offs, priorities, and strategic actions required for the Downtown to prosper in the 21st Century. The series was organized in response to the large number of comments received about Downtown Martinez during the first round of community outreach for the Update conducted last fall. The community feels that making the Downtown a more successful gathering place and commercial center should be a top priority. The primary purpose for this effort is to reach out to the community and pertinent stakeholders to hear their thoughts and ideas on how to help transform Downtown Martinez and realize its full potential as a community destination.

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 Letters of Intent with two private development organizations for reuse of the buildings as indoor court and turf field recreational facilities in May/June 2011, and completed an environmental analysis in August 2011. Next steps will be a public hearing with the Planning Commission in October 2011 to permit recreational uses in the Light Industrial area, and finalizing the leases with the developers. Successful development of the facilities could have a significant and positive impact on downtown businesses that would serve the clientele.

The City is working with a private developer on options for the 630 Court Street property, a cornerstone location in the City's downtown held in escrow by the City. An adjacent property located at 610 Court Street, owned by Contra Costa County, may become surplus property in the near future and an attractive option for private development. The City's Economic Development Subcommittee will continue to meet regularly to discuss the City's role in the development of the two properties, and to facilitate negotiations with prospective developers to attract restaurant, retail, and office space.

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, which runs through March 2012.

The City is using the new government access “City Channel” as a means to promote economic development in Martinez, and has enlisted the Chamber of Commerce and Main Street Martinez to provide promotional content. An example of this type of promotional programming is the 10-minute spot on the local farmers’ markets that began airing in September 2011. The City is also expanding its use of digital media for marketing through its website and social media outlets.

Transportation Improvements. The Marina Vista Streetscape project was designed and constructed to include new paver sidewalks; sidewalk bulb outs; decorative energy-efficient LED streetlights; handicap ramps; bicycle lanes; and landscaping. The final task will be to complete the undergrounding of overhead utilities later this fiscal year. The project limits are along Marina Vista from Berrellesa Street to the junction with Escobar Street.

Other key transportation projects on the horizon include the preliminary design of the Court Street Overcrossing Project to provide emergency access from the City’s waterfront over the railroad tracks to Escobar Street, and the design and reconstruction of the Intermodal parking lot north of the railroad tracks to accommodate overflow Amtrak parking.

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 was reviewed by the City’s Planning Commission in August 2010 (the last of three public hearings on the matter) and approved by the City Council in December 2010. The requisite tax sharing agreement with Contra Costa County is being finalized, and the annexation will be brought before the Contra Costa County Local Agency Formation Commission (LAFCO) in the near future for consideration.

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 was reviewed by the City’s Planning Commission and approved by the City Council in January 2011. The requisite tax sharing agreement with Contra Costa County is being finalized, and the annexation will be brought before the Contra Costa County Local Agency Formation Commission (LAFCO) in the near future for consideration.

New Government Access Channel. The City launched its new government access “City Channel” in June 2011. The channel is a joint venture among the cities of Martinez, Pleasant Hill and Clayton, and operated by Contra Costa Television (CCTV). Programming alternates among the member cities, with specific time slots reserved for the playback of the various city meetings. Program content initially consisted of bulletin board announcements of City services and events, with additional video content beyond the playback of the Council meetings interspersed within the City’s dedicated programming blocks as the member cities develop more content. As was previously mentioned, the City is excited to use this medium as a means to promote economic development in Martinez and has enlisted the Chamber of Commerce and Main Street Martinez to provide promotional content for the channel.

Climate Action Plan/Sustainability Programs. The City made significant progress in 2010-11 implementing its Climate Action Plan. The City upgraded its electric vehicle (EV) charging stations at three sites in the downtown area from 120V to 240V to accommodate the rapidly-growing market for electronic vehicles, such as the Nissan Leaf and Chevy Volt, capable of inter-city transportation on major highways and freeways. The City also completed installation of 114 energy efficient LED lights in the downtown area using \$150,800 in Federal grant funding. The LED's will require 40% to 50% less energy consumption and save the City approximately \$15,800 each year.

Another key initiative was when the City partnered with Contra Costa County's Department of Conservation and Development to conduct a public workshop in June 2011 to promote the "Energy Upgrade California in Contra Costa" program. This program provides homeowners with rebates of up to \$9,000 in combined PG&E and County funding for qualifying projects such as insulation, ducts, furnaces and air-conditioning to improve a home's energy efficiency. The City arranged for taping of the workshop presentation, which is now being aired on the City Channel. Rebroadcast of the workshop will continue until the program expires in March 2012.

The City also successfully secured, as a condition of the 10 year franchise extension granted to the City's solid waste and recycling hauler Allied Waste Systems, dedicated funding of \$25,000 per year for its diversion reporting (i.e. AB939/SB1016) and Climate Action Plan programs. This funding is guaranteed until 2023 and will help support expansion of the City's sustainability efforts.

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. Activities 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 department 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 for a variety of projects or programs, the City is responsible for ensuring that an adequate control structure is in place to comply with applicable laws and regulations related to those projects or programs. This internal

control structure is subject to periodic evaluation by management and the finance staff of the City.

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

The General Long-term Obligations Account Group provides accounting control over the principal of the City's general long-term debt. This debt will be repaid only out of governmental funds, but is not accounted for in these funds because this debt does not require an appropriation or expenditure in this accounting period. The City's long-term obligations are reported in the Statement of Net 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 primary General Long-term Obligations consist of Certificates of Participation from 1992, which was refunded in March of 2003. This debt is explained in detail in Note 7 to the Financial Statements.

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

Risk Management. The City is a member of the Municipal Pooling Authority (MPA) a Joint Powers Agency that covers general liability losses up to \$29 million. The City has a deductible of up to \$10,000 per claim. The City's Safety Program, Property Insurance, and Workers' Compensation reporting are all coordinated through the MPA.

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 Officer's Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Martinez for its comprehensive annual financial report for the fiscal year ended June 30, 2010. This was the tenth consecutive award the City has received from GFOA. In order to be awarded a Certificate of Achievement, a City must publish an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both Generally Accepted Accounting Principles and applicable legal requirements.

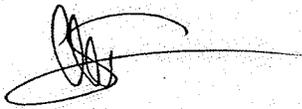
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program requirements.

The CSMFO Board of Directors determined in 2006 to return to the original intent of its awards program, which allows submissions from agencies who are participating in the CAFR review program for the first time or from agencies that do not participate in the rigorous GFOA program. Since the City submits its CAFR to GFOA for award consideration, it is no longer eligible to participate in the CSMFO award program.

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, Cathy Spinella, Finance Manager; 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,



Alan Shear
Assistant City Manager

City of Martinez Key Personnel

June 30, 2011

City Council

Rob Schroder, Mayor

Janet Kennedy, Vice Mayor

Lara Delaney, Councilmember

Michael Menesini, Councilmember

Mark Ross, Councilmember

Council Appointees

Philip Vince, City Manager

Alan H. Shear, Assistant City Manager

Gary D. Peterson, Chief of Police

Elected Officials

Gary Hernandez, City Clerk

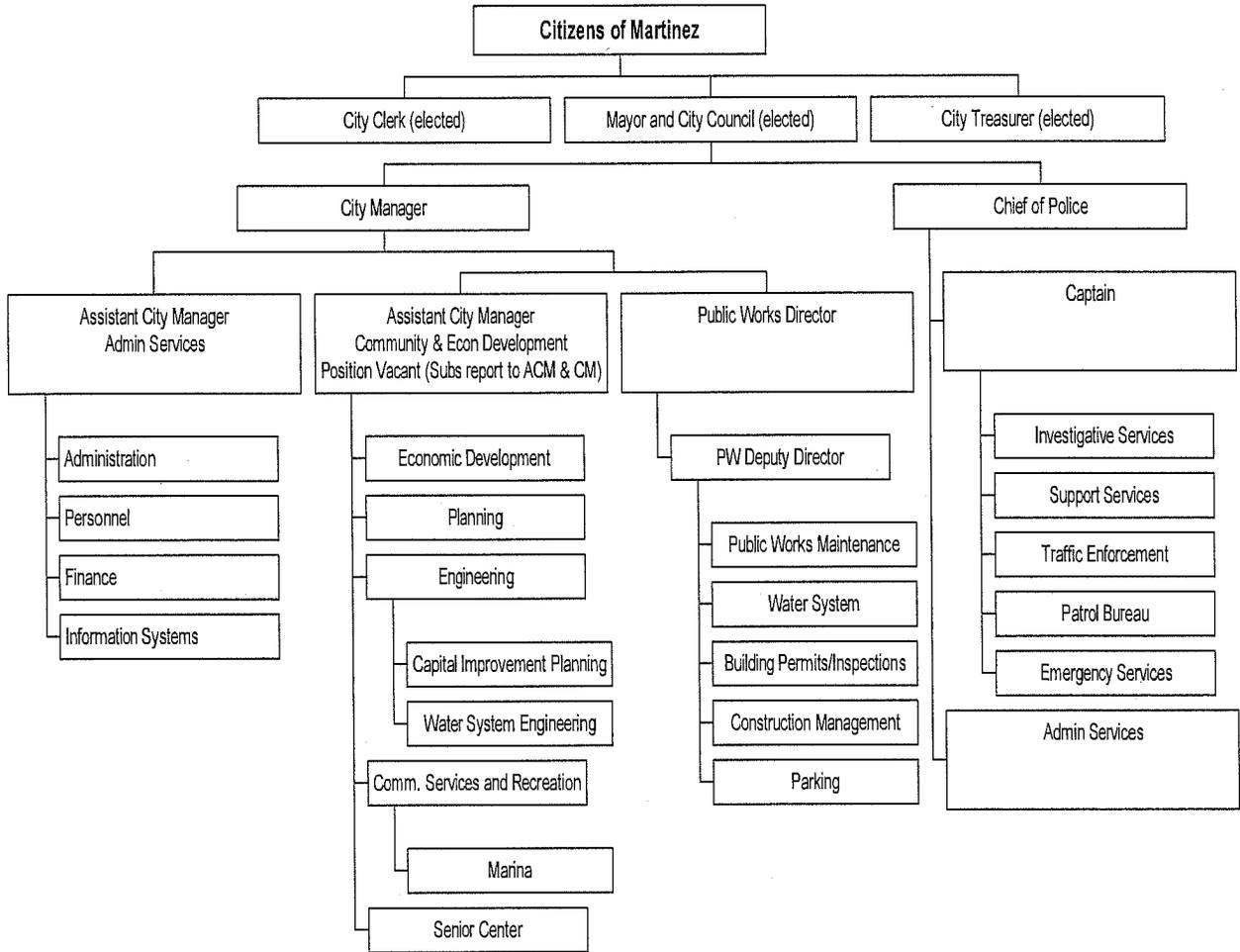
Carolyn Robinson, City Treasurer

City Staff

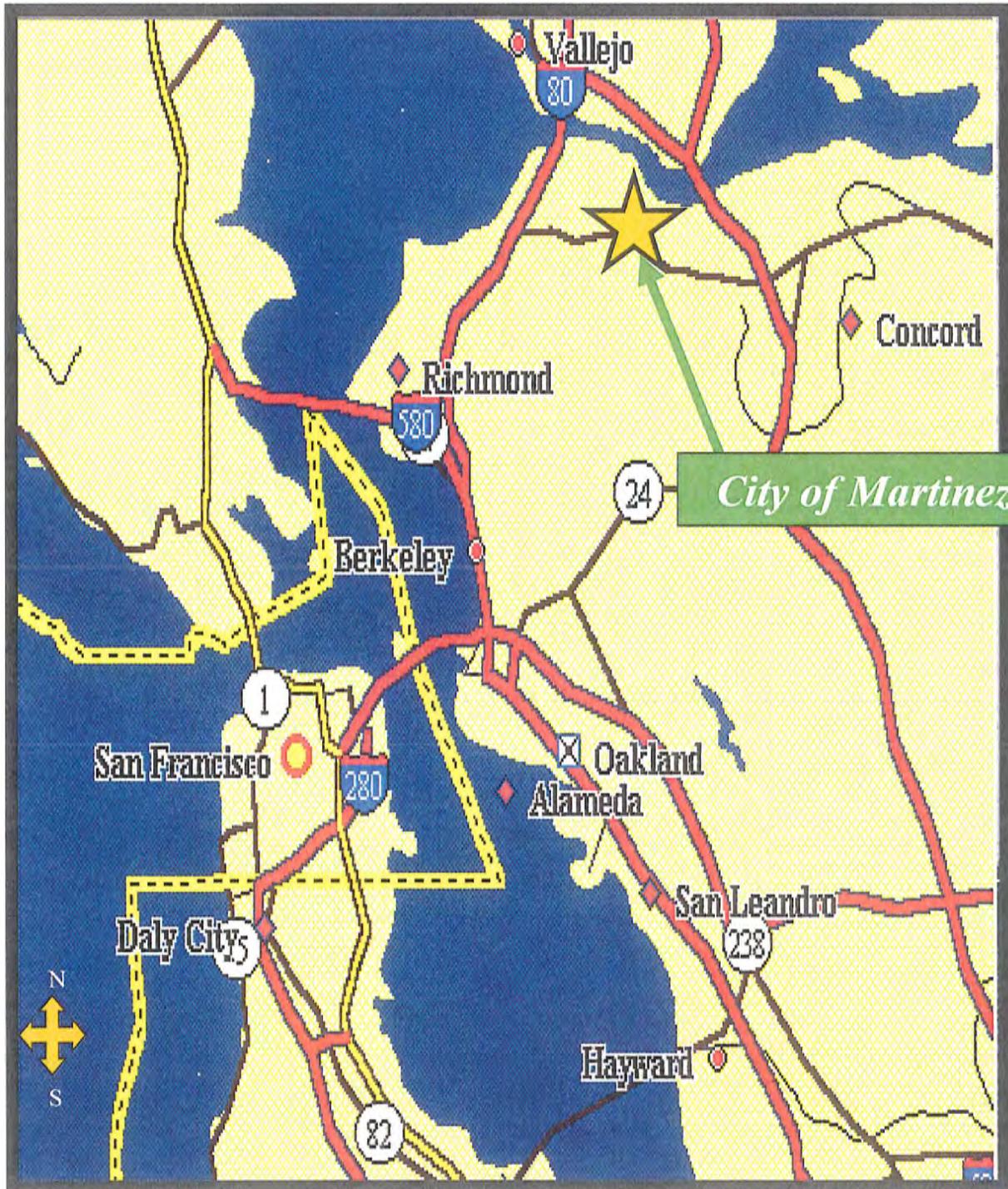
Cathy Spinella, Finance Manager

David Scola, Public Works Director

CITY OF MARTINEZ



AREA MAP



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City of Martinez
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

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President

Executive Director

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**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, 2011 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, 2011 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 9, 2011 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.

As of July 1, 2010, the City adopted the provisions of Governmental Accounting Standards Board Statement Number 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. As discussed in Note 10.B. to the financial statements, the provisions of this statement affect the classification of fund balances reported in the financial statements.

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.

Mage & Associates

September 9, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Martinez 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, 2011. 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 \$104,282,228 at June 30, 2011, up \$1,424,258 from the prior year. Of this total, \$65,515,613 were Governmental assets and \$38,766,615 were Business-type assets.
- Total City revenues were \$36,843,877 in Fiscal Year 2011. General Revenues, which result from both Governmental and Business-type Activities, totaled \$17,512,353. Program Revenues from the Governmental Activities were \$8,988,235, and Program Revenues from the Business-type Activities were \$10,343,289.
- Total City expenses were \$35,419,619 in Fiscal Year 2011. Program Expenses from the Governmental Activities were \$24,485,545 and Program Expenses from the Business-type Activities were \$10,934,074.

General Fund Activities:

- General Fund revenues of \$18,638,274 in Fiscal 2011 represented an increase of \$405,942 from the prior year. General Fund expenditures, including transfers, of \$20,205,917 in Fiscal 2011 represented an increase of \$1,147,763 over the prior year expenditures.
- General Fund balance of \$6,933,881 at June 30, 2011 was \$1,567,643 lower than Fiscal 2010's fund balance of \$8,501,524.

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,
- 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 are comprised of 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 user fees 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 and as in the past, 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, 2011

	Governmental Activities	
	2011	2010
Cash and investments	\$ 25,020,622	\$ 31,284,644
Other assets	8,186,543	7,786,616
Capital assets	52,179,035	44,602,743
Total Assets	85,386,200	83,674,003
Long-term debt outstanding	15,395,000	15,965,000
Other Liabilities	4,475,587	3,877,118
Total Liabilities	19,870,587	19,842,118
Net assets:		
Invested in capital assets, net of debt	46,268,501	43,328,577
Restricted	13,524,459	17,697,648
Unrestricted	5,722,653	2,805,660
Total Net Assets	\$ 65,515,613	\$ 63,831,885

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For the City, net assets increased \$1,683,728 in 2011 to \$65,515,613. The change of Net Assets is reflected in the Statement of Activities shown in Table 2 and is explained below:

- Cash and investments of \$25,020,622 is comprised of \$14,340,524 available for operations and \$10,680,098 restricted for debt service and Measure H capital projects which came from bond proceeds. The decrease of \$6,264,022 from the prior year was due to the general fund expenses exceeding revenues and capital improvements spending revenue received in prior years, which includes \$6 million of bond projects.
- Other assets at \$8,186,543 increased by \$399,927 due primarily in intergovernmental receivables.
- Capital assets increased \$7,576,292, net of depreciation charges, due primarily in infrastructure due to street reconstruction and Measure H park projects.
- Long-term debt declined \$570,000 as no new debt was issued in 2011 and principal payments were made to reduce existing debt.

- Other liabilities increased \$598,469 due mostly to an increase in accounts payable of \$808,040 reflecting higher capital project payables at year end and offset by a reduction in development deposits of \$197,269.
- Net assets invested in capital assets, net of related debt of \$46,268,501 represents the City's investment in capital assets net of amounts borrowed to finance that investment.
- Restricted net assets totaled \$13,524,459 at June 30, 2011 with \$10,940,067 for capital project; \$1,312,460 for debt service; and \$1,271,932 for special revenue projects.
- 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 \$5,722,653 at June 30, 2011.

Table 2 presents the revenues and expenses for the City as a whole, which are elements in the changes in governmental net assets that increased \$1,683,728 in Fiscal Year 2011.

