



To: Mayor and City Council

From: Cindy Mosser, Finance Manager

Subject: Comprehensive Annual Financial Report (CAFR) for fiscal year ended June 30, 2016

Date: December 13, 2016

Recommendation

Receive and file the Comprehensive Annual Financial Report (CAFR) for Fiscal Year ended June 30, 2016.

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, 2016, and the audit was conducted in accordance with generally accepted auditing standards. Those standards require the auditor to plan and perform the audit to obtain reasonable assurances as to whether the financial statements are free of material misstatement. The audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and assessing the accounting principles used, and significant estimates made by staff. The City's auditor and staff reviewed the report with the Budget Subcommittee on December 14, 2016 and the Subcommittee recommended forwarding to the City Council.

Background

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 fifteen 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, 2016 is contained in the CAFR. Key information contained in the CAFR is stated below:

- The General Fund ended at June 30, 2016 with a fund balance of \$12,962,493. Of this amount \$71,212 was nonspendable and restricted; \$3,064,471 was assigned; and \$9,826,549 was unassigned, with \$1,000,000 designated for unforeseen contingencies, leaving \$8,826,549.

Operating revenues were \$22,896,354, of which \$440,000 was one-time revenues from fees collected on a subdivision and interest paid on state mandates. Operating expenditures were \$20,182,561 with \$394,918 in encumbrances that will be re-appropriated to fiscal year 2016-17. Expenses, less encumbrances, were \$477,963 under budget, mostly in salary, benefit and professional/technical service savings of approximately \$270,000 in the publicworks department. Also, \$167,000 appropriated for retiree benefit payment will need to be reallocated in fiscal year 2016-17.

In addition, \$261,054 was transferred to other funds. \$20,254 to the water system, for the lifeline program for low income residents; \$8,000 to three Lighting & Landscape Assessment Districts for maintenance costs; \$82,800 for the General Plan; \$100,000 for facility improvements; and \$50,000 was transferred to the Marina Service Enterprise Fund for mitigation services.

- The City has three Enterprise Funds, Water System, Marina, and Parking Services. Each is financed and operated in a manner similar to a private business enterprise. The intent of an enterprise fund is for the costs of providing goods and services to the general public on a continuing basis are financed or recovered primarily through user charges. The Water Fund ended the fiscal year with a net position restricted for capital projects and debt service of \$1,173,246 and unrestricted of \$8,461,037, which can be used for future projects and debt service. The Marina ended June 30, 2016 with negative net position of (\$3,387,680), and Parking Services ended with an unrestricted net position of \$1,574,623 and \$135,194 restricted for capital projects.
- Internal Service Funds account for the financing of goods and services provided by one department to the other departments on a cost-reimbursement basis. The City has two Internal Service Funds. The Equipment Replacement Fund accounts for the accumulation of funds for the maintenance and subsequent replacement of City equipment, including the vehicle fleet. The Management Information System Fund accounts for the I.T. services rendered to all City departments for management of hardware and software needs. The combined unrestricted net positions of both funds were \$1,394,900 at June 30, 2016.

It is the opinion of the auditors that the financial statements fairly represent the financial position of the City as of June 30, 2016, 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 2015-16. 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).

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

Fiscal Impact

None.

Attachments

- Comprehensive Annual Financial Report
- Water System Financial Statements
- Marina System Financial Statements
- Appropriations Limit Increment for 2015-16
- Memorandum on Internal Controls and Required Communications

APPROVED BY:

A handwritten signature in black ink, appearing to read 'Brad Kilger', is written over a faint, circular stamp or seal.

Brad Kilger, City Manager

CITY OF MARTINEZ, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2016

Prepared by
ADMINISTRATIVE SERVICES DEPARTMENT

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December 21, 2016

Honorable Mayor and Council Members

State law requires that all general-purpose local governments publish a complete set of financial statements, presented in conformity with Generally Accepted Accounting Principles (GAAP), within six months of the close of each fiscal year. Therefore, we are pleased to present the City of Martinez' Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2015. The City is responsible for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to fairly set forth the financial position and results of operations of the City measured by the financial activity of its funds. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

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

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

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

Profile of Martinez

The City's roots can be traced back to 1824 when the Alhambra Valley was included in the Rancho El Pinole Mexican land grant to Ygnacio Martinez. By the late 1840's, the City was a ferryboat transit point across the Carquinez straits on the way to the gold fields of California. The City was officially incorporated in 1876 and serves as the County seat of Contra Costa County. It is located along the Sacramento and San Joaquin rivers in the central part of the County. By the time of its incorporation, Martinez had evolved into one of the area's most significant trading posts and shipping ports. Today, the City covers 13.1 square miles and has approximately 37,400 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 national economic recovery continues to show signs of improvement despite global economic weakness among major international leaders such as Europe, China and Russia. The revised Second Quarter 2016 Gross Domestic Product (GDP) released by the *U.S. Department of Commerce Bureau of Economic Analysis* showed an annual increase of 1.4%. Economic growth in the areas of consumer spending (which accelerated by 4.3%, its fastest quarterly growth since 2006), net exports, and business fixed investment drove the increase. Gains were partially offset by weakness in private inventory investment, residential investment, and government spending. The advance estimates for the Third Quarter 2016 GDP show an annual increase of 2.9%, spurred by positive contributions from consumer spending and exports, and gains in private inventory investment and federal government spending (two laggards from the Second Quarter data). In a recent economic outlook report, economists with the Federal Reserve Bank of San Francisco projected overall economic growth for 2017 at approximately 1.5%. Strength in the labor markets is the underlying basis for the continued growth, with national unemployment holding steady around 5.0%.

California is projected to continue to outpace the national economic recovery and ranked first among the 50 states in economic growth last year with a 4.1% gain, according to a recent report prepared by Beacon Economics, LLC for the East Bay Economic Development Alliance. The City, much like the larger economies of the State and surrounding region, continues to show strength as it emerges from the long-term impacts of the recent recession. The improving economy is evident in the latest employment trend data as of October 2016. Since April 2011, the County's rate has dropped from 10.5% to 4.5%, and the City's rate dropped from 8.4% to 4.0%. These local figures compare favorably to the statewide rate of 5.3% and the aforementioned national rate of 5.0%. The City will continue to look for opportunities to attract new businesses like Siemens Corporation, which moved its Bay Area Healthcare and Industry divisions from Concord to Martinez in February 2013 and added approximately 100 new jobs to the local economy. Additionally, over 80 new jobs were created through the new shopping center along Arnold Drive, which recently added another popular national retail chain.

The East Bay housing market continues to recover at a rapid pace. After the precipitous housing value decline in 2008 and 2009, median home sales prices stabilized to some degree throughout the majority of 2010 and 2011. By 2012, the City saw its first annual increase to median home sales prices in four years with modest growth of 3.3%. This initial positive trend quickly increased to annual median sales price growth of 26.5% in 2013 and 12.8% in 2014. The median home sales price in Martinez increased from \$340,000 in 2012 to \$485,000 in just two years' time, and has now gained enough momentum to fully recover its high-water mark of \$590,000 from 2005, with median sales of \$590,645 through September 2016 on 436 sales based on information recently provided by the Contra Costa Association of Realtors. If these favorable trends in sales price and homes sold increase, it will have a positive impact not only on the City's property tax base, but also its Document Transfer Tax revenues.

Martinez, like most local agencies, faces considerable challenges in the near term as financial conditions have affected most of its major revenue sources including property and sales taxes, and development fees. The City must also deal with its financial obligations for retirement and other post-employment benefits (OPEB), as well as ever-escalating healthcare costs, while trying to maintain current service levels. The City expects retirement costs to continue to increase due to the dramatic market losses of the stock market turmoil in 2008 and 2009, which eroded the value of the CalPERS pension fund. Retirement costs are rising because of the 2013 decision by the CalPERS Board of Administration to change their amortization and smoothing policy. In April of 2013, CalPERS approved an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period, as opposed to the previous policy which spread investment returns over a 15-year period with gains and losses paid over a rolling 30-year period. Starting with FY 2015-16, public agencies are billed a contribution rate as a percentage of payroll plus a lump sum dollar payment towards the City's unfunded liability. CalPERS pension costs are now projected to account for approximately \$4.02 million of total total operating expense in FY 2016-17. Further, CalPERS is currently considering a risk-reduction strategy intended to gradually lower the pension fund's forecast of annual investment profits, which, if approved, will have a fiscal impact on public agencies in CalPERS.

