



CITY OF MARTINEZ

CITY COUNCIL AGENDA October 17, 2012

TO: Mayor and City Council

FROM: Cathy Spinella, Finance Manager

SUBJECT: Comprehensive Annual Financial Report (CAFR) for Fiscal Year Ended June 30, 2012

DATE: October 10, 2012

RECOMMENDATION:

Receive and file the Comprehensive Annual Financial Report (CAFR) for Fiscal Year ended June 30, 2012. The City's auditor and staff reviewed the report with the Budget Subcommittee on October 9, 2012 and the Subcommittee recommended forwarding to the City Council.

BACKGROUND:

Each fiscal year the City is required to be audited annually by an independent certified public accountancy firm. The CPA firm of Maze and Associates is the City's independent external auditor. Maze and Associates has completed its review and examination of the City's financial transactions and statements for the year ended June 30, 2012, 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, 2012, and that the statements were prepared in conformity with generally accepted accounting principles (GAAP). Maze and Associates also agreed with the City's Appropriations Limit Calculation (GANN) for 2011-12. 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, 2012 is contained in the CAFR. Key information contained in the CAFR is stated below:

- The General Fund ended at June 30, 2012 with a fund balance of \$7,529,768. Of this amount \$527,618 was nonspendable and restricted; \$1,961,611 was assigned; and \$5,040,539 was unassigned, with \$1,000,000 designated for unforeseen contingencies, leaving \$4,040,539.

Operating revenues were \$18,723,236, of which \$242,000 was in one-time revenues in sales tax adjustments from prior years. Other financing sources of \$555,000 show the proceeds from the sale of 610 & 630 Court Street. Operating expenditures were \$18,602,349 with \$41,837 in encumbrances that will be re-appropriated to Fiscal Year 2012-13. Expenses, less encumbrances, were \$294,663 under budget, mostly in the police department due to lower crime lab and booking fees, and salary and benefit savings from vacant positions.

In addition, \$75,000 was transferred to fund the downtown dining platforms, and \$5,000 was transferred to the Lighting & Landscape Assessment District for maintenance costs.

- 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 \$7,453,114 and unrestricted of \$6,547,394, which can be used for future projects and debt service. The Marina ended June 30, 2012 with negative net assets of \$2,637,658, and Parking Services ended with unrestricted net assets of \$808,713 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, including vehicle fleet. The Management Information System Fund accounts for the I.T. services rendered to all City departments for management of hardware and software needs. The combined unrestricted net assets of both funds were \$1,880,671 at June 30, 2012.

The budget subcommittee recommended that the General Fund Assigned Fund Balance of ‘Loan to Marina’ of \$350,000, be restated as, ‘Marina Improvements’. This change does not affect the total of assigned fund balance of \$1,961,611.

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.

FISCAL IMPACT:

None.

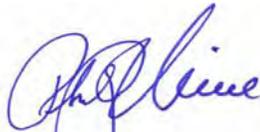
ACTION:

Motion accepting the Comprehensive Annual Financial Report (CAFR) for fiscal year ending June 30, 2012.

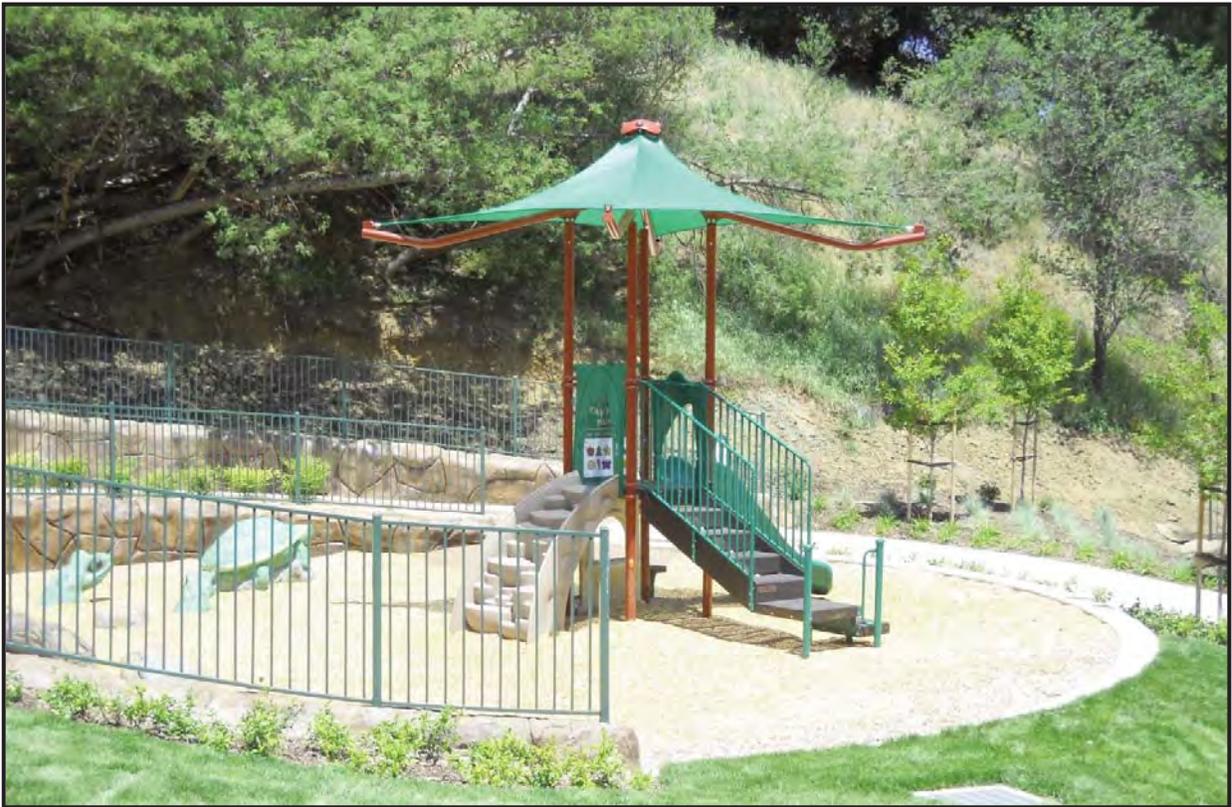
Attachments:

- Comprehensive Annual Financial Report
- Water System Financial Statements
- Marina System Financial Statements
- Appropriations Limit Increment for 2011-12
- 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, 2012**



Prepared by

ADMINISTRATIVE SERVICES DEPARTMENT

CITY OF MARTINEZ, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2012

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Comprehensive Annual Financial Report
For the Year Ended June 30, 2012

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City of Martinez

525 Henrietta Street, Martinez CA 94553-2394

October 17, 2012

Honorable Mayor and Council Members

State law requires that all general-purpose local governments publish a complete set of financial statements, presented in conformity with Generally Accepted Accounting Principles (GAAP), within six months of the close of the each fiscal year. Therefore, we are pleased to present the City of Martinez' Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2012. The City is responsible for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to fairly set forth the financial position and results of operations of the City measured by the financial activity of its funds. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

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

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

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

Profile of Martinez

Established in 1876, Martinez is the County seat of Contra Costa County. It is located along the Sacramento and San Joaquin rivers in the central part of the County. The City's roots can be traced to the late 1840's, when it served as a ferryboat transit point across the Carquinez straits on the way to the gold fields. By the time of its incorporation, Martinez had evolved into one of the area's most significant trading posts and shipping ports. Today, the City covers 12.5 square miles and has approximately 36,225 residents. As one of California's first towns, Martinez retains a strong sense of history and family. The renowned naturalist John Muir made Martinez his home for nearly a quarter century and in 1914, the year of Muir's death, the legendary baseball great Joe DiMaggio was born here. One of the unique aspects of Martinez is its architecture. Many of the downtown shops still retain their early 20th century look and charm, with some homes dating back more than 125 years.

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

The City provides a full range of services including Police, Public Works, Community and Economic Development, Planning, Building, Engineering and Inspection, Parks and Recreation, and general Administrative services. The City's General Fund supports these services. The City enterprise operations consist of the Parking Services, Water System, and Marina Services funds. All these services are accounted for in the City's financial statement.

Economic Outlook

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 three years of improving economic activity (measured by the nation's Gross Domestic Product), fundamental concerns remain. Recent national unemployment data released by the Bureau of Labor Statistics indicated that 12.7 million Americans were unemployed for a rate of 8.2% in June 2012, with 42% of those (5.4 million) considered long-term unemployed for a period of 27 weeks or longer. These numbers represent a reduction of 1.2 million in the number of unemployed workers and a full percent improvement from the June 2011 unemployment rate of 9.2%. Although the unemployment trend is improving year over year, this latest figure is still significantly higher than the rates from as recent as 2007, which were under 5% for virtually the entire year.

The latest data released by the US Bureau of Economic Analysis revealed that the GDP increased at an annual rate of 1.7% in the second quarter of 2012. This quarter-to-quarter increase, measured sequentially from the first to the second quarters of 2012, follows the 2.0% increase of the first quarter of 2012. Positive contributions from personal consumption expenditures, exports and both residential and non-residential fixed investments outpaced negative contributions from private inventory investment and government spending at both the state and local levels. The slight dip in rate of GDP growth, from 2.0% in the first quarter to 1.7% in the second quarter of 2012, reflect an economy that continues to grow but only at a modest pace. Consistent GDP growth of more than 3% is not likely until unemployment rates drop considerably further.

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 2012 figures from the California Economic Development Department showed the State's unemployment rate at 10.7%, better than the 12.1% rate of a year ago but still historically high and unlikely to dip below double digits until the end of 2013 according to Beacon Economics. The County's unemployment rate for the same period was 9.4%, with the City's rate trending slightly lower at 7.6%. 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 rates drop well below 10%.

The East Bay continues to struggle with the housing slowdown, but signs of stabilization are beginning to appear. After the precipitous falls to housing values in 2008 and 2009, median home sales prices fluctuated both up and down throughout the majority of 2010, with any increases minimal at best. Prices appear to have stabilized somewhat, and the median home sale value in Contra Costa County in July 2012 actually increased 19.15% to \$308,000 compared to July 2011 according to the latest figures provided by DataQuick. The median home sale value in Martinez remained basically flat with an increase of just 0.81% to \$248,000 in July 2012, on 69 homes sold. As a point of reference, the median home sale value in Martinez in July 2008 was \$404,000.

Martinez, like most local agencies, faces considerable challenges in the near term as financial conditions have affected most of its major revenue sources including property and sales taxes, and development fees. The City must also deal with its financial obligations for retirement and other post employment benefits (OPEB), as well as ever-escalating healthcare costs, while trying to maintain current service levels. To help meet these and other budgetary challenges, the City strives to develop and diversify its economy in ways that will increase revenues and embrace its heritage. The downtown area historically accounts for only around 5% of the City's total sales tax revenues. Revitalization of the downtown and marina areas is crucial to the City's long-term economic health.

Major Initiatives and Objectives

Public Safety. In order to promote crime prevention activities and awareness, and nurture the partnerships created by our Neighborhood Policing Initiative, the Police Department participated in “National Night Out” against crime for the very first time and had more than 500 citizens attend numerous events throughout the city. The Department is also working with a coalition of stakeholders to develop realistic solutions to problems associated with homelessness in the downtown. Last fiscal year we purchased the necessary radios and associated equipment for our “P25” communications project that will allow for interoperability throughout the region. We believe the system will be operational during this fiscal year and we will be able to migrate to the new system.

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

The Rankin Aquatic Center project was completed in July 2011. This project, supported through a Council-designated allocation of \$6 million in Measure H funds, included the complete demolition of the site and the following new construction: a play 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 first two pool seasons. The 2012 season opened in May, and has been open extended hours and dates to allow 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 positive reviews since reopening.

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

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

A variety of other parks projects funded through Measure H are underway, including the final design of improvements at Cappy Ricks, Nancy Boyd and Hidden Valley Parks which will involve ADA compliance, playground, and other site improvements. Similar improvements planned for Waterfront Park are expected to commence this fiscal year.

Transportation Improvements. The undergrounding of the overhead utility lines on Marina Vista between Ferry Street and Berrellesa Street was completed as part of the Marina Vista Streetscape project. The project included new paver sidewalks; sidewalk bulb outs; federally-funded decorative energy-efficient LED streetlights; handicap ramps; bicycle lanes; and landscaping along Marina Vista from Berrellesa Street to the junction with Escobar Street.

The project scoping document for the Alternative Waterfront Access Study, formerly known as the North Court Street Overcrossing, is well underway. One of the projects goals is to provide improved emergency access from the City's waterfront over the railroad tracks to the Downtown.

Final design is underway on the intermodal parking lot north of the railroad tracks to accommodate overflow Amtrak parking.

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 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, have participated in a total of 20 meetings thus far to provide guidance on the General Plan Update.

Simultaneously, the City has been hosting a series of workshops and tours called "Downtown Matters" designed to "refresh" the vision for Downtown Martinez. This series is part of the General Plan Update process and has identified 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. 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 entered into formal leases with two private development organizations in late 2011/early 2012 for adaptive reuse of the two large concrete structures the City owns across from the Amtrak/Intermodal Station (known as the “Zocchi” buildings). The former warehouse facilities have been successfully converted into indoor sports complexes, with the 330 Ferry Street location used for turf field recreational activities such as soccer, lacrosse, and flag football, and the 360 Ferry Street location used for sports court activities such as basketball and volleyball. Both organizations have the potential to draw several hundred visitors for leagues and tournaments. The Chamber of Commerce and Main Street Martinez business organizations are partnering with the operators of the sports complexes to help market the downtown to the clientele. The City is hoping the increased activity will spur additional economic development in the downtown.

The City finalized arrangements with a private developer for the sale of two downtown “cornerstone” properties at 610 and 630 Court Street. This deal culminated a process that involved several years of attempts by the City – including release of a development “Request for Proposals” in 2007 for 630 Court Street – to successfully complete negotiations for transfer of the properties. The new owner is working to attract restaurant, retail, and office space tenants suitable for the buildings, both of which are located in a particularly busy part of downtown directly across from the Contra Costa Courthouse.

The City is investigating the possibility of creating an Economic Development Corporation, or EDC, to facilitate low-interest loans to property owners and businesses, with the primary objective of facilitating large-scale unreinforced masonry (URM) refurbishments to aging downtown infrastructure. The City Council will hold a discussion on this item in the near future and provide direction to staff on the recommended course of action.

The City Council extended its “Economic Stimulus Package” first adopted on September 15, 2010, in February 2012. This program is designed to encourage commercial and residential development by reducing development impact and building permit fees over a 3-year 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 September 2013.

The City is using the government access “City Channel” as a means to promote economic development in Martinez, and has enlisted the Chamber of Commerce and Main Street Martinez to provide promotional content. Examples of recent promotional programming include a spot on the local farmers’ markets; a documentary short on the history of the Martini cocktail (and the City’s claims to its origin); and information regarding the City’s implementation of mandatory commercial recycling and resources available to business owners. Soon to come are features on various business corridors throughout Martinez. The City is also expanding its use of digital media for marketing through its website and social media outlets.

Downtown Dining Platforms. The City worked with civic leaders and downtown merchants to develop a program that allows businesses to lease from the City removable “dining platforms” suitable for outdoor use. These portable platforms replaced the permanent pockets formerly located along the 500 block of Main Street and are now being used in other parts of the City’s downtown. A related aspect of this project was improving the traffic flow throughout downtown by repaving and restriping several one-way streets to two-way. The City has received extensive praise from the business community and public for both the dining platform program and the traffic flow improvements.

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

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 has been finalized, and the annexation application with a revised boundary was approved by the Contra Costa County Local Agency Formation Commission (LAFCO) in September 2012.

Climate Action Plan/Sustainability Programs. The City continued to make significant progress in 2011-12 implementing its Climate Action Plan. The City worked in conjunction with the California Department of Resources, Recycling and Recovery (“CalRecycle”) and Allied Waste Services, the City’s authorized solid waste and recycling hauler, to successfully implement a Mandatory Commercial Recycling Program in Martinez as required by AB341. To ensure effective implementation of the new program, the City amended its franchise agreements with Allied Waste to establish a simplified one-rate system for solid waste and recycling charges similar to how residential rates are applied. Additionally, to meet the education, outreach, and monitoring requirements of the new regulations, the City created a “Mandatory Commercial Recycling Strategies” exhibit to the Recycling Agreement that outlines how the City and Allied Waste will manage the program. The City has committed to spend around \$8,000 of its beverage container grant funding to purchase indoor recycling bags for multi-family residents and indoor recycling containers for commercial businesses on an as-needed basis. The City and Allied Waste also co-hosted two public workshops to educate the business community about the new mandatory recycling program and provide resources to help ensure its effective implementation.

Another key initiative was creation of the new “Sustainable Citizen” workshop series. The City has provided free compost workshops for many years and enlisted its contracted instructor, an expert in the field of waste reduction and conservation, to expand on that teaching to reach a broader audience. The result was a course designed to appeal to anyone interested in environmental issues and educate participants on a variety of ways that sustainable practices can easily be applied to peoples’ everyday lives. The City has sponsored two classes thus far and plans to host four per year.

Financial Information

Accounting System and Internal Controls. In developing and evaluating the City's accounting system, consideration is given to the accuracy of internal accounting controls. Internal accounting controls are designed to provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposition, as well as the accuracy and reliability of accounting data and the adherence to prescribed managerial policy. The Administrative Services Department has been delegated the responsibility to maintain the integrity of the City’s recorded financial data. Accounting for all of the City’s activities is centralized under the Finance Division. The Administrative Services Department, in conjunction with City management, is also responsible for establishing and maintaining an internal control structure designed to ensure that the City’s assets are protected from loss, theft or misuse. As a recipient of federal, state, and county financial assistance for a variety of projects or programs, the City is responsible for ensuring that an adequate control structure is in place to comply with applicable laws and regulations related to those projects or programs. City administration believes the existing internal control systems are adequate to provide reasonable assurance the City’s assets are safeguarded against loss and that the financial records are reliable for preparing financial statements and maintaining accountability for assets. This belief is supported by the City’s “Unqualified” Audit issued for 2012.

Budgeting Controls. The City maintains extensive budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the biennial appropriated budget approved by City Council. Activities of all government and business type funds are included in the biennial 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 project level. The City also utilizes the encumbrance system as a management control to assist in controlling expenditures. All appropriations lapse at year-end; however, encumbrances and appropriations for unfinished capital and other projects are reviewed and, when warranted, reappropriated as part of the following year’s budget. Budget-to-budget comparisons are included in the Financial Section for the General Fund and Special Revenue Funds.

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

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

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

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

Cash Management Policies and Practices. The City's investment policy is to 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.

Other Information

Awards. The Government Finance Officer's Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Martinez for its comprehensive annual financial report for the fiscal year ended June 30, 2011. This was the 11th 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 and we are submitting it to GFOA to determine its eligibility for another award.

Acknowledgements

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

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'Alan Shear', with a long horizontal flourish extending to the right.