Table 2
Changes in Governmental Net Assets for the Year Ended June 30, 2011

	Governmental Activities	
	2011	2010
Expenses		
General government	\$ 1,888,212	\$ 1,860,433
Administrative Services	871,985	695,828
Public works	4,222,074	3,842,513
Community & economic development	6,024,757	6,725,653
Police	10,665,218	10,616,620
Interest on LTD	813,299	584,615
Total expenses	<u>24,485,545</u>	<u>24,325,662</u>
Revenues		
Program revenues:		
Charges for services	1,645,625	1,542,819
Operating contributions & grants	3,034,131	2,414,403
Capital grants	4,308,479	2,124,450
Total program revenues	<u>8,988,235</u>	<u>6,081,672</u>
General revenues:		
Property tax	6,413,918	6,440,055
Sales tax	3,216,371	2,890,078
VLF Property tax swap	2,516,117	2,553,503
Franchise Fees	1,356,952	1,355,211
Other taxes	2,257,290	2,363,498
Intergovernmental	238,498	178,083
Investment earnings	123,304	187,135
Miscellaneous	1,259,193	893,942
General revenues	<u>17,381,643</u>	<u>16,861,505</u>
Total revenues	<u>26,369,878</u>	<u>22,943,177</u>
Change in net assets before transfers	<u>1,884,333</u>	<u>(1,382,485)</u>
Transfers	<u>(200,605)</u>	<u>(16,605)</u>
Change in net assets	<u>\$ 1,683,728</u>	<u>\$ (1,399,090)</u>

Expenses are defined by governmental function and were \$24,485,545 in Fiscal 2011, up \$159,883 from the prior year. General government increased \$27,779; Administrative Services increased by \$176,157 and Public Works by \$379,561 due to the payoff of a pension liability in 2011; Community and Economic Development expenses decreased by \$700,896, which is reflective of a decrease in staffing, primarily the Assistant City Manager of Economic Development and a decrease in design and planning in capital projects. Police increased by \$48,598; and Interest on long term debt increased by \$228,684 due to a larger interest payment on the bond issued in 2009.

Program revenues totaled \$8,988,235 or 34.09% of total revenues for Fiscal Year 2011, up \$2,906,563 from 2010. 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 \$1,645,625 which are intended to help cover the expenses incurred in providing a variety of City services; Operating Contributions and Grants of \$3,034,131, which is attributable to special revenue funds such as Gas Tax, Measure J and police services; and Capital Grants of \$4,308,479, which includes federal, state and local funding. The large increase is in Capital Grants due to Federal funding on a major street project.

General revenues are not allocable to programs but are used to pay for the net cost of government services. General revenues totaled \$17,381,643 or 65.91% of total revenues, up \$520,138 from Fiscal 2010. Table 2 shows that \$15,760,648 or 90.67% of general revenues came from taxes and the balance of \$1,620,995 or 9.33% 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 37%.

**Table 3
Governmental Activities**

	Net (Expense) Revenue From Services	
	2011	2010
Governmental Activities:		
General government	(1,798,946)	(1,765,898)
Administrative Services	(801,185)	(695,828)
Public works	(3,640,102)	(3,243,371)
Community & economic development	1,215,303	(2,224,480)
Police	\$ (9,659,081)	\$ (9,729,798)
Interest on long term debt	(813,299)	(584,615)
Total Governmental Activities	<u>\$(15,497,310)</u>	<u>\$(18,243,990)</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, 2011

	Business-type Activities	
	2011	2010
Cash and investments	\$ 14,538,282	\$ 13,621,620
Other assets	1,554,180	1,610,249
Capital assets	35,852,256	37,631,541
Total Assets	51,944,718	52,863,410
Long-term debt outstanding	11,988,497	12,527,215
Other Liabilities	1,189,606	1,310,110
Total Liabilities	13,178,103	13,837,325
Net assets:		
Invested in capital assets, net of debt	23,863,759	25,104,326
Restricted	7,941,902	7,148,988
Unrestricted	6,960,954	6,772,771
Total Net Assets	\$ 38,766,615	\$ 39,026,085

As shown in Table 4, the net assets of Business-type activities totaled \$38,766,615 at June 30, 2011, a decrease of \$259,470 from the prior year.

Table 5
Changes in Business-type Net Assets

	2011	2010
Expenses		
Water System	\$ 9,891,686	\$ 10,200,676
Marina Services	558,512	388,591
Parking Services	483,876	451,488
Total expenses	10,934,074	11,040,755
Revenues		
Program revenues:		
Charges for services	10,343,289	10,474,096
Operating contributions & grants	0	0
Capital grants	0	0
Total program revenues	10,343,289	10,474,096
General revenues:		
Taxes	67,403	61,579
Investment earnings	63,307	82,093
Miscellaneous	0	19,387
General revenues	130,710	163,059
Total revenues	10,473,999	10,637,155
Change in net assets before transfers	(460,075)	(403,600)
Transfers	200,605	16,605
Change in net assets	\$ (259,470)	\$ (386,995)

Table 5 shows that the Business-type activities expenses were \$10,934,074 in Fiscal Year 2011. A large amount of the \$106,681 decrease from Fiscal Year 2010 in the Water System was offset by an increase in expenses in Marina and parking.

Total Business-type activities revenues of \$10,473,999 before transfers were down \$163,156 in Fiscal 2011, with decreases in both program revenues of \$130,807 and general revenues of \$32,349.

**Table 6
Business-type Activities**

	Net (Expense) Revenue From Services	
	2011	2010
Business-type Activities:		
Water System	\$ (144,829)	\$ (370,328)
Marina Services	(330,753)	(143,434)
Parking Services	(115,203)	(52,897)
Total Business-type Activities	\$ (590,785)	\$ (566,659)

THE CITY'S FUND FINANCIAL STATEMENTS

Governmental Funds

At June 30, 2011, the City's governmental funds reported a combined fund balance of \$22,915,689, a decrease of \$6,214,214 compared to the prior year. The General Fund decreased by \$1,567,643. Capital Improvements decreased by \$479,332 and Measure H decreased by \$5,978,169. These decreases were offset by an increase of \$1,810,930 in Non-major Funds.

ANALYSES OF MAJOR GOVERNMENTAL FUNDS

General Fund

General Fund revenues increased \$405,942 this fiscal year. The increase is comprised of the following: \$206,926 in Taxes; \$69,728 in Licenses, Permits and Fees; \$82,607 in Intergovernmental; \$60,414 in Fines and Forfeitures; and, \$109,334 in Miscellaneous. These increases were offset by a decline in Charges for Services of \$91,639 and Use of Money of \$31,428.

General Fund expenditures increased \$503,272 from Fiscal 2010 to a total of \$19,538,821, but were less than originally budgeted. Transfers out of the General Fund increased \$644,491 in Fiscal 2011 to \$667,096. This increase was attributable to a transfer of \$450,000 for the future purchase of police radio equipment for a multi-county wide communication project and \$184,000 to the Marina Fund for an engineering consultant.

At the end of Fiscal Year 2011 the fund balance for the City's General Fund was \$6,933,881, a decrease of \$1,567,643 over last year.

Final expenditures for the General Fund at year-end were \$349,420 below budget; however, the fiscal year ended with encumbrances of \$32,924. Budget amendments and supplemental appropriations of \$836,079 were made during the year for unanticipated expenditures after adoption of the original budget. Total appropriations came in at \$19,888,241.

At June 30, 2011, the General Fund balance was comprised of \$539,571 in nonspendable and restricted; \$2,071,135 in assigned; and \$4,323,175 in unassigned, of which \$1,000,000 was designated by Council for contingencies due to unforeseen occurrences referred to in Note 10D of the financial statements. Only the unassigned \$3,323,175 portion represents available liquid resources.

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 was investment earnings of \$64,286. The expenses of \$6,042,455 were based on project activity, mostly on the pool and library reconstruction.

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 2011 included funding for projects from Contra Costa Transportation Authority in the amount of \$147,167; State grants of \$441,217; Federal grants of \$1,407,642; and Federal Stimulus of \$754,866. Another \$435,218 in funding came from net transfers from Gas Tax revenue and Local J funds and \$6,400 in rent. Total revenue received, including net transfers, was \$3,174,741. This is an increase of \$851,010 over the prior year end is primarily from grants received in 2011 for a major street project. This also caused an increase in the expenditures of \$882,763 from Fiscal 2010.

Other Governmental Funds

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

Internal Service Funds

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

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

Enterprise Funds

Enterprise Funds are used to account for operations (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) when the City has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City's Enterprise Funds include Parking Services, Water System, and Marina Services and are described as follows:

- *Parking Services*—Parking Services Fund revenue is generated from parking meters and parking permits. Operating revenues decreased by \$29,918, in Fiscal 2011 to a total of \$368,673. Operating expenses increased by \$34,922 to \$484,068. Non-operating revenues increased slightly, by \$258 to \$59,324. Net assets decreased by \$56,071 to \$1,249,207. The Parking Services Fund's fiscal year end unrestricted Net Assets were \$749,742.
- *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 \$69,915 in Fiscal 2011. Overall operating revenues decreased by \$83,491, and operating expenses decreased by \$261,796. Non-operating expenses decreased by \$12,974, and non-operating revenues decreased by \$16,782 due to lower investment earnings. As of June 30, 2011, the Fund's Net Assets were \$40,154,825, with \$25,332,961 invested in capital assets, \$465,666 restricted for debt service and \$7,351,236 restricted for capital projects. Only \$7,004,962 of the Fund's Net Assets was unrestricted at the close of Fiscal 2011. 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 \$17,398 and operating expenses increased \$172,158 in 2011. The Fund's Net Assets decreased by \$134,323.

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 Year 2003.

At the end of Fiscal 2011, Governmental Activities and Business-type Activities had invested in a broad range of capital assets, net of depreciation, in the amounts of \$52,179,035 and \$35,852,256, respectively, as shown in Table 7 on the following page.

Table 7
Capital Assets at Year-end

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
<i>Governmental Activities</i>		
Land	\$ 16,002,732	\$ 16,002,732
Construction in progress	9,813,702	8,391,086
Building and improvements	5,445,017	5,924,584
Equipment	6,053,494	5,705,731
Infrastructure	48,215,074	40,103,936
Less accumulated depreciation	(33,350,984)	(31,525,326)
Totals	<u>\$ 52,179,035</u>	<u>\$ 44,602,743</u>
<i>Business-Type Activities</i>		
Land	\$ 1,665,154	\$ 1,665,154
Construction in progress	1,336,215	1,919,026
Building and improvements	18,406,459	18,269,930
Equipment	1,841,366	1,841,368
Infrastructure	88,299,973	87,608,173
Less accumulated depreciation	(75,696,911)	(73,672,110)
Totals	<u>\$ 35,852,256</u>	<u>\$ 37,631,541</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 are 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 improvements.

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, 2011.

**Table 8
Outstanding Debt**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Governmental Activity Debt		
<i>General Long-Term Debt</i>		
2003 Certificates of Participation	\$ 735,000	\$ 965,000
2003 Certificates of Participation	14,660,000	15,000,000
Total governmental activity debt	<u>\$ 15,395,000</u>	<u>\$ 15,965,000</u>
Business-Type Activity Debt		
<i>Water Fund Long-Term Debt</i>		
1999 Water System Improvements	\$ 4,635,000	\$ 4,820,000
2003 Refinancing Project	3,125,000	3,460,000
Total principal	<u>\$ 7,760,000</u>	<u>\$ 8,280,000</u>
<i>Marina Long-term Debt, including accrued interest</i>		
1960 State of California	\$ 2,537,014	\$ 2,515,114
1973 State of California	273,536	285,058
1978 State of California	141,884	146,556
1982 State of California	345,573	353,506
1985 State of California	930,490	946,981
Total Marina Fund debt	<u>\$ 4,228,497</u>	<u>\$ 4,247,215</u>
Total business-type activity debt	<u>\$ 11,988,497</u>	<u>\$ 12,527,215</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 Year 2011.

At June 30, 2011, a total of \$730,000 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.

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, 2011

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and investments (Note 3):			
Available for operations	\$14,340,524	\$14,072,616	\$28,413,140
Restricted	10,680,098	465,666	11,145,764
Receivables (net of allowance for uncollectible):			
Accounts and other	400,674	1,279,662	1,680,336
Intergovernmental	2,514,237		2,514,237
Interest	46,320		46,320
Loans receivable (Note 5)	521,252	22,920	544,172
Internal balances (Note 4B)	507,953	(507,953)	
Prepays and inventory (Note 1H)	13,107		13,107
Bond issuance costs, net of amortization		759,551	759,551
Net OPEB Asset (Note 12)	4,183,000		4,183,000
Capital assets (Note 6):			
Land and construction in progress	25,816,434	3,001,369	28,817,803
Depreciable assets, net	26,362,601	32,850,887	59,213,488
Total Assets	85,386,200	51,944,718	137,330,918
LIABILITIES			
Accounts payable	1,747,597	478,209	2,225,806
Accrued wages and benefits	659,709	62,831	722,540
Deposits	391,922	93,039	484,961
Unearned revenue	138,911	342,907	481,818
Claims payable due within one year (Note 15)	80,000		80,000
Accrued interest		40,303	40,303
Accrued compensated absences (Note 1G):			
Due within one year	75,000	25,000	100,000
Due in more than one year	1,382,448	147,317	1,529,765
Long-term debt (Notes 7 and 8):			
Due within one year	595,000	580,765	1,175,765
Due in more than one year	14,800,000	11,407,732	26,207,732
Total Liabilities	19,870,587	13,178,103	33,048,690
NET ASSETS (Note 10)			
Invested in capital assets, net of related debt	46,268,501	23,863,759	70,132,260
Restricted for:			
Capital projects	10,940,067		10,940,067
Debt service	1,312,460	465,666	1,778,126
Special revenue projects	1,271,932	7,476,236	8,748,168
Total Restricted Net Assets	13,524,459	7,941,902	21,466,361
Unrestricted	5,722,653	6,960,954	12,683,607
Total Net Assets	\$65,515,613	\$38,766,615	\$104,282,228

See accompanying notes to financial statements

CITY OF MARTINEZ
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

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		Business-type Activities
Governmental Activities:							
General government	\$1,888,212	\$26,863	\$14,464	\$47,939	(\$1,798,946)	(\$1,798,946)	
Administrative services	912,678	49,145	21,655		(841,878)	(841,878)	
Public works	4,181,381	580,520	1,452		(3,599,409)	(3,599,409)	
Community & economic development	6,024,757	547,115	2,432,405	4,260,540	1,215,303	1,215,303	
Police	10,665,218	441,982	564,155		(9,659,081)	(9,659,081)	
Interest on long-term debt	813,299				(813,299)	(813,299)	
Total Governmental Activities	24,485,545	1,645,625	3,034,131	4,308,479	(15,497,310)	(15,497,310)	
Business-type Activities:							
Water system	9,891,686	9,746,857			(\$144,829)	(144,829)	
Marina services	558,512	227,759			(330,753)	(330,753)	
Parking services	483,876	368,673			(115,203)	(115,203)	
Total Business-type Activities	10,934,074	10,343,289			(590,785)	(590,785)	
Total	\$35,419,619	\$11,988,914	\$3,034,131	\$4,308,479	(15,497,310)	(590,785)	(16,088,095)
General revenues:							
Property taxes					6,413,918	6,413,918	
Sales taxes					3,216,371	3,216,371	
VLF Property Tax Swap					2,516,117	2,516,117	
Franchise fees					1,356,952	1,356,952	
Other taxes					2,257,290	67,403	2,324,693
Intergovernmental, unrestricted					238,498		238,498
Investment earnings					123,304	63,307	186,611
Miscellaneous					1,259,193		1,259,193
Transfers (Note 4A)					(200,605)	200,605	
Total general revenues and transfers					17,181,038	331,315	17,512,353
Change in Net Assets					1,683,728	(259,470)	1,424,258
Net Assets-Beginning					63,831,885	39,026,085	102,857,970
Net Assets-Ending					\$65,515,613	\$38,766,615	\$104,282,228

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 2011. 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, 2011

	General	Measure H	Capital Improvements	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments (Note 3):					
Available for operations	\$7,086,331		\$1,524,748	\$3,204,865	\$11,815,944
Restricted		\$9,484,466		1,195,632	10,680,098
Receivables:					
Accounts	388,925			11,749	400,674
Intergovernmental	695,445		1,188,177	630,615	2,514,237
Interest	33,789	12,531			46,320
Loans receivable (Note 5)	259,242		262,010		521,252
Prepays and inventory (Note 1H)	13,107				13,107
Advances to other funds (Note 4B)	521,866				521,866
Total Assets	\$8,998,705	\$9,496,997	\$2,974,935	\$5,042,861	\$26,513,498
LIABILITIES					
Accounts payable	\$560,169	\$917,564	\$207,559	\$36,792	\$1,722,084
Accrued wages and benefits	644,433			3,173	647,606
Claims payable (Note 15)	80,000				80,000
Deposits	382,069			9,853	391,922
Advance to other funds (Note 4B)				48,017	48,017
Deferred revenue	398,153		262,010	48,017	708,180
Total Liabilities	2,064,824	917,564	469,569	145,852	3,597,809
FUND BALANCES					
Fund balance (Note 10)					
Nonspendable	536,597				536,597
Restricted	2,974	8,579,433	836,977	4,945,026	14,364,410
Assigned	2,071,135		1,668,389		3,739,524
Unassigned	4,323,175			(48,017)	4,275,158
Total Fund Balances	6,933,881	8,579,433	2,505,366	4,897,009	22,915,689
Total Liabilities and Fund Balances	\$8,998,705	\$9,496,997	\$2,974,935	\$5,042,861	\$26,513,498

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, 2011

Total fund balances reported on the governmental funds balance sheet	\$22,915,689
<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	
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.	51,242,981
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	2,524,580
Internal balances	34,104
Capital assets	936,054
Accounts payable	(25,513)
Accrued liabilities	(12,103)
Accrued compensated absences	(49,797)
ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES	
Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities.	569,269
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	(15,395,000)
Non-current portion of compensated absences	(1,407,651)
Net OPEB asset	4,183,000
	4,183,000
NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$65,515,613

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, 2011

	General	Measure H	Capital Improvements	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$15,809,271				\$15,809,271
Special assessments				\$2,110,101	2,110,101
Licenses, permits, and fees	497,920		\$39,385		537,305
Intergovernmental	663,488		2,750,893	2,122,183	5,536,564
Charges for services	470,550				470,550
Fines and forfeits	404,547			25,046	429,593
Use of money and property	87,647	\$64,286	9,873	10,921	172,727
Miscellaneous	704,851			576,627	1,281,478
Total Revenues	18,638,274	64,286	2,800,151	4,844,878	26,347,589
EXPENDITURES					
Current:					
General government	1,312,555				1,312,555
Nondepartmental services	1,712,090				1,712,090
Administrative services	775,525			40,693	816,218
Public works	3,627,781				3,627,781
Community & economic development	2,186,809	6,482	770,578	1,199,019	4,162,888
Police	9,886,525			127,347	10,013,872
Debt service (Note 7):					
Principal				570,000	570,000
Interest and fiscal charges				813,299	813,299
Capital outlay	37,536	6,035,973	2,883,495	375,491	9,332,495
Total Expenditures	19,538,821	6,042,455	3,654,073	3,125,849	32,361,198
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(900,547)	(5,978,169)	(853,922)	1,719,029	(6,013,609)
OTHER FINANCING SOURCES (USES)					
Transfers in (Note 4A)			435,218	527,819	963,037
Transfers (out) (Note 4A)	(667,096)		(60,628)	(435,918)	(1,163,642)
Total Other Financing Sources (Uses)	(667,096)		374,590	91,901	(200,605)
NET CHANGE IN FUND BALANCES	(1,567,643)	(5,978,169)	(479,332)	1,810,930	(6,214,214)
BEGINNING FUND BALANCES	8,501,524	14,557,602	2,984,698	3,086,079	29,129,903
ENDING FUND BALANCES	\$6,933,881	\$8,579,433	\$2,505,366	\$4,897,009	\$22,915,689