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. Pursuing smart development opportunities as a mechanism to help revitalize the downtown area is crucial to the City's long-term economic health.

Major Initiatives and Objectives

Public Safety. The Police Department reconfigured its neighborhood police area deployment and went from twenty four Neighborhood Policing Areas (NPA) to four. The four areas were configured based on size and call-for-service volume; they were structured such that one officer is assigned to each area during each shift. This configuration provides for multiple officers working in the same neighborhoods and allows for a greater focus on neighborhood problem solving. Neighborhood problem solving teams can now work on the same neighborhood issues over the course of a 24 hour period, seven days a week. Each patrol sergeant is assigned responsibility for one of the four NPA's in an effort to coordinate problem solving and response to crime trends across each of the shifts for long-term impact.

The City website includes a "Crime Prevention" link as well as crime prevention literature for public dissemination to increase awareness of the public on how to prevent being victimized, with a specific focus on property crimes. The Department continued communication through social media sites to include a Facebook page, Twitter account, and the use of Nextdoor (a private social network for neighborhoods) to enhance the ability to communicate with the residents of Martinez. Other citizen engagement efforts included participation in "National Night Out," which had many more neighborhoods involved than years past. There were also several large events and many smaller neighborhood events the Department participated in, as well as hosting a popular "Coffee with a Cop" event, which had a large turnout from the public.

The Department hosted the first Community Police Academy, also known as a "Citizen's Academy," in which 24 residents went through a 10 week program structured around a curriculum that taught the nuances of police operations to the public. The endeavor also serves as a mechanism for building trust and relationships between the public and the police. The course was a success and future courses will be held.

The Department has also been focused on recruiting new employees. Several new officers and dispatchers were hired. Recruitment efforts are continuous in order to fill vacancies and expand capacity to provide services. Based on staffing, the Department was able to select an officer for Traffic Enforcement and following training, was deployed to focus on neighborhood related traffic complaints in October 2016. Future planned staffing additions include a School Resource Officer, a Neighborhood Liaison Project Officer, and an additional investigator.

The Department was the beneficiary of generous donations from the community for the Police Canine program and was able to select an additional police service dog and handler. Funding is also available to purchase a third canine this year to expand this important public safety program.

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

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

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

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

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

More recently, the Susana and Mountain View Park renovations have been completed. At Susana Park, new ADA accessible pathways and sidewalks were constructed along with site lighting and new seating areas and picnic tables. At Mountain View Park, the play areas were reconstructed in a central location. New benches and picnic areas were constructed. The existing baseball field was renovated with new fencing, dugouts, backstop and seating areas.

On September 1, 2016 the City opened the Hidden Lakes Park Soccer Field Renovation Project to the public. The project replaced the natural turf soccer field with an artificial turf, multi-use field. The track around the field, along with paths in the park was also rehabilitated. Construction of ADA upgrades was included in the project. The project was designed with the input of local youth soccer organizations. The soccer user groups indicated a desire to have flexibility for a wide range of age groups. The layout includes one adult sized field with one “Under 11” field and two “Under 9” fields also striped. There is also one lacrosse field that will be marked in a light green color so as not to contrast with soccer striping.

The schematic plans for the Waterfront Park Rehabilitation Project have been approved by the City Council. Improvements include renovation of sports fields, the addition of lights for the softball fields, renovation of pathways and ADA improvements. The project also includes renovating the Group Picnic area and park lighting. The City Council is scheduled to hold a public hearing on the environmental review in November 2016 with construction anticipated in the spring of 2017. The final \$5 million in authorized bonds will need to be sold to complete Waterfront Park and the remaining park projects.

It is anticipated that the schematic design for the Golden Hills Park Renovation Project, another Measure H project, begin in late 2016 or early 2017 with construction in the fall of 2017.

Transportation Improvements. The project scoping document for the Alternative Waterfront Access Study, formerly known as the North Court Street Overcrossing, was completed. The preferred alternative was a bridge over Alhambra Creek connecting Berrellesa Street to the new Intermodal parking lot and Ferry Street. The project provides a long planned secondary access to the waterfront and marina.

Construction of the intermodal parking lot north of the railroad tracks was completed in 2014. Design of the pedestrian overcrossing to the existing Amtrak station, realigned entrance to Ferry Street is nearly completed and are scheduled to be constructed starting the spring of 2017. The Alhambra Creek Bridge is currently under construction. Work began in the spring of 2016 and scheduled for completion in December of 2016. The Downtown Bicycle and Pedestrian Safety Improvement project was completed in 2015. The Shell Avenue and Alhambra Valley Road Pedestrian Safety projects, as well as the Marina Vista/ I-680 Bicycle and Pedestrian Safety project, were completed in 2015. Additionally, construction of the Pacheco Transit Hub and Park and Ride Facility was completed in the spring of 2014. The project provides approximately 114 parking spaces and 6 bus bays. The transit hub will be served by County Connection, WestCAT and Tri-Delta buses.

The Reliez Valley Road Pavement Rehabilitation project was completed in 2014. The project involved resurfacing the entire road within the City limits of just under a mile long. In addition, the Arnold Drive Pavement Rehabilitation Project was completed. The limits of the project stretched from Glacier Drive to Pacheco Boulevard.

The 2015-16 Pavement Program is currently under construction. Streets included in the project are portions of Morello and Pine/Center Avenue at Highway 4 and "C" Street. In addition, several streets received a base failure repair in advance of a recently completed cape seal project.

Lastly, the Measure J Pacheco Boulevard Widening Project Study is underway. A Project Study Report was completed in October of 2016. The study area is in both the unincorporated County areas and the City, along Pacheco Boulevard from Blum Road to Morello Avenue. It is anticipated design and construction of road improvements within the City limits will follow the completion of the Study.

Water System Capital Improvements. The City Water System is in the process of major renovations and improvements. In 2014, the City completed the installation of a chemical containment facility. Chemicals are now stored in a safe and easily accessible location allowing for convenient unloading and storage of liquid chemicals used in the water treatment process. In 2015 the City awarded a contract to install electrical upgrades throughout the Water Treatment Plant. The new electrical infrastructure will significantly increase the reliability of the Plant. This two year project was substantially completed in October of 2016. In 2015, a construction contract was awarded to seismically upgrade the 1967 portion of the plant along with pipe and other equipment supports throughout the Plant. The addition of shear walls, pipe supports and reducing the weight of the roof structure should significantly increase the chances of quickly returning the Plant on-line following a major earthquake event. This project will be completed in early 2017. The Harbor View Reservoir Replacement Project was completed in 2015. This project replaced a smaller, out of service tank, on the same site. The tank was lowered approximately 20 feet to better work with other storage tanks in the system and was increased from 1.25 million gallon (MG) to 1.65 MG capacity. This project helps provide adequate water supply and fire protection for the lower elevation areas of the City. The City Water Treatment Plant will be converting to anhydrous ammonia by installing a new 10,000 gallon tank, controls, pumps and piping. The 2016 Flocculator Paddle Replacement Project is anticipated to be awarded in December of 2016 with construction scheduled for winter 2017. Lastly, the City will continue to replace undersized, old and/or deteriorated waterlines on a bi-annual basis.

General Plan Update. The City of Martinez is in the process of updating its General Plan, the comprehensive, long-term plan for the physical development of the City. Much of the City's existing General Plan was adopted in 1973. After more than three and half decades of use, it is appropriate to re-evaluate the scope and content of the document, which exists as the community's statement of its fundamental values and as a shared vision for its future development. The General Plan is intended to articulate how the citizens of Martinez view the community, both now and in the future, and where the community stands on current and future planning and development issues. The General Plan is scheduled to be adopted in mid-2017. A comprehensive Zoning Ordinance update will be initiated after the adoption of the updated General Plan.