Alan Shear
Assistant City Manager

City of Martinez Key Personnel

June 30, 2012

City Council

Rob Schroder, Mayor

Mark Ross, Vice Mayor

Lara DeLaney, Councilmember

Janet Kennedy, Councilmember

Michael Menesini, 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

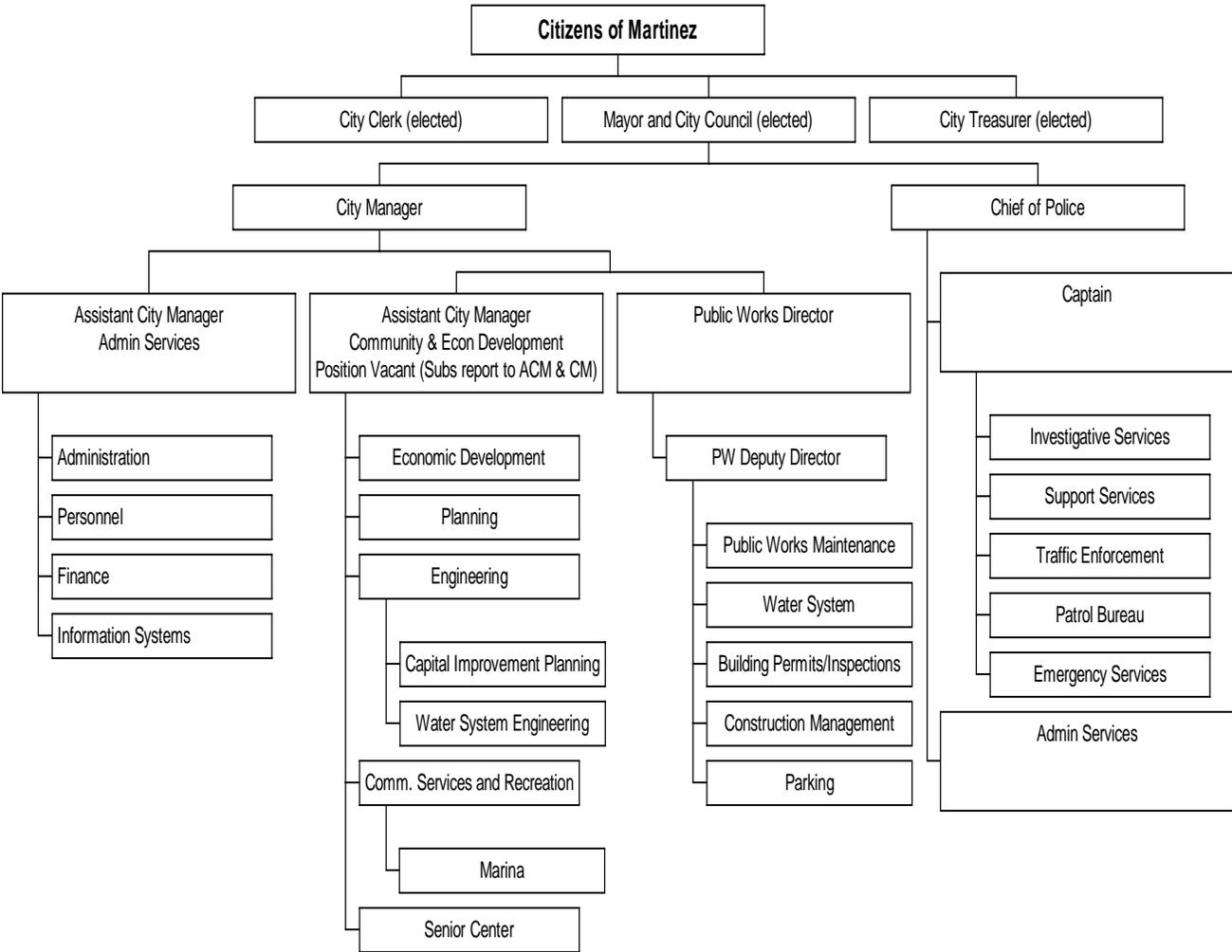
Carolyn Robinson, City Treasurer

City Staff

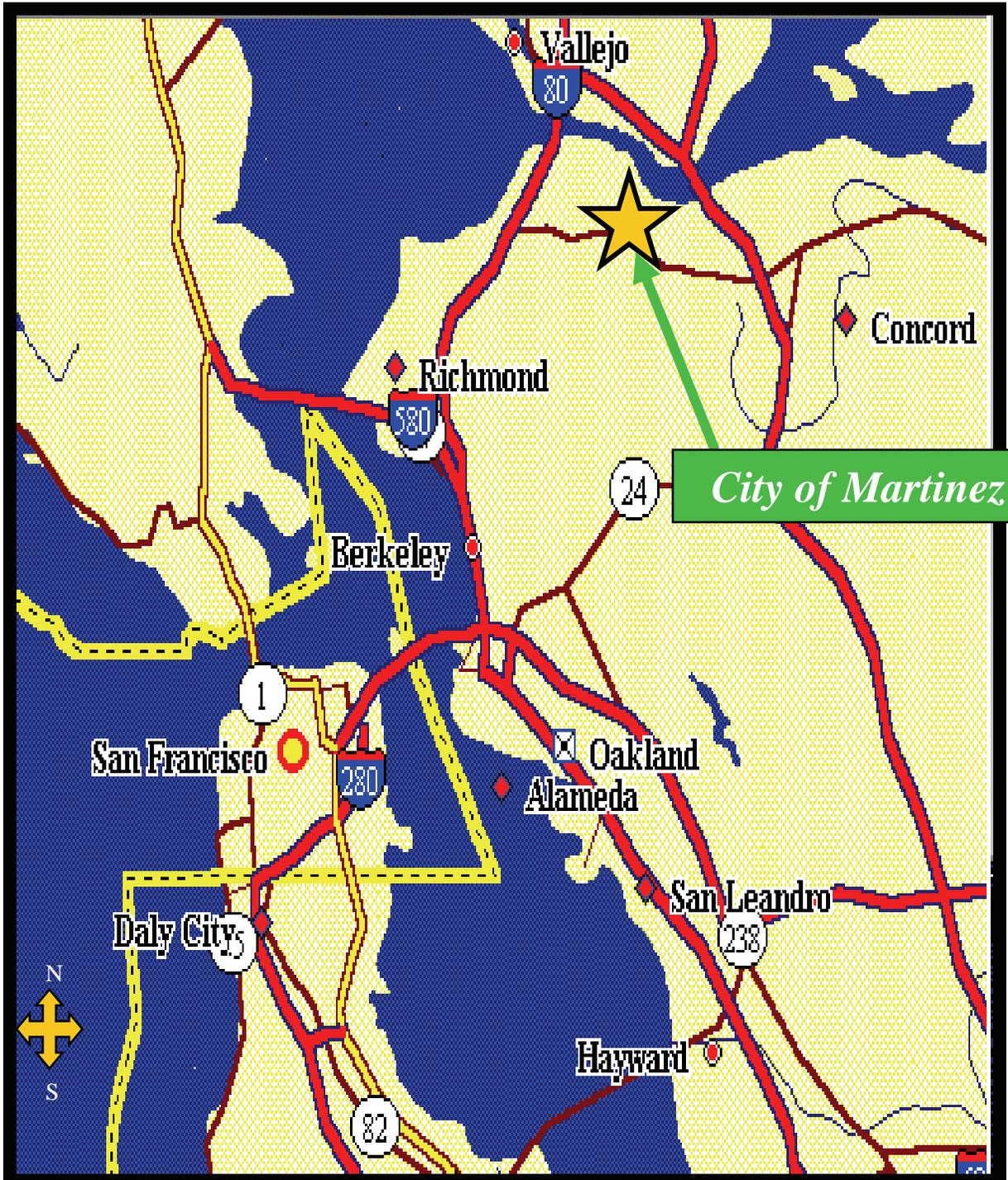
Cathy Spinella, Finance Manager

David Scola, Public Works Director

CITY OF MARTINEZ



AREA MAP



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Martinez
California

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

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



Linda C. Danison

President

Jeffrey R. Emer

Executive Director

INDEPENDENT AUDITOR'S REPORT

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

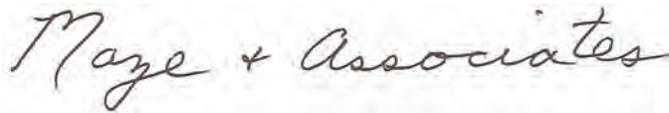
We have audited the accompanying basic financial statements of the governmental activities, business-type activities, each major fund and aggregate remaining fund information of the City of Martinez as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements 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 basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance 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 opinions.

In our opinion, the basic financial statements referred to above present fairly in all material respects the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City as of June 30, 2012 and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended in conformity with principles generally accepted accounting in the United States of America.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The Introductory Section, Supplemental Information, and Statistical Section listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the financial statements. The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information is fairly stated in all material respects in relation to the financial statements as a whole. The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

The image shows a handwritten signature in cursive script that reads "Maze & Associates". The signature is written in dark ink on a light-colored background.

September 14, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the City of Martinez's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the accompanying transmittal letter, the Basic Financial Statements and the accompanying notes to the financial statements.

FINANCIAL HIGHLIGHTS

Financial highlights of the year include the following:

City-wide Activities:

- The assets of the City of Martinez exceeded its liabilities at the close of June 30, 2012 by \$104,234,095. Of this amount \$9,656,317 may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$28,784,051, an increase of \$5,868,362 in comparison with the prior year. Of this amount, the unassigned fund balance was \$4,998,563 which is available for discretion spending.
- At the end of the fiscal year, unassigned fund balance for the General Fund was \$4,040,539, or 22% of general fund expenditures. The general fund has an additional unassigned fund balance of \$1,000,000 set aside for contingency.
- The City of Martinez's total debt increased by \$13,052,859 during the fiscal year. The increases were due to a \$10,000,000 General Obligation Bond for park improvements; \$8,721,947 in Certificates of Participation in the Water System; and retirements of \$5,669,088.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements: The Government-wide financial statements are designed to provide the readers with a broader, long term view of the City's activities as a whole, and comprise the Statement of Net 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 and expenses of each of the City's programs. 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.

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

The Statement of Activities explains in detail the Change in Net Assets for the year. Over time, increases or decreases in the City’s net assets are one indicator of whether its financial health is improving or deteriorating.

Fund Financial Statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Some funds are required to be established by State law and by bond covenants. 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 are divided into three categories; Governmental Funds, Proprietary Funds and Fiduciary Funds. The Governmental Fund financials are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The Proprietary Fund financials are prepared using the economic resources measurement focus and the accrual basis of accounting. The Fiduciary Funds are agency funds which only report a balance sheet and do not have a measurement focus.

- *Governmental Funds* – Most of the City’s basic services are reported in Governmental Funds, which focus on how much money flows into and out of those funds and the balances left at year-end that are available for spending. The Governmental Fund statements provide a detailed, short term view of the City’s general government operations and basic services it provides. Governmental Fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs. The fund financial statements, of governmental funds measure only current revenues and expenditures, current assets, liabilities and fund balances; they exclude capital assets, long-term debt and other long-term obligation amounts. The City’s Governmental Funds are comprised of the General Fund, Measure H Fund and Capital Improvements Fund, which are considered Major Funds. Non-Major Funds consist of Gas Tax, NPDES Stormwater, Measure J, COPS Grant, Proposition 1B, PEG Access, Recycling, Debt Service and Lighting & Landscape.

- *Proprietary Funds* – When the City charges customers for services it provides, whether to outside customers or other units of the City, these monies are generally reported in Proprietary Funds. The City maintains two different types of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial Statements. The City uses three enterprise funds to account for Water System, Marina Services and Parking Services. *Internal Service funds* are used to report activities which provide supplies and services for the City’s other programs and activities. The City uses internal service funds to account for its fleet of vehicles and for its management information systems. Since the City’s Internal Service Funds are proprietary funds used by the City to account for the financing of goods and services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis, their activities are reported only in total at the Fund level. Internal Service Funds may not be Major Funds because their revenues are derived from other City funds. These revenues are eliminated in the City-wide Financial Statements and any related profits or losses are returned to the activities that created them, along with any residual net assets of the Internal Service Funds. Enterprise and Internal Service Fund financial statements are prepared on the full accrual basis and as in the past, include all their assets and liabilities, current and long-term.
- *Fiduciary Funds* - The City is the agent for one assessment district, the Alhambra Creek Special Assessment District, and is responsible for holding amounts collected from property owners that await transfer to the District’s bond trustees. The City is also an agent for certain community organizations, for which it collects and disburses cash and maintains separate cash accounts. The City’s fiduciary activities are reported in the separate Statements of Fiduciary Net Assets and the Agency Funds Statement of Changes in Assets and Liabilities. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. These activities are excluded from the City’s other financial statements because the City cannot use these assets to finance its own operations.

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

Notes to the Basic Financial Statement: The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the Government-Wide and Fund Financial Statements. The Notes to the Basic Financial Statements can be found on pages 33 - 68 of this report. Note 11 and Note 12 on pages 56 - 62 provides the City’s progress in funding of its obligation to provide pension benefits and other post employment benefits to its employees. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental information that combines statements referred to earlier in connection with non-major governmental funds and internal service funds are presented following the Notes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The net assets for the City decreased \$48,133 in 2012 to \$104,234,095. The annual change comes from the change in net assets as recorded in the Statement of Activities which flows through the Statement of Net Assets. Governmental Activities is shown in Table 1 and 2. Business-type Activities is shown in Table 3 and 4.

Cash and investments increased \$11,459,017 during the year, mostly attributable to the \$10,000,000 General Obligation Bond. This was also part of the increase of \$13,052,859 in long-term debt from 2011 to 2012. Capital assets increased \$3,390,667, net of depreciation charges, due primarily to infrastructure improvements on Measure H park projects.

Net assets invested in capital assets, net of related debt of \$64,284,003 represents the City's investment in capital assets net of amounts borrowed to finance that investment. Although the City's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets represents resources which are subject to external restrictions on how they may be used. Restricted net assets totaled \$30,293,775 at June 30, 2012. 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 \$9,656,317.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
Cash and investments	\$31,430,530	\$25,020,622	\$19,587,391	\$14,538,282	\$ 51,017,921
Other assets	6,920,071	8,186,543	1,681,383	1,554,180	8,,601,454
Capital assets	<u>56,571,832</u>	<u>52,179,035</u>	<u>34,850,125</u>	<u>35,852,256</u>	<u>91,421,957</u>
Total Assets	94,922,433	85,386,200	56,118,899	51,944,718	151,041,332
Long-term debt outstanding	24,800,000	15,395,000	15,636,358	11,988,497	40,436,358
Other Liabilities	<u>4,340,442</u>	<u>4,475,587</u>	<u>2,030,437</u>	<u>1,189,606</u>	<u>6,370,879</u>
Total Liabilities	29,140,442	19,870,587	17,666,795	13,178,103	46,807,237
Net assets:					
Invested in capital assets, net of debt	44,385,099	46,268,501	19,898,904	23,863,759	64,284,003
Restricted	18,207,558	13,524,459	12,086,217	7,941,902	30,293,775
Unrestricted	<u>3,189,334</u>	<u>5,722,653</u>	<u>6,466,983</u>	<u>6,960,954</u>	<u>9,656,317</u>
Total Net Assets	<u>\$65,781,991</u>	<u>\$65,515,613</u>	<u>\$38,452,104</u>	<u>\$38,766,615</u>	<u>\$104,234,095</u>

Governmental activities – The Governmental activities increased the City’s net assets by \$266,378 to \$65,781,991 at June 30, 2012. Below are the changes in net assets.

Table 1	Governmental Activities	
	2012	2011
Expenses		
General government	\$ 1,545,222	\$ 1,888,212
Administrative services	945,076	871,985
Public works	3,466,780	4,222,074
Community & economic dev	5,917,326	6,024,757
Police	10,483,295	10,665,218
Interest on LTD	1,102,335	813,299
Total expenses	23,460,034	24,485,545
Revenues		
Program revenues:		
Charges for services	1,737,209	1,645,625
Operating contributions & grants	2,617,726	3,034,131
Capital grants	1,861,281	4,308,479
Total program revenues	6,216,216	8,988,235
General revenues:		
Property tax	6,262,596	6,413,918
Sales tax	3,239,219	3,216,371
VLF Property tax swap	2,465,909	2,516,117
Franchise Fees	1,379,610	1,356,952
Other taxes	2,667,102	2,257,290
Intergovernmental	85,068	238,498
Investment earnings	75,843	123,304
Miscellaneous	1,157,849	1,259,193
Gain on sale of capital assets	177,000	0
General revenues	17,510,196	17,381,643
Total revenues	23,726,412	26,369,878
Change in net assets before transfers	266,378	1,884,333
Transfers	0	(200,605)
Change in net assets	\$ 266,378	\$ 1,683,728

The cost of all Governmental activities was \$23,460,034 in Fiscal 2012. A portion of the cost for these activities was paid either by those who directly benefited from the programs, by other governments and organizations that subsidized certain programs with operating grants and contributions, or capital grants and contributions. Overall, the City’s Governmental activities program revenues during the year were \$6,216,216.

Program revenues totaled \$6,216,216 or 26.2% of total revenues for Fiscal Year 2012, down \$2,772,019 from 2011. The large decrease is in Capital Grants due to Federal funding on a major street project in 2011. 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 \$1,737,209 which are intended to help cover the expenses incurred in providing a variety of City services; Operating Contributions and Grants of \$2,617,726, which is attributable to special revenue funds such as Gas Tax, Measure J and police services; and Capital Grants of \$1,861,281, which includes federal, state and local funding.

General revenues are not allocable to programs but are used to pay for the net cost of government services. General revenues totaled \$17,510,196 or 73.8% of total revenues, up \$128,553 from Fiscal 2011. Table 1 shows that \$16,014,436 or 91.46% of general revenues came from taxes and the balance of \$1,495,760 or 8.54% came from intergovernmental, investment earnings and miscellaneous.

Net expense is defined as total program costs less program revenues generated by those specific activities. In the City's case, program revenues of \$6,216,216, reduced expenses of \$23,460,034 by approximately 26.5% to \$17,243,818. It is clear in that the City's program revenues do not approach the cost of program expenses. This shows how dependent the City is on taxes to pay for City services. Below is the net expense by department.

Table 2	Net (Expense) Revenue	
	From Services	
	2012	2011
Governmental Activities:		
General government	(1,453,003)	(1,798,946)
Administrative services	(865,232)	(801,185)
Public works	(2,799,972)	(3,640,102)
Community & Economic Dev	(1,365,863)	1,215,303
Police	(9,657,413)	(9,659,081)
Interest on long term debt	(1,102,335)	(813,299)
Total Governmental Activities	<u>\$(17,243,818)</u>	<u>\$(15,497,310)</u>

Business-type activities – The Business-type activities decreased the City's net assets by \$314,511 in 2012 to \$38,766,615. Below are the changes in net assets.

Table 3	Business-type Activities	
	2012	2011
Expenses		
Water System	\$10,782,125	\$ 9,891,686
Marina Services	410,699	558,512
Parking Services	365,585	483,876
Total expenses	11,558,409	10,934,074
Revenues		
Program revenues:		
Charges for services	11,128,313	10,343,289
Operating contributions & grants	0	0
Capital grants	0	0
Total program revenues	11,128,313	10,343,289
General revenues:		
Taxes	62,620	67,403
Investment earnings	52,965	63,307
General revenues	115,585	130,710
Total revenues	11,243,898	10,473,999
Change in net assets before transfers	(314,511)	(460,075)
Transfers	0	200,605
Change in net assets	<u>\$ (314,511)</u>	<u>\$ (259,470)</u>

The cost of business-type activities was \$11,558,409 in Fiscal Year 2012. A portion of the cost for these activities was paid either by those who directly benefited from the programs, by other governments and organizations that subsidized certain programs with operating grants and contributions, or capital grants and contributions. Overall, the City's Business-type activities program revenues during the year were \$11,128,313. General revenues are not allocable to programs but are used to pay for the net cost of services. General revenues totaled \$115,585 which came from taxes, investment earnings and miscellaneous.

Net expense is defined as total program costs less program revenues generated by those specific activities. In the City's case, program revenues of \$11,128,313 along with reduced expenses of \$11,558,409. For net expenses as shown in the Statement of Activities of \$430,096, the detail is broken out below.

Table 4	Net (Expense) Revenue From Services	
	2012	2011
Business-type Activities:		
Water System	\$ (343,132)	\$ (144,829)
Marina Services	(48,632)	(330,753)
Parking Services	(38,332)	(115,203)
Total Business-type Activities	\$ (430,096)	\$ (590,785)

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

At June 30, 2012, the City's governmental funds reported a combined fund balance of \$28,784,051, an increase of \$5,868,362 compared to the prior year. The General Fund increased by \$595,887. Capital Improvements increased by \$583,335, Measure H increased by \$3,959,083 and an increase of \$730,057 in Non-major Funds.

ANALYSES OF MAJOR GOVERNMENTAL FUNDS

General Fund

General Fund revenues totaled \$19,278,236 in Fiscal Year 2011-12 an increase of \$639,962 over last year. The increase is comprised of the following: \$253,790 in Taxes, primarily sales tax; \$32,468 in Licenses, Permits and Fees; \$188,358 in Charges for Services, primarily in recreation fees; \$555,000 resulting from the sale of two properties shown under Other Financing Sources. These increases were offset by a decline in Intergovernmental of \$154,179; \$145,194 in Fines and Forfeitures; Use of Money of \$719; and \$89,562 in Miscellaneous. Taxes totaling \$16,063,061 represented approximately 86% of total General Fund revenues, with \$6,262,596 (or 33% of the General Fund revenues) coming from Property Taxes. Other revenue sources comprising the remaining 14% of General Fund revenues included Licenses, Permits and Fees; Intergovernmental; Charges for Services; Fines and Forfeits; Use of Money and Property; Miscellaneous; and Sale of Property.

General Fund expenditures totaled \$18,602,349 a decrease of \$1,523,568 from Fiscal Year 2011 attributable to a Pension Side Fund payoff in 2011. Transfers out of the General Fund decreased \$587,096 in Fiscal 2012 to \$80,000. This decrease was attributable to a transfer of \$450,000 for the future purchase of police radio equipment for a multi-county wide communication project in 2011; and \$184,000 to the Marina Fund for an engineering consultant in 2011.

Final expenditures for the General Fund at year-end were \$336,500 below budget, however, the fiscal year ended with encumbrances of \$41,837. Budget amendments and supplemental appropriations of \$371,659 were made during the year for unanticipated expenditures after adoption of the original budget. Total final budget appropriations came in at \$18,938,849.

At the end of Fiscal Year 2012 the fund balance for the City's General Fund was \$7,529,768, an increase of \$595,887 over last year. General Fund balance was comprised of the following: \$527,618, which is nonspendable and restricted; \$1,961,611 assigned; and \$5,040,539 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 \$4,040,539 portion represents available liquid resources.

Measure H Fund

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

The revenue received was investment earnings of \$29,673 and \$10,000,000 in bond proceeds. The expenses of \$5,940,540 were based on project activity for the reconstruction of parks and \$130,000 in cost of issuance on the new bond proceeds.

Capital Improvement Fund

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

Revenue received in Fiscal Year 2012 included funding for projects from Contra Costa Transportation Authority in the amount of \$146,307; and \$147,151 from a utility company for costs associated with a street project. Another \$1,000,000 in funding came from net transfers from Gas Tax revenue, NPDES and Local J funds. The fund also received \$72,391 in mitigation fees and interest. Total revenue received, including net transfers, was \$1,365,849. This is a decrease of \$1,869,520 over the prior year end, primarily from grants received in 2011 for a major street project. There was also a decrease in expenditures of \$2,871,559 from Fiscal Year 2011.

Other Governmental Funds

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

Internal Service Funds

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

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

Enterprise Funds

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

- *Parking Services*—Parking Services Fund revenue is generated from parking meters and parking permits in the downtown area. Operating revenues decreased by \$41,420 in Fiscal Year 2012 to a total of \$327,253. Operating expenses decreased by \$120,445 to \$363,623. Non-operating revenues decreased by \$7,293 to \$52,031. Net assets increased by \$15,661 to \$1,264,868. The Parking Services Fund's fiscal year end unrestricted Net Assets were \$808,713.
- *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 \$276,230 in Fiscal Year 2012. Overall operating revenues increased by \$692,136, and operating expenses increased by \$884,031. Non-operating expenses decreased by \$11,874, and non-operating revenues decreased by \$9,689. As of June 30, 2012, the Fund's Net Assets were \$39,878,595, with \$21,369,984 invested in capital assets net of related debt, \$4,508,103 restricted for debt service and \$7,453,114 restricted for capital projects. Only \$6,547,394 of the Fund's Net Assets was unrestricted at the close of Fiscal Year 2012. Due to the age of the Water System infrastructure, significant investments will be required in future years to update water lines and equipment and enhance security.
- *Marina Services*—Marina Fund revenues include lease payments, charges for services, property taxes, and government grants for capital improvement projects. Operating revenues increased by \$134,308 and operating expenses decreased \$126,948 in 2012. The Fund's Net Assets decreased by \$34,345 to a deficit of \$2,637,658 at June 30, 2012.

CAPITAL ASSETS

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

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

At the end of Fiscal 2012, Governmental Activities and Business-type Activities had invested in a broad range of capital assets, net of depreciation, in the amounts of \$56,571,832 and \$34,850,125, respectively, as shown below.

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

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
<i>Governmental Activities</i>		
Land	\$ 16,055,114	\$ 16,002,732
Construction in progress	4,378,823	9,813,702
Building and improvements	12,318,593	5,445,017
Equipment	6,143,524	6,053,494
Infrastructure	52,555,857	48,215,074
Less accumulated depreciation	<u>(34,880,079)</u>	<u>(33,350,984)</u>
Totals	<u>\$ 56,571,832</u>	<u>\$ 52,179,035</u>
 <i>Business-Type Activities</i>		
Land	\$1,665,154	\$1,665,154
Construction in progress	2,256,087	1,336,215
Building and improvements	18,170,685	18,406,459
Equipment	1,892,157	1,841,366
Infrastructure	88,299,973	88,299,973
Less accumulated depreciation	<u>(77,433,931)</u>	<u>(75,696,911)</u>
Totals	<u>\$ 34,850,125</u>	<u>\$ 35,852,256</u>

DEBT ADMINISTRATION

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

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

Each of the City's debt issues are discussed in detail in Note 7 and 8 to the financial statements. The table below represents the City's outstanding debt at June 30, 2012.