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, 2011

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 (\$6,214,214)

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	9,332,495
Net retirements are deducted from the fund balance	(3,499)
Depreciation expense is deducted from the fund balances (Depreciation expense is net of internal service fund depreciation of \$271,588 which has already been allocated to serviced funds)	(1,721,663)

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	570,000
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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	(144,520)
Compensated absences	(1,569)
Net OPEB asset	57,000

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	(190,302)
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$1,683,728
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See accompanying notes to financial statements

CITY OF MARTINEZ
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 JUNE 30, 2011

	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	\$13,088,405	\$99,366	\$884,845	\$14,072,616	\$2,524,580
Restricted	465,666			465,666	
Receivables:					
Intergovernmental Accounts and other	1,269,294	10,368		1,279,662	
Total Current Assets	14,823,365	109,734	884,845	15,817,944	2,524,580
Capital Assets (Note 6):					
Land	630,912	800,165	234,077	1,665,154	
Buildings	15,793,743	282,821		16,076,564	
Improvements	150,584	1,934,189	245,122	2,329,895	
Equipment	1,297,203		544,163	1,841,366	3,548,736
Infrastructure	88,276,473		23,500	88,299,973	
Less: Accumulated depreciation	(74,392,169)	(632,345)	(672,397)	(75,696,911)	(2,612,682)
	31,756,746	2,384,830	374,465	34,516,041	936,054
Construction in progress (Note 6)	1,336,215			1,336,215	
Net Capital Assets	33,092,961	2,384,830	374,465	35,852,256	936,054
Other Non-Current Assets:					
Loan receivable (Note 5)	22,920			22,920	
Bond issuance costs, net	759,551			759,551	
Total Non-Current Assets	33,875,432	2,384,830	374,465	36,634,727	936,054
Total Assets	48,698,797	2,494,564	1,259,310	52,452,671	3,460,634
LIABILITIES					
Current liabilities:					
Accounts payable	467,147	5,757	5,305	478,209	25,513
Accrued liabilities	60,117		2,714	62,831	12,103
Deferred revenue		342,907		342,907	
Deposits	46,172	46,867		93,039	
Accrued interest	40,303			40,303	
Current portion of compensated absences (Note 1G)	25,000			25,000	
Current portion of long-term debt (Note 7)	540,000			540,000	
Current portion of loans payable (Note 8)		40,765		40,765	
Total Current Liabilities	1,178,739	436,296	8,019	1,623,054	37,616
Noncurrent Liabilities:					
Accrued compensated absences (Note 1G)	145,233		2,084	147,317	49,797
Advance from other funds (Note 4B)		473,849		473,849	
Long-term debt (Note 7)	7,220,000			7,220,000	
Loans payable (Note 8)		4,187,732		4,187,732	
Total Liabilities	8,543,972	5,097,877	10,103	13,651,952	87,413
NET ASSETS (Note 10)					
Invested in capital assets, net of related debt	25,332,961	(1,843,667)	374,465	23,863,759	936,054
Restricted for debt service	465,666			465,666	
Restricted for capital projects	7,351,236		125,000	7,476,236	
Unrestricted	7,004,962	(759,646)	749,742	6,995,058	2,437,167
Total Net Assets (Deficit)	\$40,154,825	(\$2,603,313)	\$1,249,207	38,800,719	\$3,373,221
				Some amounts reported for <i>business-type activities</i> in the Statement of Net Assets are different because certain internal service fund assets and liabilities are included with business-type activities.	(34,104)
				Net assets business-type activities	\$38,766,615

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, 2011

	Business-type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Water System	Marina Services	Parking Services	Totals	
OPERATING REVENUES					
Water sales	\$9,413,940			\$9,413,940	
Rents and leases	26,904	\$227,759		254,663	
Charges for services	232,981		\$361,236	594,217	\$1,170,892
Other fees	1,005			1,005	
Other revenue	72,027		7,437	79,464	5,454
Total Operating Revenues	9,746,857	227,759	368,673	10,343,289	1,176,346
OPERATING EXPENSES					
Filtration plant	4,231,294			4,231,294	
Maintenance, repairs, and distribution	1,475,872	106,532		1,582,404	1,122,460
Administration	1,841,608	206,169	406,135	2,453,912	
Depreciation and amortization	1,974,438	128,026	77,933	2,180,397	271,588
Total Operating Expenses	9,523,212	440,727	484,068	10,448,007	1,394,048
Operating Income (loss)	223,645	(212,968)	(115,395)	(104,718)	(217,702)
NONOPERATING REVENUES (EXPENSES)					
Interest income	58,956	320	4,031	63,307	11,863
Interest (expense)	(369,121)	(117,785)		(486,906)	
Gain on disposal of equipment					16,376
Taxes		12,110	55,293	67,403	
Total Nonoperating Revenues (Expenses)	(310,165)	(105,355)	59,324	(356,196)	28,239
Income (Loss) Before Transfers	(86,520)	(318,323)	(56,071)	(460,914)	(189,463)
Transfers in (Note 4A)	16,605	184,000		200,605	
Net Transfers	16,605	184,000		200,605	
Change in net assets	(69,915)	(134,323)	(56,071)	(260,309)	(189,463)
BEGINNING NET ASSETS (DEFICIT)	40,224,740	(2,468,990)	1,305,278	3,562,684	3,562,684
ENDING NET ASSETS (DEFICIT)	\$40,154,825	(\$2,603,313)	\$1,249,207	\$259,470	\$3,373,221
Some amounts reported for <i>business-type activities</i> 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				839	
				(259,470)	

See accompanying notes to financial statements

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2011

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:

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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.

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2011 were as follows:

	Governmental Activities	Business-Type Activities	Total
Beginning Balance	\$1,449,058	\$181,988	\$1,631,046
Additions	1,027,089	145,960	1,173,049
Payments	(1,018,699)	(155,631)	(1,174,330)
Ending Balance	<u>\$1,457,448</u>	<u>\$172,317</u>	<u>\$1,629,765</u>
Current Portion	<u>\$75,000</u>	<u>\$25,000</u>	<u>\$100,000</u>

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

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.

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Use of Estimates

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

J. New Fund

During the fiscal year the City established the Recycle Special Revenue Fund.

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.

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2011

NOTE 3 - CASH AND INVESTMENTS

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

A. Policies

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

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

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

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	\$28,413,140
Restricted cash and investments	<u>11,145,764</u>
Total Primary Government cash and investments	39,558,904
Restricted cash and investments in Fiduciary Funds (separate statement)	<u>511,163</u>
Total cash and investments	<u><u>\$40,070,067</u></u>

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

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2011

NOTE 3 - CASH AND INVESTMENTS (Continued)

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

D. Investments Authorized by Debt Agreements

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

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality
Repurchase Agreements	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

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2011

NOTE 3 - CASH AND INVESTMENTS (Continued)

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.

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
California Local Agency Investment Fund	\$38,679,506
Total Investments	38,679,506
Cash in banks and on hand	1,390,561
Total Cash and Investments	\$40,070,067

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, 2011, these investments have an average maturity of 237 days.

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2011

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, 2011 were as follows:

<u>Fund Receiving Transfers</u>	<u>Fund Making Transfers</u>	<u>Amount Transferred</u>
Capital Improvements Fund	Non-Major Governmental Funds	\$435,218 B
Non-Major Governmental Funds	General Fund	466,491 B
Non-Major Governmental Funds	Capital Improvements Fund	60,628 B
Non-Major Governmental Funds	Non-Major Governmental Funds	700 A
Marina System Fund	General Fund	184,000 B
Water System Fund	General Fund	16,605 A
	Total Interfund Transfers	<u>\$1,163,642</u>

A: To fund operations

B: To fund Capital Projects

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, 2011, the balance was \$133,145.

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, 2011 its balance was \$52,176. 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, 2011 its balance was \$264,249.

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, 2011 of \$24,279. 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, 2011, the balance was \$48,017.

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, 2011

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, 2011 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. As of June 30, 2011, City accepted in kind contributions as repayment for the loan in the amount of \$62,900 and the loan is considered to be fully repaid. In addition during the fiscal year the City forgave the second loan in the amount of \$40,000.

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, 2011 the MUSD owes the City \$259,242.

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, 2011

NOTE 6 - CAPITAL ASSETS (Continued)

A. Capital Asset Additions and Retirements

Capital asset activities for the year ended June 30, 2011 comprise:

	Balance at June 30, 2010	Additions	Retirements	Transfers	Balance at June 30, 2011
Governmental activities					
Capital assets not being depreciated:					
Land	\$16,002,732				\$16,002,732
Construction in progress	8,391,086	\$8,153,516	(\$3,499)	(\$6,727,401)	9,813,702
Total capital assets not being depreciated	<u>24,393,818</u>	<u>8,153,516</u>	<u>(3,499)</u>	<u>(6,727,401)</u>	<u>25,816,434</u>
Capital assets being depreciated:					
Buildings	5,887,664			(479,567)	5,408,097
Improvements	36,920				36,920
Equipment	5,705,731	478,320	(167,593)	37,036	6,053,494
Infrastructure	40,103,936	941,206		7,169,932	48,215,074
Total capital assets being depreciated	<u>51,734,251</u>	<u>1,419,526</u>	<u>(167,593)</u>	<u>6,727,401</u>	<u>59,713,585</u>
Less accumulated depreciation:					
Buildings	(2,926,492)	(114,539)		11,195	(3,029,836)
Improvements	(1,231)	(1,231)			(2,462)
Equipment	(3,254,542)	(473,387)	167,593		(3,560,336)
Infrastructure	(25,343,061)	(1,404,094)		(11,195)	(26,758,350)
Total accumulated depreciation	<u>(31,525,326)</u>	<u>(1,993,251)</u>	<u>167,593</u>	<u>(11,195)</u>	<u>(33,350,984)</u>
Net capital assets being depreciated	<u>20,208,925</u>	<u>(573,725)</u>	<u></u>	<u>6,727,401</u>	<u>26,362,601</u>
Governmental activities capital assets, net	<u>\$44,602,743</u>	<u>\$7,579,791</u>	<u>(\$3,499)</u>	<u></u>	<u>\$52,179,035</u>
Business-type activities					
Capital assets, not being depreciated:					
Land	\$1,665,154				\$1,665,154
Construction in progress	1,919,026	\$10,621		(\$593,432)	1,336,215
Total capital assets not being depreciated	<u>3,584,180</u>	<u>10,621</u>	<u></u>	<u>(593,432)</u>	<u>3,001,369</u>
Capital assets being depreciated:					
Buildings	15,940,035	166,529	(\$30,000)		16,076,564
Improvements	2,329,895				2,329,895
Equipment	1,841,366				1,841,366
Infrastructure	87,608,173	134,778	(36,410)	593,432	88,299,973
Net capital assets being depreciated	<u>107,719,469</u>	<u>301,307</u>	<u>(66,410)</u>	<u>593,432</u>	<u>108,547,798</u>
Less accumulated depreciation for:					
Buildings	(8,051,127)	(435,999)	30,000		(8,457,126)
Improvements	(524,133)	(138,341)			(662,474)
Equipment	(1,511,400)	(94,296)			(1,605,696)
Infrastructure	(63,585,448)	(1,422,577)	36,410		(64,971,615)
Total accumulated depreciation	<u>(73,672,108)</u>	<u>(2,091,213)</u>	<u>66,410</u>	<u></u>	<u>(75,696,911)</u>
Net capital assets being depreciated	<u>34,047,361</u>	<u>(1,789,906)</u>	<u></u>	<u>593,432</u>	<u>32,850,887</u>
Business-type activities capital assets, net	<u>\$37,631,541</u>	<u>(\$1,779,285)</u>	<u></u>	<u></u>	<u>\$35,852,256</u>

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2011

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	\$1,544,275
Police	112,393
General Government	63,975
Public Works	1,020
Capital assets held by the City's Internal Service Funds	271,588
Total Governmental Activities	<u><u>\$1,993,251</u></u>
 <i>Business-Type Activities</i>	
Water System	\$1,885,254
Marina Services	128,026
Parking Services	77,933
Total Business-Type Activities	<u><u>\$2,091,213</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, 2011

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, 2010	Retirements	Balance at June 30, 2011	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	\$965,000	\$230,000	\$735,000	\$235,000
2009 General Obligation Bonds					
Election of 2008, Series A, 4-5%, due 2/01/39	15,000,000	15,000,000	340,000	14,660,000	360,000
Total governmental activity debt		<u>\$15,965,000</u>	<u>\$570,000</u>	<u>\$15,395,000</u>	<u>\$595,000</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	\$4,820,000	\$185,000	\$4,635,000	\$195,000
2003 Refinancing Project, 2-4%, due 12/01/18	5,595,000	3,460,000	335,000	3,125,000	345,000
Total business-type activity debt		<u>\$8,280,000</u>	<u>\$520,000</u>	<u>\$7,760,000</u>	<u>\$540,000</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's total principal and interest remaining to be paid on the bonds is \$775,084. The City's principal and interest paid for the current year is \$259,638.

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 14.84 percent and 5.42 percent of net water revenues. The Water Fund's total principal and interest remaining to be paid on the bonds is \$3,627,215. The Water Fund's principal and interest paid for the current year and total customer net revenues were \$457,361 and \$2,257,039 respectively. The City is in compliance with its' debt covenants for the year ended June 30, 2011.

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2011

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 \$14,660,000 and \$16,337,902 respectively. Principal and interest paid for the current fiscal year and total Ad Valorem Property Tax Revenues were \$1,123,145 and \$1,509,647 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 percent 8.20 and 11.02 percent of net water revenues. The Water Fund's total principal and interest remaining to be paid on the bonds is \$6,881,870. The Water Fund's principal and interest paid for the current year and total customer net revenues were \$433,731 and \$2,257,039 respectively. The City is in compliance with its debt covenants for the year ended June 30, 2011.

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
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	65,000	737,244	630,000	254,527
2017 - 2021	690,000	3,621,720	2,655,000	856,573
2022 - 2026	1,470,000	3,400,736	1,780,000	360,935
2027 - 2031	2,605,000	2,929,893	415,000	11,163
2032 - 2036	4,230,000	2,084,133		
2037 - 2039	5,030,000	582,800		
Total	\$15,395,000	\$16,377,986	\$7,760,000	\$2,749,085

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2011

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, 2011.

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, 2011.

NOTE 8 – LOANS PAYABLE TO STATE OF CALIFORNIA

At June 30, 2011, the Marina Services Fund owed \$4,228,497 in loans to the State. The City made an interest payment of \$75,857 to Department of Boating and Waterways in fiscal 2011 to cover current year interest accrued on the unpaid loan balances. Principal payments were made in the amount of \$39,009 to DBAW in fiscal year 2011.

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, 2011, the amount payable to the State including interest amounted to \$2,537,014.

The agreement was modified in 1964 with the following conditions:

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

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

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2011

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

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, 2011, the amount payable to the State was \$273,536 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.
- Payments of principal and interest at 4.5% shall be payable in equal annual installments on August 1 of each year with a final payment due on August 1, 2026.

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, 2011, 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, 2011 the amount payable to the State was \$141,884 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, 2029.

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, 2011, the City was still in negotiations with the State for the terms of these loans.

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2011

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

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, 2011, the amount payable to the State was \$345,573 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, 2034.

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, 2011, the amount payable to the State was \$930,490 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, 2038.
- Berthing rates may not average less than \$3.75 per foot of boat or berth length and are subject to annual adjustments based on the consumer price index.
- A survey of berthing charges in the same market as the Marina shall be conducted on an annual basis.

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, 2011, the City was still in negotiations with the State for the terms of the loans.

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2011

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

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, 2011, the District's outstanding debt amounted to \$730,000.

B. Home Mortgage Revenue Bonds

Home mortgage revenue bonds have been issued to finance secured mortgage loans for low-income housing projects. The bonds do not constitute indebtedness to which the good faith and credit of the City is pledged. The City is not obligated to pay the principal, interest or other payments associated with the bonds. The payments on the bonds are payable solely from monies received from mortgage loans, security agreements or insurance. Accordingly, the bonds have not been recorded in the basic financial statements of the City. The total amount of mortgage revenue bonds outstanding as June 30, 2011 was \$2,360,000.

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.

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2011

NOTE 10 – NET ASSETS AND FUND BALANCES (Continued)

B. Fund Balances

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

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

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

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

Committed fund balances have constraints imposed by formal action of the City Council which may be altered only by formal action of the City Council. Encumbrances and nonspendable amounts subject to council commitments are included along with spendable resources. As of June 30, 2011, the City does not have committed fund balance.