Long Range Planning. The City will complete a market and fiscal analysis in early 2017 that will provide an assessment of current and local market conditions and long range marketability of the within the Priority Development Area. The Priority Development Area was designated in 2007 and its boundaries replicate the Downtown Specific Plan boundaries. The study is being conducted as part of funding opportunity from the Contra Costa Transportation Authority. The project is being funded in part by Federal Surface Transportation Program funds, with the remainder of the funding to be provided through an 11.47 percent local match.

Economic Development. The City's priority of economic development is particularly important to increase and diversify revenues. Several key commercial and residential development applications that were recently completed or are currently underway will add to the City's tax base in the long term. These include the adaptive reuse of the 610 and 630 Court Street downtown cornerstone properties; the Arnold Shopping Center entering its third phase of development to complete construction on the remaining parcel; the Cascara Canyon apartment complex nearing completion; the Paseos 70-unit single family detached residential development currently under construction; the Village at Arnold 43-unit single family attached residential project ready to begin development, and commencement of the Laurel Knoll 76-unit project attached townhomes. Completion of a substantial remodel at 721-737 Castro Street provides the City with four upgraded storefronts, three of which have been leased to a sports fitness studio, coffee shop and roaster, and bicycle shop. Main Street has benefitted from several new commercial businesses, including three residential units above a remodeled storefront located at 714 Main Street. In addition, a proposed residential development of 12 apartment units is scheduled to be developed at 710 Green Street. Realizing the potential of these projects is crucial to improving and maintaining the City's long term fiscal health.

Marina. Planning for the long-term future of the marina has been a key issue for many years. The City received a new grant of marina trust lands in September 2014 through Senate Bill 1424 which requires trust lands be held by the City, as trustee, for the benefit of all the people of the State for purposes consistent with the public trust doctrine. The doctrine includes protecting maritime or water dependent commerce, navigation, and fisheries, and the preservation of the lands in their natural state for scientific study, open space, wildlife habitat and water-oriented recreation. The land grant allows the City to manage and lease the granted lands according to the public trust doctrine with 100% of the revenue generated from the marina going back into the City's enterprise fund that supports operation of the marina. The marina is an integral part of the shoreline experience that many residents of the region enjoy on a regular basis. It provides opportunities for landside and water recreational experiences, as well as education and research. SB 1424 will help maintain and preserve the Martinez Marina for the enjoyment and use by residents, businesses and public service agencies. As a condition of the land grant, the City must initiate development of a marina master waterfront plan and complete this process by 2020.

Climate Action Plan/Sustainability Programs. The City made significant progress in 2015-16 implementing its Climate Action Plan. Continuing to implement dedicated recycling infrastructure and educational programming in area schools remains a priority. The City has begun implementing the infrastructure and educational objectives of the \$92K competitive grant it was awarded in 2015 from the California Department of Resources, Recycling and Recovery. New and improved recycling bins with securable lids are located throughout City parks and the downtown core, which help reduce litter and improve the overall aesthetics of these

The City also initiated and secured the City's third year of participation in the California Youth Energy Services Program provided by Rising Sun Energy Center. This Program provided a paid workforce training and development opportunity for 6 Martinez youth and served 175 Martinez residences with free energy and water conservation assessments, infrastructure, and installation services. Program partners Tesoro (\$10K), Republic Services (\$5K), and the Boys and Girls Club of the Diablo Valley (in-kind office space and workstations) helped enable the City's continued participation in this community benefit program.

Financial Information

Accounting System and Internal Controls. In developing and evaluating the City's accounting system, consideration is given to the accuracy of internal accounting controls. Internal accounting controls are designed to provide reasonable assurances regarding the safeguarding of assets against loss from unauthorized use or disposition, as well as the accuracy and reliability of accounting data and the adherence to prescribed managerial policy. The Administrative Services Department has been delegated the responsibility to maintain the integrity of the City's recorded financial data. Accounting for all of the City's activities is centralized under the Finance Division. The Administrative Services Department, in conjunction with City management, is also responsible for establishing and maintaining an internal control structure designed to ensure that the City's assets are protected from loss, theft, or misuse. As a recipient of federal, state, and county financial assistance for a variety of projects or programs, the City is responsible for ensuring that an adequate control structure is in place to comply with applicable laws and regulations related to those projects or programs. City administration believes the existing internal control systems are adequate to provide reasonable assurance the City's assets are safeguarded against loss and that the financial records are reliable for preparing financial statements and maintaining accountability for assets. This belief is supported by the City's "Unqualified" Audit issued for 2015.

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

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

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

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

Bond premiums, discounts, and issuance costs are recognized during the period of issuance for governmental fund types. Bond proceeds are reported as another financing source net of the applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. For proprietary fund types, the bond premiums, 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.

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, 2015. This was the 15th consecutive award the City has received from GFOA. In order to be awarded a Certificate of Achievement, a City must publish an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both Generally Accepted Accounting Principles and applicable legal requirements.

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

Acknowledgements

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

Respectfully submitted,



Anne Cardwell
Assistant City Manager

City of Martinez Key Personnel

June 30, 2016

City Council

Rob Schroder, Mayor

AnaMarie Avila Farias, Vice Mayor

Lara DeLaney, Councilmember

Debbie McKillop, Councilmember

Mark Ross, Councilmember

Council Appointees

Brad Kilger, City Manager

Manjit Sappal, Chief of Police

Elected Officials

Gary Hernandez, City Clerk

Carolyn Robinson, City Treasurer

City Staff

Vacant, Assistant City Manager

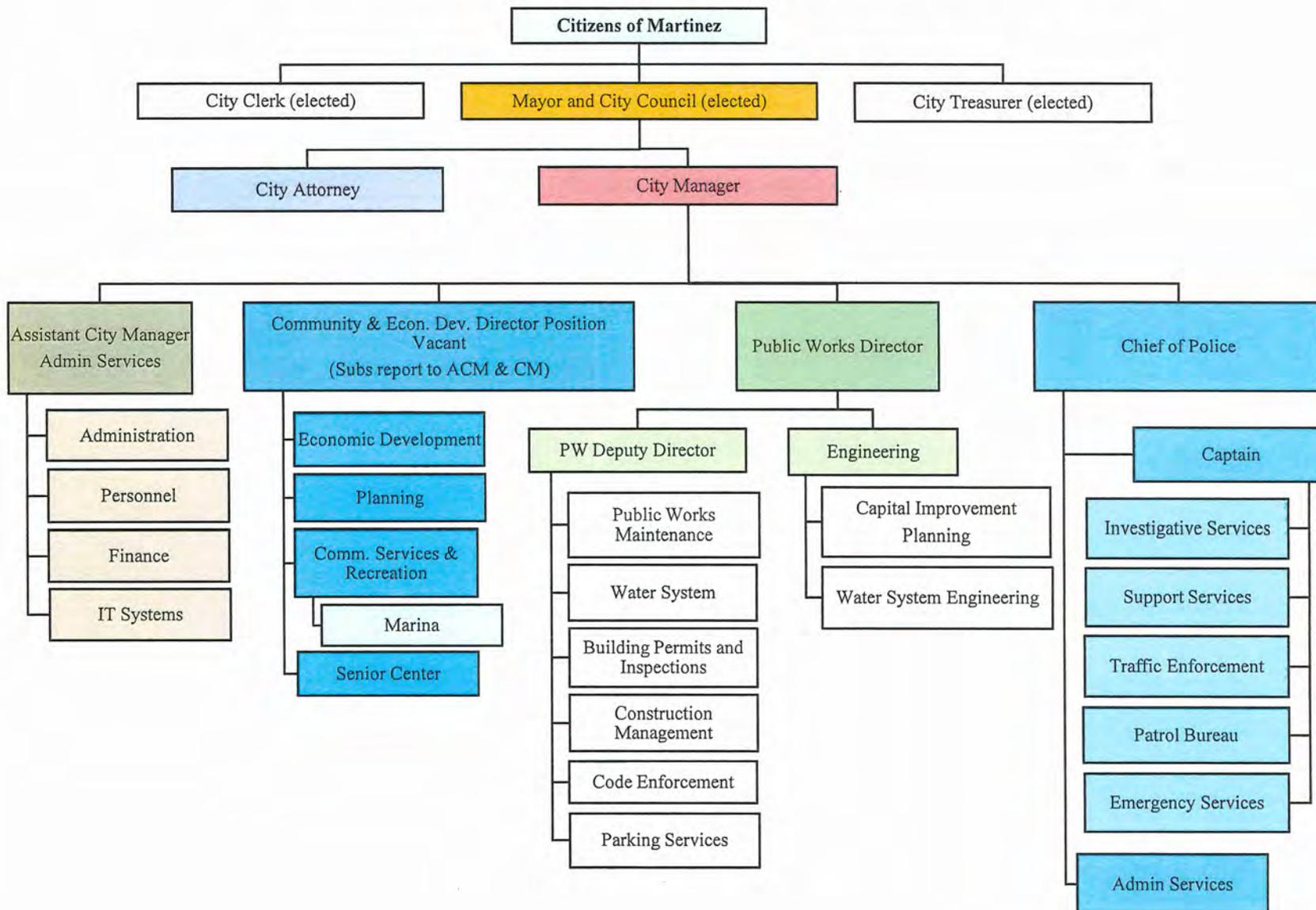
Mike Chandler, Assistant to City Manager