	<u>2012</u>	<u>2011</u>
Governmental Activity Debt		
<i>General Long-Term Debt</i>		
2003 Certificates of Participation	\$ 500,000	\$ 735,000
General Obligation Bonds	<u>24,300,000</u>	<u>14,660,000</u>
Total governmental activity debt	<u>\$ 24,800,000</u>	<u>\$ 15,395,000</u>
Business-Type Activity Debt		
<i>Water Fund Long-Term Debt</i>		
1999 Water System Improvements	\$ -	\$ 4,635,000
2003 Refinancing Project	2,780,000	3,125,000
2012 Refinancing Project	8,025,000	
Unamortized Bond Premium	<u>685,134</u>	<u>0</u>
Total Water Fund debt	<u>\$ 11,490,134</u>	<u>\$ 7,760,000</u>
<i>Marina Long-term Debt</i>		
1960 State of California	\$ 2,562,515	\$ 2,537,014
1973 State of California	251,136	273,536
1978 State of California	131,574	141,884
1982 State of California	323,922	345,573
1985 State of California	<u>877,077</u>	<u>930,490</u>
Total Marina Fund debt	<u>\$ 4,146,224</u>	<u>\$ 4,228,497</u>
Total business-type activity debt	<u>\$ 15,636,358</u>	<u>\$ 11,988,497</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 2012.

At June 30, 2012, a total of \$645,000 in special assessment district debt was outstanding. This debt is secured only by assessments on the real property in the district issuing the debt and is not the City's responsibility, although the City does act as the district's agent in the collection and remittance of assessments.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

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CITY OF MARTINEZ

**STATEMENT OF NET ASSETS
AND STATEMENT OF ACTIVITIES**

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

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

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

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

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

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

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

CITY OF MARTINEZ
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments (Note 3):			
Available for operations	\$17,133,507	\$15,079,288	\$32,212,795
Restricted	14,297,023	4,508,103	18,805,126
Receivables (net of allowance for uncollectible):			
Accounts and other	399,177	1,461,929	1,861,106
Intergovernmental	1,206,150		1,206,150
Interest	39,305		39,305
Loans receivable (Note 5)	473,352	22,920	496,272
Internal balances (Note 4C)	527,550	(527,550)	
Prepays and inventory (Note 1H)	50,537		50,537
Bond issuance costs, net of amortization		724,084	724,084
Net OPEB Asset (Note 12)	4,224,000		4,224,000
Capital assets (Note 6):			
Land and construction in progress	20,433,937	3,921,241	24,355,178
Depreciable assets, net	36,137,895	30,928,884	67,066,779
Total Assets	94,922,433	56,118,899	151,041,332
LIABILITIES			
Accounts payable	1,435,186	862,767	2,297,953
Accrued wages and benefits	696,569	74,639	771,208
Deposits	442,784	93,190	535,974
Unearned revenue	185,655	654,566	840,221
Claims payable due within one year (Note 15)	80,000		80,000
Accrued interest		95,720	95,720
Accrued compensated absences (Note 1G):			
Due within one year	75,000	25,000	100,000
Due in more than one year	1,425,248	224,555	1,649,803
Long-term debt (Notes 7 and 8):			
Due within one year	885,000	837,599	1,722,599
Due in more than one year	23,915,000	14,798,759	38,713,759
Total Liabilities	29,140,442	17,666,795	46,807,237
NET ASSETS (Note 10)			
Invested in capital assets, net of related debt	44,385,099	19,898,904	64,284,003
Restricted for:			
Capital projects	15,098,904		15,098,904
Debt service	1,776,988	4,508,103	6,285,091
Special revenue projects	1,331,666	7,578,114	8,909,780
Total Restricted Net Assets	18,207,558	12,086,217	30,293,775
Unrestricted	3,189,334	6,466,983	9,656,317
Total Net Assets	\$65,781,991	\$38,452,104	\$104,234,095

See accompanying notes to financial statements

CITY OF MARTINEZ
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

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	\$1,545,222	\$29,694	\$3,987	\$58,538	(\$1,453,003)		(\$1,453,003)
Administrative services	945,076	49,492	30,352		(865,232)		(865,232)
Public works	3,466,780	666,808			(2,799,972)		(2,799,972)
Community & economic development	5,917,326	708,532	2,040,188	1,802,743	(1,365,863)		(1,365,863)
Police	10,483,295	282,683	543,199		(9,657,413)		(9,657,413)
Interest on long-term debt	1,102,335				(1,102,335)		(1,102,335)
Total Governmental Activities	23,460,034	1,737,209	2,617,726	1,861,281	(17,243,818)		(17,243,818)
Business-type Activities:							
Water system	10,782,125	10,438,993				(\$343,132)	(343,132)
Marina services	410,699	362,067				(48,632)	(48,632)
Parking services	365,585	327,253				(38,332)	(38,332)
Total Business-type Activities	11,558,409	11,128,313				(430,096)	(430,096)
Total	\$35,018,443	\$12,865,522	\$2,617,726	\$1,861,281	(17,243,818)	(430,096)	(17,673,914)
General revenues:							
Property taxes					6,262,596		6,262,596
Sales taxes					3,239,219		3,239,219
VLF Property Tax Swap					2,465,909		2,465,909
Franchise fees					1,379,610		1,379,610
Other taxes					2,667,102	62,620	2,729,722
Intergovernmental, unrestricted					85,068		85,068
Investment earnings					75,843	52,965	128,808
Miscellaneous					1,157,849		1,157,849
Gain on sale of capital assets					177,000		177,000
Total general revenues and transfers					17,510,196	115,585	17,625,781
Change in Net Assets					266,378	(314,511)	(48,133)
Net Assets-Beginning					65,515,613	38,766,615	104,282,228
Net Assets-Ending					\$65,781,991	\$38,452,104	\$104,234,095

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 2012. Individual non-major funds may be found in the Supplemental Section.

GENERAL FUND

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

MEASURE H FUND

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

CAPITAL IMPROVEMENTS

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

CITY OF MARTINEZ
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2012

	General	Measure H	Capital Improvements	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments (Note 3):					
Available for operations	\$8,088,370		\$2,985,797	\$3,705,068	\$14,779,235
Restricted		\$12,613,267		1,683,756	14,297,023
Receivables:					
Accounts	383,147			13,730	396,877
Intergovernmental	449,234		142,454	614,462	1,206,150
Interest	28,980	10,325			39,305
Loans receivable (Note 5)	211,342		262,010		473,352
Prepays and inventory (Note 1H)	50,537				50,537
Advances to other funds (Note 4B)	515,825				515,825
	<u>\$9,727,435</u>	<u>\$12,623,592</u>	<u>\$3,390,261</u>	<u>\$6,017,016</u>	<u>\$31,758,304</u>
LIABILITIES					
Accounts payable	\$612,979	\$85,076	\$39,550	\$293,512	\$1,031,117
Accrued wages and benefits	674,233			3,160	677,393
Claims payable (Note 15)	80,000				80,000
Deposits	433,458			9,326	442,784
Advance to other funds (Note 4B)				41,976	41,976
Deferred revenue	396,997		262,010	41,976	700,983
	<u>2,197,667</u>	<u>85,076</u>	<u>301,560</u>	<u>389,950</u>	<u>2,974,253</u>
FUND BALANCES					
Fund balance (Note 10)					
Nonspendable	526,565				526,565
Restricted	1,053	12,538,516	909,368	5,669,042	19,117,979
Assigned	1,961,611		2,179,333		4,140,944
Unassigned	5,040,539			(41,976)	4,998,563
	<u>7,529,768</u>	<u>12,538,516</u>	<u>3,088,701</u>	<u>5,627,066</u>	<u>28,784,051</u>
Total Liabilities and Fund Balances	<u>\$9,727,435</u>	<u>\$12,623,592</u>	<u>\$3,390,261</u>	<u>\$6,017,016</u>	<u>\$31,758,304</u>

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, 2012

Total fund balances reported on the governmental funds balance sheet \$28,784,051

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:

CAPITAL ASSETS

Capital assets used in Governmental Activities are not current assets or financial resources and
therefore are not reported in the Governmental Funds. 55,357,406

ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS

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

Cash and investments	2,354,272
Accounts receivable	2,300
Internal balances	53,701
Capital assets	1,214,426
Accounts payable	(404,069)
Accrued liabilities	(19,176)
Accrued compensated absences	(52,656)

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. 515,328

LONG-TERM ASSETS AND LIABILITIES

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

Long-term debt	(24,800,000)
Non-current portion of compensated absences	(1,447,592)
Net OPEB asset	4,224,000

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$65,781,991

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, 2012

	General	Measure H	Capital Improvements	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$16,063,061				\$16,063,061
Special assessments				\$2,131,149	2,131,149
Licenses, permits, and fees	530,388		\$69,284		599,672
Intergovernmental	509,309		146,307	1,696,013	2,351,629
Charges for services	658,908				658,908
Fines and forfeits	259,353			1,608	260,961
Use of money and property	86,928	\$29,673	3,107	11,503	131,211
Miscellaneous	615,289		147,151	575,785	1,338,225
Total Revenues	18,723,236	29,673	365,849	4,416,058	23,534,816
EXPENDITURES					
Current:					
General government	1,119,861				1,119,861
Nondepartmental services	1,140,089				1,140,089
Administrative services	731,434			150,460	881,894
Public works	3,551,258				3,551,258
Community & economic development	2,141,961	23,633	576,712	950,505	3,692,811
Police	9,539,746			112,043	9,651,789
Debt service (Note 7):					
Principal				595,000	595,000
Interest and fiscal charges				1,102,335	1,102,335
Capital outlay	378,000	5,916,957	205,802	265,654	6,766,413
Total Expenditures	18,602,349	5,940,590	782,514	3,175,997	28,501,450
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	120,887	(5,910,917)	(416,665)	1,240,061	(4,966,634)
OTHER FINANCING SOURCES (USES)					
Issuance of bonds		10,000,000			10,000,000
Bond premium				279,996	279,996
Transfers in (Note 4A)			1,000,000	135,700	1,135,700
Transfers (out) (Note 4A)	(80,000)	(130,000)		(925,700)	(1,135,700)
Proceeds from sale of property	555,000				555,000
Total Other Financing Sources (Uses)	475,000	9,870,000	1,000,000	(510,004)	10,834,996
NET CHANGE IN FUND BALANCES	595,887	3,959,083	583,335	730,057	5,868,362
BEGINNING FUND BALANCES	6,933,881	8,579,433	2,505,366	4,897,009	22,915,689
ENDING FUND BALANCES	\$7,529,768	\$12,538,516	\$3,088,701	\$5,627,066	\$28,784,051

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, 2012

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 \$5,868,362

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	6,766,413
Net retirements are deducted from the fund balance	(490,469)
Depreciation expense is deducted from the fund balance	
(Depreciation expense is net of internal service fund depreciation of \$227,029 which has already been allocated to serviced funds)	(2,161,519)

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	595,000
Issuance of long-term debt is deducted from fund balance	(10,000,000)

ACCRUAL OF NON-CURRENT ITEMS

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

Deferred revenue	(53,941)
Compensated absences	(39,941)
Net OPEB asset	41,000

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	<u>(258,527)</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$266,378

See accompanying notes to financial statements

CITY OF MARTINEZ
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes	15,959,727	\$15,959,727	\$16,063,061	\$103,334
Licenses, permits, and fees	460,010	460,010	530,388	70,378
Intergovernmental	581,660	581,660	509,309	(72,351)
Charges for services	473,010	473,010	658,908	185,898
Fines and forfeits	365,054	335,054	259,353	(75,701)
Use of money and property	122,408	122,408	86,928	(35,480)
Miscellaneous	559,312	559,312	615,289	55,977
	<u>18,521,181</u>	<u>18,491,181</u>	<u>18,723,236</u>	<u>232,055</u>
EXPENDITURES:				
Current:				
General government	1,162,873	1,141,086	1,119,861	21,225
Nondepartmental services	1,066,863	1,148,132	1,140,089	8,043
Administrative services	758,701	758,701	731,434	27,267
Public works	3,505,914	3,563,640	3,551,258	12,382
Community & economic development	2,087,202	2,147,819	2,141,961	5,858
Police	9,985,637	9,801,471	9,539,746	261,725
Capital outlay		378,000	378,000	
	<u>18,567,190</u>	<u>18,938,849</u>	<u>18,602,349</u>	<u>336,500</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	<u>(46,009)</u>	<u>(447,668)</u>	<u>120,887</u>	<u>568,555</u>
OTHER FINANCING SOURCES (USES)				
Transfers (out) (Note 4A)		(80,000)	(80,000)	
Sale of property		553,000	555,000	2,000
		<u>473,000</u>	<u>475,000</u>	<u>2,000</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES				
	<u>(\$46,009)</u>	<u>\$25,332</u>	<u>595,887</u>	<u>\$570,555</u>
BEGINNING FUND BALANCE			<u>6,933,881</u>	
ENDING FUND BALANCE			<u>\$7,529,768</u>	

See accompanying notes to financial statements

MAJOR PROPRIETARY FUNDS

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

The concept of major funds established by GASB Statement 34 extends to Proprietary Funds. The City has identified all of its Proprietary Funds as major funds in Fiscal 2012.

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

WATER SYSTEM FUND

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

MARINA SERVICES FUND

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

PARKING SERVICES FUND

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

CITY OF MARTINEZ
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 JUNE 30, 2012

	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	\$13,698,371	\$431,270	\$949,647	\$15,079,288	\$2,354,272
Restricted	4,508,103			4,508,103	
Receivables:					
Intergovernmental					
Accounts and other	1,460,198	1,731		1,461,929	2,300
Total Current Assets	<u>19,666,672</u>	<u>433,001</u>	<u>949,647</u>	<u>21,049,320</u>	<u>2,356,572</u>
Capital Assets (Note 6):					
Land	630,912	800,165	234,077	1,665,154	
Buildings	15,793,743	308,594		16,102,337	
Improvements	150,584	1,672,642	245,122	2,068,348	
Equipment	1,347,994		544,163	1,892,157	3,519,766
Infrastructure	88,276,473		23,500	88,299,973	
Less: Accumulated depreciation	<u>(76,280,809)</u>	<u>(437,415)</u>	<u>(715,707)</u>	<u>(77,433,931)</u>	<u>(2,717,824)</u>
	29,918,897	2,343,986	331,155	32,594,038	801,942
Construction in progress (Note 6)	<u>2,256,087</u>			<u>2,256,087</u>	<u>412,484</u>
Net Capital Assets	32,174,984	2,343,986	331,155	34,850,125	1,214,426
Other Non-Current Assets:					
Loan receivable (Note 5)	22,920			22,920	
Bond issuance costs, net	<u>724,084</u>			<u>724,084</u>	
Total Non-Current Assets	<u>32,921,988</u>	<u>2,343,986</u>	<u>331,155</u>	<u>35,597,129</u>	<u>1,214,426</u>
Total Assets	<u>52,588,660</u>	<u>2,776,987</u>	<u>1,280,802</u>	<u>56,646,449</u>	<u>3,570,998</u>
LIABILITIES					
Current liabilities:					
Accounts payable	826,315	28,893	7,559	862,767	404,069
Accrued liabilities	71,936		2,703	74,639	19,176
Unearned revenue	1,080	653,486		654,566	
Deposits	46,325	46,865		93,190	
Accrued interest	30,392	65,328		95,720	
Current portion of compensated absences (Note 1G)	25,000			25,000	
Current portion of long-term debt (Note 7)	795,000			795,000	
Current portion of loans payable (Note 8)		42,599		42,599	
Total Current Liabilities	<u>1,796,048</u>	<u>837,171</u>	<u>10,262</u>	<u>2,643,481</u>	<u>423,245</u>
Noncurrent Liabilities:					
Accrued compensated absences (Note 1G)	218,883		5,672	224,555	52,656
Advance from other funds (Note 4B)		473,849		473,849	
Long-term debt (Note 7)	10,695,134			10,695,134	
Loans payable (Note 8)		<u>4,103,625</u>		<u>4,103,625</u>	
Total Liabilities	<u>12,710,065</u>	<u>5,414,645</u>	<u>15,934</u>	<u>18,140,644</u>	<u>475,901</u>
NET ASSETS (Note 10)					
Invested in capital assets, net of related debt	21,369,984	(1,802,235)	331,155	19,898,904	1,214,426
Restricted for debt service	4,508,103			4,508,103	
Restricted for capital projects	7,453,114		125,000	7,578,114	
Unrestricted	<u>6,547,394</u>	<u>(835,423)</u>	<u>808,713</u>	<u>6,520,684</u>	<u>1,880,671</u>
Total Net Assets (Deficit)	<u>\$39,878,595</u>	<u>(\$2,637,658)</u>	<u>\$1,264,868</u>	<u>38,505,805</u>	<u>\$3,095,097</u>
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.				<u>(53,701)</u>	
Net assets business-type activities				<u>\$38,452,104</u>	

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, 2012

	Business-type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Water System	Marina Services	Parking Services	Totals	
OPERATING REVENUES					
Water sales	\$10,058,440			\$10,058,440	
Rents and leases	29,421	\$181,010		210,431	
Charges for services	294,297		\$324,688	618,985	\$1,226,413
Other fees	749			749	
Other revenue	56,086	181,057	2,565	239,708	19,920
Total Operating Revenues	10,438,993	362,067	327,253	11,128,313	1,246,333
OPERATING EXPENSES					
Filtration plant	4,685,884			4,685,884	
Maintenance, repairs, and distribution	1,584,348	206,695		1,791,043	1,318,065
Administration	2,047,894	66,240	320,313	2,434,447	
Depreciation and amortization	2,089,117	40,844	43,310	2,173,271	227,029
Total Operating Expenses	10,407,243	313,779	363,623	11,084,645	1,545,094
Operating Income (loss)	31,750	48,288	(36,370)	43,668	(298,761)
NONOPERATING REVENUES (EXPENSES)					
Interest income	49,267	576	3,122	52,965	8,493
Interest (expense)	(357,247)	(96,920)		(454,167)	
Gain on disposal of equipment					12,144
Taxes		13,711	48,909	62,620	
Total Nonoperating Revenues (Expenses)	(307,980)	(82,633)	52,031	(338,582)	20,637
Change in net assets	(276,230)	(34,345)	15,661	(294,914)	(278,124)
BEGINNING NET ASSETS (DEFICIT)	40,154,825	(2,603,313)	1,249,207		3,373,221
ENDING NET ASSETS (DEFICIT)	\$39,878,595	(\$2,637,658)	\$1,264,868		\$3,095,097
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				(19,597)	
Change in net assets of business-type activities				(314,511)	

See accompanying notes to financial statements

CITY OF MARTINEZ
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2012

	Business-type Activities-Enterprise Funds				Governmental Activities- Internal Service Funds
	Water System	Marina Services	Parking Services	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$10,193,083	\$681,283	\$324,688	\$11,199,054	\$1,244,033
Payments to suppliers	(5,722,308)	(249,801)	(228,709)	(6,200,818)	(551,844)
Payments to employees	(2,151,028)		(85,773)	(2,236,801)	(377,733)
Rent and lease payments received	56,086		2,565	58,651	
Cash Flows from Operating Activities	2,375,833	431,482	12,771	2,820,086	314,456
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Taxes received		13,711	48,909	62,620	
Cash Flows from Noncapital Financing Activities		13,711	48,909	62,620	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	(970,663)			(970,663)	(505,401)
Proceeds from sale of equipment					12,144
Issuance of debt	8,025,000			8,025,000	
Premium on bonds	696,947			696,947	
Principal payments on capital debt	(4,980,000)	(82,274)		(5,062,274)	
Interest paid	(543,981)	(31,591)		(575,572)	
Cash Flows from Capital and Related Financing Activities	2,227,303	(113,865)		2,113,438	(493,257)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest	49,267	576	3,122	52,965	8,493
Cash Flows from Investing Activities	49,267	576	3,122	52,965	8,493
Net Cash Flows	4,652,403	331,904	64,802	5,049,109	(170,308)
Cash and investments at beginning of period	13,554,071	99,366	884,845	14,538,282	2,524,580
Cash and investments at end of period	<u>\$18,206,474</u>	<u>\$431,270</u>	<u>\$949,647</u>	<u>\$19,587,391</u>	<u>\$2,354,272</u>
Reconciliation of Operating Income to Cash Flows					
from Operating Activities:					
Operating income (loss)	\$31,750	\$48,288	(\$36,370)	\$43,668	(\$298,761)
Adjustments to reconcile operating income to cash flows					
from operating activities:					
Depreciation and amortization	2,089,117	40,844	43,310	2,173,271	227,029
Change in assets and liabilities:					
Accounts receivable	(190,904)	8,637		(182,267)	(2,300)
Accounts payable and other liabilities	370,987	23,136	2,243	396,366	378,556
Deposits	153	(2)		151	
Accrued vacation and other fringe benefits	73,650		3,588	77,238	2,859
Accrued wages and benefits					7,073
Unearned revenue	1,080	310,579		311,659	
Cash Flows from Operating Activities	\$2,375,833	\$431,482	\$12,771	\$2,820,086	\$314,456

See accompanying notes to financial statements

FIDUCIARY FUNDS

FIDUCIARY FUNDS

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

CITY OF MARTINEZ
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 JUNE 30, 2012

	Trust Fund	Agency Funds
ASSETS		
Restricted cash and investments (Note 3)	\$126,179	\$376,585
Total Assets	\$126,179	\$376,585
LIABILITIES		
Accounts payable		\$7,520
Due to bondholders		209,487
Due to members		159,578
Total Liabilities		\$376,585
NET ASSETS		
Restricted for private purpose activities	126,179	
Total Net Assets	\$126,179	

See accompanying notes to financial statements

CITY OF MARTINEZ
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2012

	<u>Trust Fund</u>
ADDITIONS:	
Donations	\$1,742
Interest	<u>256</u>
Total Additions	<u>1,998</u>
DEDUCTIONS:	
Supplies	138
Beneficiary payments	1,380
Improvements	<u>9,956</u>
Total Deductions	<u>11,474</u>
CHANGE IN NET ASSETS	(9,476)
NET ASSETS, BEGINNING OF YEAR	<u>135,655</u>
NET ASSETS, END OF YEAR	<u><u>\$126,179</u></u>

See accompanying notes to financial statements

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CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

B. Basis of Presentation

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

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2012

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.

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

The City also reports the following fund types:

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

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

D. Basis of Accounting

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

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2012

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, 2012

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, 2012 were as follows:

	Governmental Activities	Business-Type Activities	Total
Beginning Balance	\$1,457,448	\$172,317	\$1,629,765
Additions	943,166	148,389	1,091,555
Payments	(900,366)	(71,151)	(971,517)
Ending Balance	<u>\$1,500,248</u>	<u>\$249,555</u>	<u>\$1,749,803</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, 2012

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.

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

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 make revisions up to 1% any single budget year. Council approval is required for additional appropriation from fund balances or new revenue sources. The legal level of budgetary control is at the departmental level.