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

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

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2011

NOTE 10 – NET ASSETS AND FUND BALANCES (Continued)

Detailed classifications of the City's Fund Balances, as of June 30, 2011, are below:

Fund Balance Classifications	General Fund	Special Revenue	Capital Project	Other	Total
		Measure H	Capital Improvements	Governmental Funds	
Nonspendable:					
Advance to Other Funds	\$521,866				\$521,866
Inventory	13,106				13,106
Petty Cash	1,625				1,625
Total Nonspendable Fund Balances	536,597				536,597
Restricted for:					
Debt Service				\$1,312,460	1,312,460
Grants	2,974				2,974
Park & Facilities Improvements		\$8,579,433			8,579,433
Street Improvements				2,381,895	2,381,895
Recycle				25,485	25,485
PEG Access				382,750	382,750
Lighting & Landscape				235,421	235,421
Traffic Mitigation			\$322,401		322,401
Park Impact			299,026		299,026
Child Care			14,521		14,521
Drainage			75,724		75,724
Cultural Facilities			124,502		124,502
Public Safety			803	607,015	607,818
Total Restricted Fund Balances	2,974	8,579,433	836,977	4,945,026	14,364,410
Assigned to:					
Insurance	582,425				582,425
Pension Obligation	250,000				250,000
Improvements	295,109		1,668,389		1,963,498
Health Benefits	360,363				360,363
Loan to Marina	350,000				350,000
Rent at 636 Ward Street	178,000				178,000
Professional Service Consultants	31,766				31,766
Special Events	21,802				21,802
Seismic	512				512
Supplies	1,158				1,158
Total Assigned Fund Balances	2,071,135		1,668,389		3,739,524
Unassigned:					
General Fund	4,323,175				4,323,175
Other Governmental Fund Deficit Residuals				(48,017)	(48,017)
Total Unassigned Fund Balances	4,323,175			(48,017)	4,275,158
Total Fund Balances	\$6,933,881	\$8,579,433	\$2,505,366	\$4,897,009	\$22,915,689

C. Encumbrances

The City uses an encumbrance system as an extension of normal budgetary accounting for governmental funds. Under this system, purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of applicable appropriations. Encumbrances outstanding at year-end are recorded as restricted, committed or assigned fund balance, depending on the classification of the resources to be used to liquidate the encumbrance, since they do not constitute expenditures or liabilities. Outstanding encumbrances at year-end are automatically reappropriated for the following year. Unencumbered and unexpended appropriations lapse at year-end. Encumbrances outstanding as of June 30, 2011 were as listed below:

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2011

NOTE 10 – NET ASSETS AND FUND BALANCES (Continued)

Governmental funds:	<u>Amount</u>
General Fund	\$32,924
Measure H Special Revenue Fund	943,412
Capital Improvements	60,958
Other Governmental Funds	7,732
Total	<u>\$1,045,026</u>

D. Contingency Arrangements

The City’s annual budget requires the City to implement and maintain fund balance to handle any unforeseen contingencies in the future, rather than continued reliance on the City’s operating General Fund reserves. These unforeseen contingencies include Economic Uncertainty, Catastrophes and Contingencies. As of June 30, 2011, the following are reported within the unassigned fund balance of the General Fund:

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

E. Fund Balance and Net Assets Deficits

At June 30, 2011 the Alhambra Creek Improvements Capital Projects Fund had a deficit fund balance of \$48,017. Future revenues are expected to offset this fund deficit.

The Marina Services Enterprise Fund has an accumulated net deficit of \$2,603,313 as of June 30, 2011 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, 2011, the City had not received such notice.

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2011

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, 2011, 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	39.041%	8.984%	10.537%
*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, 2011

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, 2009	\$1,278,550	100%	\$0
June 30, 2010	1,417,950	100%	0
June 30, 2011	1,470,275	100%	0
<i>Miscellaneous Plan</i>			
June 30, 2009	\$24,422	100%	\$0
June 30, 2010	23,966	100%	0
June 30, 2011	23,453	100%	0
<i>Miscellaneous Joint Facilities Agency</i>			
June 30, 2009	\$731,653	100%	\$0
June 30, 2010	740,618	100%	0
June 30, 2011	761,593	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%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and amortized over a rolling thirty year period.

As required by State law, effective July 1, 2005, the City’s Safety, Miscellaneous and Miscellaneous Joint Facilities Agency Plans were terminated, and the employees in those plans were required by CALPERS to join new State-wide pools. One of the conditions of entry to these pools was that the City true-up any unfunded liabilities in the former Plans, either by paying cash or by increasing its future contribution rates through a Side Fund offered by CALPERS. In March 2007, the City paid off the unfunded liability of the Miscellaneous Plan. In April 2011 the City satisfied its Miscellaneous Joint Facilities Agency Plan’s unfunded liability by making a lump sum contribution of \$631,914. For the Safety 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 11 years.

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2011

NOTE 11 – EMPLOYEES’ RETIREMENT SYSTEM (Continued)

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

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
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%
2009	9,721,675,347	8,027,158,724	1,694,516,623	82.6%	973,814,168	174.0%

The City’s Safety Plan represents approximately 0.39%, 0.36%, and 0.43% of the State-wide pool for the years ended June 30, 2009, 2008, and 2007, respectively, based on covered payroll of \$3,765,849, \$3,361,440, and \$3,608,420 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
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%
2009	3,104,798,222	2,758,511,101	346,287,121	88.9%	742,981,488	46.6%

The City’s Miscellaneous Plan represents approximately 0.04%, 0.04%, and 0.02% of the State-wide pool for the years ended June 30, 2009, 2008, and 2007, respectively, based on covered payroll of \$261,051, \$303,687, and \$134,759 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
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%
2009	3,104,798,222	2,758,511,101	346,287,121	88.9%	742,981,488	46.6%

The City’s Miscellaneous Joint Facilities Agency Plan represents approximately 0.97%, 0.97%, and 0.98% of the State-wide pool for the years ended June 30, 2009, 2008, and 2007, respectively, based on covered payroll of \$7,227,796, \$6,688,211, and \$6,542,304 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, 2011

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, 41 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, 40 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, 2011, those costs totaled \$705,820.

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, 2011

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, 2011, approximately 73 participants were eligible to receive retirement health care benefits.

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2011

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 an agent multiple-employer plan, consisting of an aggregation of single-employer plans, with pooled administrative and investment functions. CERBT is administrated by CALPERS, and is managed by an appointed board not under the control of City Council. This Trust is not considered a component unit by the City and has been excluded from these financial statements. The CERBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained from the California Public Employees' Retirement System, CERBT, P.O. Box 942703, Sacramento, CA 94229-2703.

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, 2011, the City contributed the ARC amounting to \$934,000 to the Plan which represented 9.00% of the \$10,416,000 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, 2011

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

Annual required contribution (ARC)	(\$934,000)
Interest on net OPEB obligation	320,000
Adjustment to annual required contribution	<u>(263,000)</u>
Annual OPEB cost	<u>(877,000)</u>
Contributions made:	
City portion of current year premiums paid	705,820
Additional contributions to CERBT	<u>228,180</u>
Total contributions	<u>934,000</u>
Change in net OPEB asset	57,000
Net OPEB Asset at June 30, 2010	<u>4,126,000</u>
Net OPEB Asset at June 30, 2011	<u><u>\$4,183,000</u></u>

The actuarial accrued liability (AAL) representing the present value of future benefits, included in the actuarial study dated July 1, 2010, amounted to \$14,273,000 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 \$5,785,463 as of June 30, 2011, which partially reduced the unfunded actuarial accrued liability. The Plan's annual OPEB cost and actual contributions for fiscal years ended June 30, 2009, 2010 and 2011 are set forth below:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2009	\$894,000	\$894,000	100%	\$4,065,000
June 30, 2010	842,000	903,000	107%	4,126,000
June 30, 2011	877,000	934,000	106%	4,183,000

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%
July 1, 2010	4,054,000	14,273,000	10,219,000	28.40%	10,416,000	98.11%

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2011

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. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 provided a two percentage point payroll tax cut for employees, reducing their Social Security tax withholdings rate from 6.2% to 4.2% of wages paid in calendar 2011. This reduced Social Security withholding will have no effect on the employee's future Social Security benefits. Total contributions to Social Security during the year ended June 30, 2011 amounted to \$53,880 of which the City paid \$29,367.

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, 2011

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 (10% per location, \$100,000 minimum)	50,000,000
Flood (\$100,000 per occurrence)	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, 2011

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:

	2011	2010
Beginning balance	\$80,000	\$80,000
Liability for current fiscal year claims	37,124	67,048
Increase (decrease) in liability for prior fiscal year claims and claims incurred but not reported (IBNR)	(25,075)	(42,317)
Claims paid	(12,049)	(24,731)
Ending balance	\$80,000	\$80,000

NOTE 16 - COMMITMENTS AND CONTINGENCIES

A. *Litigation*

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

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.

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.

Recycling Fund

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

DEBT SERVICE FUNDS

2003 Debt Service Fund

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

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, 2011

SPECIAL REVENUE FUNDS					
	Gas Tax Funds	NPDES Stormwater Fund	Measure J Fund	COPS Grant Fund	Traffic Congestion Relief
ASSETS					
Cash and investments					
Available for operations	\$629,288	\$159,036	\$299,001	\$567,164	
Restricted					
Receivables:					
Accounts receivables (net of allowance for uncollectibles)					
Intergovernmental	111,825		415,888	49,885	
Total Assets	<u>\$741,113</u>	<u>\$159,036</u>	<u>\$714,889</u>	<u>\$617,049</u>	
LIABILITIES					
Accounts payable	\$16,977	\$1,852		\$181	
Accrued wages and benefits		3,173			
Deposits				9,853	
Advance from other funds					
Deferred revenue					
Total Liabilities	<u>16,977</u>	<u>5,025</u>		<u>10,034</u>	
FUND EQUITY					
Fund balances					
Nonspendable					
Restricted	724,136	154,011	\$714,889	607,015	
Committed					
Assigned					
Unassigned					
Total Fund Balances (Deficit)	<u>724,136</u>	<u>154,011</u>	<u>714,889</u>	<u>607,015</u>	
Total Liabilities and Fund Balances	<u>\$741,113</u>	<u>\$159,036</u>	<u>\$714,889</u>	<u>\$617,049</u>	

Proposition IB	PEG Access	Recycling Fund	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	
\$538,859	\$371,001	\$272,330	\$116,828 412,124	\$783,508		\$251,358	\$3,204,865 1,195,632
	11,749	5,000			\$48,017		11,749 630,615
<u>\$538,859</u>	<u>\$382,750</u>	<u>\$277,330</u>	<u>\$528,952</u>	<u>\$783,508</u>	<u>\$48,017</u>	<u>\$251,358</u>	<u>\$5,042,861</u>
		\$1,845				\$15,937	\$36,792 3,173 9,853
					\$48,017 48,017		48,017 48,017
		1,845			96,034	15,937	145,852
\$538,859	\$382,750	275,485	\$528,952	\$783,508		235,421	4,945,026
					(48,017)		(48,017)
<u>538,859</u>	<u>382,750</u>	<u>275,485</u>	<u>528,952</u>	<u>783,508</u>	<u>(48,017)</u>	<u>235,421</u>	<u>4,897,009</u>
<u>\$538,859</u>	<u>\$382,750</u>	<u>\$277,330</u>	<u>\$528,952</u>	<u>\$783,508</u>	<u>\$48,017</u>	<u>\$251,358</u>	<u>\$5,042,861</u>

CITY OF MARTINEZ
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

	SPECIAL REVENUE FUNDS				
	Gas Tax Funds	NPDES Stormwater Fund	Measure J Fund	COPS Grant Fund	Traffic Congestion Relief
REVENUES					
Special assessments		\$475,855			
Intergovernmental	\$924,120		\$484,658	\$153,901	
Fines and forfeits				25,046	
Use of money and property	2,027	461	2,809	364	\$1,470
Miscellaneous		9,923		1,180	
Total Revenues	<u>926,147</u>	<u>486,239</u>	<u>487,467</u>	<u>180,491</u>	<u>1,470</u>
EXPENDITURES					
Current:					
Administrative services					
Community & economic development	497,247	459,056	102,258		
Police				127,347	
Debt Service:					
Principal					
Interest and fiscal charges					
Capital outlay				28,725	331,108
Total Expenditures	<u>497,247</u>	<u>459,056</u>	<u>102,258</u>	<u>156,072</u>	<u>331,108</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>428,900</u>	<u>27,183</u>	<u>385,209</u>	<u>24,419</u>	<u>(329,638)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in		17,438	43,190	450,000	
Transfers (out)	(135,218)	(700)	(300,000)		
Total Other Financing Sources (Uses)	<u>(135,218)</u>	<u>16,738</u>	<u>(256,810)</u>	<u>450,000</u>	
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	293,682	43,921	128,399	474,419	(329,638)
BEGINNING FUND BALANCES (DEFICIT)	<u>430,454</u>	<u>110,090</u>	<u>586,490</u>	<u>132,596</u>	<u>329,638</u>
ENDING FUND BALANCES (DEFICIT)	<u>\$724,136</u>	<u>\$154,011</u>	<u>\$714,889</u>	<u>\$607,015</u>	

Proposition 1B	PEG Access	Recycling Fund	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	
		\$21,655		\$1,509,647	\$5,950	\$118,649	\$2,110,101
\$537,849							2,122,183
			\$328	1,326		1,126	25,046
1,010	\$47,939	254,447	263,138				10,921
							576,627
538,859	47,939	276,102	263,466	1,510,973	5,950	119,775	4,844,878
	30,585	10,108					40,693
						140,458	1,199,019
			230,000	340,000			127,347
			30,154	783,145			570,000
	15,658						813,299
							375,491
	46,243	10,108	260,154	1,123,145		140,458	3,125,849
538,859	1,696	265,994	3,312	387,828	5,950	(20,683)	1,719,029
		9,491				7,700	527,819
							(435,918)
		9,491				7,700	91,901
538,859	1,696	275,485	3,312	387,828	5,950	(12,983)	1,810,930
	381,054		525,640	395,680	(53,967)	248,404	3,086,079
538,859	382,750	275,485	528,952	783,508	(48,017)	235,421	4,897,009

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, 2011

	GAS TAX FUNDS			NPDES STORMWATER FUND		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Special assessments				\$472,658	\$475,855	\$3,197
Licenses, permits, and fees						
Intergovernmental	\$671,000	\$924,120	\$253,120			
Fines and forfeits						
Use of money and property	4,000	2,027	(1,973)	1,000	461	(539)
Miscellaneous				9,900	9,923	23
Total Revenues	<u>675,000</u>	<u>926,147</u>	<u>251,147</u>	<u>483,558</u>	<u>486,239</u>	<u>2,681</u>
EXPENDITURES						
Current:						
Administrative services						
Community development	545,636	497,247	48,389	460,585	459,056	1,529
Police						
Capital outlay						
Total Expenditures	<u>545,636</u>	<u>497,247</u>	<u>48,389</u>	<u>460,585</u>	<u>459,056</u>	<u>1,529</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>129,364</u>	<u>428,900</u>	<u>299,536</u>	<u>22,973</u>	<u>27,183</u>	<u>4,210</u>
OTHER FINANCING SOURCES (USES)						
Transfers in				17,439	17,438	(1)
Transfers (out)	(363,500)	(135,218)	228,282	(700)	(700)	
Total Other Financing Sources (Uses)	<u>(363,500)</u>	<u>(135,218)</u>	<u>228,282</u>	<u>16,739</u>	<u>16,738</u>	<u>(1)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>(\$234,136)</u>	<u>293,682</u>	<u>\$527,818</u>	<u>\$39,712</u>	<u>43,921</u>	<u>\$4,209</u>
BEGINNING FUND BALANCES		<u>430,454</u>			<u>110,090</u>	
ENDING FUND BALANCES		<u>\$724,136</u>			<u>\$154,011</u>	

MEASURE J FUND			COPS GRANT FUND		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
\$405,000	\$484,658	\$79,658	\$77,973	\$153,901	\$75,928
8,000	2,809	(5,191)		25,046	25,046
				364	364
				1,180	1,180
<u>413,000</u>	<u>487,467</u>	<u>74,467</u>	<u>77,973</u>	<u>180,491</u>	<u>102,518</u>
135,976	102,258	33,718			
			147,532	127,347	20,185
			30,441	28,725	1,716
<u>135,976</u>	<u>102,258</u>	<u>33,718</u>	<u>177,973</u>	<u>156,072</u>	<u>21,901</u>
<u>277,024</u>	<u>385,209</u>	<u>108,185</u>	<u>(100,000)</u>	<u>24,419</u>	<u>124,419</u>
43,190	43,190		450,000	450,000	
(300,000)	(300,000)				
<u>(256,810)</u>	<u>(256,810)</u>		<u>450,000</u>	<u>450,000</u>	
<u>\$20,214</u>	128,399	<u>\$108,185</u>	<u>\$350,000</u>	474,419	<u>\$124,419</u>
	586,490			132,596	
	<u>\$714,889</u>			<u>\$607,015</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, 2011

	TRAFFIC CONGESTION RELIEF			PROPOSITION 1B		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Special assessments						
Licenses, permits, and fees						
Intergovernmental				\$537,849	\$537,849	
Fines and forfeits						
Use of money and property		\$1,470	\$1,470		1,010	\$1,010
Miscellaneous						
Total Revenues		1,470	1,470	537,849	538,859	1,010
EXPENDITURES						
Current:						
Administrative services						
Community development						
Police						
Capital outlay	\$331,108	331,108		537,849		537,849
Total Expenditures	331,108	331,108		537,849		537,849
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(331,108)	(329,638)	1,470		538,859	538,859
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>(\$331,108)</u>	<u>(329,638)</u>	<u>\$1,470</u>		538,859	<u>\$538,859</u>
BEGINNING FUND BALANCES		329,638				
ENDING FUND BALANCES					<u>\$538,859</u>	

PEG ACCESS			RECYCLING FUND		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
			\$21,655	\$21,655	
<u>\$55,000</u>	<u>\$47,939</u>	<u>(\$7,061)</u>	<u>253,900</u>	<u>254,447</u>	<u>\$547</u>
<u>55,000</u>	<u>47,939</u>	<u>(7,061)</u>	<u>275,555</u>	<u>276,102</u>	<u>547</u>
31,575	30,585	990	35,046	10,108	24,938
<u>15,658</u>	<u>15,658</u>				
<u>47,233</u>	<u>46,243</u>	<u>990</u>	<u>35,046</u>	<u>10,108</u>	<u>24,938</u>
<u>7,767</u>	<u>1,696</u>	<u>(6,071)</u>	<u>240,509</u>	<u>265,994</u>	<u>25,485</u>
			9,491	9,491	
			9,491	9,491	
<u>\$7,767</u>	1,696	<u>(\$6,071)</u>	<u>\$250,000</u>	275,485	<u>\$25,485</u>
	<u>381,054</u>				
	<u>\$382,750</u>			<u>\$275,485</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, 2011

	Equipment Replacement	Management Information System	Total
ASSETS			
Current Assets:			
Cash and investments available for operations	\$1,896,936	\$627,644	\$2,524,580
Total Current Assets	1,896,936	627,644	2,524,580
Capital Assets:			
Equipment	3,170,538	378,198	3,548,736
Accumulated depreciation	(2,237,740)	(374,942)	(2,612,682)
Net Capital Assets	932,798	3,256	936,054
Total Assets	2,829,734	630,900	3,460,634
LIABILITIES			
Current Liabilities:			
Accounts payable	19,385	6,128	25,513
Accrued liabilities	7,039	5,064	12,103
Accrued vacation and other fringe benefits	35,045	14,752	49,797
Total Liabilities	61,469	25,944	87,413
NET ASSETS			
Invested in capital assets	932,798	3,256	936,054
Unrestricted	1,835,467	601,700	2,437,167
Total Net Assets	\$2,768,265	\$604,956	\$3,373,221