Dave Scola, Public Works Director

Tim Tucker, City Engineer

Cindy Mosser, Finance Manager

CITY OF MARTINEZ FUNCTIONAL ORGANIZATION CHART





Government Finance Officers Association

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

Presented to

**City of Martinez
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Martinez as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the City's Marina will continue as a going concern. As discussed in Note 10E to the financial statements, the City's Marina Services Enterprise Fund has an accumulated net deficit of \$3,387,680 as of June 30, 2016 made up primarily of State loans which the City has not had sufficient operating revenues to pay. During the fiscal year ended June 30, 2016, the City did not pay the principal portion due on the State loans that are recorded in the Marina Services Enterprise Fund as discussed in Note 8. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 10E. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Emphasis of a Matter

Management adopted the provisions of Governmental Accounting Standards Board Statement No. 72 – *Fair Value Measurement and Application*, which became effective during the year ended June 30, 2016 and required revisions to certain disclosures the financial statements.

The emphasis of this matter does not constitute a modification to our opinions.

Other Matters

Required Supplementary Information

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

Other Information

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

The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Maze & Associates

Pleasant Hill, California
December 14, 2016

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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, 2016. 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 and deferred outflows of resources of the City of Martinez exceeded its liabilities and deferred inflows of resources at the close of June 30, 2016 by \$83,911,305. Of this amount \$46,114,628 is Governmental Activities and \$37,796,677 is Business-type Activities.
- As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$30,196,688, an increase of \$1,836,674 in comparison with the prior year. Of this amount, the unassigned fund balance was \$9,808,709, which is available for discretionary spending.
- At the end of the fiscal year, unassigned fund balance for the General Fund was \$9,826,549, or 48% of general fund expenditures. The general fund has an additional unassigned fund balance of \$1,000,000 set aside for contingencies.
- The City of Martinez's total debt decreased by \$986,750 during the fiscal year to \$22,945,000 for Governmental Activities and \$12,244,353 for Business-type Activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

- *Governmental Activities*—All of the City's basic services are considered to be governmental activities, including general government; community and economic development; public safety; public works; recreation, parks, and community services; public improvements; building inspection and code enforcement; planning and zoning; and general administration services. These services are supported by general City revenues such as taxes, and by specific program revenues such as mitigation/impact fees.

- *Business-type Activities*—The City’s three enterprise activities, Parking Services, Water System, and Marina Services, are reported here. Unlike governmental services, these services are supported through user fees based on the amount of the service they use.

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

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

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

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

- *Governmental Funds* – Most of the City’s basic services are reported in Governmental Funds, which focus on how much money flows into and out of those funds and the balances left at year-end that are available for spending. The Governmental Fund statements provide a detailed, short term view of the City’s general government operations and basic services it provides. Governmental Fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs. The fund financial statements, of governmental funds measure only current revenues and expenditures, current assets, liabilities and fund balances; they exclude capital assets, long-term debt and other long-term obligation amounts. The City’s Governmental Funds are comprised of the General Fund, Measure H Fund and Capital Improvements Fund, which are considered Major Funds. Non-Major Funds consist of Gas Tax, NPDES Stormwater, Measure J, COPS Grant, Housing In-lieu Fund, PEG Access, Recycling, Debt Service, Alhambra Creek Improvements 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 two assessment districts, the Alhambra Creek Special Assessment District, which is responsible for holding amounts collected from property owners that await transfer to the District’s bond trustees and the Sanitation District #6 which accounts for the operations and maintenance of the treatment facility in the Stonehurst Subdivision. The City is also an agent for certain community organizations, for which it collects and disburses cash and maintains separate cash accounts. The City’s fiduciary activities are reported in the separate Statements of Fiduciary Net Position and the Agency Funds Statement of Changes in Assets and Liabilities. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. These activities are excluded from the City’s other financial statements because the City cannot use these assets to finance its own operations.

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

Notes to the Basic Financial Statement: The Notes to the Basic Financial Statements provide additional information that is essential to gain a full understanding of the data provided in the Government-Wide and Fund Financial Statements. The Notes to the Basic Financial Statements can be found on pages 35 – 76 of this report. Note 10E on page 62 provides information about the Marina Services Enterprise Fund’s ability to continue as a going concern. Note 11 on pages 63 – 69 provides the City’s progress in funding of its obligation to provide pension benefits to its employees.

Supplemental Information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental information that combines statements referred to earlier in connection with non-major governmental funds, internal service funds and agency funds. Supplemental information is presented after the notes and can be found on pages 81 to 95.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The net position for the City increased \$3,845,981 in 2016 to \$83,911,305 due to increases in general revenues including property tax and sales tax and the 2nd year reporting of GASB 68. The annual change comes from the change in net position as recorded in the Statement of Activities which flows through the Statement of Net Position. Governmental Activities are shown in Tables 1 and 2. Business-type Activities is shown in Tables 3 and 4.

Net investment of capital assets, net of related debt of \$70,166,414 represents the City's investment in capital assets net of amounts borrowed to finance that investment. Although the City's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position represents resources which are subject to external restrictions on how they may be used. This restricted amount totaled \$12,088,025 at June 30, 2016. The remaining balance of unrestricted net position, is normally the part of net position that may be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements. At June 30, 2016, the unrestricted net position was \$1,656,866.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>
Cash and investments	\$31,469,622	\$30,564,220	\$13,563,710	\$18,590,247	\$45,033,332
Other assets	8,015,626	7,255,652	1,464,328	1,298,092	9,479,954
Capital assets	<u>62,340,855</u>	<u>62,257,457</u>	<u>38,675,916</u>	<u>33,711,449</u>	<u>101,016,771</u>
Total Assets	101,826,103	100,077,329	53,703,954	53,599,788	155,530,057
Deferred outflows of resources	3,680,366	2,691,786	240,049	217,287	3,920,415
Long-term debt outstanding	22,945,000	23,055,000	12,244,353	13,121,103	35,189,353
Net pension liability	27,609,141	25,743,841	1,849,600	1,585,346	29,458,741
Other Liabilities	<u>5,009,248</u>	<u>4,923,205</u>	<u>1,619,797</u>	<u>1,404,168</u>	<u>6,629,045</u>
Total Liabilities	55,563,389	53,722,046	15,713,750	16,110,617	71,277,139
Deferred inflows of resources	3,828,452	6,155,075	432,576	533,128	4,262,028
Net position:					
Net Investment in capital					
assets	43,734,851	45,450,132	26,431,563	20,590,346	70,166,414
Restricted	10,781,624	11,108,552	1,306,401	8,016,662	12,088,025
Unrestricted	<u>(8,401,847)</u>	<u>(13,666,690)</u>	<u>10,058,713</u>	<u>8,566,322</u>	<u>1,656,866</u>
Total Net Position	\$46,114,628	\$42,891,994	\$37,796,677	\$37,173,330	\$83,911,305