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

NOTE 3 - CASH AND INVESTMENTS

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

A. Policies

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

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2012

NOTE 3 - CASH AND INVESTMENTS (Continued)

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

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

B. Classification

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

Cash and investments available for operations	\$32,212,795
Restricted cash and investments	<u>18,805,126</u>
Total Primary Government cash and investments	51,017,921
Restricted cash and investments in Fiduciary Funds (separate statement)	<u>502,764</u>
Total cash and investments	<u><u>\$51,520,685</u></u>

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

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

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

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

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2012

NOTE 3 - CASH AND INVESTMENTS (Continued)

D. Investments Authorized by Debt Agreements

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

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality
Repurchase Agreements	6 months	A
U.S. Treasury Obligations	N/A	N/A
U.S. Agency Securities and U.S. Government Sponsored Enterprise	N/A	N/A
State Obligations	N/A	A
Commercial Paper	270 days	A-1
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	A
California Local Agency Investment Fund (LAIF Pool)	Upon Demand	N/A
California Asset Management Program (CAMP)	Upon Demand	N/A

E. Interest Rate Risk and Credit Risk

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

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2012

NOTE 3 - CASH AND INVESTMENTS (Continued)

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

Investment Type	12 Months or less
California Local Agency Investment Fund	\$46,041,278
Money Market Funds	5,038,138
Total Investments	51,079,416
Cash in banks and on hand	441,269
Total Cash and Investments	\$51,520,685

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, 2012, these investments have an average maturity of 268 days and were not rated.

Money Market mutual funds are available for withdrawal on demand and at June 30, 2012, have an average maturity of less than 51 days. Money Market Mutual funds were rated AAAM by Standard and Poor's investment rating system.

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2012

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, 2012 were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
Capital Improvement Fund	General Fund	\$75,000 A
Capital Improvement Fund	Non-Major Funds	925,000 A
Non-Major Funds	General Fund	5,000 B
Non-Major Funds	Measure H Fund	130,000 B
Non-Major Funds	Non-Major Funds	<u>700 B</u>
	Total Interfund Transfers	<u><u>\$1,135,700</u></u>

A: To fund capital projects

B: To fund operations

B. Long-Term Interfund Advances

In fiscal year 2004-2005 the General Fund made an advance to the Marina Services Enterprise Fund in the amount of \$225,000, to be repaid monthly until 2018. Annual interest at 4.96% is accrued on the unpaid balance. As of June 30, 2012, 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, 2012 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 2012 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, 2012 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, 2012, the balance was \$41,976.

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, 2012

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, 2012 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. *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, 2012 the MUSD owed the City \$211,342.

NOTE 6 - CAPITAL ASSETS

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

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

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

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

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2012

NOTE 6 - CAPITAL ASSETS (Continued)

A. Capital Asset Additions and Retirements

Capital asset activities for the year ended June 30, 2012 comprise:

	Balance at June 30, 2011	Additions	Retirements	Transfers	Balance at June 30, 2012
Governmental activities					
Capital assets not being depreciated:					
Land	\$16,002,732	\$52,382			\$16,055,114
Construction in progress	9,813,702	962,389	(\$6,961)	(\$6,390,307)	4,378,823
Total capital assets not being depreciated	<u>25,816,434</u>	<u>1,014,771</u>	<u>(6,961)</u>	<u>(6,390,307)</u>	<u>20,433,937</u>
Capital assets being depreciated:					
Buildings	5,408,097	2,137,939	(1,221,074)	5,956,711	12,281,673
Improvements	36,920				36,920
Equipment	6,053,494	211,916	(121,886)		6,143,524
Infrastructure	48,215,074	3,907,187		433,596	52,555,857
Total capital assets being depreciated	<u>59,713,585</u>	<u>6,257,042</u>	<u>(1,342,960)</u>	<u>6,390,307</u>	<u>71,017,974</u>
Less accumulated depreciation:					
Buildings	(3,029,836)	(382,203)	737,565		(2,674,474)
Improvements	(2,462)	(1,231)			(3,693)
Equipment	(3,560,336)	(436,636)	121,888		(3,875,084)
Infrastructure	(26,758,350)	(1,568,478)			(28,326,828)
Total accumulated depreciation	<u>(33,350,984)</u>	<u>(2,388,548)</u>	<u>859,453</u>		<u>(34,880,079)</u>
Net capital assets being depreciated	<u>26,362,601</u>	<u>3,868,494</u>	<u>(483,507)</u>	<u>6,390,307</u>	<u>36,137,895</u>
Governmental activities capital assets, net	<u>\$52,179,035</u>	<u>\$4,883,265</u>	<u>(\$490,468)</u>		<u>\$56,571,832</u>
Business-type activities					
Capital assets, not being depreciated:					
Land	\$1,665,154				\$1,665,154
Construction in progress	1,336,215	\$919,872			2,256,087
Total capital assets not being depreciated	<u>3,001,369</u>	<u>919,872</u>			<u>3,921,241</u>
Capital assets being depreciated:					
Buildings	16,076,564	25,773			16,102,337
Improvements	2,329,895		(\$261,547)		2,068,348
Equipment	1,841,366	50,791			1,892,157
Infrastructure	88,299,973				88,299,973
Net capital assets being depreciated	<u>108,547,798</u>	<u>76,564</u>	<u>(261,547)</u>		<u>108,362,815</u>
Less accumulated depreciation for:					
Buildings	(8,457,126)	(461,772)			(8,918,898)
Improvements	(662,474)	(51,160)	261,547		(452,087)
Equipment	(1,605,696)	(63,059)			(1,668,755)
Infrastructure	(64,971,615)	(1,422,576)			(66,394,191)
Total accumulated depreciation	<u>(75,696,911)</u>	<u>(1,998,567)</u>	<u>261,547</u>		<u>(77,433,931)</u>
Net capital assets being depreciated	<u>32,850,887</u>	<u>(1,922,003)</u>			<u>30,928,884</u>
Business-type activities capital assets, net	<u>\$35,852,256</u>	<u>(\$1,002,131)</u>			<u>\$34,850,125</u>

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2012

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:

Governmental Activities

General Government	\$63,975
Public Works	1,020
Community & Economic Development	1,995,037
Police	101,487
Capital assets held by the City's Internal Service Funds	227,029
Total Governmental Activities	\$2,388,548

Business-Type Activities

Water System	\$1,914,413
Marina Services	40,844
Parking Services	43,310
Total Business-Type Activities	\$1,998,567

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, 2012

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, 2011	Additions	Retirements	Balance at June 30, 2012	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	\$735,000		\$235,000	\$500,000	\$245,000
2009 General Obligation Bonds						
Election of 2008, Series A, 4-5%, due 2/01/39	15,000,000	14,660,000		360,000	14,300,000	160,000
2012 General Obligation Bonds						
Election of 2008, Series B, 4-5%, due 8/01/42	10,000,000		\$10,000,000		10,000,000	480,000
Total governmental activity debt		<u>\$15,395,000</u>	<u>\$10,000,000</u>	<u>\$595,000</u>	<u>\$24,800,000</u>	<u>\$885,000</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	\$4,635,000		\$4,635,000		
2003 Refinancing Project, 2-4%, due 12/01/18	5,595,000	3,125,000		345,000	\$2,780,000	\$355,000
2012 Refunding Water System Improvements, 2-4%, due 12/01/26	8,025,000		\$8,025,000		8,025,000	440,000
Plus: Unamortized Bond Premium	696,947		696,947	11,813	685,134	
Total business-type activity debt		<u>\$7,760,000</u>	<u>\$8,721,947</u>	<u>\$4,991,813</u>	<u>\$11,490,134</u>	<u>\$795,000</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 governmental and business type portions of the bonds is \$3,689,279. The City's principal and interest paid for the current year both the governmental and business type portions of the bonds is \$713,020.

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2012

NOTE 7 – LONG TERM DEBT (Continued)

C. *General Obligation Bonds*

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

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

The Bonds were authorized at an election held on November 4, 2008, at which more than two-thirds of the voters approved. Interest payments on the GOs are due semi annually on February 1 and August 1, and annual principal payments are due on February or August 1. Interest and principal payments are payable from ad valorem property taxes levied by the City and collected by the County. The total principal and interest remaining to be paid on the bonds is \$24,300,000 and \$25,665,915 respectively. Principal and interest paid for the current fiscal year and total Ad Valorem Property Tax Revenues were \$1,117,144 and \$1,509,285, 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. During fiscal year 2012 the City refunded the 1999 COPs with the 2012 COPs. See Note E below.

E. *2012 Certificates of Participation*

On February 10, 2012, the City issued Certificates of Participation (COPs) in the amount of \$8,025,000 to refund the 1999 COPs and for the acquisition and construction of improvements to the City's existing water system. Semi-annual interest payments are due on June 1 and December 1 of each year, and annual principal payments are due on December 1. Interest and principal payments are payable from net revenues derived from the operation of the water system. The refunding resulted in an overall debt service savings of \$1,030,009. The net present value of the debt securities savings is called an economic gain and amounted to \$887,710.

The City has pledged future Water System Enterprise Fund revenues, net of specified operating expenses, to repay the installment agreement portion of the 2003 COPs and the 2012 Certificates of Participation through 2027. Annual principal and interest payments on the bonds are expected to require less than 15.90 percent and 5.12 percent of net water revenues. Annual interest payments on the 2012 bonds are expected to require less than 3.26 percent of net water revenues. The 2012 bonds did not have a principal payment in fiscal year 2012. The Water Fund's total principal and interest remaining to be paid on the bonds is \$13,556,551. The Water Fund's principal and interest paid for the current year and total customer net revenues were \$5,208,909 and \$2,170,134 respectively. The City is in compliance with its debt covenants for the year ended June 30, 2012.

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2012

NOTE 7 – LONG TERM DEBT (Continued)

F. 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
2013	\$885,000	\$1,104,195	\$795,000	\$354,089
2014	550,000	1,151,484	820,000	332,270
2015	310,000	1,134,762	835,000	309,484
2016	110,000	1,126,362	855,000	285,799
2017	125,000	1,121,662	890,000	258,528
2018 - 2022	1,045,000	5,504,710	3,470,000	887,581
2023 - 2027	2,085,000	5,178,407	3,140,000	323,800
2028 - 2032	3,565,000	4,505,664		
2033 - 2037	5,585,000	3,360,851		
2038 - 2042	8,470,000	1,451,983		
2043	2,070,000	43,988		
Total	<u>\$24,800,000</u>	<u>\$25,684,068</u>	10,805,000	<u>\$2,751,551</u>
Plus: Unamortized Bond Premium			<u>685,134</u>	
Gross Long-term debt			<u>\$11,490,134</u>	

G. 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, 2012.

In addition, the City issued General Obligation Election of 2008, Series A Bonds (GOs) that were ratified by two-thirds of the voters on November 4, 2008 in the amount of \$30,000,000. \$5,000,000 remains authorized but unissued as of June 30, 2012.

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2012

NOTE 8 – LOANS PAYABLE TO STATE OF CALIFORNIA

At June 30, 2012, the Marina Services Fund owed \$4,146,224 in loans to the State. The City made an interest payment of \$73,101 to Department of Boating and Waterways in fiscal 2012 which included \$67,009 to cover current year interest accrued on the unpaid loan balances. Principal payments were made in the amount of \$40,765 during fiscal 2012.

A. Current Year Transactions and Balances

	Original Issue Amount	Balance at June 30, 2011	Additions	Retirements	Balance at June 30, 2012	Current Portion
Marina Loans						
Loan Payable - 1960	\$1,300,000	\$850,000			\$850,000	
Accrued interest		1,687,014	\$25,501		1,712,515	
Loan Payable - 1973	450,000	262,700		\$11,564	251,136	\$12,084
Loan Payable - 1978	175,000	136,263		4,689	131,574	4,900
Loan Payable - 1982	300,000	331,883		7,961	323,922	8,322
Loan Payable - 1984	750,000	893,628		16,551	877,077	17,293
Total Marina Loans		<u>4,161,488</u>	<u>25,501</u>	<u>40,765</u>	<u>4,146,224</u>	<u>42,599</u>
Accrued interest from prior year		<u>67,009</u>		<u>67,009</u>		
Total Marina Loans and Accrued Interest		<u><u>\$4,228,497</u></u>	<u><u>\$25,501</u></u>	<u><u>\$107,774</u></u>	<u><u>\$4,146,224</u></u>	<u><u>\$42,599</u></u>

During fiscal year 2003, accrued interest was added to the outstanding principal for all the State loans with the exception of the 1960 loan.

B. 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, 2012, the amount payable to the State including interest amounted to \$2,562,515.

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, 2012

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

C. Loan Payable – 1973

On December 20, 1973, the City entered into another agreement with the State of California, whereby a loan of \$450,000 was granted to the City to complete the Martinez Small Craft Harbor (MSCH). At June 30, 2012, the amount payable to the State was \$251,136. The terms are as follows:

- The loan is payable from the gross revenues from operations of the facilities located or erected within the MSCH Project, prior to any other expenditures from such revenues.
- Payments of principal and interest at 4.5% shall be payable in equal annual installments on August 1 of each year with a final payment due on August 1, 2026.

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, 2012, 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.

D. Loan Payable – 1978

On January 30, 1978, the City entered into another agreement with the State of California, whereby a loan of \$175,000 was granted to the City for construction of Marina Improvements. At June 30, 2012 the amount payable to the State was \$131,574. The terms are as follows:

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

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, 2012, the City was still in negotiations with the State for the terms of these loans.

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2012

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

E. Loan Payable – 1982

On November 1, 1982, the City entered into another agreement with the State of California, whereby a loan of \$300,000 was granted to the City for the construction of new berthings and improvements to the Marina. The loan was to be based on stages of completion. At June 30, 2012, the amount payable to the State was \$323,922. The loan terms are as follows:

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

F. Loan Payable – 1985

On January 14, 1985 the City entered into another agreement with the State of California, whereby a loan of \$770,425 was granted to the City for twelve capital improvement projects at the Marina. At June 30, 2012, the amount payable to the State was \$877,077. The loan terms are as follows:

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

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2012

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

G. Debt Service Requirements

For the Year Ending June 30	Marina Activities	
	Principal	Interest
2013	\$42,599	\$71,264
2014	44,519	69,347
2015	46,522	67,344
2016	48,616	65,250
2017	50,803	63,063
2018 - 2022	290,436	278,894
2023 - 2027	361,920	207,395
2028 - 2032	300,917	129,792
2033 - 2037	291,044	61,355
2038 - 2039	106,333	7,227
Total	1,583,709	<u>\$1,020,931</u>
Plus: Marina Loan 1960	850,000	
Plus: Accrued interest	<u>1,712,515</u>	
Total	<u>\$4,146,224</u>	

NOTE 9 – DEBT WITHOUT CITY COMMITMENT

A. *Special Assessment Bonds*

The Alhambra Creek Assessment District issued Assessment Bonds of 1999, but the City has no legal or moral liability with respect to the payment of this debt, which is secured only by assessments on the properties in this District. Therefore, this debt is not included as debt of the City. At June 30, 2012, the District's outstanding debt amounted to \$645,000.

B. *Home Mortgage Revenue Bonds*

Home mortgage revenue bonds have been issued to finance secured mortgage loans for low-income housing projects. The bonds do not constitute indebtedness to which the good faith and credit of the City is pledged. The City is not obligated to pay the principal, interest or other payments associated with the bonds. The payments on the bonds are payable solely from monies received from mortgage loans, security agreements or insurance. Accordingly, the bonds have not been recorded in the basic financial statements of the City. The total amount of mortgage revenue bonds outstanding as of June 30, 2012 was \$2,305,000.

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2012

NOTE 10 – NET ASSETS AND FUND BALANCES

A. Net Assets

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

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

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

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

B. Fund Balances

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

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

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

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

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, 2012, the City does not have committed fund balance.

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2012

NOTE 10 – NET ASSETS AND FUND BALANCES (Continued)

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.

Detailed classifications of the City’s Fund Balances, as of June 30, 2012, are below:

<u>Fund Balance Classifications</u>	<u>General Fund</u>	<u>Special Revenue</u> Measure H	<u>Capital Project</u> Capital Improvements	<u>Other Governmental Funds</u>	<u>Total</u>
Nonspendable:					
Advance to Other Funds	\$515,825				\$515,825
Inventory	10,740				10,740
Total Nonspendable Fund Balances	<u>526,565</u>				<u>526,565</u>
Restricted for:					
Debt Service				\$1,776,988	1,776,988
Grants	1,053				1,053
Park & Facilities Improvements		\$12,538,516			12,538,516
Street Improvements				2,827,101	2,827,101
Recycle				49,394	49,394
PEG Access				423,765	423,765
Lighting & Landscape				237,703	237,703
Traffic Mitigation			\$338,379		338,379
Park Impact			314,545		314,545
Child Care			17,252		17,252
Drainage			97,652		97,652
Cultural Facilities			139,220		139,220
Public Safety			2,320	354,091	356,411
Total Restricted Fund Balances	<u>1,053</u>	<u>12,538,516</u>	<u>909,368</u>	<u>5,669,042</u>	<u>19,117,979</u>
Assigned to:					
Insurance	582,425				582,425
Pension Obligation	250,000				250,000
Improvements	216,552		2,179,333		2,395,885
Health Benefits	360,363				360,363
Loan to Marina	350,000				350,000
Rent at 636 Ward Street	130,000				130,000
Professional Service Consultants	33,919				33,919
Special Events	29,814				29,814
Seismic	620				620
Supplies	7,918				7,918
Total Assigned Fund Balances	<u>1,961,611</u>		<u>2,179,333</u>		<u>4,140,944</u>
Unassigned:					
General Fund	5,040,539				5,040,539
Other Governmental Fund Deficit Residuals				(41,976)	(41,976)
Total Unassigned Fund Balances	<u>5,040,539</u>			<u>(41,976)</u>	<u>4,998,563</u>
Total Fund Balances	<u>\$7,529,768</u>	<u>\$12,538,516</u>	<u>\$3,088,701</u>	<u>\$5,627,066</u>	<u>\$28,784,051</u>

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2012

NOTE 10 – NET ASSETS AND FUND BALANCES (Continued)

C. Contingency Arrangements

The City’s annual budget requires the City to implement and maintain fund balance to handle any unforeseen contingencies in the future, rather than continued reliance on the City’s operating General Fund reserves. These unforeseen contingencies include Economic Uncertainty, Catastrophes and Contingencies. As of June 30, 2012, the following are reported within the unassigned fund balance of the General Fund:

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

D. Fund Balance and Net Assets Deficits

At June 30, 2012 the Alhambra Creek Improvements Capital Projects Fund had a deficit fund balance of \$41,976. Future revenues are expected to offset this fund deficit.

The Marina Services Enterprise Fund has an accumulated net deficit of \$2,637,658 as of June 30, 2012 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, 2012, the City had not received such notice.

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2012

NOTE 11 – EMPLOYEES’ RETIREMENT SYSTEM

Substantially all City employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City’s employees participate in the separate Safety (police), Miscellaneous (all other), and Miscellaneous Joint Facilities Agency Employee Plans. Benefit provisions under the Plans are established by State statute and City ordinance or resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts. The City’s labor contracts require it to pay employee contributions as well as its own. The Plans’ provisions and benefits in effect at June 30, 2012, 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	44.740%	10.059%	11.584%

*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, 2012

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, 2010	\$1,417,950	100%	\$0
June 30, 2011	1,470,275	100%	0
June 30, 2012	1,618,813	100%	0
<i>Miscellaneous Plan</i>			
June 30, 2010	\$23,966	100%	\$0
June 30, 2011	23,453	100%	0
June 30, 2012	26,259	100%	0
<i>Miscellaneous Joint Facilities Agency</i>			
June 30, 2010	\$740,618	100%	\$0
June 30, 2011	761,593	100%	0
June 30, 2012	690,701	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. 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 10 years.

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2012

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
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%
2010	10,165,475,166	8,470,235,152	1,695,240,014	83.3%	955,980,815	177.3%

The City’s Safety Plan represents approximately 0.39%, 0.36%, and 0.39% of the State-wide pool for the years ended June 30, 2010, 2009, and 2008, respectively, based on covered payroll of \$3,802,257, \$3,467,818, and \$3,631,440 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
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%
2010	3,309,064,934	2,946,408,106	362,656,828	88.9%	748,401,352	48.5%

The City’s Miscellaneous Plan represents approximately 0.03%, 0.03%, and 0.04% of the State-wide pool for the years ended June 30, 2010, 2009, and 2008, respectively, based on covered payroll of \$258,724, \$250,061 and \$303,687 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
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%
2010	3,309,064,934	2,946,408,106	362,656,828	89.0%	748,401,352	48.5%

The City’s Miscellaneous Joint Facilities Agency Plan represents approximately 0.96%, 0.95%, and 0.97% of the State-wide pool for the years ended June 30, 2010, 2009, and 2008, respectively, based on covered payroll of \$7,160,574, \$7,060,240, and \$6,688,211 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, 2012

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS

The City provides health care benefits for retired employees and spouses based on negotiated employee bargaining unit contracts. Substantially all of the City's employees may become eligible for those benefits if they reach the normal retirement age and have a minimum ten years of service while working for the City. The premium reimbursement benefits are as follows: 0-10 years of service = 0%; 10-15 years of service = 25%; 15-20 years of service = 50%; 20-25 years of service = 75%; 26 years or more of service = 100%. Currently, 40 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, 42 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, 2012, those costs totaled \$810,718.

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, 2012

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 9 years	0%
10 through 14 years	25%
15 through 19 years	50%
20 through 24 years	75%
Over 25 years	100%

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

As of June 30, 2012, approximately 79 plan participants were eligible to receive retirement health care benefits.

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2012

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

Funding Policy and Actuarial Assumptions

The annual required contribution (ARC) was determined as part of a June 30, 2011 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 7.61% discount rate; (b) 3.25% projected annual salary increase, (c) inflation 3% and (d) 5%-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, 2012, the City contributed the ARC amounting to \$1,179,000 to the Plan which represented 11.3% of the \$10,397,000 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, 2012

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

Annual required contribution (ARC)	(\$1,179,000)
Interest on net OPEB asset	318,000
Adjustment to annual required contribution	<u>(277,000)</u>
Annual OPEB cost	<u>(1,138,000)</u>
Contributions made:	
City portion of current year premiums paid	810,718
Additional contributions to CERBT	<u>368,282</u>
Total contributions	<u>1,179,000</u>
Change in net OPEB asset	41,000
Net OPEB Asset at June 30, 2011	<u>4,183,000</u>
Net OPEB Asset at June 30, 2012	<u><u>\$4,224,000</u></u>

The actuarial accrued liability (AAL) representing the present value of future benefits, included in the actuarial study dated June 30, 2011, amounted to \$15,734,000 and was partially funded since assets have been transferred into CERBT. The City's prior year contributions, the current year annual required contribution, along with investment income net of current year premiums resulted in assets with CERBT of \$6,155,614 as of June 30, 2012, which partially reduced the unfunded actuarial accrued liability. The Plan's annual OPEB cost and actual contributions for fiscal years ended June 30, 2010, 2011 and 2012 are set forth below:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of OPEB Cost Contributed	Net OPEB (Obligation) Asset
June 30, 2010	\$842,000	\$903,000	107%	\$4,126,000
June 30, 2011	877,000	934,000	106%	4,183,000
June 30, 2012	1,138,000	1,179,000	104%	4,224,000

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

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	Unfunded (Overfunded) Actuarial Accrued Liability (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll [(B-A)/C]
July 1, 2007	\$0	\$14,010,000	\$14,010,000	0.00%	\$9,579,000	146.26%
July 1, 2009	3,566,000	13,633,000	10,067,000	26.16%	10,088,000	99.79%
June 30, 2011	4,990,000	15,734,000	10,744,000	31.71%	10,397,000	103.34%

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2012

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 2012. 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, 2012 amounted to \$56,884 of which the City paid \$33,912.