CITY OF MARTINEZ
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Equipment Replacement</u>	<u>Management Information System</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$834,615	\$336,277	\$1,170,892
Other revenue		5,454	5,454
Total Operating Revenues	<u>834,615</u>	<u>341,731</u>	<u>1,176,346</u>
OPERATING EXPENSES			
Maintenance and repairs	760,460	362,000	1,122,460
Depreciation	257,548	14,040	271,588
Total Operating Expenses	<u>1,018,008</u>	<u>376,040</u>	<u>1,394,048</u>
Operating Income (Loss)	<u>(183,393)</u>	<u>(34,309)</u>	<u>(217,702)</u>
NONOPERATING REVENUES			
Interest income	8,990	2,873	11,863
Gain on disposal of equipment	16,376		16,376
Total Nonoperating Revenues	<u>25,366</u>	<u>2,873</u>	<u>28,239</u>
Income (Loss)	<u>(158,027)</u>	<u>(31,436)</u>	<u>(189,463)</u>
Change in Net Assets	<u>(158,027)</u>	<u>(31,436)</u>	<u>(189,463)</u>
BEGINNING NET ASSETS	<u>2,926,292</u>	<u>636,392</u>	<u>3,562,684</u>
ENDING NET ASSETS	<u><u>\$2,768,265</u></u>	<u><u>\$604,956</u></u>	<u><u>\$3,373,221</u></u>

CITY OF MARTINEZ
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

	Equipment Replacement	Management Information System	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$834,615	\$341,731	\$1,176,346
Payments to suppliers	(532,003)	(220,354)	(752,357)
Payments to employees	(224,943)	(157,080)	(382,023)
	<u>77,669</u>	<u>(35,703)</u>	<u>41,966</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(248,085)	(2)	(248,087)
Proceeds from sale of equipment	23,916		23,916
	<u>(224,169)</u>	<u>(2)</u>	<u>(224,171)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest	8,990	2,873	11,863
	<u>8,990</u>	<u>2,873</u>	<u>11,863</u>
Net Cash Flows	(137,510)	(32,832)	(170,342)
Cash and investments at beginning of period	2,034,446	660,476	2,694,922
Cash and investments at end of period	<u>\$1,896,936</u>	<u>\$627,644</u>	<u>\$2,524,580</u>
Reconciliation of operating income (loss) to net cash flows from operating activities:			
Operating income (loss)	(\$183,393)	(\$34,309)	(\$217,702)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:			
Depreciation	257,548	14,040	271,588
Change in assets and liabilities:			
Accounts payable	292	(19,011)	(18,719)
Accrued wages and benefits	13	(35)	(22)
Accrued vacation and other fringe benefits	3,209	3,612	6,821
Cash Flows from Operating Activities	<u>\$77,669</u>	<u>(\$35,703)</u>	<u>\$41,966</u>

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, 2011

	Balance June 30, 2010	Additions	Deductions	Balance June 30, 2011
<u>Alhambra Creek Assessment District</u>				
<u>Assets</u>				
Restricted cash and investments	\$222,245	\$114,327	\$110,383	\$226,189
Total assets	<u>\$222,245</u>	<u>\$114,327</u>	<u>\$110,383</u>	<u>\$226,189</u>
<u>Liabilities</u>				
Accounts payable Due to bondholders	\$222,245	\$114,327	110,383	\$226,189
Total liabilities	<u>\$222,245</u>	<u>\$114,327</u>	<u>\$110,383</u>	<u>\$226,189</u>
<u>Senior Center Club</u>				
<u>Assets</u>				
Restricted cash and investments	\$158,044	\$188,623	\$198,268	\$148,399
Total assets	<u>\$158,044</u>	<u>\$188,623</u>	<u>\$198,268</u>	<u>\$148,399</u>
<u>Liabilities</u>				
Accounts payable	\$5,718	\$2,546	\$5,719	\$2,545
Deposits in trust	152,326	186,077	192,549	145,854
Total liabilities	<u>\$158,044</u>	<u>\$188,623</u>	<u>\$198,268</u>	<u>\$148,399</u>
<u>Total Agency Funds</u>				
<u>Assets</u>				
Restricted cash and investments	\$380,289	\$302,950	\$308,651	\$374,588
Total assets	<u>\$380,289</u>	<u>\$302,950</u>	<u>\$308,651</u>	<u>\$374,588</u>
<u>Liabilities</u>				
Accounts payable	\$5,718	\$2,546	\$5,719	\$2,545
Due to bondholders	222,245	114,327	110,383	226,189
Due to members	152,326	186,077	192,549	145,854
Total liabilities	<u>\$380,289</u>	<u>\$302,950</u>	<u>\$308,651</u>	<u>\$374,588</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. Water System Revenue
4. Principal Property Tax Payers
5. Property Tax Levies and Collections

Debt Capacity

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

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

Demographic and Economic Information

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

1. Demographic and Economic Statistics
2. Principal Employers

Operating Information

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

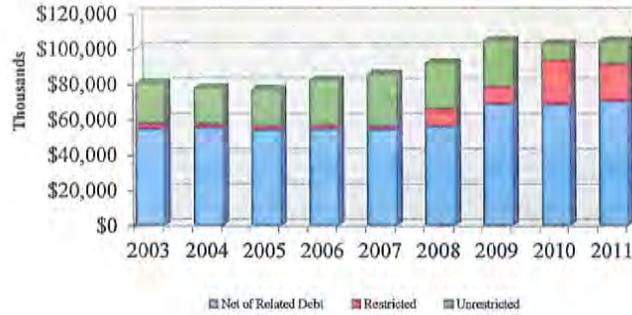
1. Full-Time Equivalent City Government Employees by Function
2. Operating Indicators by Function/Program
3. Capital Asset Statistics by Function/Program

STATISTICAL SECTION (Continued)

Sources

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

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



	Fiscal Year Ended June 30.								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
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	\$46,268,501
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	13,524,459
Unrestricted	12,528,238	13,580,382	12,652,888	16,956,596	20,301,070	20,294,773	19,638,559	2,805,660	5,722,653
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	\$65,515,613
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	\$23,863,759
Restricted	465,144	478,696	492,014	465,980	473,896	6,613,067	7,224,675	7,620,488	7,941,902
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	6,960,954
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	\$38,766,615
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	\$70,132,260
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	21,466,361
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	12,683,607
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	\$104,282,228

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

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

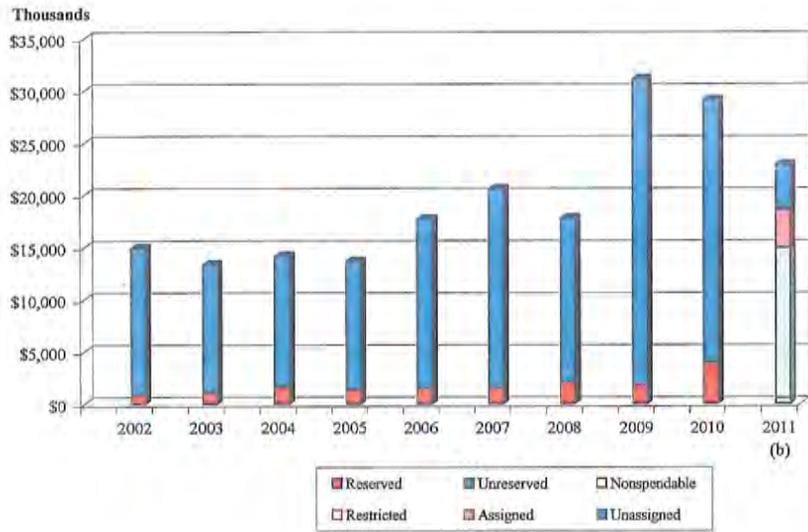
	Fiscal Year Ended June 30,								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Expenses									
Governmental Activities:									
General Government	\$904,411	\$1,361,712	\$1,064,838	\$1,220,112	\$1,275,521	\$982,551	\$1,328,858	\$1,860,433	\$1,888,212
Nondepartmental Services	1,162,661	583,170	602,262	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	912,678
Public Works	633,565	742,330	821,956	831,843	931,263	3,515,810	3,369,089	3,842,513	4,181,381
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	6,024,757
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	10,665,218
Interest on Long-Term Debt	277,194	66,580	60,943	55,823	52,506	50,630	291,152	584,615	813,299
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	24,485,545
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	9,891,686
Marina Services	404,774	470,175	472,205	381,516	441,823	797,453	345,533	388,591	558,512
Parking Services	330,031	547,454	532,367	426,565	375,634	391,841	454,122	451,488	483,876
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	10,934,074
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	\$35,419,619
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	\$26,863
Administrative Services									49,145
Public Works	461,187	417,578	533,355	804,965	933,307	775,303	660,516	585,117	580,520
Community & Economic Development	897,812	819,377	1,032,160	1,166,315	1,149,605	954,885	731,853	549,109	547,115
Police	436,593	353,505	457,654	339,697	428,723	381,602	398,088	376,514	441,982
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	3,034,131
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	4,308,479
Total Governmental Activities Program Revenues	5,972,317	5,342,791	4,841,970	6,887,342	6,332,231	10,305,518	17,783,051	6,081,672	8,988,235
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	9,746,857
Marina Services	191,393	127,608	166,080	219,207	291,919	273,732	241,247	245,157	227,759
Parking Services	336,321	169,145	273,001	346,457	365,488	405,351	387,388	398,591	368,673
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	10,343,289
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	\$19,331,524
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)	(\$15,497,310)
Business-Type Activities	(1,355,179)	(2,413,473)	61,249	(149,767)	(661,002)	(303,907)	(443,537)	(566,659)	(590,785)
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)	(\$16,088,095)

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

	Fiscal Year Ended June 30,								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
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	\$6,413,918
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	3,216,371
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	2,516,117
Franchise fees	474,473	962,045	946,323	1,294,839	1,377,064	1,432,161	1,380,404	1,355,211	1,356,952
Other Taxes	600	1,205,727	1,328,281	1,390,701	2,639,579	2,502,998	2,475,992	2,363,498	2,257,290
Intergovernmental	958,136	1,762,251	881,895	344,160	281,669	231,037	192,805	178,083	238,498
Investment Earnings		199,788	267,746	533,475	1,019,116	955,422	412,821	187,035	123,304
Miscellaneous		83,090	282,749	1,744,370	1,404,792	760,256	1,055,423	893,942	1,259,193
Transfers		190,000	(118,000)	163,815	138,832	(233,325)	49,529	(16,605)	(200,605)
Total Government Activities	12,641,212	13,159,191	14,536,274	17,780,082	18,893,894	17,957,454	17,612,413	16,844,800	17,181,038
Business-Type Activities:									
Other Taxes		62,306	56,769	48,292	56,545	63,240	64,263	61,579	67,403
Investment Earnings	214,941	139,026	184,977	317,631	507,764	475,760	263,207	82,093	63,307
Rents & Leases	22,176	25,231	22,370	25,294					
Miscellaneous	65,920	61,677					1,460		
Contributions								19,387	
Transfers		(190,000)	118,000	(163,815)	(138,832)	233,325	(49,529)	16,605	200,605
Total Business-Type Activities	303,037	98,240	382,116	227,402	425,477	772,325	279,401	179,664	331,315
Total Primary Government	\$12,944,249	\$13,257,431	\$14,918,390	\$18,007,484	\$19,319,371	\$18,729,779	\$17,891,814	\$17,024,464	\$17,512,353
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)	\$1,683,728
Business-Type Activities	(1,052,142)	(2,315,233)	443,365	77,635	(235,525)	468,418	(164,136)	(386,995)	(259,470)
Total Primary Government	(\$368,225)	(\$690,170)	(\$808,894)	\$5,290,012	\$3,329,005	\$6,501,088	\$12,634,952	(\$1,786,085)	\$1,424,258

(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)



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 (b)
General Fund										
Reserved	\$48,397	\$278,429	\$659,139	\$573,040	\$793,427	\$787,770	\$1,041,261	\$853,371	\$809,098	
Unreserved	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	
Nonspendable										\$536,597
Restricted										2,974
Assigned										2,071,135
Unassigned										4,323,175
Total General Fund	\$10,140,645	\$10,112,836	\$9,233,059	\$9,747,335	\$12,847,069	\$15,319,313	\$10,659,565	\$9,827,346	\$8,501,524	\$6,933,881 (a)
All Other Governmental Funds										
Reserved	\$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	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	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	
Unreserved										
Nonspendable										\$14,361,436
Restricted										1,668,389
Assigned										(48,017)
Unassigned										
Total all other governmental funds	\$4,811,212	\$3,238,719	\$4,955,603	\$3,931,123	\$4,880,110	\$5,295,900	\$7,137,951	\$21,307,632	\$20,628,379	\$15,981,808

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

(b) The City implemented the provisions of GASB Statement 54 in fiscal year 2011.

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

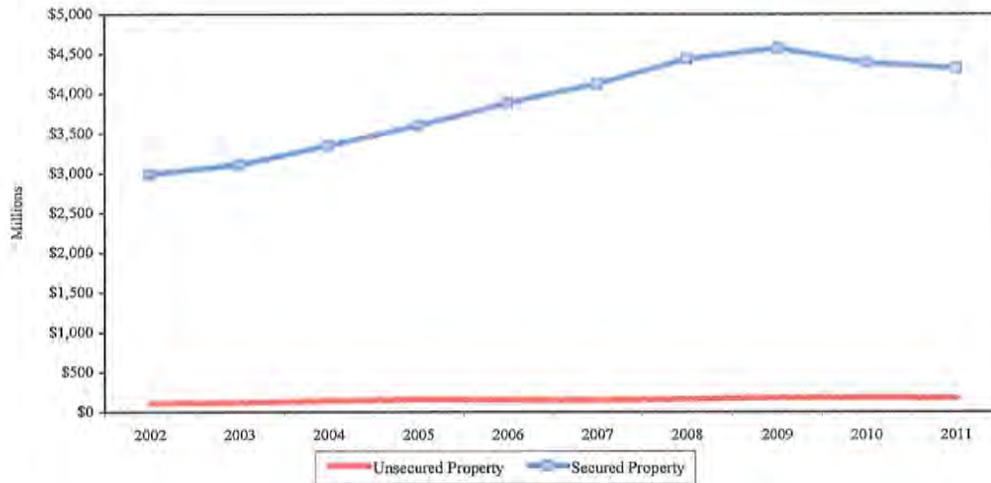
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Revenues				
Taxes	\$11,116,572	\$10,670,402	\$11,295,326	\$13,221,884
Special assessments	633,183	654,990	604,659	654,028
Licenses, permits and fees	2,143,691	2,068,185	489,276	779,784
Intergovernmental revenues	9,244,563	2,493,944	4,613,687	3,109,850
Charges for services	1,243,195	1,475,313	722,266	706,670
Fines and forfeits	280,697	387,676	231,412	333,075
Use of money and property	723,871	493,025	200,309	308,809
Miscellaneous	491,171	132,326	202,556	324,923
Total Revenues	<u>25,876,943</u>	<u>18,375,861</u>	<u>18,359,491</u>	<u>19,439,023</u>
Expenditures				
Current:				
General government	981,212	801,417	850,845	827,226
Nondepartmental services	672,191	1,149,672	583,170	602,262
Administrative services	596,745	402,692	578,412	596,296
Public works	580,976	609,678	618,243	763,635
Community & economic development	5,606,656	5,628,996	6,651,965	6,959,750
Police	6,569,037	7,681,814	7,740,536	8,589,785
Capital outlay	4,794,086	3,402,047	614,619	1,236,330
Debt service:				
Principal repayment	127,307	137,653	8,014	195,000
Interest and fiscal charges	287,275	172,212	66,580	60,943
Total Expenditures	<u>20,215,485</u>	<u>19,986,181</u>	<u>17,712,384</u>	<u>19,831,227</u>
Excess (deficiency) of revenues over (under) expenditures	<u>5,661,458</u>	<u>(1,610,320)</u>	<u>647,107</u>	<u>(392,204)</u>
Other Financing Sources (Uses)				
Transfers in	565,447	920,164	5,074,830	864,960
Transfers (out)	(915,447)	(945,164)	(4,884,830)	(982,960)
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>(350,000)</u>	<u>10,018</u>	<u>190,000</u>	<u>(118,000)</u>
Special Item:				
OPEB funding				
Loan to Martinez Unified School District				
Net Change in fund balances	<u>\$5,311,458</u>	<u>(\$1,600,302)</u>	<u>\$837,107</u>	<u>(\$510,204)</u>
Debt service as a percentage of noncapital expenditures				
	(a)	(a)	0.4%	1.4%

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,					
2006	2007	2008	2009	2010	2011
\$14,994,265	\$16,049,485	\$16,244,064	\$15,901,834	\$15,602,345	\$15,809,271
648,225	618,402	592,675	593,327	1,391,343	2,110,101
829,438	1,206,310	901,504	569,653	451,972	537,305
4,293,695	3,366,831	7,854,354	14,976,879	3,985,583	5,536,564
1,009,212	769,834	714,089	716,173	562,189	470,550
284,486	295,334	360,409	376,179	360,431	429,593
585,146	967,531	907,560	403,693	249,043	172,727
1,791,186	1,755,786	942,321	1,126,603	911,374	1,281,478
<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>	<u>26,347,589</u>
1,253,927	1,249,523	1,055,630	1,327,384	1,324,418	1,312,555
722,957	2,100,557	1,294,070	1,156,191	816,510	1,712,090
691,218	791,144	710,163	757,298	725,585	816,218
826,781	904,338	3,515,167	3,773,961	3,742,399	3,627,781
6,271,909	6,664,397	4,899,818	4,975,417	5,321,903	4,162,888
8,532,786	9,029,159	9,744,360	9,755,501	9,972,242	10,013,872
1,995,346	1,288,687	5,488,729	14,524,632	2,295,078	9,332,495
200,000	200,000	205,000	215,000	220,000	570,000
55,823	52,506	50,630	291,152	584,615	813,299
<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>32,361,198</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>	<u>(6,013,609)</u>
1,934,775	1,623,555	1,837,479	1,514,146	609,610	963,037
(1,770,960)	(1,484,723)	(2,208,585)	(1,464,617)	(626,215)	(1,163,642)
			15,000,000		
			400,128		
<u>163,815</u>	<u>138,832</u>	<u>(371,106)</u>	<u>15,449,657</u>	<u>(16,605)</u>	<u>(200,605)</u>
		(4,000,000)		(500,000)	
<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>	<u>(\$6,214,214)</u>
1.4%	1.2%	1.2%	2.3%	3.5%	6.0%