Governmental activities – The Governmental activities increased the City’s net position by \$3,222,634 to \$46,114,628 at June 30, 2016. Below are the changes in net position:

Table 1	Governmental Activities	
	2016	2015
Expenses		
General government	\$1,369,469	\$1,611,595
Administrative services	1,413,623	1,068,860
Public works	5,020,506	3,886,364
Community & economic dev	6,331,892	6,213,848
Police	10,857,018	10,113,586
Interest on long-term debt	1,126,363	1,134,763
Total expenses	26,118,871	24,029,016
Revenues		
Program revenues:		
Charges for services	2,918,787	3,079,955
Operating grants & contributions	3,488,286	3,004,759
Capital grants & contributions	3,167,192	2,700,158
Total program revenues	9,574,265	8,784,872
General revenues:		
Property tax	7,755,254	7,165,086
Sales tax	4,017,775	3,088,342
VLF Property tax swap	2,951,290	2,733,906
Other taxes	2,144,745	2,175,417
Franchise Fees	1,624,289	1,546,295
Business License	713,938	683,676
Intergovernmental	96,217	476,267
Investment earnings	202,078	53,549
Sale of Property	1,723	8,250
Miscellaneous	330,185	397,049
General revenues	19,837,494	18,327,837
Total revenues	29,411,759	27,112,709
Change in net position before transfers	3,292,618	3,083,693
Transfers	(70,254)	(21,238)
Change in net position	\$3,222,634	\$3,062,455
Total Net Position	\$46,119,628	\$42,891,994

*As restated

The cost of all Governmental activities was \$26,118,871 in Fiscal Year 2016. 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 \$9,574,265.

Program revenues totaled \$9,574,265 or 32.6% of total revenues for Fiscal Year 2016, an increase of \$789,393 from 2015. The increase is attributed to local grant funding for transportation and public safety grants for equipment in 2016. 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 \$2,918,787 which are intended to help cover the expenses incurred in providing a variety of City services; Operating Contributions and Grants of \$3,488,286, which is attributable to special revenue funds such as Gas Tax, Measure J and police services; and Capital Grants of \$3,167,192 which includes federal, state and local funding.

General revenues are not allocable to programs but are used to pay for the net cost of government services. General revenues totaled \$19,837,494 or 67.5% of total revenues, an increase of approximately \$1.5 million from Fiscal Year 2015. Table 1 shows that \$19,207,291 or 96.8% of general revenues came from taxes and fees, and the balance of \$630,203, or 3.18%, came from intergovernmental, investment earnings and miscellaneous. Transfers out totaled \$70,254 and were from the General Fund to the Water System and Marina.

Net expense is defined as total program costs less program revenues generated by those specific activities. In the City's case, program revenues of \$9,574,265, reduced the total expenses of \$26,118,871 by approximately 35.0% to \$16,544,606. It is clear in that the City's program revenues do not approach the cost of program expenses. This shows how dependent the City is on taxes to pay for City services. Table 2 below is the net expense by department.

Table 2	Net (Expense) Revenue and Changes in Net Position	
	2016	2015
Governmental Activities:		
General government	(\$1,302,299)	(\$1,497,229)
Administrative services	(1,245,106)	(1,044,382)
Public works	(3,823,392)	(2,671,751)
Community & Economic Development	374,221	(83,686)
Police	(9,421,767)	(8,812,333)
Interest on long term debt	(1,126,363)	(1,134,763)
Total Governmental Activities	(\$16,544,606)	(\$15,244,144)

Business-type activities – The Business-type activities increased the City’s net position by \$623,347 in 2016 to \$37,797,677. Below are the changes in net position:

Table 3	Business-type Activities	
	2016	2015
Expenses		
Water System	\$10,870,282	\$11,521,664
Marina Services	227,217	210,585
Parking Services	240,781	200,029
Total expenses	11,338,280	11,932,278
Revenues		
Program revenues:		
Charges for services	11,706,158	12,041,560
Operating grants & contributions	0	0
Capital grants & contributions	0	1,019,923
Total program revenues	11,706,158	13,061,483
General revenues:		
Taxes	67,481	67,888
Investment earnings	117,734	43,074
General revenues	185,215	110,962
Total revenues	11,891,373	13,172,445
Change in net position before transfers	553,093	1,240,167
Transfers	70,254	21,238
Change in net position	\$623,347	\$1,261,405
Total Net Position	\$37,797,677	\$37,173,330

The cost of business-type activities was \$11,338,280 in Fiscal Year 2016. 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 \$11,706,158. General revenues are not allocable to programs but are used to pay for the net cost of services. General revenues totaled \$185,215 which came from taxes, investment earnings and miscellaneous revenues.

Net expense is defined as total program costs less program revenues generated by those specific activities. In the City’s case, program revenues of \$11,706,158 along with expenses of \$11,338,280 for net revenues as shown in the Statement of Activities of \$367,878, the detail is broken out below in table 4.

Table 4	Net (Expense) Revenue and Changes in Net Position	
	2016	2015
Business-type Activities:		
Water System	\$187,148	(\$85,406)
Marina Services	(87,501)	946,068
Parking Services	268,232	268,543
Total Business-type Activities	\$367,878	\$1,129,205

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

At June 30, 2016, the City's governmental funds reported a combined fund balance of \$30,196,688, an increase of \$1,836,474 compared to the prior year. The General Fund increased by \$2,452,739, Capital Improvements decreased by \$295,258, Measure H decreased by \$1,237,171 and an increase of \$916,164 in Non-major Funds.

ANALYSES OF MAJOR GOVERNMENTAL FUNDS

General Fund

General Fund revenues totaled \$22,896,354 in Fiscal Year 2015-16 an increase of \$1,748,818 from Fiscal Year 2014-15. The increase is comprised of the following: \$1,814,570 in Taxes, attributable to property tax and sales tax increases; increase of \$43,147 in Licenses, Permits and Fees of \$43,147; \$108,079 in Use of Money & Property; \$202,815 in Charges for Services; \$31,463 in Fines and Forfeits; and \$59,603 in Miscellaneous. These increases were offset by with a \$510,859 decrease of Intergovernmental revenues due to one-time funds received in the previous year for state mandates and Measure WW. Taxes totaling \$19,207,291 represented approximately 84% of total General Fund revenues, with \$7,755,254 (or 39% of the total General Fund revenues) coming from Property Taxes. Other revenue sources comprising the remaining 16% of General Fund revenues included Licenses, Permits and Fees; Intergovernmental; Charges for Services; Fines and Forfeits; Use of Money and Property; and Miscellaneous.

General Fund expenditures totaled \$20,182,561, an increase of \$1,318,171 from Fiscal Year 2015. Transfers out of the General Fund increased \$214,816 in Fiscal Year 2016 to \$261,054. This increase was mostly attributable to a transfer of \$182,800 for capital improvements and \$50,000 to the Marina Fund in 2016.

Final expenditures for the General Fund at year-end were \$872,881 below budget, however, the fiscal year ended with encumbrances of \$134,251. Budget amendments and supplemental appropriations of \$530,288 were made during the year for unanticipated expenditures after adoption of the original budget. Total final budget appropriations came in at \$21,055,442.

At the end of Fiscal Year 2016 the fund balance for the City's General Fund was \$12,962,232, an increase of \$2,452,739 over last year. The General Fund fund balance was comprised of the following: \$71,212 of nonspendable; \$3,064,471 assigned; and \$9,826,549 unassigned, of which \$1,000,000 was designated by Council for contingencies due to unforeseen occurrences referred to in Note 10C of the financial statements. Only the unassigned \$9,826,549 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 \$23,181. The expenses of \$1,260,352 were based on project activity for the reconstruction of parks.