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, 2012

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 (5% - 10% per location, \$25,000 to \$100,000 minimum)	5,500,000
Flood (\$100,000 per occurrence)	25,000,000
Boiler & Machinery (\$5,000)	100,000,000
Cyber Liability (\$50,000)	2,000,000
Public Entity Pollution Liability (\$100,000)	1,000,000

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

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

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

CITY OF MARTINEZ
Notes to Financial Statements
June 30, 2012

NOTE 15 – RISK MANAGEMENT (Continued)

B. Liability for Uninsured Claims

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

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

	2012	2011
Beginning balance	\$80,000	\$80,000
Liability for current fiscal year claims	43,063	37,124
Increase (decrease) in liability for prior fiscal year claims and claims incurred but not reported (IBNR)	(16,592)	(25,075)
Claims paid	(26,471)	(12,049)
Ending balance	\$80,000	\$80,000

NOTE 16 - COMMITMENTS AND CONTINGENCIES

A. Litigation

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

B. Encumbrances

The City uses an encumbrance system as an extension of normal budgetary accounting for governmental funds. Under this system, purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of applicable appropriations. Encumbrances outstanding at year-end are recorded as restricted, committed or assigned fund balance, depending on the classification of the resources to be used to liquidate the encumbrance, since they do not constitute expenditures or liabilities. Outstanding encumbrances at year-end are automatically re-appropriated for the following year. Unencumbered and unexpended appropriations lapse at year-end. Encumbrances outstanding as of June 30, 2012 were as listed below:

Governmental funds:	Amount
General Fund	\$41,837
Measure H Special Revenue Fund	582,686
Capital Improvements	937,649
Other Governmental Funds	54,949
Total	\$1,617,121

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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.

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 General Obligation Bonds issued in May, 2009 and March, 2012. Debt service is funded from *ad valorem* taxes levied upon all property within the City subject to taxation.

NON-MAJOR GOVERNMENTAL FUNDS (Continued)

CAPITAL PROJECTS FUNDS

Alhambra Creek Improvements

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

Lighting and Landscaping Fund

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

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CITY OF MARTINEZ
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2012

	SPECIAL REVENUE FUNDS				
	Gas Tax Funds	NPDES Stormwater Fund	Measure J Fund	COPS Grant Fund	Proposition 1B
ASSETS					
Cash and investments					
Available for operations	\$880,585	\$294,274	\$174,965	\$583,847	\$540,796
Restricted					
Receivables:					
Accounts receivables (net of allowance for uncollectibles)					
Intergovernmental	105,772		436,228	30,486	
Total Assets	\$986,357	\$294,274	\$611,193	\$614,333	\$540,796
LIABILITIES					
Accounts payable	\$1,723	\$11		\$250,916	
Accrued wages and benefits		3,160			
Deposits				9,326	
Advance from other funds					
Deferred revenue					
Total Liabilities	1,723	3,171		260,242	
FUND EQUITY					
Fund balances					
Restricted	984,634	291,103	\$611,193	354,091	\$540,796
Unassigned					
Total Fund Balances (Deficit)	984,634	291,103	611,193	354,091	540,796
Total Liabilities and Fund Balances	\$986,357	\$294,274	\$611,193	\$614,333	\$540,796

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	
\$410,035	\$481,839	\$93,232 417,583	\$1,266,173		\$245,495	\$3,705,068 1,683,756
13,730				\$41,976		13,730 614,462
<u>\$423,765</u>	<u>\$481,839</u>	<u>\$510,815</u>	<u>\$1,266,173</u>	<u>\$41,976</u>	<u>\$245,495</u>	<u>\$6,017,016</u>
	\$33,070				\$7,792	\$293,512 3,160 9,326
				\$41,976 41,976		41,976 41,976
	<u>33,070</u>			<u>83,952</u>	<u>7,792</u>	<u>389,950</u>
\$423,765	448,769	\$510,815	\$1,266,173	(41,976)	237,703	5,669,042 (41,976)
<u>423,765</u>	<u>448,769</u>	<u>510,815</u>	<u>1,266,173</u>	<u>(41,976)</u>	<u>237,703</u>	<u>5,627,066</u>
<u>\$423,765</u>	<u>\$481,839</u>	<u>\$510,815</u>	<u>\$1,266,173</u>	<u>\$41,976</u>	<u>\$245,495</u>	<u>\$6,017,016</u>

CITY OF MARTINEZ
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012

SPECIAL REVENUE FUNDS

	Gas Tax Funds	NPDES Stormwater Fund	Measure J Fund	COPS Grant Fund	Proposition 1B	PEG Access
REVENUES						
Special assessments		\$496,524				
Intergovernmental	\$1,034,214		\$509,449	\$121,998		
Fines and forfeits				1,608		
Use of money and property	3,262	513	2,561	219	\$1,937	
Miscellaneous				948		\$58,538
Total Revenues	1,037,476	497,037	512,010	124,773	1,937	58,538
EXPENDITURES						
Current:						
Administrative services						17,523
Community & economic development	401,978	334,245	90,706			
Police				112,043		
Debt Service:						
Principal						
Interest and fiscal charges						
Capital outlay				265,654		
Total Expenditures	401,978	334,245	90,706	377,697		17,523
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	635,498	162,792	421,304	(252,924)	1,937	41,015
OTHER FINANCING SOURCES (USES)						
Bond premium						
Transfers in						
Transfers (out)	(375,000)	(25,700)	(525,000)			
Total Other Financing Sources (Uses)	(375,000)	(25,700)	(525,000)			
NET CHANGE IN FUND BALANCES	260,498	137,092	(103,696)	(252,924)	1,937	41,015
BEGINNING FUND BALANCES (DEFICIT)	724,136	154,011	714,889	607,015	538,859	382,750
ENDING FUND BALANCES (DEFICIT)	\$984,634	\$291,103	\$611,193	\$354,091	\$540,796	\$423,765

	DEBT SERVICE FUNDS		CAPITAL PROJECTS FUNDS		Total Nonmajor Governmental Funds
Recycling Fund	2003 Debt Service Fund	2009 Debt Service Fund	Alhambra Creek Improvements	Lighting and Landscaping Fund	
		\$1,509,285	\$6,041	\$119,299	\$2,131,149
\$30,352					1,696,013
	\$194	1,958		859	1,608
275,869	240,430				11,503
					575,785
306,221	240,624	1,511,243	6,041	120,158	4,416,058
132,937					150,460
				123,576	950,505
					112,043
	235,000	360,000			595,000
	23,761	1,078,574			1,102,335
					265,654
132,937	258,761	1,438,574		123,576	3,175,997
173,284	(18,137)	72,669	6,041	(3,418)	1,240,061
		279,996			279,996
		130,000		5,700	135,700
					(925,700)
		409,996		5,700	(510,004)
173,284	(18,137)	482,665	6,041	2,282	730,057
275,485	528,952	783,508	(48,017)	235,421	4,897,009
\$448,769	\$510,815	\$1,266,173	(\$41,976)	\$237,703	\$5,627,066

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, 2012

	<u>GAS TAX FUNDS</u>			<u>NPDES STORMWATER FUND</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES						
Special assessments				\$492,000	\$496,524	\$4,524
Licenses, permits, and fees						
Intergovernmental	\$997,000	\$1,034,214	\$37,214			
Fines and forfeits						
Use of money and property	1,100	3,262	2,162	800	513	(287)
Miscellaneous						
Total Revenues	<u>998,100</u>	<u>1,037,476</u>	<u>39,376</u>	<u>492,800</u>	<u>497,037</u>	<u>4,237</u>
EXPENDITURES						
Current:						
Administrative services						
Community development	468,940	401,978	66,962	482,211	334,245	147,966
Police						
Capital outlay						
Total Expenditures	<u>468,940</u>	<u>401,978</u>	<u>66,962</u>	<u>482,211</u>	<u>334,245</u>	<u>147,966</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>529,160</u>	<u>635,498</u>	<u>106,338</u>	<u>10,589</u>	<u>162,792</u>	<u>152,203</u>
OTHER FINANCING SOURCES (USES)						
Transfers (out)	<u>(708,282)</u>	<u>(375,000)</u>	<u>333,282</u>	<u>(25,700)</u>	<u>(25,700)</u>	
Total Other Financing Sources (Uses)	<u>(708,282)</u>	<u>(375,000)</u>	<u>333,282</u>	<u>(25,700)</u>	<u>(25,700)</u>	
NET CHANGE IN FUND BALANCES	<u>(\$179,122)</u>	<u>260,498</u>	<u>\$439,620</u>	<u>(\$15,111)</u>	<u>137,092</u>	<u>\$152,203</u>
BEGINNING FUND BALANCES		<u>724,136</u>			<u>154,011</u>	
ENDING FUND BALANCES		<u>\$984,634</u>			<u>\$291,103</u>	

MEASURE J FUND			COPS GRANT FUND		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
\$415,000	\$509,449	\$94,449	\$125,306	\$121,998	(\$3,308)
				1,608	1,608
20,000	2,561	(17,439)		219	219
				948	948
<u>435,000</u>	<u>512,010</u>	<u>77,010</u>	<u>125,306</u>	<u>124,773</u>	<u>(533)</u>
178,732	90,706	88,026	140,582	112,043	28,539
			345,000	265,654	79,346
<u>178,732</u>	<u>90,706</u>	<u>88,026</u>	<u>485,582</u>	<u>377,697</u>	<u>107,885</u>
256,268	421,304	165,036	(360,276)	(252,924)	107,352
<u>(525,000)</u>	<u>(525,000)</u>				
<u>(525,000)</u>	<u>(525,000)</u>				
<u>(\$268,732)</u>	<u>(103,696)</u>	<u>\$165,036</u>	<u>(\$360,276)</u>	<u>(252,924)</u>	<u>\$107,352</u>
	714,889			607,015	
	<u>\$611,193</u>			<u>\$354,091</u>	

(Continued)

CITY OF MARTINEZ
 BUDGETED NON-MAJOR FUNDS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2012

	PEG ACCESS			RECYCLING FUND		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Special assessments						
Licenses, permits, and fees						
Intergovernmental				\$19,944	\$30,352	\$10,408
Fines and forfeits						
Use of money and property						
Miscellaneous	\$55,000	\$58,538	\$3,538	275,000	275,869	\$869
Total Revenues	<u>55,000</u>	<u>58,538</u>	<u>3,538</u>	<u>294,944</u>	<u>306,221</u>	<u>11,277</u>
EXPENDITURES						
Current:						
Administrative services	39,200	17,523	21,677	164,938	132,937	32,001
Community development						
Police						
Capital outlay						
Total Expenditures	<u>39,200</u>	<u>17,523</u>	<u>21,677</u>	<u>164,938</u>	<u>132,937</u>	<u>32,001</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>15,800</u>	<u>41,015</u>	<u>25,215</u>	<u>130,006</u>	<u>173,284</u>	<u>43,278</u>
OTHER FINANCING SOURCES (USES)						
Transfers (out)						
Total Other Financing Sources (Uses)						
NET CHANGE IN FUND BALANCES	<u>\$15,800</u>	41,015	<u>\$25,215</u>	<u>\$130,006</u>	173,284	<u>\$43,278</u>
BEGINNING FUND BALANCES		<u>382,750</u>			<u>275,485</u>	
ENDING FUND BALANCES		<u>\$423,765</u>			<u>\$448,769</u>	

INTERNAL SERVICE FUNDS

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

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

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

Equipment Replacement

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

Management Information System

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

CITY OF MARTINEZ
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2012

	Equipment Replacement	Management Information System	Total
ASSETS			
Current Assets:			
Cash and investments available for operations	\$1,713,605	\$640,667	\$2,354,272
Receivables:			
Other	2,300		2,300
Total Current Assets	1,715,905	640,667	2,356,572
Capital Assets:			
Equipment	3,141,568	378,198	3,519,766
Accumulated depreciation	(2,339,626)	(378,198)	(2,717,824)
Construction in progress	412,484		412,484
Net Capital Assets	1,214,426		1,214,426
Total Assets	2,930,331	640,667	3,570,998
LIABILITIES			
Current Liabilities:			
Accounts payable	384,650	19,419	404,069
Accrued liabilities	13,903	5,273	19,176
Accrued vacation and other fringe benefits	34,521	18,135	52,656
Total Liabilities	433,074	42,827	475,901
NET ASSETS			
Invested in capital assets	1,214,426		1,214,426
Unrestricted	1,282,831	597,840	1,880,671
Total Net Assets	\$2,497,257	\$597,840	\$3,095,097

CITY OF MARTINEZ
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

	Equipment Replacement	Management Information System	Total
OPERATING REVENUES			
Charges for services	\$736,983	\$489,430	\$1,226,413
Other revenue	4,541	15,379	19,920
	<u>741,524</u>	<u>504,809</u>	<u>1,246,333</u>
OPERATING EXPENSES			
Maintenance and repairs	807,258	510,807	1,318,065
Depreciation	223,773	3,256	227,029
	<u>1,031,031</u>	<u>514,063</u>	<u>1,545,094</u>
Total Operating Revenues	<u>741,524</u>	<u>504,809</u>	<u>1,246,333</u>
Total Operating Expenses	<u>1,031,031</u>	<u>514,063</u>	<u>1,545,094</u>
Operating Income (Loss)	<u>(289,507)</u>	<u>(9,254)</u>	<u>(298,761)</u>
NONOPERATING REVENUES			
Interest income	6,355	2,138	8,493
Gain on disposal of equipment	12,144		12,144
	<u>18,499</u>	<u>2,138</u>	<u>20,637</u>
Total Nonoperating Revenues	<u>18,499</u>	<u>2,138</u>	<u>20,637</u>
Income (Loss)	<u>(271,008)</u>	<u>(7,116)</u>	<u>(278,124)</u>
Change in Net Assets	(271,008)	(7,116)	(278,124)
BEGINNING NET ASSETS	<u>2,768,265</u>	<u>604,956</u>	<u>3,373,221</u>
ENDING NET ASSETS	<u><u>\$2,497,257</u></u>	<u><u>\$597,840</u></u>	<u><u>\$3,095,097</u></u>

CITY OF MARTINEZ
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

	Equipment Replacement	Management Information System	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$739,224	\$504,809	\$1,244,033
Payments to suppliers	(217,354)	(334,490)	(551,844)
Payments to employees	(218,299)	(159,434)	(377,733)
	<u>303,571</u>	<u>10,885</u>	<u>314,456</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(505,401)		(505,401)
Proceeds from sale of equipment	12,144		12,144
	<u>(493,257)</u>		<u>(493,257)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest	6,355	2,138	8,493
	<u>6,355</u>	<u>2,138</u>	<u>8,493</u>
Net Cash Flows	(183,331)	13,023	(170,308)
Cash and investments at beginning of period	<u>1,896,936</u>	<u>627,644</u>	<u>2,524,580</u>
Cash and investments at end of period	<u><u>\$1,713,605</u></u>	<u><u>\$640,667</u></u>	<u><u>\$2,354,272</u></u>
Reconciliation of operating income (loss) to net cash flows from operating activities:			
Operating income (loss)	(\$289,507)	(\$9,254)	(\$298,761)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:			
Depreciation	223,773	3,256	227,029
Change in assets and liabilities:			
Other receivables	(2,300)		(2,300)
Accounts payable	365,265	13,291	378,556
Accrued wages and benefits	6,864	209	7,073
Accrued vacation and other fringe benefits	(524)	3,383	2,859
Cash Flows from Operating Activities	<u><u>\$303,571</u></u>	<u><u>\$10,885</u></u>	<u><u>\$314,456</u></u>

AGENCY FUNDS

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

Alhambra Creek Assessment District

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

Senior Center Club

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

CITY OF MARTINEZ
 AGENCY FUNDS
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE YEAR ENDED JUNE 30, 2012

	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
<u>Alhambra Creek Assessment District</u>				
<u>Assets</u>				
Restricted cash and investments	\$226,189	\$115,718	\$132,268	\$209,639
Total assets	<u>\$226,189</u>	<u>\$115,718</u>	<u>\$132,268</u>	<u>\$209,639</u>
<u>Liabilities</u>				
Accounts payable		\$152		\$152
Due to bondholders	\$226,189	115,566	132,268	209,487
Total liabilities	<u>\$226,189</u>	<u>\$115,718</u>	<u>\$132,268</u>	<u>\$209,639</u>
<u>Senior Center Club</u>				
<u>Assets</u>				
Restricted cash and investments	\$148,399	\$192,252	\$173,705	\$166,946
Total assets	<u>\$148,399</u>	<u>\$192,252</u>	<u>\$173,705</u>	<u>\$166,946</u>
<u>Liabilities</u>				
Accounts payable	\$2,545	\$7,368	\$2,545	\$7,368
Deposits in trust	145,854	184,964	171,240	159,578
Total liabilities	<u>\$148,399</u>	<u>\$192,332</u>	<u>\$173,785</u>	<u>\$166,946</u>
<u>Total Agency Funds</u>				
<u>Assets</u>				
Restricted cash and investments	\$374,588	\$307,970	\$305,973	\$376,585
Total assets	<u>\$374,588</u>	<u>\$307,970</u>	<u>\$305,973</u>	<u>\$376,585</u>
<u>Liabilities</u>				
Accounts payable	\$2,545	\$7,520	\$2,545	\$7,520
Due to bondholders	226,189	115,566	132,268	209,487
Due to members	145,854	184,964	171,240	159,578
Total liabilities	<u>\$374,588</u>	<u>\$308,050</u>	<u>\$306,053</u>	<u>\$376,585</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:

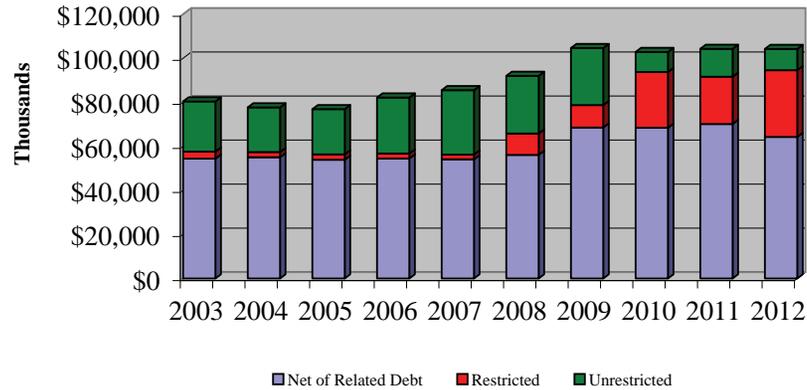
1. Full-Time Equivalent City Government Employees by Function
2. Operating Indicators by Function/Program
3. Capital Asset Statistics by Function/Program

STATISTICAL SECTION (Continued)
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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 Ten Fiscal Years
(Accrual Basis of Accounting)



	Fiscal Year Ended June 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
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	\$44,385,099
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	18,207,558
Unrestricted	12,528,238	13,580,382	12,652,888	16,956,596	20,301,070	20,294,772	19,638,559	2,805,660	5,722,653	3,189,334
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	\$65,781,991
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	\$19,898,904
Restricted	465,144	478,686	492,014	465,980	473,896	6,613,067	7,224,675	7,620,488	7,941,902	12,086,217
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	6,466,983
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	\$38,452,104
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	\$64,284,003
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	30,293,775
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	9,656,317
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	\$104,234,095

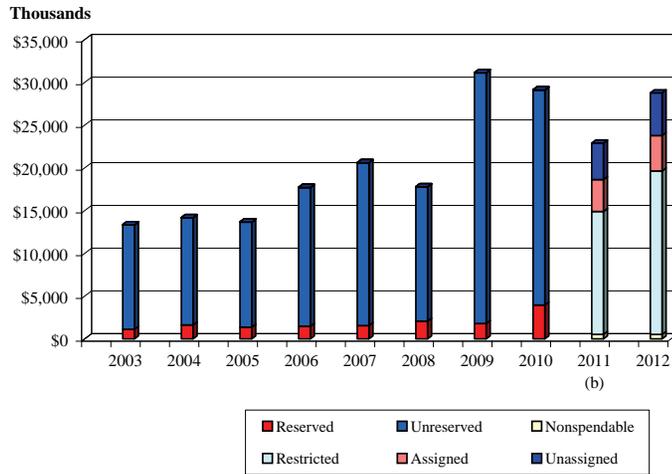
CITY OF MARTINEZ
Changes in Net Assets
Last Ten Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year Ended June 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
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	\$1,545,222
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	945,076
Public Works	633,565	742,330	821,956	831,843	931,263	3,515,810	3,369,089	3,842,513	4,181,381	3,466,780
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	5,917,326
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	10,483,295
Interest on Long-Term Debt	277,194	66,580	60,943	55,823	52,506	50,630	291,152	584,615	813,299	1,102,335
Total Governmental Activities Expenses	<u>17,929,612</u>	<u>18,876,919</u>	<u>20,630,503</u>	<u>19,455,047</u>	<u>21,861,595</u>	<u>22,230,302</u>	<u>22,596,376</u>	<u>24,325,662</u>	<u>24,485,545</u>	<u>23,460,034</u>
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	10,782,125
Marina Services	404,774	470,175	472,205	381,516	441,823	797,453	345,533	388,591	558,512	410,699
Parking Services	330,031	547,454	532,367	426,565	375,634	391,841	454,122	451,488	483,876	365,585
Total Business-Type Activities Expenses	<u>9,729,007</u>	<u>11,105,995</u>	<u>11,023,667</u>	<u>10,227,933</u>	<u>11,039,431</u>	<u>11,257,706</u>	<u>11,117,091</u>	<u>11,040,755</u>	<u>10,934,074</u>	<u>11,558,409</u>
Total Primary Government Expenses	<u>\$27,658,619</u>	<u>\$29,982,914</u>	<u>\$31,654,170</u>	<u>\$29,682,980</u>	<u>\$32,901,026</u>	<u>\$33,488,008</u>	<u>\$33,713,467</u>	<u>\$35,366,417</u>	<u>\$35,419,619</u>	<u>\$35,018,443</u>
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	\$29,694
Administrative Services									49,145	49,492
Public Works	461,187	417,578	533,355	804,965	933,307	775,303	660,516	585,117	580,520	666,808
Community & Economic Development	897,812	819,377	1,032,160	1,166,315	1,149,605	954,885	731,853	549,109	547,115	708,532
Police	436,593	353,505	457,654	339,697	428,723	381,602	398,088	376,514	441,982	282,683
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	2,617,726
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	1,861,281
Total Government Activities Program Revenues	<u>5,972,317</u>	<u>5,342,791</u>	<u>4,841,970</u>	<u>6,887,342</u>	<u>6,532,231</u>	<u>10,305,518</u>	<u>17,783,051</u>	<u>6,081,672</u>	<u>8,988,235</u>	<u>6,216,216</u>
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	10,438,993
Marina Services	191,393	127,608	166,080	219,207	291,919	273,732	241,247	245,157	227,759	362,067
Parking Services	336,321	169,145	273,001	346,457	365,488	405,351	387,388	398,591	368,673	327,253
Operating Grants and Contributions				114,843						
Capital Grants and Contributions			1,404,646			430,343				
Total Business-Type Activities Program Revenues	<u>8,373,828</u>	<u>8,692,522</u>	<u>11,084,916</u>	<u>10,078,166</u>	<u>10,378,429</u>	<u>10,953,799</u>	<u>10,673,554</u>	<u>10,474,096</u>	<u>10,343,289</u>	<u>11,128,313</u>
Total Primary Government Program Revenues	<u>\$14,346,145</u>	<u>\$14,035,313</u>	<u>\$15,926,886</u>	<u>\$16,965,508</u>	<u>\$16,910,660</u>	<u>\$21,259,317</u>	<u>\$28,456,605</u>	<u>\$16,555,768</u>	<u>\$19,331,524</u>	<u>\$17,344,529</u>
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)	(\$17,243,818)
Business-Type Activities	(1,355,179)	(2,413,473)	61,249	(149,767)	(661,002)	(303,907)	(443,537)	(566,659)	(590,785)	(430,096)
Total Primary Government Net Expense	<u>(\$13,312,474)</u>	<u>(\$15,947,601)</u>	<u>(\$15,727,284)</u>	<u>(\$12,717,472)</u>	<u>(\$15,990,366)</u>	<u>(\$12,228,691)</u>	<u>(\$5,256,862)</u>	<u>(\$18,810,649)</u>	<u>(\$16,088,095)</u>	<u>(\$17,673,914)</u>