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

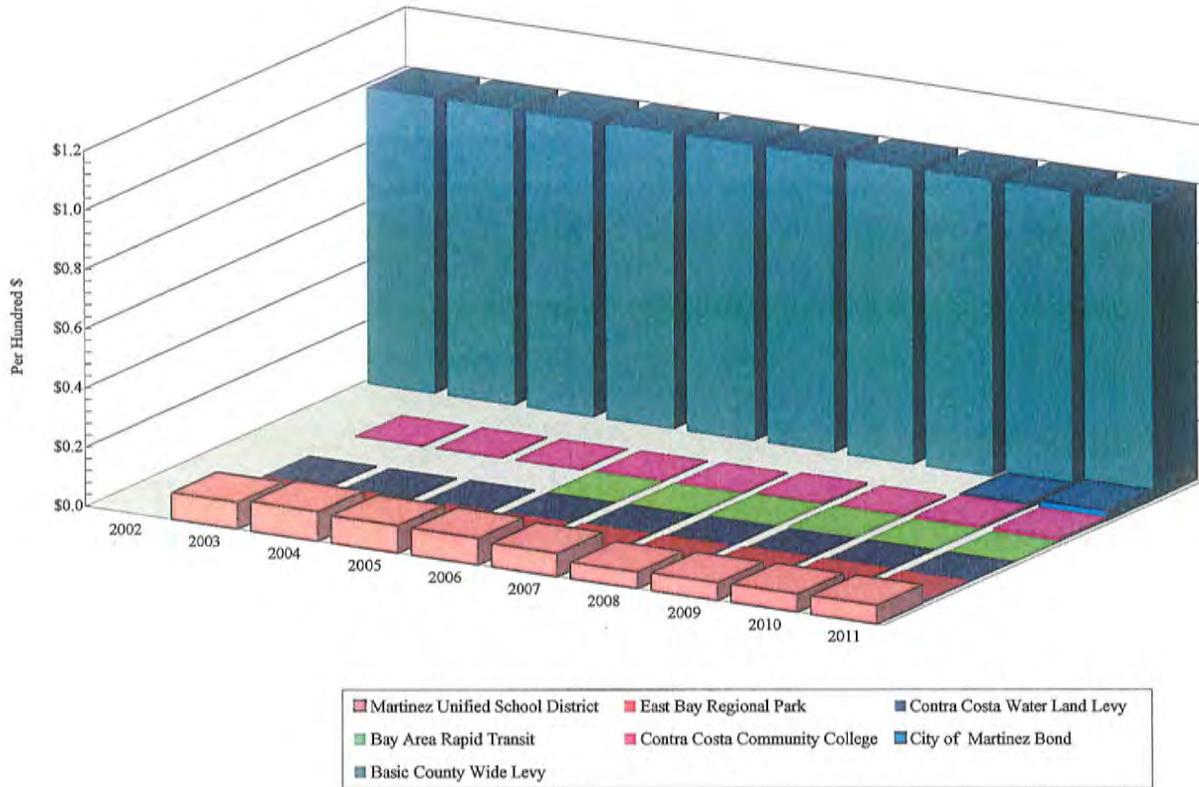


Fiscal Year	Real Property				Total Real Secured Property	Unsecured Property	Total Assessed (a)	Estimated Full Market (a)	Total Direct Tax Rate (b)
	Residential Property	Commercial Property	Industrial Property	Other					
2002	\$2,276,803,980	\$189,132,984	\$362,317,910	\$51,311,610	\$2,879,566,484	\$112,037,636	\$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%
2011	3,344,430,122	283,901,765	466,229,666	57,623,622	4,152,185,175	174,543,244	4,326,728,419	4,326,728,419	1%

- (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**



Fiscal Year	Basic County Wide Levy	Bay Area Rapid Transit	Contra Costa Community College (a)	Contra Costa Water Land Levy (a)	East Bay Regional Park (a)	Martinez Unified School District (a)	City of Martinez Bond	Total
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
2011	1.0000	0.0031	0.0133	0.0049	0.0084	0.0629	0.0347	1.1273

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
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%
2011	9,413,940	9,746,857	96.58%

Source: City of Martinez Administrative Services Department

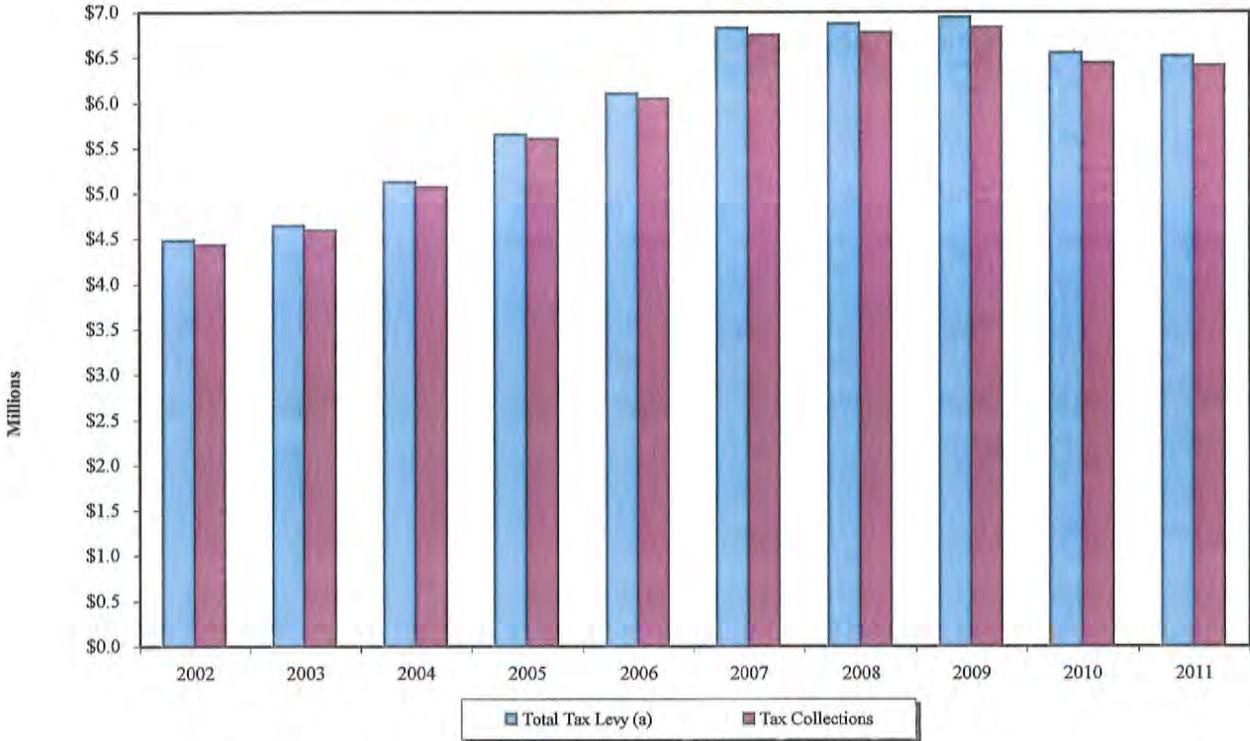
CITY OF MARTINEZ
Principal Property Tax Payers
Current Year and Seven Years Ago

<u>Taxpayer</u>	<u>2010 - 2011</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	\$156,343,486	1	3.6%	\$120,246,026	1	3.6%
Pacific Atlantic Terminals LLC	140,267,800	2	3.2%			0.0%
Tesoro Refining & Marketing Company	41,272,227	3	1.0%			0.0%
Stauffer Chemical Company	27,381,092	4	0.6%	34,287,215	3	1.0%
Shell Chemical Limited Partnership	25,763,940	5	0.6%	20,765,178	4	0.6%
Wal Mart Real Estate	19,656,424	6	0.5%	17,001,885	6	0.5%
Kenneth H. & Martha Hofmann Trust	19,158,168	7	0.4%	17,074,602	5	0.5%
Marine Spill Response Corporation	19,041,467	8	0.4%			0.0%
KW Hidden Creek LLC	19,840,000	9	0.5%			0.0%
Muir Station Center LLC	18,697,658	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>\$487,422,262</u>		<u>11.3%</u>	<u>\$310,725,838</u>		<u>9.3%</u>
Total Net Assessed Valuation:						
Fiscal Year 2010 - 2011	\$4,326,728,419					
Fiscal Year 2003 - 2004	\$3,352,491,393					

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

Source: HDL Coren & Cone

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



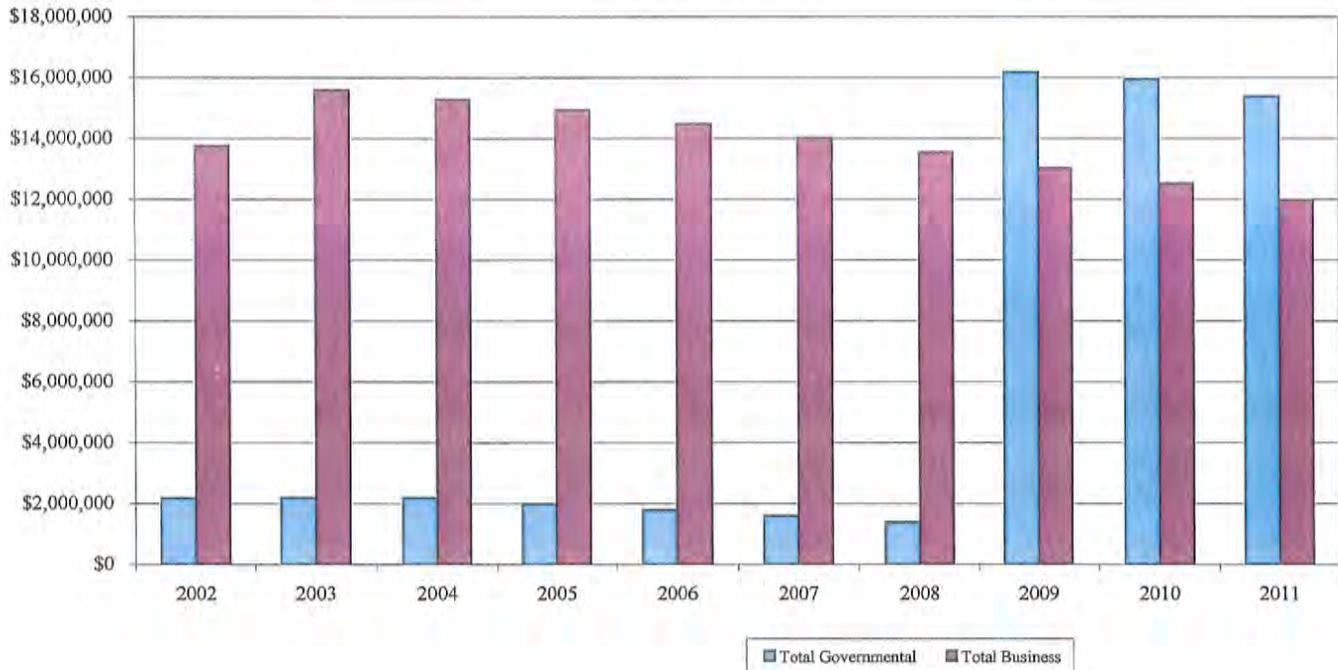
Fiscal Year	Total Tax Levy (a)	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	County Administrative Fee	Total Tax Collections	Percent of Total Tax Collections to Tax Levy
2002	\$4,483,783	\$4,483,783	100.00%	0	(\$48,599)	\$4,435,184	100.00%
2003	4,646,442	4,646,442	100.00%	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%
2011	6,517,643	6,517,643	100.00%	0	(103,726)	6,413,918	100.00%

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

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

Source: Contra Costa County Auditor-Controller

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



Governmental Activities

Fiscal Year	General Obligation Bonds	Certificates of Participation	Special Assessment Debt	Total	Percentage of Actual Taxable Value of Property	General Bonded Debt Per Capita
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%	412.68
2011	14,660,000	735,000		15,395,000	0.34%	407.70

Business-Type Activities

Fiscal Year	Water Revenue Bonds	Certificates of Participation	Loans Payable	Total	Total Primary Government	Percentage of Personal Income	Per Capita
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)	397.41
2010		8,280,000	4,247,215	12,527,215	28,492,215	(a)	777.14
2011		7,760,000	4,228,497	11,988,497	27,383,497	(a)	761.54

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

(a) Personal Income data not available for Fiscal Years 2009 through 2011

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, 2011**

2010 - 2011 Assessed Valuation \$4,326,728,419

	Net Total Debt 06/30/11	(1) % Applicable	City's Share 06/30/11
<u>DIRECT LONG-TERM DEBT</u>			
City of Martinez	\$14,660,000	100.000%	\$14,660,000
City of Martinez Special Assessment District 1915 Act Bonds	730,000	100.000%	730,000
City of Martinez Certificates of Participation	735,000	100.000%	735,000
Total Direct Long-Term Debt	<u>\$16,125,000</u>		<u>\$16,125,000</u>
<u>OVERLAPPING LONG-TERM DEBT:</u>			
Bay Area Rapid Transit District	\$413,865,000	0.994%	\$4,113,818
East Bay Regional Park District	153,990,000	1.540%	2,371,446
Contra Costa Community College District	237,095,000	3.466%	8,217,713
Martinez Unified School District	55,203,563	53.925%	29,768,521
Mount Diablo Unified School District	319,325,057	5.993%	19,137,151
Mount Diablo Unified School District Community Facilities District #1	56,445,000	5.993%	3,382,749
Contra Costa County Certificates of Participation	319,867,903	3.452%	11,041,840
Contra Costa County Pension Obligations	399,840,000	3.452%	13,802,477
Contra Costa Community College District Certificates of Participation	925,000	3.466%	32,061
Contra Costa Fire Protection District Pension Obligations	116,240,000	7.694%	8,943,506
Total Overlapping Long-Term Debt	<u>\$2,072,796,523</u>		<u>\$100,811,282</u>
TOTAL GROSS DIRECT AND OVERLAPPING LONG-TERM DEBT			<u>\$116,936,282</u> (2)
Less Contra Costa County self supporting obligations			<u>4,185,553</u>
TOTAL NET DIRECT AND OVERLAPPING LONG-TERM DEBT			<u>\$112,750,729</u>

(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 2010 - 2011 ASSESSED VALUATION:

Total Direct Debt	0.37%
Total Overlapping Debt	2.33%
Combined Net Total Debt	2.61%

Source: California Municipal Statistics, Inc.

**CITY OF MARTINEZ
COMPUTATION OF LEGAL BONDED DEBT MARGIN
JUNE 30, 2011**

ASSESSED VALUATION:

Secured property assessed value, net of
exempt real property \$4,152,185,175

BONDED DEBT LIMIT (3.75% OF ASSESSED VALUE) (a) \$155,706,944

AMOUNT OF DEBT SUBJECT TO LIMIT:

Total Bonded Debt \$15,395,000

Less Tax Allocation Bonds and Sales Tax Revenue
Bonds, Certificate of Participation not subject to limit 735,000

Amount of debt subject to limit 14,660,000

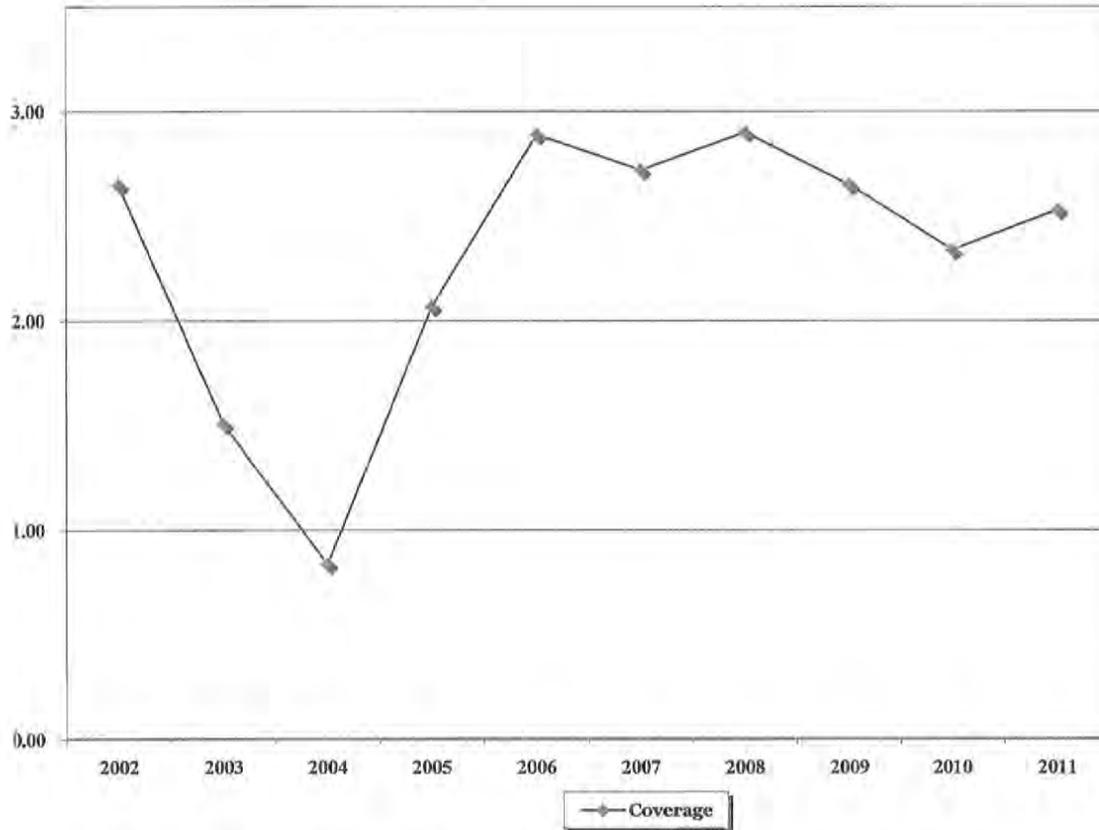
LEGAL BONDED DEBT MARGIN \$141,046,944

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
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	165,020,110	\$15,000,000	165,020,110	9.09%
2010	157,873,721	15,000,000	142,873,721	10.50%
2011	155,706,944	14,660,000	141,046,944	10.39%

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**

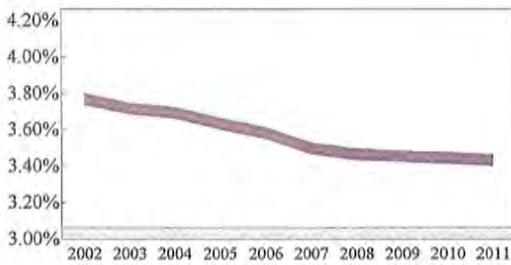


Fiscal Year	Gross Revenue (1)	Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
2002	\$7,993,114	\$6,394,582	\$1,598,532	\$130,000	\$472,599	\$602,599	2.65
2003	8,113,806	6,745,535	1,368,271	425,000	481,589	906,589	1.51
2004	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
2011	9,805,813	7,548,774	2,257,039	540,000	350,698	890,698	2.53