Capital Improvement Fund

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

Revenue received in Fiscal Year 2016 included funding for projects from Contra Costa Transportation Authority in the amount of \$1,121,178; \$72,010 for Rule20A undergrounding. Another \$1,607,800 in funding came from net transfers from Gas Tax revenue, Local J, NPDES and General Fund. The fund also received \$158,875 in mitigation fees and interest. Total revenue received, including net transfers, was \$2,959,853. This is a decrease of \$1,465,347 over the prior year and is primarily from a decrease of transfers for project funding received in previous years, Prop 1B and CDBG funding. Expenditures increased \$1,215,318 from Fiscal Year 2015.

Other Governmental Funds

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

Internal Service Funds

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

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

Enterprise Funds

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

- *Parking Services*—Parking Services Fund revenue is generated from parking meters and parking permits in the downtown area. Operating revenues increased by \$40,441 in Fiscal Year 2016 to a total of \$509,013. Operating expenses increased by \$43,014 to \$242,805. Non-operating revenues increased by \$9,095 to \$64,472. Net position increased by \$330,680 to \$2,420,660. The Parking Services Fund's fiscal year end unrestricted Net Position was \$1,802,947.
- *Water System*— The Water System Fund is financed and operated in a manner similar to that of a private business. Net position of the Water System Fund increased \$292,803 in Fiscal Year 2016. Overall operating revenues decreased by \$378,829, and operating expenses decreased by \$610,002. Non-operating expenses decreased by \$21,543, and non-operating revenues increased by \$63,397 in interest income. As of June 30, 2016, the Fund's Net Position was \$38,765,641, with \$29,131,358 investment in capital assets net of related debt, and \$1,173,246 restricted for debt service. Only \$8,461,037 of the Fund's Net Position was unrestricted at the close of Fiscal Year 2016. 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 \$2,985, and non-operating revenues increased \$1,761. Operating expenses increased \$18,811 in 2016. The Fund’s Net Position decreased by \$19,988 at June 30, 2016. The Marina has \$4,248,223 in outstanding loans to the State of California; approximately half of that amount is the total of four individual loans with an annual debt repayment schedule. The City had been making this full payment until a recent declining trend in marina revenues that has hindered the City’s ability to pay the principal and interest. The other half of the deficit to the State originates back to the 1964 Agreement with the State to construct the marina. The City is working with the State on alternatives to pay back all of the loans.

CAPITAL ASSETS

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

At the end of Fiscal 2016, Governmental Activities and Business-type Activities had invested in a broad range of capital assets, net of depreciation, in the amounts of \$62,340,854 and \$38,675,916, 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.

	June 30, 2016	June 30, 2015
<i>Governmental Activities</i>		
Land	\$16,055,114	\$16,055,114
Construction in progress	4,227,182	3,296,959
Building and improvements	12,517,249	12,517,249
Equipment	7,635,618	7,290,777
Infrastructure	66,371,088	64,692,510
Less accumulated depreciation	(44,465,397)	(41,595,152)
Totals	<u>\$62,340,854</u>	<u>\$62,257,457</u>
<i>Business-Type Activities</i>		
Land	\$1,917,444	\$1,917,444
Construction in progress	7,938,852	5,647,019
Building and improvements	21,883,664	17,264,242
Equipment	2,465,906	2,288,005
Infrastructure	89,375,680	89,375,680
Less accumulated depreciation	(84,905,630)	(82,780,941)
Totals	<u>\$38,675,916</u>	<u>\$33,711,449</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 May 2009 and April 2012, the City issued General Obligation Bonds totaling \$25,000,000 to finance the costs of acquiring and constructing parks, library improvements, and pool and safety improvements.

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

Each of the City’s debt issues are discussed in detail in Notes 7 and 8 to the financial statements. The table below represents the City’s outstanding debt at June 30, 2016.

	June 30, 2016	June 30, 2015
Governmental Activity Debt		
<i>General Long-Term Debt</i>		
General Obligation Bonds	\$22,945,000	\$23,055,000
Total governmental activity debt	\$22,945,000	\$23,055,000
Business-Type Activity Debt		
<i>Water Fund Long-Term Debt</i>		
2003 Refinancing Project	\$1,280,000	\$1,675,000
2012 Refinancing Project	6,220,000	6,680,000
Unamortized Bond Premium	496,130	543,380
Total Water Fund debt	\$7,996,130	\$8,898,380
<i>Marina Long-term Debt</i>		
1964 State of California	\$2,664,514	\$2,639,014
1973 State of California	251,136	251,136
1978 State of California	131,574	131,574
1982 State of California	323,922	323,922
1985 State of California	877,077	877,077
Total Marina Fund debt	\$4,248,223	\$4,222,723
Total business-type activity debt	\$12,244,353	\$13,121,103

SPECIAL ASSESSMENT DISTRICT DEBT

Alhambra Creek Assessment District, 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 2016.

At June 30, 2016, a total of \$350,000 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.

CITY OF MARTINEZ

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

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

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

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

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

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

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

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

CITY OF MARTINEZ
STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments (Note 3):			
Available for operations	\$24,535,282	\$12,390,464	\$36,925,746
Restricted	6,934,340	1,173,246	8,107,586
Receivables (net of allowance for uncollectible):			
Accounts and other	573,939	1,443,352	2,017,291
Intergovernmental	2,827,490		2,827,490
Interest	55,282		55,282
Loans receivable (Note 5)	431,690	22,920	454,610
Internal balances (Note 4C)	1,944	(1,944)	
Prepays and inventory (Note 1I)	53,371		53,371
Net OPEB Asset (Note 12)	4,071,910		4,071,910
Capital assets (Note 6):			
Land and construction in progress	20,282,297	9,856,296	30,138,593
Depreciable assets, net	42,058,558	28,819,620	70,878,178
Total Assets	<u>101,826,103</u>	<u>53,703,954</u>	<u>155,530,057</u>
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions (Note 11)	<u>3,680,366</u>	<u>240,049</u>	<u>3,920,415</u>
LIABILITIES			
Accounts payable	1,802,825	705,485	2,508,310
Accrued wages and benefits	584,097	76,660	660,757
Deposits	914,577	245,943	1,160,520
Unearned revenue	36,003	301,087	337,090
Claims payable due within one year (Note 15)	80,000		80,000
Accrued interest		82,847	82,847
Accrued compensated absences (Note 1H):			
Due within one year	1,056,000	147,000	1,203,000
Due in more than one year	535,746	60,775	596,521
Long-term debt (Notes 7 and 8):			
Due within one year	125,000	1,123,059	1,248,059
Due in more than one year	22,820,000	11,121,294	33,941,294
Net pension liability (Note 11)	<u>27,609,141</u>	<u>1,849,600</u>	<u>29,458,741</u>
Total Liabilities	<u>55,563,389</u>	<u>15,713,750</u>	<u>71,277,139</u>
DEFERRED INFLOWS OF RESOURCES			
Related to pensions (Note 11)	<u>3,828,452</u>	<u>433,576</u>	<u>4,262,028</u>
NET POSITION (Note 10)			
Net investment in capital assets	<u>43,734,851</u>	<u>26,431,563</u>	<u>70,166,414</u>
Restricted for:			
Capital projects	7,234,284	133,155	7,367,439
Debt service	2,117,441	1,173,246	3,290,687
Special revenue projects	<u>1,429,899</u>	<u>1,429,899</u>	<u>1,429,899</u>
Total Restricted Net Position	<u>10,781,624</u>	<u>1,306,401</u>	<u>12,088,025</u>
Unrestricted	<u>(8,401,847)</u>	<u>10,058,713</u>	<u>1,656,866</u>
Total Net Position	<u>\$46,114,628</u>	<u>\$37,796,677</u>	<u>\$83,911,305</u>