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

	Fiscal Year Ended June 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
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	\$6,262,596
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	3,239,219
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	2,465,909
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	1,379,610
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	2,667,102
Intergovernmental	958,136	1,762,251	881,895	344,160	281,669	231,037	192,805	178,083	238,498	85,068
Investment Earnings		199,788	267,746	533,475	1,019,116	955,422	412,821	187,035	123,304	75,843
Miscellaneous		83,090	282,749	1,744,370	1,404,792	760,256	1,055,423	893,942	1,259,193	1,157,849
Gain on sale of capital assets										177,000
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	17,510,196
Business-Type Activities:										
Other Taxes		62,306	56,769	48,292	56,545	63,240	64,263	61,579	67,403	62,620
Investment Earnings	214,941	139,026	184,977	317,631	507,764	475,760	263,207	82,093	63,307	52,965
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	115,585
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	\$17,625,781
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	\$266,378
Business-Type Activities	(1,052,142)	(2,315,233)	443,365	77,635	(235,525)	468,418	(164,136)	(386,995)	(259,470)	(314,511)
Total Primary Government	(\$368,225)	(\$2,690,170)	(\$808,894)	\$5,290,012	\$3,329,005	\$6,501,088	\$12,634,952	(\$1,786,085)	\$1,424,258	(\$48,133)

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



	2003	2004	2005	2006	2007	2008	2009	2010	2011 (b)	2012
General Fund										
Reserved	\$278,429	\$659,139	\$573,040	\$793,427	\$787,770	\$1,041,261	\$853,371	\$809,098		
Unreserved	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	\$526,565
Restricted									2,974	1,053
Assigned									2,071,135	1,961,611
Unassigned									4,323,175	5,040,539
Total General Fund	\$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)	\$7,529,768
All Other Governmental Funds										
Reserved	\$855,382	\$977,684	\$803,791	\$686,781	\$767,264	\$1,036,074	\$951,122	\$3,149,573		
Unreserved, reported in:										
Special revenue funds	1,424,758	670,733	940,575	957,109	781,421	2,014,107	1,789,329	1,837,726		
Capital project funds	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										
Restricted									\$14,361,436	\$19,116,926
Assigned									1,668,389	2,179,333
Unassigned									(48,017)	(41,976)
Total all other governmental funds	\$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	\$21,254,283

(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>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Revenues				
Taxes	\$10,670,402	\$11,295,326	\$13,221,884	\$14,994,265
Special assessments	654,990	604,659	654,028	648,225
Licenses, permits and fees	2,068,185	489,276	779,784	829,438
Intergovernmental revenues	2,493,944	4,613,687	3,109,850	4,293,695
Charges for services	1,475,313	722,266	706,670	1,009,212
Fines and forfeits	387,676	231,412	333,075	284,486
Use of money and property	493,025	200,309	308,809	585,146
Miscellaneous	132,326	202,556	324,923	1,791,186
Total Revenues	<u>18,375,861</u>	<u>18,359,491</u>	<u>19,439,023</u>	<u>24,435,653</u>
Expenditures				
Current:				
General government	801,417	850,845	827,226	1,253,927
Nondepartmental services	1,149,672	583,170	602,262	722,957
Administrative services	402,692	578,412	596,296	691,218
Public works	609,678	618,243	763,635	826,781
Community & economic development	5,628,996	6,651,965	6,959,750	6,271,909
Police	7,681,814	7,740,536	8,589,785	8,532,786
Capital outlay	3,402,047	614,619	1,236,330	1,995,346
Debt service:				
Principal repayment	137,653	8,014	195,000	200,000
Interest and fiscal charges	172,212	66,580	60,943	55,823
Total Expenditures	<u>19,986,181</u>	<u>17,712,384</u>	<u>19,831,227</u>	<u>20,550,747</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,610,320)</u>	<u>647,107</u>	<u>(392,204)</u>	<u>3,884,906</u>
Other Financing Sources (Uses)				
Transfers in	920,164	5,074,830	864,960	1,934,775
Transfers (out)	(945,164)	(4,884,830)	(982,960)	(1,770,960)
Issuance of long-term debt				
Bond premium				
Certificates of participation issued	2,200,000			
Payments to refunded bond escrow	(2,164,982)			
Sale of property				
Total other financing sources (uses)	<u>10,018</u>	<u>190,000</u>	<u>(118,000)</u>	<u>163,815</u>
Special Item:				
OPEB funding				
Loan to Martinez Unified School District				
Net Change in fund balances	<u>(\$1,600,302)</u>	<u>\$837,107</u>	<u>(\$510,204)</u>	<u>\$4,048,721</u>
Debt service as a percentage of noncapital expenditures	(a)	0.4%	1.4%	1.4%

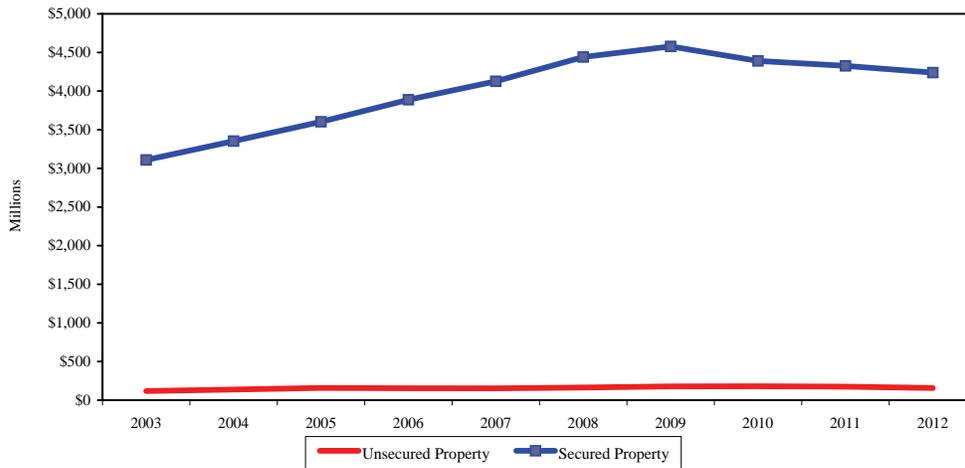
NOTE:

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

Fiscal Year Ended June 30,

2007	2008	2009	2010	2011	2012
\$16,049,485	\$16,244,064	\$15,901,834	\$15,602,345	\$15,809,271	\$16,063,061
618,402	592,675	593,327	1,391,343	2,110,101	2,131,149
1,206,310	901,504	569,653	451,972	537,305	599,672
3,366,831	7,854,354	14,976,879	3,985,583	5,536,564	2,351,629
769,834	714,089	716,173	562,189	470,550	658,908
295,334	360,409	376,179	360,431	429,593	260,961
967,531	907,560	403,693	249,043	172,727	131,211
1,755,786	942,321	1,126,603	911,374	1,281,478	1,338,225
<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>	<u>23,534,816</u>
1,249,523	1,055,630	1,327,384	1,324,418	1,312,555	1,119,861
2,100,557	1,294,070	1,156,191	816,510	1,712,090	1,140,089
791,144	710,163	757,298	725,585	816,218	881,894
904,338	3,515,167	3,773,961	3,742,399	3,627,781	3,551,258
6,664,397	4,899,818	4,975,417	5,321,903	4,162,888	3,692,811
9,029,159	9,744,360	9,755,501	9,972,242	10,013,872	9,651,789
1,288,687	5,488,729	14,524,632	2,295,078	9,332,495	6,766,413
200,000	205,000	215,000	220,000	570,000	595,000
52,506	50,630	291,152	584,615	813,299	1,102,335
<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>28,501,450</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>	<u>(4,966,634)</u>
1,623,555	1,837,479	1,514,146	609,610	963,037	1,135,700
(1,484,723)	(2,208,585)	(1,464,617)	(626,215)	(1,163,642)	(1,135,700)
		15,000,000			10,000,000
		400,128			279,996
					555,000
<u>138,832</u>	<u>(371,106)</u>	<u>15,449,657</u>	<u>(16,605)</u>	<u>(200,605)</u>	<u>10,834,996</u>
	(4,000,000)		(500,000)		
<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>	<u>\$5,868,362</u>
1.2%	1.2%	2.3%	3.5%	6.0%	7.8%

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



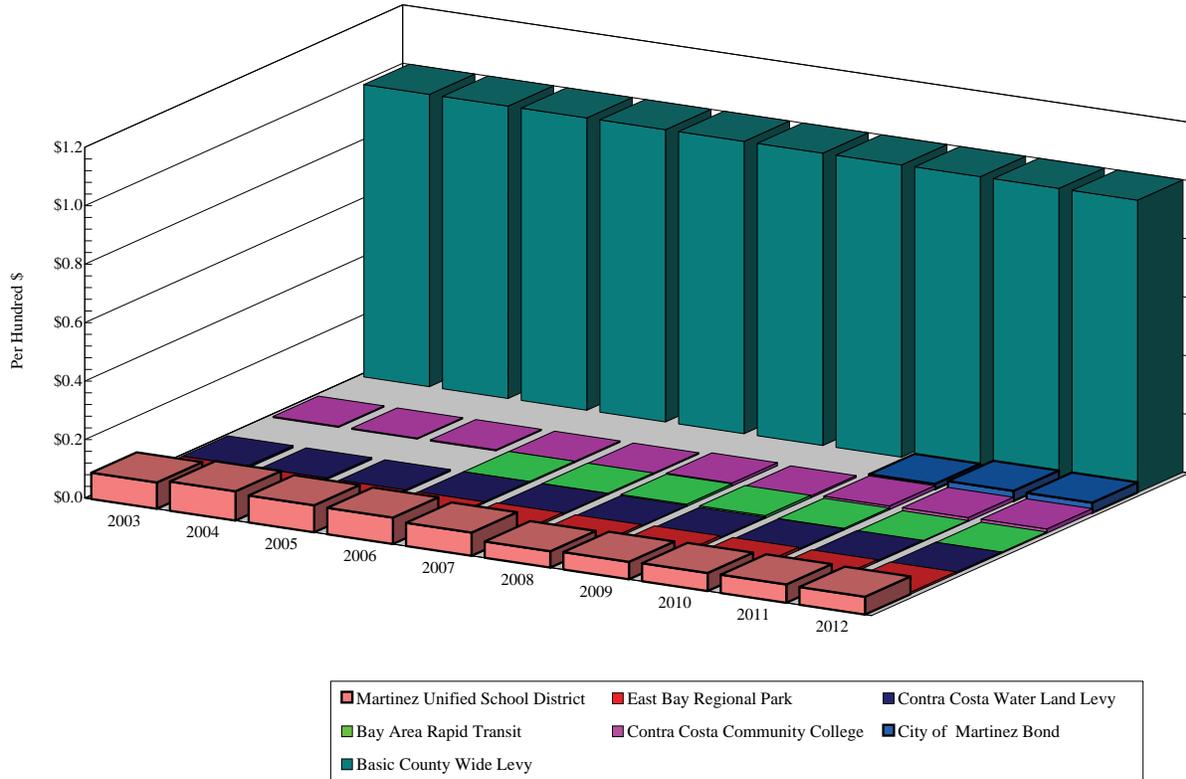
Fiscal Year	Real Property				Total Real Secured Property	Unsecured Property	Total Assessed (a)	Estimated Full Market (a)	Total Direct Tax Rate (b)
	Residential Property	Commercial Property	Industrial Property	Other					
2003	\$2,446,841,113	\$221,143,170	\$277,022,355	\$45,793,860	\$2,990,800,498	\$118,371,038	\$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%
2012	3,270,983,316	278,173,641	475,085,062	58,146,935	4,082,388,954	157,024,907	4,239,413,861	4,239,413,861	1%

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

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

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

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



<u>Fiscal Year</u>	<u>Basic County Wide Levy</u>	<u>Bay Area Rapid Transit</u>	<u>Contra Costa Community College</u>	<u>Contra Costa Water Land Levy</u>	<u>East Bay Regional Park</u>	<u>Martinez Unified School District</u>	<u>City of Martinez Bond</u>	<u>Total</u>
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
2012	1.0000	0.0041	0.0144	0.0051	0.0071	0.0608	0.0347	1.1262

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
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%
2012	10,058,440	10,438,993	96.35%

Source: City of Martinez Administrative Services Department

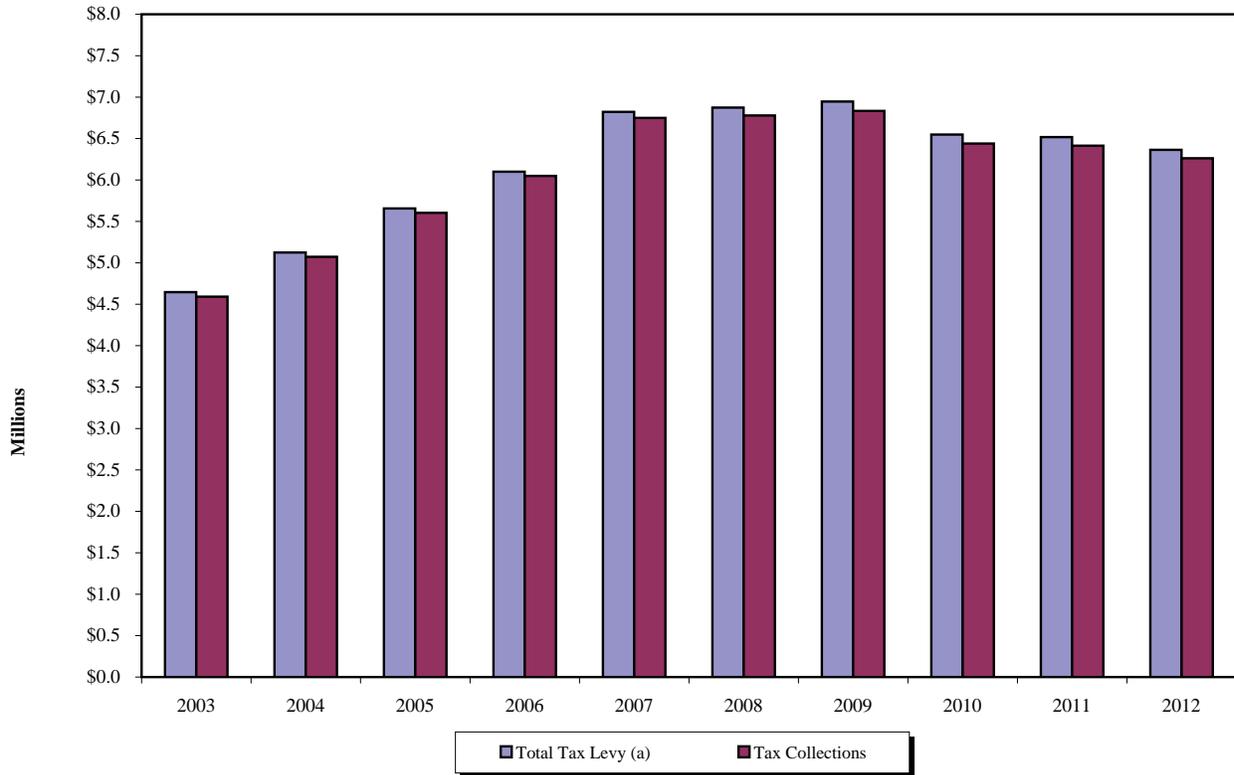
CITY OF MARTINEZ
Principal Property Tax Payers
Current Year and Eight Years Ago

Taxpayer	2011 - 2012			2003-04		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Equilon Enterprises LLC	\$159,820,988	1	3.8%	\$120,246,026	1	3.6%
Pacific Atlantic Terminals LLC	141,907,194	2	3.3%			0.0%
Tesoro Refining & Marketing Company	41,582,836	3	1.0%			0.0%
Shell Chemical Limited Partnership	27,796,795	4	0.7%	20,765,178	4	0.6%
Stauffer Chemical Company	27,347,739	5	0.6%	34,287,215	3	1.0%
Wal Mart Real Estate	19,531,978	6	0.5%	17,001,885	6	0.5%
Kenneth H. & Martha Hofmann Trust	19,302,426	7	0.5%	17,074,602	5	0.5%
Muir Station Center LLC	19,039,956	8	0.4%			0.0%
IEC Hidden Creek LLC	18,991,509	9	0.4%			0.0%
Collier Village Oaks LLC	18,973,698	10	0.4%	13,462,297	9	0.4%
Rhodia			0.0%	44,946,225	2	1.3%
Muirwood Square Investors			0.0%	16,416,899	7	0.5%
George Ogino LLC			0.0%	15,606,000	8	0.5%
The Center Martinez			0.0%	10,919,511	10	0.3%
Subtotal	<u>\$494,295,119</u>		<u>11.7%</u>	<u>\$310,725,838</u>		<u>9.3%</u>
Total Net Assessed Valuation:						
Fiscal Year 2011-2012	\$4,239,413,861					
Fiscal Year 2003-2004	\$3,352,491,393					

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

Source: HDL Coren & Cone

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



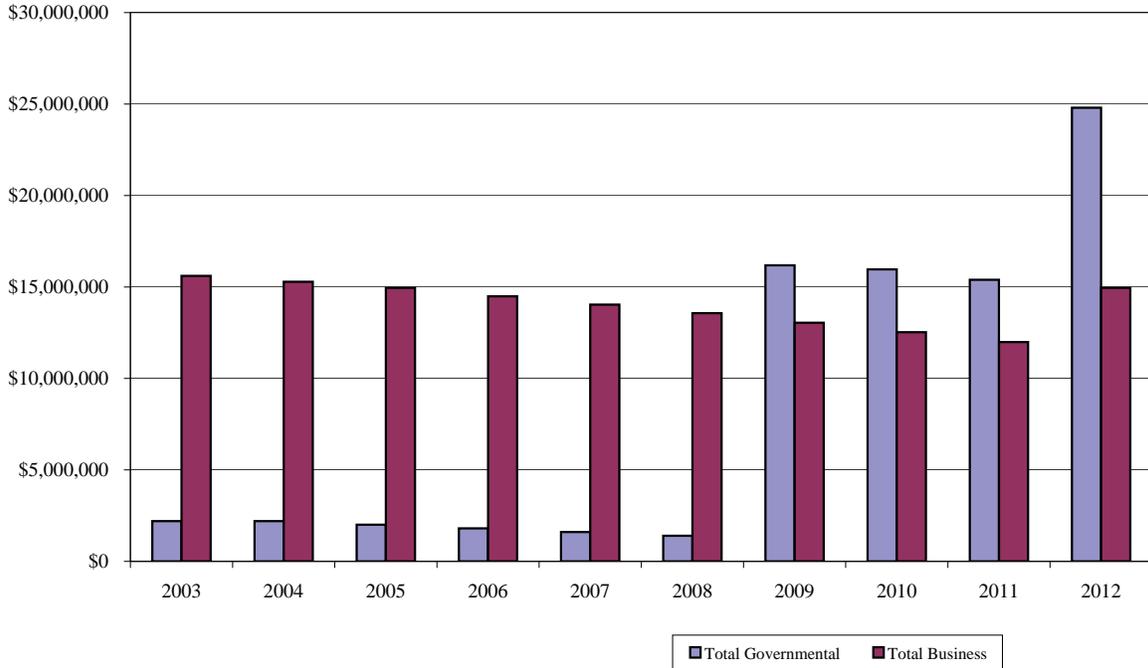
Fiscal Year	Total Tax Levy (a)	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	County Administrative Fee	Total Tax Collections	Percent of Total Tax Collections to Tax Levy
2003	\$4,646,442	\$4,646,442	100.00%	0	(\$54,881)	\$4,591,561	100.00%
2004	5,124,479	5,124,479	100.00%	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%
2012	6,364,044	6,364,044	100.00%	0	(101,448)	6,262,596	100.00%

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

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

Source: Contra Costa County Auditor-Controller

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



Governmental Activities					
Fiscal Year	General Obligation Bonds	Certificates of Participation	Total	Percentage of Actual Taxable Value of Property	General Bonded Debt Per Capita
2003		\$2,200,000	\$2,200,000	0.00%	\$0.00
2004		2,200,000	2,200,000	0.00%	0.00
2005		2,005,000	2,005,000	0.00%	0.00
2006		1,805,000	1,805,000	0.00%	0.00
2007		1,605,000	1,605,000	0.00%	0.00
2008		1,400,000	1,400,000	0.00%	0.00
2009	\$15,000,000	1,185,000	16,185,000	0.33%	412.68
2010	15,000,000	965,000	15,965,000	0.34%	409.13
2011	14,660,000	735,000	15,395,000	0.34%	407.70
2012	24,300,000	500,000	24,800,000	0.57%	670.81

Business-Type Activities						
Fiscal Year	Certificates of Participation	Loans Payable	Total	Total Primary Government	Percentage of Personal Income (a)	Per Capita
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	0.70%	397.41
2010	8,280,000	4,247,215	12,527,215	28,492,215	1.40%	777.14
2011	7,760,000	4,228,497	11,988,497	27,383,497	(a)	761.54
2012	10,805,000	4,146,224	14,951,224	39,751,224	(a)	1,097.34

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

(a) Personal Income data not available for fiscal years 2011 through 2012

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, 2012**

2011-12 Assessed Valuation \$4,239,413,861

	Total Debt 06/30/12	(1) % Applicable	City's Share of Debt 6/30/12
DIRECT LONG-TERM DEBT			
City of Martinez	\$24,300,000	100.000%	\$24,300,000
City of Martinez Certificates of Participation	500,000	100.000%	500,000
Subtotal Direct Long-term Debt	\$24,800,000		\$24,800,000
OVERLAPPING LONG-TERM DEBT			
Bay Area Rapid Transit District	\$412,540,000	0.972%	\$4,009,889
East Bay Regional Park District	129,525,000	1.510%	1,955,828
Contra Costa Community College District	223,985,000	3.406%	7,628,929
Martinez Unified School District	50,598,563	48.993%	24,789,754
Mount Diablo Unified School District	458,250,057	5.955%	27,288,791
Mount Diablo Unified School District Community Facilities District #1	52,675,000	5.955%	3,136,796
Contra Costa County Certificates of Participation	301,690,976	3.391%	10,230,341
Contra Costa County Pension Obligations	358,495,000	3.391%	12,156,565
Contra Costa Community College District Certificates of Participation	855,000	3.406%	29,121
Contra Costa Fire Protection District Pension Obligations	111,595,000	7.678%	8,568,264
Subtotal Overlapping Long-term Debt	\$2,100,209,596		\$99,794,278
NET GROSS DIRECT AND OVERLAPPING LONG-TERM DEBT			\$124,594,278 (2)
Less Contra Costa County self-supporting obligations			3,840,911
TOTAL NET DIRECT AND OVERLAPPING LONG-TERM DEBT			\$120,753,367

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

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

RATIOS TO 2011-12 ASSESSED VALUATION:

Total Direct Debt	0.58%
Total Overlapping Debt	2.35%
Combined Net Total Debt	2.85%

Source: California Municipal Statistics, Inc.