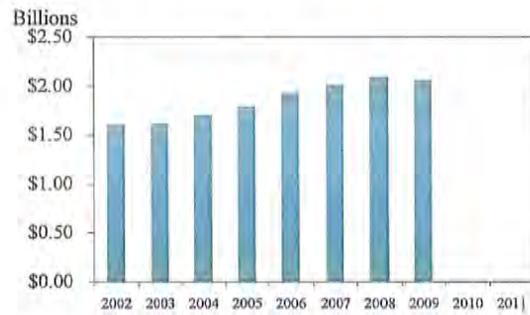
Notes: (1) Includes all Water Operating Revenues, Non-operating Interest Revenue, Connection Fees and other Non-operating Revenue
(2) Includes all Water Operating Expenses less Depreciation and Interest

Source: City of Martinez Annual Financial Statements

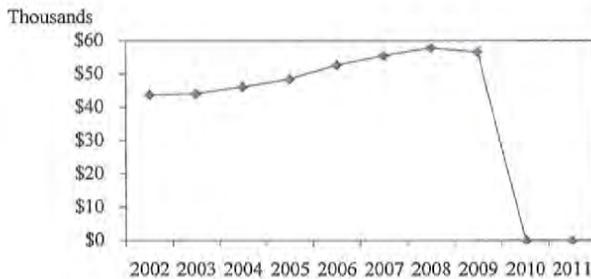
**CITY OF MARTINEZ
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS**



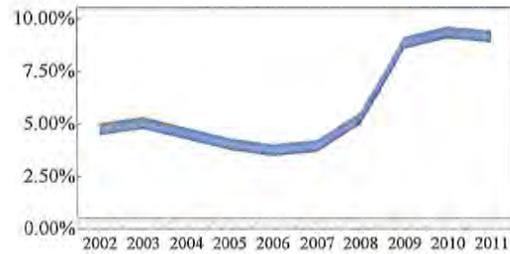
■ City Population as a % of County Population



■ 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
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	2,061,040,644	56,703	8.6%	1,060,435	3.43%
2010	36,663	(b)	(b)	9.1%	1,073,055	3.42%
2011	35,958	(b)	(b)	8.9%	1,056,064	3.40%

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 2010 - 2011 not available

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

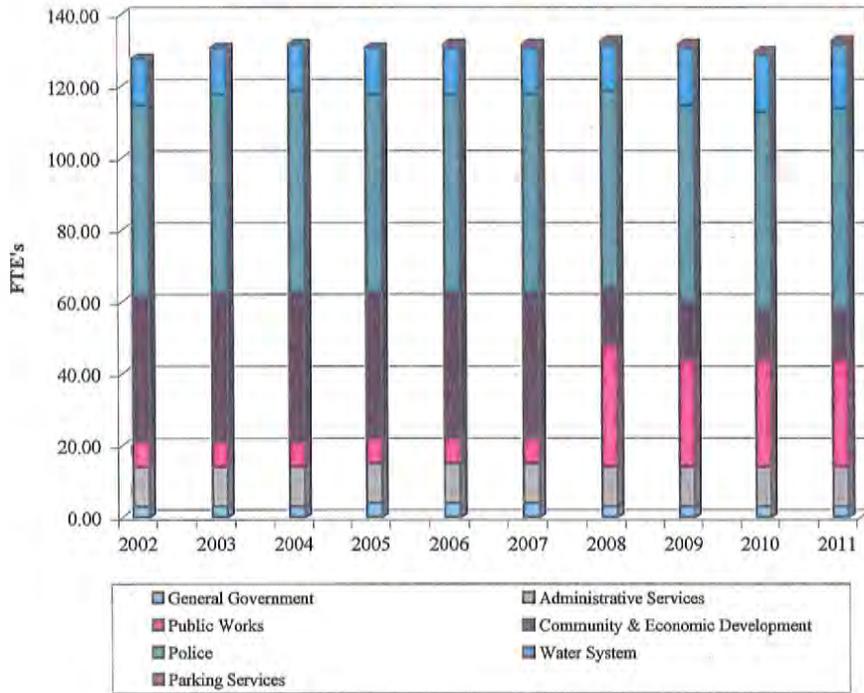
CITY OF MARTINEZ
Principal Employers
Current Year and Five Years Ago

<u>Employer</u>	<u>2010 - 2011</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)	9,489	1	44.1%	1,700	1	8.1%
Shell Oil Refinery	733	2	3.4%	700	4	3.3%
Kaiser Permanente	715	3	3.3%	1,000	2	4.7%
Veterans Admin Medical Center	650	4	3.0%	950	3	4.5%
Martinez Unified School District	401	5	1.9%	425	6	2.0%
Wal-Mart Store	232	6	1.1%	350	7	1.7%
Safeway Stores	160	7	0.7%			0.0%
Contra Costa Electric	150	8	0.7%	500	5	2.4%
City of Martinez	124	9	0.6%	170	9	0.8%
Home Depot	108	10	0.6%	250	8	1.2%
Telfer Oil Lines				100	10	0.5%
Subtotal	<u>12,762</u>		<u>59.4%</u>	<u>6,145</u>		<u>29.1%</u>
Total City Labor Force	<u>21,500</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



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Function										
General Government	3.00	3.00	3.00	4.00	4.00	4.00	3.00	3.00	3.00	3.00
Administrative Services	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00
Public Works	7.00	7.00	7.00	7.00	7.00	7.00	34.00	30.00	30.00	30.00
Community & Economic Development	40.80	41.80	41.80	40.80	40.80	40.80	15.80	15.80	13.80	13.80
Police	53.00	55.00	56.00	55.00	55.00	55.00	55.00	55.00	55.00	56.00
Water System	13.00	13.00	13.00	13.00	13.00	13.00	13.00	16.00	16.00	18.00
Parking Services					1.00	1.00	1.00	1.00	1.00	1.00
Total	<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>	<u>132.80</u>

Source: City of Martinez Administrative Services Department

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

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

Note: n/a denotes information not available.

Source: City of Martinez

Fiscal Year							
2004	2005	2006	2007	2008	2009	2010	2011
31,013	35,621	32,071	30,710	30,354	30,794	29,463	27,501
5,742	5,989	5,753	5,460	5,970	4,923	4,343	4,079
1,828	2,213	1,886	1,693	1,714	1,585	1,655	1,622
3,477	3,117	1,872	1,642	1,340	2,598	2,985	1,738
7,505	8,267	4,992	5,929	8,895	8,790	8,864	9,226
9.47	n/a	6	5.42	5.60	3.41	14.75	0.00
1	1.89	2.40	0.70	0.57	0.89	1.70	1.90
413	434	459	595	596	462	504	458
48	45	52	55	55	67	69	72
323	415	413	253	286	273	290	416
9,814	9,900	9,902	9,900	9,988	10,012	9,869	9,928
61	51	54	35	52	46	38	34
5,770	5,060	5,210	5,214	4,948	4,663	3,970	3,470

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

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Function/Program			
Public safety:			
Police stations	1	1	1
Police sworn officers	39	39	39
Public works			
Miles of streets	122	122	122
Street lights	n/a	4,994	4,994
Traffic Signals	n/a	253	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	1
Swimming pools	1	1	1
Tennis courts	9	9	9
Skateboard Park			1
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						
2005	2006	2007	2008	2009	2010	2011
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	4,996	5,005	5,005	5,005
253	253	253	265	265	265	265
16	16	17	17	17	17	17
271	271	271	271	271	271	271
10	10	14	14	14	14	14
9	9	9	9	9	9	9
11	11	11	12	12	12	12
1	1	1	1	1	1	1
1	1	1	1	1	1	1
1	1	1	1	1	1	1
1	1	1	1	1	1	1
9	9	10	10	10	10	10
1	1	1	1	1	1	1
8	8	11	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
WATER SYSTEM
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2011**

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**CITY OF MARTINEZ
WATER SYSTEM
ENTERPRISE FUND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Martinez, California

We have audited the financial statements of the City of Martinez Water System Enterprise Fund as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these fund financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements referred to above 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 fund financial statements referred to above present fairly in all material respects the financial position of the City of Martinez Water System Enterprise Fund as of June 30, 2011 and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

Our audit was made for the purpose of forming an opinion on the fund financial statements taken as a whole. The supplementary schedule listed in the Table of Contents is presented for the purpose of additional analysis and is not a required part of the financial statements of the City of Martinez Water System. Such information has been subjected to the auditing procedures applied in our audit of the financial statements, and in our opinion is fairly stated in all material respects in relation to the financial statements taken as a whole.

Maze & Associates

September 9, 2011

CITY OF MARTINEZ - WATER SYSTEM
ENTERPRISE FUND
STATEMENT OF NET ASSETS
JUNE 30, 2011

ASSETS	
Current Assets:	
Cash and investments (Note 2):	
Available for operations	\$13,088,405
Restricted Assets:	
Cash and cash equivalents (Note 2)	465,666
Accounts and other receivables	<u>1,269,294</u>
Total Current Assets	<u>14,823,365</u>
Noncurrent Assets:	
Capital assets - at cost: (Note 1D):	
Buildings	15,793,743
Improvements other than buildings	150,584
Equipment	1,297,203
Infrastructure	<u>88,276,473</u>
Total Depreciable Capital Assets	105,518,003
Less: Accumulated depreciation	<u>(74,392,169)</u>
	31,125,834
Land	630,912
Construction in progress	<u>1,336,215</u>
Total Capital Assets - net	<u>33,092,961</u>
Other Non-Current Assets:	
Loan receivable (Note 3)	22,920
Bond issuance cost - net of accumulated amortization	<u>759,551</u>
Total Noncurrent Assets	<u>33,875,432</u>
Total Assets	<u>48,698,797</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	467,147
Accrued liabilities	60,117
Deposits	<u>46,172</u>
Total Current Liabilities	<u>573,436</u>
Current Liabilities Payable from Restricted Assets:	
Accrued interest payable	40,303
Current portion of compensated absences (Note 1F)	25,000
Current maturities of certificates of participation (Note 5)	<u>540,000</u>
Total Current Liabilities Payable from Restricted Assets	<u>605,303</u>
Noncurrent Liabilities:	
Accrued compensated absences (Note 1F)	145,233
Certificates of participation (Note 5)	<u>7,220,000</u>
Total Liabilities	<u>8,543,972</u>
NET ASSETS (Note 6)	
Invested in capital assets, net of related debt	25,332,961
Net Assets:	
Restricted for debt service	465,666
Restricted for capital improvements	7,351,236
Unrestricted	<u>7,004,962</u>
Total Net Assets	<u>\$40,154,825</u>

See accompanying notes to financial statements

CITY OF MARTINEZ - WATER SYSTEM
ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

OPERATING REVENUES	
Water sales	\$9,413,940
Rents and leases	26,904
Other fees	1,005
Charges for services	232,981
Other revenue	<u>72,027</u>
Total Operating Revenues	<u>9,746,857</u>
OPERATING EXPENSES	
Filtration plant	4,231,294
Maintenance, repairs and distribution	1,475,872
Administration	1,841,608
Depreciation and amortization	<u>1,974,438</u>
Total Operating Expenses	<u>9,523,212</u>
Operating income	<u>223,645</u>
NONOPERATING REVENUE (EXPENSE)	
Interest income	58,956
Interest expense	<u>(369,121)</u>
Total Nonoperating Revenue (Expense)	<u>(310,165)</u>
Income (Loss) Before Transfers	<u>(86,520)</u>
TRANSFERS FROM (TO) THE CITY	
Transfers in	<u>16,605</u>
Net Transfers	<u>16,605</u>
Change in Net Assets	(69,915)
Net Assets at beginning of year	<u>40,224,740</u>
Net assets at end of year	<u><u>\$40,154,825</u></u>

See accompanying notes to financial statements

CITY OF MARTINEZ - WATER SYSTEM
ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$9,673,071
Payments to suppliers	(5,801,376)
Payments to employees	(1,857,138)
Rent and lease payments received	<u>72,027</u>
Cash Flows from Operating Activities	<u>2,086,584</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Interfund receipts (payments), net	<u>16,605</u>
Cash Flows from Noncapital Financing Activities	<u>16,605</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(311,928)
Principal payments on capital debt	(520,000)
Interest paid	<u>(371,091)</u>
Cash Flows from Capital and Related Financing Activities	<u>(1,203,019)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>58,956</u>
Cash Flows from Investing Activities	<u>58,956</u>
Net Cash Flows	959,126
Cash and investments at beginning of period	<u>12,594,945</u>
Cash and investments at end of period	<u><u>\$13,554,071</u></u>
Financial Statement Presentation:	
Cash and Investments	\$13,088,405
Restricted Cash and Cash Equivalents	<u>465,666</u>
Total	<u><u>\$13,554,071</u></u>
Reconciliation of Operating Income to Cash Flows	
from Operating Activities:	
Operating income	\$223,645
Adjustments to reconcile operating income to cash flows	
from operating activities:	
Depreciation	1,974,438
Change in assets and liabilities:	
Accounts and other receivables	(1,759)
Accounts payable and accrued liabilities	(99,485)
Deposits	(265)
Accrued compensated absences	<u>(9,990)</u>
Cash Flows from Operating Activities	<u><u>\$2,086,584</u></u>

See accompanying notes to the financial statements

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

B. Basis of Presentation

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

C. Basis of Accounting

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

D. Capital Assets

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

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

E. Discount

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

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. *Compensated Absences*

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

The changes of the compensated absences were as follows:

Beginning Balance	\$180,223
Additions	141,448
Payments	<u>(151,438)</u>
Ending Balance	<u><u>\$170,233</u></u>
Current Portion	<u><u>\$25,000</u></u>

G. *Use of Estimates*

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

NOTE 2 - CASH AND INVESTMENTS

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

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

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

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2011**

NOTE 2 - CASH AND INVESTMENTS (Continued)

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

As of June 30, 2011, Restricted Assets consisted of \$465,666 of cash in banks.

NOTE 3 – LOAN RECEIVABLE

The City made a loan to Riverhouse Associates, which was used to rehabilitate the Riverhouse Hotel, an affordable housing project. The loan is secured by a deed of trust, bears no interest, and is due August 14, 2021. At June 30, 2011 the loan balance was \$284,930 of which \$22,920 was owed to the Water System Enterprise Fund.

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2011**

NOTE 4 – RATE SCHEDULES

Monthly service charges, service line and meter installation fees and consumption rates are as follows for fiscal year 2011:

Meter Size (Inches)	Monthly Service Charges	Service Line Installation Charges	Meter Installation Charges	
5/8	\$23.80	\$2,640.04	\$165.00	
1	53.48	2,640.04	330.00	
1-1/2	102.96	3,300.05	405.00	
2	162.35	3,300.05	562.00	
3	320.69	Actual Costs	Actual Costs	
4	498.82			
6	993.65			
8	1,785.39			
10	2,874.01			
Consumption Rate	Zone 1	Zone 2	Zone 3	Zone 4
Per hundred cubic feet	\$3.32	\$3.52	\$3.66	\$3.87

NOTE 5 – CERTIFICATES OF PARTICIPATION

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

A. Current Year Transactions and Balances

	Original Issue Amount	Balance at June 30, 2010	Retirements	Balance at June 30, 2011	Current Portion
Certificates of Participation:					
1999 Water System Improvements, 4.2-5.375%, due 12/01/26	\$6,040,000	\$4,820,000	\$185,000	\$4,635,000	\$195,000
2003 Refinancing Project, 2-4%, due 12/01/18	5,595,000	3,460,000	335,000	3,125,000	345,000
Total Enterprise Long Term Debt		<u>\$8,280,000</u>	<u>\$520,000</u>	<u>\$7,760,000</u>	<u>\$540,000</u>

B. 1999 Certificates of Participation

On August 1, 1999, the City issued Certificates of Participation (COPs) in the amount of \$6,040,000 to fund 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.

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2011**

NOTE 5 – CERTIFICATES OF PARTICIPATION (Continued)

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 8.20 percent and 11.02 percent of net water revenues. The Water System Fund's total principal and interest remaining to be paid on the bonds is \$6,881,870. The Water System Fund's principal and interest paid for the current year and total customer net revenues were \$433,731 and \$2,257,039 respectively.

C. 2003 Certificates of Participation

On March 11, 2003, the City issued Certificates of Participation (COPs) in the amount of \$7,795,000 to refund and retire the outstanding 1992 City Hall Refurbishment Certificates of Participation and the 1993 Water System Improvements Certificates of Participation. The portion of the 2003 COPs used to refund the 1993 COPS have been recorded in the Water System Fund as they are payable from lease revenues derived from the operation of the water system repayable from fund resources. Interest payments on the 2003 COPs are due semiannually on June 1 and December 1, and annual principal payments are due on December 1.

The City has pledged future Water System Enterprise Fund revenues, net of specified operating expenses, to repay the Installment Sale Agreement portion of the Certificates of Participation through 2019. Annual principal and interest payments on the bonds are expected to require less than 14.84 percent and 5.42 percent of net water revenues. The Water Fund's total principal and interest remaining to be paid on the bonds is \$3,627,215. The Water Fund's principal and interest paid for the current year and total customer net revenues were \$457,361 and \$2,257,039 respectively.

D. Debt Service Requirements

Annual debt service requirements are shown below:

For the Year Ending June 30	Principal	Interest
2012	\$540,000	\$350,698
2013	555,000	328,769
2014	580,000	305,598
2015	605,000	280,822
2016	630,000	254,527
2017 - 2021	2,655,000	856,573
2022 - 2026	1,780,000	360,935
2027	415,000	11,163
Total	<u>\$7,760,000</u>	<u>\$2,749,085</u>

E. Authorized but Unissued Debt

The City has previously issued Water Revenue Bonds authorized by the electorate at a bond election held on June 7, 1966. Series A, B, and C Bonds in the amount of \$3,250,000 were previously issued and have been fully retired. \$1,400,000 remains authorized but unissued as of June 30, 2011.

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2011**

NOTE 6 – NET ASSETS

Restrictions of net assets of enterprise funds are created by increases in assets restricted for debt service and capital improvements. These increases result from earnings on restricted assets and other interfund transfers to restricted accounts. Earnings on restricted assets are included in net income of the enterprise funds. When restricted net assets are increased there is an equal reduction to the portion of net assets that is unrestricted.