See accompanying notes to financial statements

CITY OF MARTINEZ
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental Activities:						
General government	\$1,369,469	\$67,270			(\$1,302,199)	(\$1,302,199)
Administrative services	1,413,623	16,879	\$91,160	\$60,478	(1,245,106)	(1,245,106)
Public works	5,020,506	1,197,114			(3,823,392)	(3,823,392)
Community & economic development	6,331,892	1,066,618	2,532,781	3,106,714	374,221	374,221
Police	10,857,018	570,906	864,345		(9,421,767)	(9,421,767)
Interest on long-term debt	1,126,363				(1,126,363)	(1,126,363)
Total Governmental Activities	26,118,871	2,918,787	3,488,286	3,167,192	(16,544,606)	(16,544,606)
Business-type Activities:						
Water system	10,870,282	11,057,430			\$187,148	187,148
Marina services	227,217	139,715			(87,502)	(87,502)
Parking services	240,781	509,013			268,232	268,232
Total Business-type Activities	11,338,280	11,706,158			367,878	367,878
Total	\$37,457,151	\$14,624,945	\$3,488,286	\$3,167,192	(16,544,606)	(16,176,728)
General revenues:						
Property taxes					7,755,254	7,755,254
Sales taxes					4,017,775	4,017,775
VLF Property Tax Swap					2,951,290	2,951,290
Other taxes					2,144,745	67,481
Franchise fees					1,624,289	1,624,289
Business licenses					713,938	713,938
Intergovernmental, unrestricted					96,217	96,217
Investment earnings					202,078	117,734
Sale of property					1,723	1,723
Miscellaneous					330,185	330,185
Transfers (Note 4A)					(70,254)	70,254
Total general revenues and transfers					19,767,240	255,469
Change in Net Position					3,222,634	623,347
Net Position-Beginning					42,891,994	37,173,330
Net Position-Ending					\$46,114,628	\$37,796,677

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 2016. 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, 2016

	General	Measure H	Capital Improvements	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments (Note 3):					
Available for operations	\$12,285,641		\$6,437,626	\$4,272,180	\$22,995,447
Restricted		\$4,816,899		2,117,441	6,934,340
Receivables:					
Accounts	558,013		400	15,526	573,939
Intergovernmental	1,606,045		1,195,914	25,531	2,827,490
Interest	49,357	5,925			55,282
Loans receivable (Note 5)	169,680		262,010		431,690
Prepays and inventory (Note 1I)	53,371				53,371
Advances to other funds (Note 4B)	17,841				17,841
	<u>\$14,739,948</u>	<u>\$4,822,824</u>	<u>\$7,895,950</u>	<u>\$6,430,678</u>	<u>\$33,889,400</u>
Total Assets					
LIABILITIES					
Accounts payable	\$260,037	\$290,639	\$1,052,667	\$18,808	\$1,622,151
Accrued wages and benefits	568,244			4,365	572,609
Claims payable (Note 15)	80,000				80,000
Deposits	663,752	30,157	110,601	110,067	914,577
Unearned revenue	36,003				36,003
Advance from other funds (Note 4B)				17,841	17,841
	<u>1,608,036</u>	<u>320,796</u>	<u>1,163,268</u>	<u>151,081</u>	<u>3,243,181</u>
Total Liabilities					
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - receivables				17,841	17,841
Unavailable revenue - loans receivable	169,680		262,010		431,690
	<u>169,680</u>		<u>262,010</u>		<u>431,690</u>
FUND BALANCES					
Fund balance (Note 10):					
Nonspendable	71,212				71,212
Restricted		4,502,028	6,470,672	6,279,596	17,252,296
Assigned	3,064,471				3,064,471
Unassigned	9,826,549			(17,840)	9,808,709
	<u>12,962,232</u>	<u>4,502,028</u>	<u>6,470,672</u>	<u>6,261,756</u>	<u>30,196,688</u>
Total Fund Balances					
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$14,739,948</u>	<u>\$4,822,824</u>	<u>\$7,895,950</u>	<u>\$6,430,678</u>	<u>\$33,889,400</u>

See accompanying notes to financial statements

CITY OF MARTINEZ
Reconciliation of the
GOVERNMENTAL FUNDS -- FUND BALANCES
with the
GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION
JUNE 30, 2016

Total fund balances reported on the governmental funds balance sheet \$30,196,688

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

CAPITAL ASSETS

Capital assets used in Governmental Activities are not current assets or financial resources and
therefore are not reported in the Governmental Funds. 60,969,189

ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS

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

Cash and investments	1,539,835
Internal balances	1,944
Capital assets	1,371,666
Accounts payable	(180,674)
Accrued liabilities	(11,488)
Accrued compensated absences	(61,728)

ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES

Revenues which are unavailable on the Fund Balance Sheets because they are not available currently
are taken into revenue in the Statement of Activities. 449,531

DEFERRED INFLOWS AND OUTFLOWS

Deferred outflows related to pensions	3,680,366
Deferred inflows related to pensions	(3,828,452)

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:

Net OPEB asset	4,071,910
Compensated absences	(1,530,018)
Long-term debt	(22,945,000)
Net pension liability	(27,609,141)

NET POSITION OF GOVERNMENTAL ACTIVITIES \$46,114,628

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, 2016

	General	Measure H	Capital Improvements	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$19,207,291				\$19,207,291
Special assessments				\$2,036,288	2,036,288
Licenses, permits, and fees	840,050		\$107,072	122	947,244
Intergovernmental	670,768		1,193,188	2,909,154	4,773,110
Charges for services	1,209,399		19,009	4,761	1,233,169
Fines and forfeits	450,563			17,262	467,825
Use of money and property	243,033	\$23,181	16,444	38,854	321,512
Miscellaneous	275,250		16,340	125,608	417,198
Total Revenues	22,896,354	23,181	1,352,053	5,132,049	29,403,637
EXPENDITURES					
Current:					
General government	1,234,239				1,234,239
Nondepartmental services	1,389,052				1,389,052
Administrative services	1,345,127			223,688	1,568,815
Public works	3,657,350				3,657,350
Community & economic development	2,161,219		408,744	1,019,569	3,589,532
Police	10,395,574			342,806	10,738,380
Debt service (Note 7):					
Principal				110,000	110,000
Interest and fiscal charges				1,126,363	1,126,363
Capital outlay		1,260,352	2,814,319	8,507	4,083,178
Total Expenditures	20,182,561	1,260,352	3,223,063	2,830,933	27,496,909
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,713,793	(1,237,171)	(1,871,010)	2,301,116	1,906,728
OTHER FINANCING SOURCES (USES)					
Transfers in (Note 4A)			1,607,800	82,501	1,690,301
Transfers (out) (Note 4A)	(261,054)		(32,048)	(1,467,453)	(1,760,555)
Total Other Financing Sources (Uses)	(261,054)		1,575,752	(1,384,952)	(70,254)
NET CHANGE IN FUND BALANCES	2,452,739	(1,237,171)	(295,258)	916,164	1,836,474
BEGINNING FUND BALANCES	10,509,493	5,739,199	6,765,930	5,345,592	28,360,214
ENDING FUND BALANCES	\$12,962,232	\$4,502,028	\$6,470,672	\$6,261,756	\$30,196,688

See accompanying notes to financial statements

CITY OF MARTINEZ
Reconciliation of the
NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
with the Change in
GOVERNMENTAL NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$1,836,474

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

CAPITAL ASSETS TRANSACTIONS

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

The capital outlay expenditures are therefore added back to fund balances	2,927,093
Net retirements are deducted from the fund balance	(62,621)
Depreciation expense is deducted from the fund balance (Depreciation expense is net of internal service fund depreciation of \$241,091 which has already been allocated to serviced funds)	(2,875,620)

LONG-TERM DEBT PROCEEDS AND PAYMENTS

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

Repayment of debt principal is added back to fund balances	110,000
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PENSION TRANSACTIONS

Payment of pension plan contributions is an expenditure in the governmental funds, but in the Statement of Net Position the payment is a deferred outflow.