**CITY OF MARTINEZ
COMPUTATION OF LEGAL BONDED DEBT MARGIN
JUNE 30, 2012**

ASSESSED VALUATION:

Secured property assessed value, net of exempt real property	<u><u>\$4,082,388,954</u></u>
---	-------------------------------

BONDED DEBT LIMIT (3.75% OF ASSESSED VALUE) (a)	<u>\$153,089,586</u>
---	----------------------

AMOUNT OF DEBT SUBJECT TO LIMIT:

Total Bonded Debt	\$24,800,000
-------------------	--------------

Less Tax Allocation Bonds and Sales Tax Revenue Bonds, Certificate of Participation not subject to limit	<u>500,000</u>
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Amount of debt subject to limit	<u>24,300,000</u>
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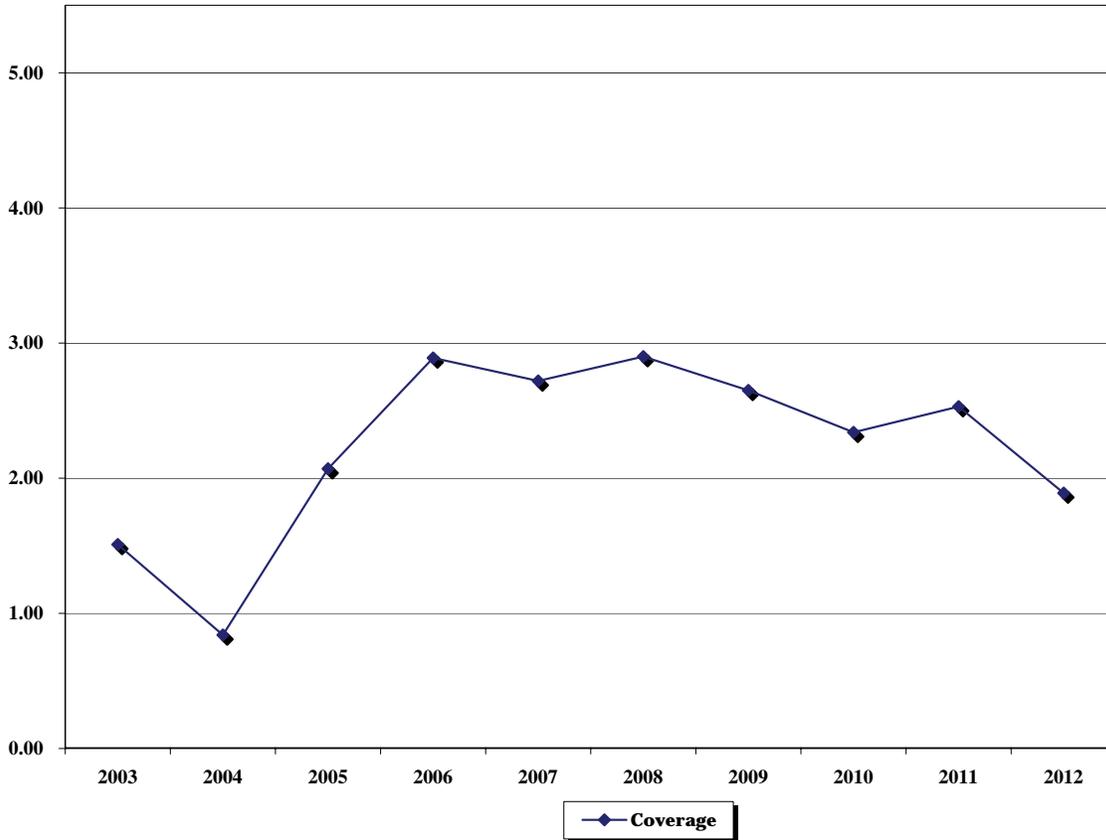
LEGAL BONDED DEBT MARGIN	<u><u>\$128,789,586</u></u>
--------------------------	-----------------------------

Fiscal Year	Debt Limit	Total Net Debt Applicable to Limit	Legal Debt Margin	Total net debt applicable to the limit as a percentage of debt limit
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	150,020,110	10.00%
2010	157,873,721	15,000,000	142,873,721	10.50%
2011	155,706,944	14,660,000	141,046,944	10.39%
2012	153,089,586	24,300,000	128,789,586	18.87%

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**

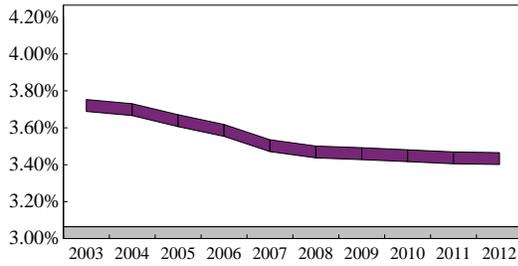


Fiscal Year	Gross Revenue (1)	Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
2003	\$8,113,806	\$6,745,535	\$1,368,271	\$425,000	\$481,589	\$906,589	1.51
2004	8,545,760	7,795,532	750,228	440,000	457,036	897,036	0.84
2005	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
2012	10,488,260	8,318,126	2,170,134	795,000	354,089	1,149,089	1.89

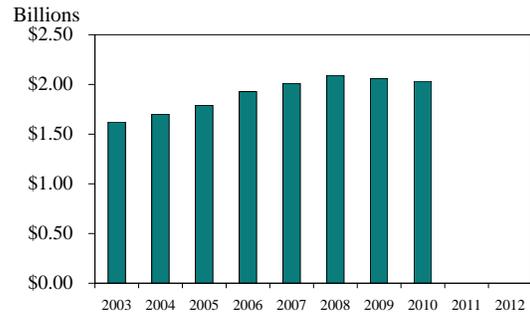
Notes: (1) Includes all Water Operating Revenues, Non-operating Interest Revenue, Connection Fees and other Non-operating Revenue
(2) Includes all Water Operating Expenses less Depreciation and Interest

Source: City of Martinez Annual Financial Statements

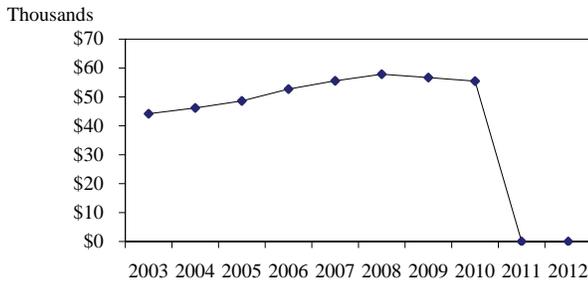
**CITY OF MARTINEZ
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS**



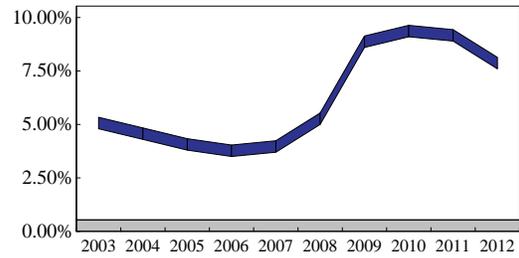
■ City Population as a % of County Population



■ 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
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	2,033,513,295	55,465	9.1%	1,073,055	3.42%
2011	35,958	(b)	(b)	8.9%	1,056,064	3.40%
2012	36,225	(b)	(b)	7.6%	1,065,117	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 2011 - 2012 not available

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

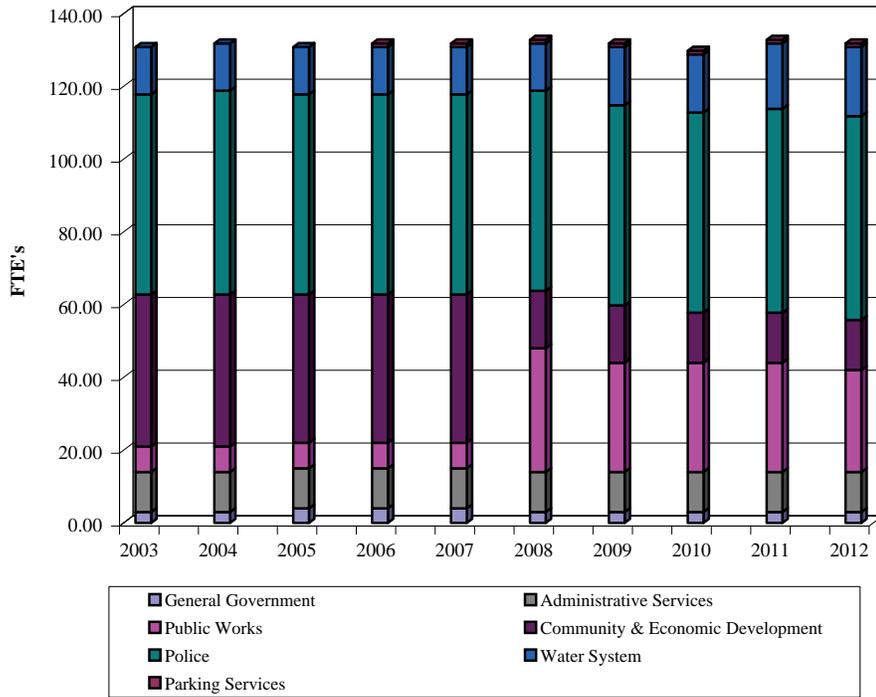
CITY OF MARTINEZ
Principal Employers
Current Year and Six Years Ago

Employer	2011 - 2012			2005 - 2006		
	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Contra Costa County (a)	9,857	1	44.6%	1,700	1	8.1%
Veterans Admin Medical Center	848	2	3.8%	950	3	4.5%
Kaiser Permanente	800	3	3.6%	1,000	2	4.7%
Shell Oil Refinery	719	4	3.3%	700	4	3.3%
Martinez Unified School District	600	5	2.7%	425	6	2.0%
Wal-Mart Store	244	6	1.1%	350	7	1.7%
Safeway Stores	160	7	0.7%			
Brand Energy	129	8	0.6%			
City of Martinez	120	9	0.5%	170	9	0.8%
Muir Senior Care	114	10	0.5%			
Contra Costa Electric				500	5	2.4%
Home Depot				250	8	1.2%
Telfer Oil Lines				100	10	0.5%
Subtotal	<u>13,591</u>		<u>61.5%</u>	<u>6,145</u>		<u>29.1%</u>
Total City Labor Force	<u>22,100</u>			<u>21,100</u>		

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

Source: Muni Services, LLC

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



	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Function										
General Government	3.00	3.00	4.00	4.00	4.00	3.00	3.00	3.00	3.00	3.00
Administrative Services	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00
Public Works	7.00	7.00	7.00	7.00	7.00	34.00	30.00	30.00	30.00	28.00
Community & Economic Development	41.80	41.80	40.80	40.80	40.80	15.80	15.80	13.80	13.80	13.80
Police	55.00	56.00	55.00	55.00	55.00	55.00	55.00	55.00	56.00	56.00
Water System	13.00	13.00	13.00	13.00	13.00	13.00	16.00	16.00	18.00	19.00
Parking Services				1.00	1.00	1.00	1.00	1.00	1.00	1.00
Total	<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>	<u>131.80</u>

Source: City of Martinez Administrative Services Department

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Function/Program			
Public safety:			
Police:			
Police calls for Service	26,621	31,013	35,621
Law violations:			
Part I and Part II crimes	5,663	5,742	5,989
Physical arrests (adult and juvenile)	1,716	1,828	2,213
Traffic violations	2,507	3,477	3,117
Parking violations	8,454	7,505	8,267
Public works			
Street resurfacing			
Seal Coat (miles)	3.68	9.47	n/a
Asphalt overlay (miles)	n/a	1	1.89
Culture and recreation:			
Community Services:			
Number of recreation classes	n/a	413	434
Number of community events	n/a	48	45
Number of facility rentals	n/a	323	415
Water			
Water service connections - active	9,714	9,719	9,728
Water main breaks	n/a	61	51
Average daily consumption (thousands of gallons)	5,290	5,770	5,060

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

Fiscal Year						
2006	2007	2008	2009	2010	2011	2012
32,071	30,710	30,354	30,794	29,463	27,501	24,700
5,753	5,460	5,970	4,923	4,343	4,079	3,612
1,886	1,693	1,714	1,585	1,655	1,622	1,162
1,872	1,642	1,340	2,598	2,985	1,738	1,040
4,992	5,929	8,895	8,790	8,864	9,226	3,143
6	5.42	5.60	3.41	14.75	0.00	0.00
2.40	0.70	0.57	0.89	1.70	1.90	0.50
459	595	596	462	504	458	520
52	55	55	67	69	72	72
413	253	286	273	290	416	263
9,731	9,739	9,745	9,751	9,755	9,767	9,777
54	35	52	46	38	34	40
5,210	5,214	4,948	4,663	3,970	3,470	3,594

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

Function/Program	2003	2004	2005
Public safety:			
Police stations	1	1	1
Police sworn officers	39	39	39
Public works			
Miles of streets	122	122	122
Street lights	4,994	4,994	4,994
Traffic Signals	253	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	1
Swimming pools	1	1	1
Tennis courts	9	9	9
Skateboard Park	1	1	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						
2006	2007	2008	2009	2010	2011	2012
1	1	1	1	1	1	1
39	39	39	39	39	39	37
122	122	122	122	122	122	122
4,994	4,994	4,996	5,005	5,005	5,005	5,005
253	253	265	265	265	265	265
16	17	17	17	17	17	17
271	271	271	271	271	271	271
10	14	14	14	14	14	14
9	9	9	9	9	9	9
11	11	12	12	12	12	12
1	1	1	1	1	1	1
1	1	1	1	1	1	1
1	1	1	1	1	1	1
1	1	1	1	1	1	1
9	10	10	10	10	10	10
1	1	1	1	1	1	1
8	11	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, 2012

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**CITY OF MARTINEZ
WATER SYSTEM
ENTERPRISE FUND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

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Statement of Cash Flows	4
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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities of the City of Martinez Water System Enterprise Fund as of and for the year ended June 30, 2012, 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 auditing standards generally accepted 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 business-type activities of the City of Martinez Water System Enterprise Fund as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Martinez Water System Enterprise Fund's financial statements as a whole. The Supplemental Information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the financial statements. The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information is fairly stated in all material respects in relation to the financial statements as a whole.

Maze + Associates

September 14, 2012

Accountancy Corporation
3478 Buskirk Avenue, Suite 215
Pleasant Hill, CA 94523

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E maze@mazeassociates.com
W mazeassociates.com

CITY OF MARTINEZ - WATER SYSTEM
ENTERPRISE FUND
STATEMENT OF NET ASSETS
JUNE 30, 2012

ASSETS	
Current Assets:	
Cash and investments (Note 2):	
Available for operations	\$13,698,371
Restricted Assets:	
Cash and cash equivalents (Note 2)	4,508,103
Accounts and other receivables	<u>1,460,198</u>
Total Current Assets	<u>19,666,672</u>
Noncurrent Assets:	
Capital assets - at cost: (Note 1D):	
Buildings	15,793,743
Improvements other than buildings	150,584
Equipment	1,347,994
Infrastructure	<u>88,276,473</u>
Total Depreciable Capital Assets	105,568,794
Less: Accumulated depreciation	<u>(76,280,809)</u>
Land	630,912
Construction in progress	<u>2,256,087</u>
Total Capital Assets - net	<u>32,174,984</u>
Other Non-Current Assets:	
Loan receivable (Note 3)	22,920
Bond issuance cost - net of accumulated amortization	<u>724,084</u>
Total Noncurrent Assets	<u>32,921,988</u>
Total Assets	<u>52,588,660</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	826,315
Accrued liabilities	71,936
Deposits	46,325
Unearned revenue	<u>1,080</u>
Total Current Liabilities	<u>945,656</u>
Current Liabilities Payable from Restricted Assets:	
Accrued interest payable	30,392
Current portion of compensated absences (Note 1F)	25,000
Current maturities of certificates of participation (Note 5)	<u>795,000</u>
Total Current Liabilities Payable from Restricted Assets	<u>850,392</u>
Noncurrent Liabilities:	
Accrued compensated absences (Note 1F)	218,883
Certificates of participation (Note 5)	<u>10,695,134</u>
Total Liabilities	<u>12,710,065</u>
NET ASSETS (Note 6)	
Invested in capital assets, net of related debt	21,369,984
Restricted for:	
Debt service	4,508,103
Capital improvements	7,453,114
Unrestricted	<u>6,547,394</u>
Total Net Assets	<u>\$39,878,595</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, 2012

OPERATING REVENUES	
Water sales	\$10,058,440
Rents and leases	29,421
Other fees	749
Charges for services	294,297
Other revenue	<u>56,086</u>
Total Operating Revenues	<u>10,438,993</u>
OPERATING EXPENSES	
Filtration plant	4,685,884
Maintenance, repairs and distribution	1,584,348
Administration	2,047,894
Depreciation and amortization	<u>2,089,117</u>
Total Operating Expenses	<u>10,407,243</u>
Operating income	<u>31,750</u>
NONOPERATING REVENUE (EXPENSE)	
Interest income	49,267
Interest expense	<u>(357,247)</u>
Total Nonoperating Revenue (Expense)	<u>(307,980)</u>
Change in Net Assets	(276,230)
Net Assets at beginning of year	<u>40,154,825</u>
Net assets at end of year	<u><u>\$39,878,595</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, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$10,193,083
Payments to suppliers	(5,722,308)
Payments to employees	(2,151,028)
Rent and lease payments received	56,086
	<u>2,375,833</u>
Cash Flows from Operating Activities	
	<u>2,375,833</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(970,663)
Issuance of debt	8,025,000
Premium on bonds	696,947
Principal payments on capital debt	(4,980,000)
Interest paid	(543,981)
	<u>2,227,303</u>
Cash Flows from Capital and Related Financing Activities	
	<u>2,227,303</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	49,267
	<u>49,267</u>
Cash Flows from Investing Activities	
	<u>49,267</u>
Net Cash Flows	
	4,652,403
Cash and investments at beginning of period	13,554,071
	<u>13,554,071</u>
Cash and investments at end of period	18,206,474
	<u>18,206,474</u>
Financial Statement Presentation:	
Cash and Investments	\$13,698,371
Restricted Cash and Cash Equivalents	4,508,103
	<u>4,508,103</u>
Total	
	<u>\$18,206,474</u>
Reconciliation of Operating Income to Cash Flows from Operating Activities:	
Operating income	\$31,750
Adjustments to reconcile operating income to cash flows from operating activities:	
Depreciation	2,089,117
Change in assets and liabilities:	
Accounts and other receivables	(190,904)
Accounts payable and accrued liabilities	370,987
Deposits	153
Accrued compensated absences	73,650
Unearned revenue	1,080
	<u>1,080</u>
Cash Flows from Operating Activities	<u>\$2,375,833</u>

See accompanying notes to the financial statements

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2012**

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. Premium

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

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2012**

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	\$170,233
Additions	143,485
Payments	<u>(69,835)</u>
 Ending Balance	 <u>\$243,883</u>
 Current Portion	 <u>\$25,000</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, 2012**

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:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality
Repurchase Agreements	6 months	A
U.S. Treasury Obligations	N/A	N/A
U.S. Agency Securities and U.S. Government Sponsored Enterprise	N/A	N/A
State Obligations	N/A	A
Commercial Paper	270 days	A-1
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	A
California Local Agency Investment Fund (LAIF Pool)	Upon Demand	N/A
California Asset Management Program (CAMP)	Upon Demand	N/A

As of June 30, 2012, Restricted Assets consisted of \$4,508,103 of investments in Money Market accounts. Money Market mutual funds are available for withdrawal on demand and at June 30, 2012, have an average maturity of less than 51 days. Money Market Mutual funds were rated AAAM by Standard and Poor's investment rating system.

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, 2012 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, 2012**

NOTE 4 – RATE SCHEDULES

Monthly service charges, service line and meter installation fees and consumption rates are as follows for fiscal year 2012:

Meter Size (Inches)	Monthly Service Charges	Service Line Installation Charges	Meter Installation Charges	
5/8	\$24.62	\$2,663.92	\$166.49	
1	55.35	2,663.92	332.99	
1-1/2	106.56	3,329.89	408.66	
2	168.03	3,329.89	567.08	
3	331.91	Actual Costs	Actual Costs	
4	516.28			
6	1,028.43			
8	1,847.88			
10	2,974.60			
<u>Consumption Rate</u>	<u>Zone 1</u>	<u>Zone 2</u>	<u>Zone 3</u>	<u>Zone 4</u>
Per hundred cubic feet	\$3.43	\$3.64	\$3.78	\$4.00

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, 2011	Additions	Retirements	Balance at June 30, 2012	Current Portion
Certificates of Participation:						
1999 Water System Improvements, 4.2-5.375%, due 12/01/26	\$6,040,000	\$4,635,000		\$4,635,000		
2003 Refinancing Project, 2-4%, due 12/01/18	5,595,000	3,125,000		345,000	\$2,780,000	\$355,000
2012 Refunding Water System Improvements, 2-4%, due 12/01/26	8,025,000		\$8,025,000		8,025,000	440,000
Plus: Unamortized bond premium	696,947		696,947	11,813	685,134	
Total Enterprise Long Term Debt		<u>\$7,760,000</u>	<u>\$8,721,947</u>	<u>\$4,991,813</u>	<u>\$11,490,134</u>	<u>\$795,000</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 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. During fiscal year 2012 the City refunded 1999 COPs with the 2012 COPs. See Note D below.