NOTE 7 – EMPLOYEES' RETIREMENT SYSTEM

Substantially all City employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City's employees participate in the 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, 2011, are summarized as follows:

	Safety	Miscellaneous	Miscellaneous Joint Facilities Agency
	5 years service	5 years service	5 years service
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	39.041%	8.984%	10.537%

*Rates include amortization of side fund

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2011**

NOTE 7 – EMPLOYEES’ RETIREMENT SYSTEM (Continued)

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

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
<i>Safety Plan</i>			
June 30, 2009	\$1,278,550	100%	\$0
June 30, 2010	1,417,950	100%	0
June 30, 2011	1,470,275	100%	0
<i>Miscellaneous Plan</i>			
June 30, 2009	\$24,422	100%	\$0
June 30, 2010	23,966	100%	0
June 30, 2011	23,453	100%	0
<i>Miscellaneous Joint Facilities Agency</i>			
June 30, 2009	\$731,653	100%	\$0
June 30, 2010	740,618	100%	0
June 30, 2011	761,593	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%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and amortized over a rolling thirty year period.

As required by State law, effective July 1, 2005, the City’s Safety, Miscellaneous and Miscellaneous Joint Facilities Agency Plans were terminated, and the employees in those plans were required by CALPERS to join new State-wide pools. One of the conditions of entry to these pools was that the City true-up any unfunded liabilities in the former Plans, either by paying cash or by increasing its future contribution rates through a Side Fund offered by CALPERS. In March 2007, the City paid off the unfunded liability of the Miscellaneous Plan. In April 2011 the City satisfied its Miscellaneous Joint Facilities Agency Plan’s unfunded liability by making a lump sum contribution of \$631,914. For the Safety 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 11 years.

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2011**

NOTE 7 – EMPLOYEES’ RETIREMENT SYSTEM (Continued)

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

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
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%
2009	9,721,675,347	8,027,158,724	1,694,516,623	82.6%	973,814,168	174.0%

The City’s Safety Plan represents approximately 0.39%, 0.36%, and 0.43% of the State-wide pool for the years ended June 30, 2009, 2008, and 2007, respectively, based on covered payroll of \$3,765,849, \$3,361,440, and \$3,608,420 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
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%
2009	3,104,798,222	2,758,511,101	346,287,121	88.9%	742,981,488	46.6%

The City’s Miscellaneous Plan represents approximately 0.04%, 0.04%, and 0.02% of the State-wide pool for the years ended June 30, 2009, 2008, and 2007, respectively, based on covered payroll of \$261,051, \$303,687, and \$134,759 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
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%
2009	3,104,798,222	2,758,511,101	346,287,121	88.9%	742,981,488	46.6%

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2011**

NOTE 7 – EMPLOYEES’ RETIREMENT SYSTEM (Continued)

The City’s Miscellaneous Joint Facilities Agency Plan represents approximately 0.97%, 0.97%, and 0.98% of the State-wide pool for the years ended June 30, 2009, 2008, and 2007, respectively, based on covered payroll of \$7,227,796, \$6,688,211, and \$6,542,304 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.

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS

The City provides health care benefits for retired employees and spouses based on negotiated employee bargaining unit contracts under an agent multiple-employer post employment benefit plan. Substantially all of the City’s employees may become eligible for those benefits if they reach the normal retirement age and have a minimum ten years of service while working for the City. The premium reimbursement benefits are as follows: 0-10 years of service = 0%; 11-15 years of service = 25%; 16-20 years of service = 50%; 21-25 years of service = 75%; 26 years or more of service = 100%. Currently, 41 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, 40 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, 2011, those costs totaled \$705,820.

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.

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2011**

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

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

Effective January 1st 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.

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 (PEU) Local #324 (formerly Local One)

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

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

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

Years of Service with the City	Percent of Health Insurance To be Paid by City
0 through 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, 2011, approximately 73 participants were eligible to receive retirement health care benefits.

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2011**

NOTE 8 – 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 an agent multiple-employer plan, consisting of an aggregation of single-employer plans, with pooled administrative and investment functions. CERBT is administrated by CALPERS, and is managed by an appointed board not under the control of City Council. This Trust is not considered a component unit by the City and has been excluded from these financial statements. The CERBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained from the California Public Employees' Retirement System, CERBT, P.O. Box 942703, Sacramento, CA 94229-2703.

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, 2011, the City contributed the ARC amounting to \$934,000 to the Plan which represented 9.00% of the \$10,416,000 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 – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2011**

NOTE 8 – POST-EMPLOYMENT BENEFITS (Continued)

Annual required contribution (ARC)	(\$934,000)
Interest on net OPEB obligation	320,000
Adjustment to annual required contribution	<u>(263,000)</u>
Annual OPEB cost	<u>(877,000)</u>
Contributions made:	
City portion of current year premiums paid	705,820
Additional contributions to CERBT	<u>228,180</u>
Total contributions	<u>934,000</u>
Change in net OPEB asset	57,000
Net OPEB Asset at June 30, 2010	<u>4,126,000</u>
Net OPEB Asset at June 30, 2011	<u><u>\$4,183,000</u></u>

The actuarial accrued liability (AAL) representing the present value of future benefits, included in the actuarial study dated July 1, 2010 amounted to \$14,273,000 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 \$5,785,463 as of June 30, 2011, which partially reduced the unfunded actuarial accrued liability.

The Plan's annual OPEB cost and actual contributions for fiscal years ended June 30, 2009, 2010 and 2011 are set forth below:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2009	\$894,000	\$894,000	100%	\$4,065,000
June 30, 2010	842,000	903,000	107%	4,126,000
June 30, 2011	877,000	934,000	106%	4,183,000

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%
July 1, 2010	4,054,000	14,273,000	10,219,000	28.40%	10,416,000	98.11%

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2011**

NOTE 9 – DEFERRED COMPENSATION PLAN

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

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

NOTE 10 - INSURANCE

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

Insurance coverage through the Municipal Pooling Authority is as follows:

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

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SUPPLEMENTARY INFORMATION

CITY OF MARTINEZ - WATER SYSTEM
ENTERPRISE FUND
SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Filtration Plant</u>	<u>Maintenance, Repairs and Distribution</u>	<u>Administration</u>
Salaries	\$578,778	\$424,760	\$111,444
Salaries - overtime and temporary	38,573	85,726	
Fringe benefits	357,136	267,591	147,363
Labor provided by (charged to) other departments, net		104,014	488,121
Rent and utilities	336,320	158,612	
Communications	3,124	31,971	719
Operating supplies	101,762	190,635	
Travel and entertainment	73	823	221
Dues and subscriptions		2,060	2,338
Office supplies	18,925		9,024
Equipment rental	37,671	79,722	14,076
Repairs and maintenance	47,505	17,411	
Professional fees	131,055	80,532	202,491
Raw water and chemicals purchase	2,571,899		
Training	885	4,288	
Contractual services	4,416	1,715	5
Operating charges by other departments		24,255	445,366
Insurance	3,172	1,757	13,132
Tax in-lieu			407,308
	<u>\$4,231,294</u>	<u>\$1,475,872</u>	<u>\$1,841,608</u>

**CITY OF MARTINEZ
MARINA SYSTEM
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2011**

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

**Financial Statements
For the Year Ended June 30, 2011**

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Martinez, California

We have audited the financial statements of the City of Martinez Marina System Enterprise Fund as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these fund financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements referred to above 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 financial statements referred to above present fairly in all material respects the financial position of the City of Martinez Marina System Enterprise Fund as of June 30, 2011 and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary schedule as listed in the Table of Contents is presented for the purpose of additional analysis and is not a required part of the financial statements of the Fund. Such information has been subjected to the auditing procedures applied in our audit of the financial statements, and in our opinion is fairly stated in all material respects in relation to the financial statements taken as a whole.

Maze & Associates

September 9, 2011

CITY OF MARTINEZ - MARINA SYSTEM
ENTERPRISE FUND
STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2011

ASSETS

Current Assets:	
Cash and cash equivalents (Note 3)	\$99,366
Receivables:	
Accounts	<u>10,368</u>
Total Current Assets	<u>109,734</u>
Noncurrent Assets:	
Capital assets - at cost (Note 1D)	
Buildings	282,821
Improvements	1,934,189
Less: accumulated depreciation	<u>(632,345)</u>
	<u>1,584,665</u>
Land	<u>800,165</u>
Total Capital Assets - net	<u>2,384,830</u>
Total Assets	<u>2,494,564</u>

LIABILITIES

Current Liabilities:	
Accounts payable	5,757
Deposits	46,867
Deferred lease revenue (Note 4)	342,907
Current portion of loans payable (Note 7)	<u>40,765</u>
Total Current Liabilities	<u>436,296</u>
Noncurrent Liabilities:	
Advance from the City (Note 5)	473,849
Loans payable (Note 7)	<u>4,187,732</u>
Total Noncurrent Liabilities	<u>4,661,581</u>

NET ASSETS (DEFICIT)

Invested in capital assets, net of related debt	(1,843,667)
Unrestricted	<u>(759,646)</u>
Total Net (Deficit) (Note 2)	<u><u>(\$2,603,313)</u></u>

See accompanying notes to financial statements

CITY OF MARTINEZ - MARINA SYSTEM
ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS (DEFICIT)
FOR THE YEAR ENDED JUNE 30, 2011

OPERATING REVENUES	
Rents and leases	\$227,759
Total Operating Revenues	227,759
OPERATING EXPENSES	
Administration	206,169
Maintenance and repair	106,532
Depreciation	128,026
Total Operating Expenses	440,727
Operating income (loss)	(212,968)
NON OPERATING REVENUES (EXPENSE)	
Interest income	320
Interest expense	(117,785)
Taxes	12,110
Total Non Operating Revenues (Expense)	(105,355)
TRANSFERS FROM (TO) THE CITY	
Transfers in	184,000
Net Transfers	184,000
Change in Net Assets	(134,323)
Net (deficit) at beginning of year	(2,468,990)
Net (deficit) at end of year	(\$2,603,313)

See accompanying notes to financial statements

CITY OF MARTINEZ - MARINA SYSTEM
ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$215,551
Payments to suppliers	<u>(310,764)</u>
Cash Flows from Operating Activities	<u>(95,213)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Taxes received	12,110
Interfund receipts (payments), net	<u>184,000</u>
Cash Flows from Noncapital Financing Activities	<u>196,110</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Advances to the City, net	(26,674)
Principal paid on capital debt	(18,718)
Interest paid	<u>(117,785)</u>
Cash Flows from Capital and Related Financing Activities	<u>(163,177)</u>
CASH FLOWS FROM CAPITAL AND RELATED INVESTING ACTIVITIES	
Interest	<u>320</u>
Cash Flows from Investing Activities	<u>320</u>
Net Cash Flows	(61,960)
Cash and investments at beginning of period	<u>161,326</u>
Cash and investments at end of period	<u><u>\$99,366</u></u>
Reconciliation of Operating Income to Cash Flows	
from Operating Activities:	
Operating income (loss)	(\$212,968)
Adjustments to reconcile operating income (loss) to cash flows	
from operating activities:	
Depreciation	128,026
Change in assets and liabilities:	
Accounts receivable	(3,844)
Accounts payable and other liabilities	1,937
Deferred revenue	<u>(8,364)</u>
Cash Flows from Operating Activities	<u><u>(\$95,213)</u></u>

See accompanying notes to financial statements

CITY OF MARTINEZ – MARINA SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In January 1960, the City entered into an agreement with the State of California to construct a new marina. Construction commenced in April 1960 and the Marina was put into operation in late 1967. The City assumed operation of the Marina in November 1969.

A. *Reporting Entity*

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

B. *Basis of Presentation*

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

C. *Basis of Accounting*

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

D. *Capital Assets*

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

Buildings	30-40 years
Improvements	50 years

E. *Use of Estimates*

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

**CITY OF MARTINEZ – MARINA SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2011**

NOTE 2 – CONTINUED OPERATIONS

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Marina as a going concern. The Marina System Enterprise Fund has an accumulated net deficit of \$2,603,313 as of June 30, 2011 made up primarily of State loans which the City has not had sufficient operating revenues to repay. The fund is used to account for the operation of the City's Marina. Management has taken steps to remedy this situation by privatizing the Marina and entering into an operating agreement with an independent company to manage the Marina. In fiscal year 2006-07, the State agreed to allow the City to make interest-only annual payments until August 2008, at which time the City commenced making principal payments on the loans. 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, 2011, the City had not received such notice.

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

NOTE 3 – CASH AND INVESTMENTS

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

NOTE 4 – DEFERRED LEASE REVENUE

Deferred lease revenue represents a prepayment on a land lease. The deferred revenue is being amortized over the term of the lease of 55 years, which runs through the fiscal year ending June 30, 2052.

NOTE 5 – INTERFUND PAYABLES TO THE CITY

In fiscal year 2004-2005 the General Fund made an advance to the Marina Services Enterprise Fund in the amount of \$225,000, to be repaid monthly until 2018. Annual interest at 4.96% is accrued on the unpaid balance. As of June 30, 2011, the balance was \$133,145.

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, 2011 its balance was \$52,176. The second advance for \$275,000 is to be repaid over 45 years. Annual interest at 4.53% is accrued on the unpaid balance. As of June 30, 2011 its balance was \$264,249.

**CITY OF MARTINEZ – MARINA SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2011**

NOTE 5 – INTERFUND PAYABLES TO THE CITY (Continued)

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, 2011 of \$24,279. This adjusted balance will be repaid in 2016.

NOTE 6 – MARINA FEES

Monthly berthing fees and other fees are as follows for 2011:

<u>Berthing Fees</u>	<u>Charges</u>
a. Slip Fees	\$285 – 412 (35-45 ft/ single slip) 106 – 319 (20-45 ft/ double slip)
b. End Ties Docks: A	286 (35 ft / boat length)
A	906 (90 ft / boat length)
B	906 (90 ft / boat length)
C	721 (80 ft / boat length)
D	631 (70 ft / boat length)
E	519 (60 ft / boat length)
c. On-berth tenant permit	183 / month
d. Transient daily berth rate	15 / day (up to 20 feet) 17 / day (up to 25 feet) 18 / day (over 30 feet) 20 / day (over 35 feet) 22 / day (over 40 feet) 25 / day (over 45 feet)
e. Utility charge	5 / month (up to 20 feet) 6 / month (up to 25 feet) 8 / month (up to 30 feet) 10 / month (up to 35 feet) 12 / month (up to 40 feet) 15 / month (45-90 feet) On-Berth tenant = slip length x 2
f. Dock box	4 / month
 <u>Other Fees</u>	
a. Use of launch ramp (includes entry and exit)	10 / day
b. RV parking	15 / night
c. Key deposit fee	25 / key

CITY OF MARTINEZ – MARINA SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2011

NOTE 7 – LOANS PAYABLE

At June 30, 2011, the Marina Fund owed \$4,228,497 in loans to the State. The City made an interest payment of \$74,857 in fiscal 2011 to cover current year interest accrued on the unpaid loan balances. Principal payments were made in the amount of \$39,009 during fiscal 2011.

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, 2011, the amount payable to the State including interest amounted to \$2,537,014.

The agreement was modified in 1964 with the following conditions:

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

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

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, 2011, the amount payable to the State was \$273,536 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.
- Payments of principal and interest at 4.5% shall be payable in equal annual installments on August 1 of each year with a final payment due on August 1, 2026.

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, 2011, the City was still in negotiations with the State for the terms of these loans.

**CITY OF MARTINEZ – MARINA SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2011**

NOTE 7 – LOANS PAYABLE (Continued)

- 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, 2011 the amount payable to the State was \$141,884 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, 2029.

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, 2011, 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, 2011, the amount payable to the State was \$345,573 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, 2034.

**CITY OF MARTINEZ – MARINA SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2011**

NOTE 7 – LOANS PAYABLE (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, 2011, the amount payable to the State was \$930,490 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, 2038.
- Berthing rates may not average less than \$3.75 per foot of boat or berth length and are subject to annual adjustments based on the consumer price index.
- A survey of berthing charges in the same market as the Marina shall be conducted on an annual basis.

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 loan. As of June 30, 2011, the City was still in negotiations with the State for the terms of these 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.

CITY OF MARTINEZ – MARINA SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2011

NOTE 8 - INSURANCE

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

Insurance coverage through the Municipal Pooling Authority is as follows:

Type of Coverage (Deductible)	Coverage Limits
Liability (\$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 (10% per location, \$100,000 minimum)	50,000,000
Flood (\$100,000 per occurrence)	25,000,000
Boiler & Machinery (\$5,000)	100,000,000

NOTE 9 – OPERATING LEASES

The Marina entered into an operating lease with Eagle Marine for the Marina Boat Yard facility. The current lease term expires July 31, 2012. Lease payments are made annually in the amount of \$45,000 per year until July 31, 2010 and then increase to \$48,000 a year until 2012.

The Marina also entered into an operating lease with the Martinez Yacht Club. The current lease term expires November 1, 2013. Lease payments received for the year ended June 30, 2011 were \$8,659.

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SUPPLEMENTARY INFORMATION

CITY OF MARTINEZ - MARINA SYSTEM
 ENTERPRISE FUND
 SCHEDULE OF OPERATING EXPENSES
 FOR THE YEAR ENDED JUNE 30, 2011

	<u>Administration</u>	<u>Maintenance and Repair</u>
Rent and utilities		\$28,954
Repair and Maintenance		3,840
Property insurance		263
Equipment rental	\$12,437	
Professional fees	190,992	73,475
Operating charges by other departments, net	<u>2,740</u>	
	<u>\$206,169</u>	<u>\$106,532</u>

**CITY OF MARTINEZ
INDEPENDENT ACCOUNTANT'S
AGREED UPON PROCEDURES REPORT ON
COMPLIANCE WITH THE PROPOSITION 111
2010-2011 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, 2011. 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 2010-2011 limit of \$142,366,554 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 2010-2011 Current Appropriations Limit by multiplying the 2009-2010 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 9, 2011

CITY OF MARTINEZ
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS
FOR THE YEAR ENDED
JUNE 30, 2011

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

For the Year Ended June 30, 2011

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MEMORANDUM ON INTERNAL CONTROL

September 9, 2011

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, 2011, and have issued our report thereon dated September 9, 2011. In planning and performing our audit of the financial statements of the City of Martinez as of and for the year ended June 30, 2011, 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
STATUS OF PRIOR YEAR OTHER MATTERS
June 30, 2011

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.

Current Status:

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.

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
STATUS OF PRIOR YEAR OTHER MATTERS
June 30, 2011

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.

Current Status:

Implemented in fiscal year 2011.

REQUIRED COMMUNICATIONS

September 9, 2011

City Council
City of Martinez,
Martinez, California

We audited the financial statements of the City of Martinez of and for the year ended June 30, 2011 and have issued our report thereon dated September 9, 2011. 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. The following pronouncements became effective during the year ended June 30, 2011:

- **Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions**

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.

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

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.

- **Statement No. 59 Financial Instruments Omnibus**

The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This is a technical clean up pronouncement that had no material impact to the financial statements.

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, 2011, the City held approximately \$40.1 million of cash and investments as measured by fair value. Fair value is essentially market pricing in effect as of June 30, 2011. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2011.

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.

Maze + Associates

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