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2012**

NOTE 5 – CERTIFICATES OF PARTICIPATION (Continued)

C. 2003 Certificates of Participation

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

D. 2012 Certificates of Participation

On October 19, 2011, the City issued Certificates of Participation (COPs) in the amount of \$8,025,000 to refund the 1999 COP for 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 refunding resulted in an overall debt service savings of \$1,030,009. The net present value of the debt securities savings is called an economic gain and amounted to \$887,710.

The City has pledged future Water System Enterprise Fund revenues, net of specified operating expenses, to repay the installment agreement portion of the 2003 COPs and the 2012 Certificates of Participation through 2027. Annual principal and interest payments on the bonds are expected to require less than 15.90 percent and 5.12 percent of net water revenues. Annual interest payments on the 2012 bonds are expected to require less than 3.26 percent of net water revenues. The 2012 bonds did not have a principal payment in fiscal year 2012. The Water Fund's total principal and interest remaining to be paid on the bonds is \$13,556,551. The Water Fund's principal and interest paid for the current year and total customer net revenues were \$5,208,909 and \$2,170,134 respectively. The City is in compliance with its' debt covenants for the year ended June 30, 2012.

E. Debt Service Requirements

Annual debt service requirements are shown below:

For the Year Ending June 30	Principal	Interest
2013	\$795,000	\$354,089
2014	820,000	332,270
2015	835,000	309,484
2016	855,000	285,799
2017	890,000	258,528
2018 - 2022	3,470,000	887,581
2023 - 2027	3,140,000	323,800
Total	10,805,000	<u>\$2,751,551</u>
Plus: Unamortized Bond Premium	<u>685,134</u>	
Gross Long-term debt	<u>\$11,490,134</u>	

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2012**

NOTE 5 – CERTIFICATES OF PARTICIPATION (Continued)

F. Authorized but Unissued Debt

The City has previously issued Water Revenue Bonds authorized by the electorate at a bond election held on June 7, 1966. Series A, B, and C Bonds in the amount of \$3,250,000 were previously issued and have been fully retired. \$1,400,000 remains authorized but unissued as of June 30, 2012.

NOTE 6 – NET ASSETS

Net Assets is the excess of all the Water Fund'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 water fund 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 Water Fund's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted for debt service describes the portion of Net Assets which is available for future use in regard to the principal and interest installments due on debt. Such resources are restricted as to use by formal agreements between the Water Fund and the funding sources of the debt.

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

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2012**

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 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, 2012, are summarized as follows:

	Miscellaneous Joint Facilities Agency
Benefit vesting schedule	5 years service
Benefit payments	Monthly for life
Retirement age	50
Monthly benefits, as a % of annual salary	1.426% - 2.418%
Required employee contribution rates	7%
Required employer contribution rates	11.584%

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2012**

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:

Miscellaneous Joint Facilities Agency - Water Fund

June 30, 2010	\$220,524	100%	\$0
June 30, 2011	213,006	100%	0
June 30, 2012	229,295	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 Miscellaneous Joint Facilities Agency Plans were terminated, and the employees in those plans were required by CALPERS to join new State-wide pools. One of the conditions of entry to these pools was that the City true-up any unfunded liabilities in the former Plans, either by paying cash or by increasing its future contribution rates through a Side Fund offered by CALPERS. In April, 2011 the City satisfied its Miscellaneous Joint Facilities Agency Plan’s unfunded liability.

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2012**

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:

Miscellaneous Joint Facilities Agency Plan:

Valuation Date	Actuarial		Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
	Entry Age Accrued Liability	Value of Assets				
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%
2010	3,309,064,934	2,946,408,106	362,656,828	89.0%	748,401,352	48.5%

The City’s Miscellaneous Joint Facilities Agency Plan represents approximately 0.96%, 0.95%, and 0.97% of the State-wide pool for the years ended June 30, 2010, 2009, and 2008, respectively, based on the City’s total covered payroll of \$7,160,574, \$7,060,240, and \$6,688,211 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, 9 retirees meet the eligibility requirements and receive reimbursements.

The cost of retiree health care benefits is recognized as an expenditure when health care premiums are paid. For the year ending June 30, 2012, those costs totaled \$42,832 for the Water System.

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

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

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2012**

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (Continued)
--

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 9 years	0%
10 through 14 years	25%
15 through 19 years	50%
20 through 24 years	75%
Over 25 years	100%

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

As of June 30, 2012, there were approximately 9 Water System’s employees that were eligible to receive retirement health care benefits.

Funding Policy and Actuarial Assumptions

The annual required contribution (ARC) was determined as part of a June 30, 2011 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 7.61% discount rate; (b) 3.25% projected annual salary increase, (c) inflation 3% and (d) 5%-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.

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2012**

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

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

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, 2012, the City contributed the ARC amounting to \$1,179,000 to the Plan which represented 11.3% of the \$10,070,000 of covered payroll. The City also contributed additional funds to CERBT in previous fiscal years representing funds accumulated in prior years in the City’s General Fund. As a result, the City has recorded the Net OPEB Asset, representing the difference between the ARC, the amortization of the Net OPEB Asset and actual contributions, as presented on the following page:

Annual required contribution (ARC)	(\$1,179,000)
Interest on net OPEB asset	318,000
Adjustment to annual required contribution	<u>(277,000)</u>
Annual OPEB cost	<u>(1,138,000)</u>
Contributions made:	
City portion of current year premiums paid	810,718
Additional contributions to CERBT	<u>368,282</u>
Total contributions	<u>1,179,000</u>
Change in net OPEB asset	41,000
Net OPEB Asset at June 30, 2011	<u>4,183,000</u>
Net OPEB Asset at June 30, 2012	<u><u>\$4,224,000</u></u>

The actuarial accrued liability (AAL) representing the present value of future benefits, included in the actuarial study dated June 30, 2011 amounted to \$15,734,000 and was partially funded since assets have been transferred into CERBT. The City’s prior year contributions, the current year annual required contribution, along with investment income net of current year premiums resulted in assets with CERBT of \$6,155,614 as of June 30, 2012, which partially reduced the unfunded actuarial accrued liability.

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2012**

NOTE 8 – POST-EMPLOYMENT BENEFITS (Continued)

The Plan's annual OPEB cost and actual contributions for fiscal years ended June 30, 2010, 2011 and 2012 are set forth below:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of OPEB Cost Contributed	Net OPEB (Obligation) Asset
June 30, 2010	\$842,000	\$903,000	107%	\$4,126,000
June 30, 2011	877,000	934,000	106%	4,183,000
June 30, 2012	1,138,000	1,179,000	104%	4,224,000

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

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	Unfunded (Overfunded) Actuarial Accrued Liability (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll [(B-A)/C]
July 1, 2007	\$0	\$14,010,000	\$14,010,000	0.00%	\$9,579,000	146.26%
July 1, 2009	3,566,000	13,633,000	10,067,000	26.16%	10,088,000	99.79%
June 30, 2011	4,990,000	15,734,000	10,744,000	31.71%	10,070,000	106.69%

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.

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2012**

NOTE 10 – INSURANCE (Continued)

Insurance coverage through the Municipal Pooling Authority is as follows:

Type of Coverage (Deductible)	Coverage Limits
Liability (\$10,000)	\$29,000,000
Employment Risk Management Authority (\$50,000)	1,000,000
Vehicle - Physical Damage (\$3,000 for police vehicles, \$2,000 for all others)	250,000
Worker’s Compensation (no deductible)	Statutory Limits
All Risk Fire & Property (\$5,000)	1,000,000,000
Earthquake (5% - 10% per location, \$25,000 to \$100,000 minimum)	5,500,000
Flood (\$100,000 per occurrence)	25,000,000
Boiler & Machinery (\$5,000)	100,000,000
Cyber Liability (\$50,000)	2,000,000
Public Entity Pollution Liability (\$100,000)	1,000,000

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SUPPLEMENTAL INFORMATION

CITY OF MARTINEZ - WATER SYSTEM
ENTERPRISE FUND
SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Filtration Plant</u>	<u>Maintenance, Repairs and Distribution</u>	<u>Administration</u>
Salaries	\$677,594	\$496,857	\$154,998
Salaries - overtime and temporary	58,224	103,578	
Fringe benefits	346,854	334,314	64,558
Retirement medical			188,640
Labor provided by other departments, net		104,238	460,666
Rent and utilities	336,881	169,366	
Communications	2,301	31,999	607
Operating supplies	146,371	176,021	
Travel and entertainment	246	88	187
Dues and subscriptions	125	549	2,311
Office supplies	7,617		15,015
Postage			7,150
Equipment rental	44,990	74,872	12,738
Repairs and maintenance	50,977	9,563	
Professional fees	171,062	46,392	231,475
Raw water and chemicals purchase	2,837,364		
Training	972	5,077	33
Contractual services	562	2,563	
Operating charges by other departments		26,840	479,836
Insurance	3,744	2,031	14,226
Tax in lieu			415,454
	<u>\$4,685,884</u>	<u>\$1,584,348</u>	<u>\$2,047,894</u>

CITY OF MARTINEZ
MARINA SYSTEM ENTERPRISE FUND
FOR THE YEAR ENDED
JUNE 30, 2012

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

**Financial Statements
For the Year Ended June 30, 2012**

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities of the City of Martinez Marina System Enterprise Fund as of and for the year ended June 30, 2012, 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 auditing standards generally accepted 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 business-type activities of the City of Martinez Marina System Enterprise Fund as of June 30, 2012, and the respective changes in financial position and, where applicable, and cash flows thereof for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Martinez Marina System Enterprise Fund financial statements as a whole. The Supplemental Information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the financial statements. The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information is fairly stated in all material respects in relation to the financial statements as a whole.

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

September 14, 2012

Accountancy Corporation
3478 Buskirk Avenue, Suite 215
Pleasant Hill, CA 94523

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CITY OF MARTINEZ - MARINA SYSTEM
ENTERPRISE FUND
STATEMENT OF NET ASSETS
JUNE 30, 2012

ASSETS

Current Assets:	
Cash and cash equivalents (Note 3)	\$431,270
Receivables:	
Accounts	<u>1,731</u>
Total Current Assets	<u>433,001</u>
Noncurrent Assets:	
Capital assets - at cost (Note 1D)	
Buildings	308,594
Improvements	1,672,642
Less: accumulated depreciation	<u>(437,415)</u>
	<u>1,543,821</u>
Land	<u>800,165</u>
Total Capital Assets - net	<u>2,343,986</u>
Total Assets	<u>2,776,987</u>

LIABILITIES

Current Liabilities:	
Accounts payable	28,893
Deposits	46,865
Accrued interest	65,328
Unearned revenue (Note 4)	653,486
Current portion of loans payable (Note 7)	<u>42,599</u>
Total Current Liabilities	<u>837,171</u>
Noncurrent Liabilities:	
Advance from the City (Note 5)	473,849
Loans payable (Note 7)	<u>4,103,625</u>
Total Noncurrent Liabilities	<u>4,577,474</u>

NET ASSETS (DEFICIT)

Invested in capital assets, net of related debt	(1,802,235)
Unrestricted	<u>(835,423)</u>
Total Net (Deficit) (Note 2)	<u><u>(\$2,637,658)</u></u>

See accompanying notes to financial statements

CITY OF MARTINEZ - MARINA SYSTEM
ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

OPERATING REVENUES	
Rents and leases	\$181,010
Other revenue	181,057
	181,057
Total Operating Revenues	362,067
OPERATING EXPENSES	
Administration	66,240
Maintenance and repair	206,695
Depreciation	40,844
	40,844
Total Operating Expenses	313,779
Operating income	48,288
NON OPERATING REVENUES (EXPENSE)	
Interest income	576
Interest expense	(96,920)
Taxes	13,711
	13,711
Total Non Operating Revenues (Expense)	(82,633)
Change in Net Assets	(34,345)
Net (deficit) at beginning of year	(2,603,313)
Net (deficit) at end of year	(\$2,637,658)

See accompanying notes to financial statements

CITY OF MARTINEZ - MARINA SYSTEM
ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$681,283
Payments to suppliers	<u>(249,801)</u>
Cash Flows from Operating Activities	<u>431,482</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Taxes received	<u>13,711</u>
Cash Flows from Noncapital Financing Activities	<u>13,711</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on capital debt	(82,274)
Interest paid	<u>(31,591)</u>
Cash Flows from Capital and Related Financing Activities	<u>(113,865)</u>
CASH FLOWS FROM CAPITAL AND RELATED INVESTING ACTIVITIES	
Interest	<u>576</u>
Cash Flows from Investing Activities	<u>576</u>
Net Cash Flows	331,904
Cash and investments at beginning of period	<u>99,366</u>
Cash and investments at end of period	<u><u>\$431,270</u></u>
Reconciliation of Operating Income to Cash Flows from Operating Activities:	
Operating income	\$48,288
Adjustments to reconcile operating income to cash flows from operating activities:	
Depreciation	40,844
Change in assets and liabilities:	
Accounts receivable	8,637
Accounts payable and other liabilities	23,136
Deposits	(2)
Unearned revenue	<u>310,579</u>
Cash Flows from Operating Activities	<u><u>\$431,482</u></u>

See accompanying notes to financial statements

CITY OF MARTINEZ – MARINA SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2012

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, 2012

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 \$2,637,658 as of June 30, 2012 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, 2012, the City had not received such notice.

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

NOTE 3 – CASH AND INVESTMENTS

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

NOTE 4 – UNEARNED REVENUE

Unearned revenue represents a prepayment on a land lease. The unearned revenue is being amortized over the term of the lease of 55 years, which runs through the fiscal year ending June 30, 2052. The balance of this unearned revenue was \$334,543 at June 30, 2012.

Unearned revenue also represents a prepayment on dredging costs. The balance of this unearned revenue was \$318,943 at June 30, 2012.

**CITY OF MARTINEZ – MARINA SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2012**

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, 2012, 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, 2012, 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, 2012, 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, 2012, of \$24,279. This adjusted balance will be repaid in 2016.

The Marina System made no principal or interest payment to the General Fund in 2011-12.

**CITY OF MARTINEZ – MARINA SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2012**

NOTE 6 – MARINA FEES

Monthly berthing fees and other fees are as follows for 2012:

<u>Berthing Fees</u>		<u>Charges</u>		
A.	20 Feet Double	\$106.00	40 Feet, Single	\$352.00
	25 Feet Double	\$140.00	40 Feet, Double	\$266.00
	30 Feet Double	\$171.00	45 Feet, Single	\$412.00
	35 Feet Single	\$285.00	45 Feet, Double	\$319.00
	35 Feet Double	\$219.00		
B.	End Ties		C 80 Feet	\$721.00
	A 35 Feet	\$286.00	D 70 Feet	\$631.00
	A 90 Feet	\$906.00	E 60 Feet	\$519.00
	B 90 Feet	\$906.00		
C.	On berth tenant permit	\$183.00	/ month	
D.	Transient daily Berth rate	\$ 15.00	/up to 20 feet	
		\$ 17.00	/25 feet	
		\$ 18.00	/30 feet	
		\$ 20.00	/35 feet	
		\$ 22.00	/40 feet	
		\$ 25.00	/45 feet and above	
E.	Utility Charges	\$ 5.00	/20 feet	
		\$ 6.00	/25 feet	
		\$ 8.00	/30 feet	
		\$ 10.00	/35 feet	
		\$ 12.00	/40 feet	
		\$ 15.00	/45-90 feet	
			Liveaboard Electrical=Slip length X 2	
F.	Dock Box	\$ 4.00	/month	
<u>Other Fees</u>				
a.	Use of Launch Ramp	\$ 10.00	/day	
b.	R.V. Parking	\$ 15.00	/day	
c.	Key deposit fee	\$ 25.00	/key	

**CITY OF MARTINEZ – MARINA SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2012**

NOTE 7 – LOANS PAYABLE

At June 30, 2012, the Marina Fund owed \$4,146,224 in loans to the State. The City made an interest payment of \$73,101 in fiscal 2012 which included \$67,009 to cover current year interest accrued on the unpaid loan balances. Principal payments were made in the amount of \$40,765 during fiscal 2012.

A. Current Year Transactions and Balances

	Original Issue Amount	Balance at June 30, 2011	Additions	Retirements	Balance at June 30, 2012	Current Portion
Marina Loans						
Loan Payable - 1960	\$1,300,000	\$850,000			\$850,000	
Accrued interest		1,687,014	\$25,501		1,712,515	
Loan Payable - 1973	450,000	262,700		\$11,564	251,136	\$12,084
Loan Payable - 1978	175,000	136,263		4,689	131,574	4,900
Loan Payable - 1982	300,000	331,883		7,961	323,922	8,322
Loan Payable - 1984	750,000	893,628		16,551	877,077	17,293
Total Marina Loans		<u>4,161,488</u>	<u>25,501</u>	<u>40,765</u>	<u>4,146,224</u>	<u>42,599</u>
Accrued interest from prior year		<u>67,009</u>		<u>67,009</u>		
Total Marina Loans and Accrued Interest		<u>\$4,228,497</u>	<u>\$25,501</u>	<u>\$107,774</u>	<u>\$4,146,224</u>	<u>\$42,599</u>

During fiscal year 2003, accrued interest was added to the outstanding principal for all the State loans with the exception of the 1960 loan.

B. 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, 2012, the amount payable to the State including interest amounted to \$2,562,515.

The agreement was modified in 1964 with the following conditions:

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

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

**CITY OF MARTINEZ – MARINA SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2012**

NOTE 7 – LOANS PAYABLE (Continued)

C. Loan Payable – 1973

On December 20, 1973, the City entered into another agreement with the State of California, whereby a loan of \$450,000 was granted to the City to complete the Martinez Small Craft Harbor (MSCH). At June 30, 2012, the amount payable to the State was \$251,136. The terms are as follows:

- The loan is payable from the gross revenues from operations of the facilities located or erected within the MSCH Project, prior to any other expenditures from such revenues.
- Payments of principal and interest at 4.5% shall be payable in equal annual installments on August 1 of each year with a final payment due on August 1, 2026.

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, 2012, 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.

D. Loan Payable – 1978

On January 30, 1978, the City entered into another agreement with the State of California, whereby a loan of \$175,000 was granted to the City for construction of Marina Improvements. At June 30, 2012 the amount payable to the State was \$131,574. The terms are as follows:

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

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, 2012, 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, 2012

NOTE 7 – LOANS PAYABLE (Continued)

E. Loan Payable – 1982

On November 1, 1982, the City entered into another agreement with the State of California, whereby a loan of \$300,000 was granted to the City for the construction of new berthings and improvements to the Marina. The loan was to be based on stages of completion. At June 30, 2012, the amount payable to the State was \$323,922. The loan terms are as follows:

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

F. Loan Payable – 1985

On January 14, 1985 the City entered into another agreement with the State of California, whereby a loan of \$770,425 was granted to the City for twelve capital improvement projects at the Marina. At June 30, 2012, the amount payable to the State was \$877,077. The loan terms are as follows:

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

**CITY OF MARTINEZ – MARINA SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2012**

NOTE 7 – LOANS PAYABLE (Continued)

G. Debt Service Transactions:

For the Year Ending June 30	Marina Activities	
	Principal	Interest
2013	\$42,599	\$71,264
2014	44,519	69,347
2015	46,522	67,344
2016	48,616	65,250
2017	50,803	63,063
2018 - 2022	290,436	278,894
2023 - 2027	361,920	207,395
2028 - 2032	300,917	129,792
2033 - 2037	291,044	61,355
2038 - 2039	106,333	7,227
Total	1,583,709	<u>\$1,020,931</u>
Plus: Marina Loan 1960	850,000	
Plus: Accrued interest	<u>1,712,515</u>	
Total	<u>\$4,146,224</u>	

**CITY OF MARTINEZ – MARINA SYSTEM
ENTERPRISE FUND
Notes to Financial Statements
June 30, 2012**

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 (5% - 10% per location, \$25,000 to \$100,000 minimum)	5,500,000
Flood (\$100,000 per occurrence)	25,000,000
Boiler & Machinery (\$5,000)	100,000,000
Cyber Liability (\$50,000)	2,000,000
Public Entity Pollution Liability (\$100,000)	1,000,000

NOTE 9 – OPERATING LEASES

The Marina entered into an operating lease with Eagle Marine for the Marina Boat Yard facility. The current lease term expires July 31, 2017. Lease payments are made annually in the amount of \$48,000 per year until July 31, 2013 and then increase to \$51,000 a year until July 31, 2017. Lease payments received for the year ended June 30, 2012 were \$48,659.

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, 2012 were \$8,405.

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SUPPLEMENTAL INFORMATION

CITY OF MARTINEZ - MARINA SYSTEM
 ENTERPRISE FUND
 SCHEDULE OF OPERATING EXPENSES
 FOR THE YEAR ENDED JUNE 30, 2012

	<u>Administration</u>	<u>Maintenance and Repair</u>
Professional services	\$12,111	
State Lands lease	12,859	
Engineering services	22,923	\$141,057
Dredge project design		40,000
Legal services	5,280	
Consulting services	4,600	
Repair & maintenance		1,711
Property insurance		285
Permits	8,154	
Utilities		22,771
Professional membership	275	
Equipment rental		107
Travel	38	
Operating supplies		764
	<u>\$66,240</u>	<u>\$206,695</u>

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED UPON PROCEDURES FOR
COMPLIANCE WITH THE PROPOSITION 111
2011-2012 APPROPRIATIONS LIMIT INCREMENT**

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

We have performed the procedures below to the Appropriations Limit Worksheet which were agreed to by the City of Martinez for the year ended June 30, 2012. These procedures, which were suggested by the League of California Cities and presented in their Article XIII B Appropriations Limitation Uniform Guidelines, were performed solely to assist you in meeting the requirements of Section 1.5 of Article XIII B of the California Constitution. Management is responsible for the Appropriations Limit Worksheet. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the City. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

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

- A. We obtained the Appropriations Limit Worksheet and determined that the 2011-2012 Appropriations Limit of \$147,064,650 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 2011-2012 Appropriations Limit by multiplying the 2010-2011 Prior Year Appropriations Limit by the Total Growth Factor.
- C. For the Appropriations Limitation Worksheet, we agreed the Per Capita Income, City Population and County Population Factors to California State Department of Finance Worksheets.

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

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

Maze & Associates

September 14, 2012

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CITY OF MARTINEZ
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS
FOR THE YEAR ENDED
JUNE 30, 2012

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

For the Year Ended June 30, 2012

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MEMORANDUM ON INTERNAL CONTROL

September 14, 2012

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, 2012, and have issued our report thereon dated September 14, 2012. In planning and performing our audit of the financial statements of the City of Martinez as of and for the year ended June 30, 2012, 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.

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.


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REQUIRED COMMUNICATIONS

September 14, 2012

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, 2012 and have issued our report thereon dated September 14, 2012. 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.

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, 2012, the City held approximately \$50.7 million of cash and investments as measured by fair value. Fair value is essentially market pricing in effect as of June 30, 2012. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2012.

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

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

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

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

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

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

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

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

Maye & Associates