	1,449,903
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ACCRUAL OF NON-CURRENT ITEMS

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

Net OPEB asset	(235,066)
Compensated absences	112,652
Unavailable revenue	(5,920)

ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY

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

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

Change in Net Position - All Internal Service Funds	(34,261)
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$3,222,634
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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, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
REVENUES:				
Taxes	\$17,753,361	\$18,074,361	\$19,207,291	\$1,132,930
Licenses, permits, and fees	671,500	671,500	840,050	168,550
Intergovernmental	528,300	627,384	670,768	43,384
Charges for services	923,510	1,099,740	1,209,399	109,659
Fines and forfeits	412,500	432,500	450,563	18,063
Use of money and property	160,000	160,000	243,033	83,033
Miscellaneous	85,000	247,987	275,250	27,263
Total Revenues	<u>20,534,171</u>	<u>21,313,472</u>	<u>22,896,354</u>	<u>1,582,882</u>
EXPENDITURES:				
Current:				
General government	1,171,812	1,232,798	1,234,239	(1,441)
Nondepartmental services	1,751,321	1,630,793	1,389,052	241,741
Administrative services	1,084,981	1,281,575	1,345,127	(63,552)
Public works	3,973,350	4,055,719	3,657,350	398,369
Community & economic development	2,176,669	2,335,036	2,161,219	173,817
Police	10,367,021	10,519,521	10,395,574	123,947
Total Expenditures	<u>20,525,154</u>	<u>21,055,442</u>	<u>20,182,561</u>	<u>872,881</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>9,017</u>	<u>258,030</u>	<u>2,713,793</u>	<u>2,455,763</u>
OTHER FINANCING SOURCES (USES)				
Transfers (out) (Note 4A)	<u>(186,000)</u>	<u>(268,800)</u>	<u>(261,054)</u>	<u>7,746</u>
Total other financing sources (uses)	<u>(186,000)</u>	<u>(268,800)</u>	<u>(261,054)</u>	<u>7,746</u>
NET CHANGE IN FUND BALANCE	<u>(\$176,983)</u>	<u>(\$10,770)</u>	2,452,739	<u>\$2,463,509</u>
BEGINNING FUND BALANCE			<u>10,509,493</u>	
ENDING FUND BALANCE			<u>\$12,962,232</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 2016.

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

WATER SYSTEM FUND

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

MARINA SERVICES FUND

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

PARKING SERVICES FUND

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

CITY OF MARTINEZ
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2016

	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	\$10,241,766	\$210,596	\$1,938,102	\$12,390,464	\$1,539,835
Restricted	1,173,246			1,173,246	
Receivables:					
Accounts and other	1,440,677	75	2,600	1,443,352	
Total Current Assets	<u>12,855,689</u>	<u>210,671</u>	<u>1,940,702</u>	<u>15,007,062</u>	<u>1,539,835</u>
Capital Assets (Note 6):					
Buildings	20,317,394	308,594		20,625,988	
Improvements	1,012,554		245,122	1,257,676	
Equipment	1,687,943		777,963	2,465,906	4,333,423
Infrastructure	89,352,180		23,500	89,375,680	
Less: Accumulated depreciation	<u>(83,801,935)</u>	<u>(297,179)</u>	<u>(806,516)</u>	<u>(84,905,630)</u>	<u>(3,206,130)</u>
	28,568,136	11,415	240,069	28,819,620	1,127,293
Land	630,912	1,052,455	234,077	1,917,444	
Construction in progress	<u>7,928,440</u>		<u>10,412</u>	<u>7,938,852</u>	<u>244,373</u>
Net Capital Assets	<u>37,127,488</u>	<u>1,063,870</u>	<u>484,558</u>	<u>38,675,916</u>	<u>1,371,666</u>
Other Non-Current Assets:					
Loan receivable (Note 5)	<u>22,920</u>			<u>22,920</u>	
Total Non-Current Assets	<u>37,150,408</u>	<u>1,063,870</u>	<u>484,558</u>	<u>38,698,836</u>	<u>1,371,666</u>
Total Assets	<u>50,006,097</u>	<u>1,274,541</u>	<u>2,425,260</u>	<u>53,705,898</u>	<u>2,911,501</u>
DEFERRED OUTFLOWS OF RESOURCES					
Related to pensions (Note 11)	<u>240,049</u>			<u>240,049</u>	
LIABILITIES					
Current liabilities:					
Accounts payable	692,652	8,233	4,600	705,485	180,674
Accrued liabilities	76,660			76,660	11,488
Unearned revenue		301,087		301,087	
Deposits	199,076	46,867		245,943	
Accrued interest	25,036	57,811		82,847	
Current portion of compensated absences (Note 1H)	147,000			147,000	
Current portion of long-term debt (Note 7)	890,000			890,000	
Current portion of loans payable (Note 8)		<u>233,059</u>		<u>233,059</u>	
Total Current Liabilities	<u>2,030,424</u>	<u>647,057</u>	<u>4,600</u>	<u>2,682,081</u>	<u>192,162</u>
Noncurrent Liabilities:					
Accrued compensated absences (Note 1H)	60,775			60,775	61,728
Long-term debt (Note 7)	7,106,130			7,106,130	
Loans payable (Note 8)		4,015,164		4,015,164	
Net pension liability (Note 11)	<u>1,849,600</u>			<u>1,849,600</u>	
Total Liabilities	<u>11,046,929</u>	<u>4,662,221</u>	<u>4,600</u>	<u>15,713,750</u>	<u>253,890</u>
DEFERRED INFLOWS OF RESOURCES					
Related to pensions (Note 11)	<u>433,576</u>			<u>433,576</u>	
NET POSITION (Note 10)					
Net investment in capital assets	29,131,358	(3,184,353)	484,558	26,431,563	1,371,666
Restricted for debt service	1,173,246			1,173,246	
Restricted for capital projects			133,155	133,155	
Unrestricted	<u>8,461,037</u>	<u>(203,327)</u>	<u>1,802,947</u>	<u>10,060,657</u>	<u>1,285,945</u>
Total Net Position (Deficit)	<u>\$38,765,641</u>	<u>(\$3,387,680)</u>	<u>\$2,420,660</u>	<u>37,798,621</u>	<u>\$2,657,611</u>

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

(1,944)

Net position business-type activities

\$37,796,677

See accompanying notes to financial statements

CITY OF MARTINEZ
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN FUND NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2016

	Business-type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Water System	Marina Services	Parking Services	Totals	
OPERATING REVENUES					
Water sales	\$10,215,923			\$10,215,923	
Rents and leases	75,790	\$139,540		215,330	
Charges for services	730,871	175	\$509,013	1,240,059	\$1,428,901
Other fees	755			755	
Other revenue	34,091			34,091	24,694
Total Operating Revenues	11,057,430	139,715	509,013	11,706,158	1,453,595
OPERATING EXPENSES					
Filtration plant	4,782,245			4,782,245	
Maintenance, repairs, and distribution	1,836,070	45,296		1,881,366	1,240,955
Administration	1,953,304	87,465	201,554	2,242,323	
Depreciation	2,077,731	5,707	41,251	2,124,689	241,091
Total Operating Expenses	10,649,350	138,468	242,805	11,030,623	1,482,046
Operating Income (Loss)	408,080	1,247	266,208	675,535	(28,451)
NONOPERATING REVENUES (EXPENSES)					
Interest income	103,229	1,332	13,173	117,734	11,650
Interest (expense)	(238,760)	(88,749)		(327,509)	
Gain on disposal of equipment					2,392
Taxes		16,182	51,299	67,481	
Total Nonoperating Revenues (Expenses)	(135,531)	(71,235)	64,472	(142,294)	14,042
Income (loss) before contributions and transfers	272,549	(69,988)	330,680	533,241	(14,409)
Transfers in (Note 4A)	20,254	50,000		70,254	
Change in net position	292,803	(19,988)	330,680	603,495	(14,409)
BEGINNING NET POSITION (DEFICIT)	38,472,838	(3,367,692)	2,089,980		2,672,020
ENDING NET POSITION (DEFICIT)	\$38,765,641	(\$3,387,680)	\$2,420,660		\$2,657,611

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

19,852

Change in net position of business-type activities

\$623,347

See accompanying notes to financial statements

CITY OF MARTINEZ
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2016

	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	\$10,873,261	\$135,130	\$507,493	\$11,515,884	\$1,455,435
Payments to suppliers	(7,681,500)	(135,820)	(198,321)	(8,015,641)	(726,915)
Payments to employees	(521,132)			(521,132)	(399,533)
Rent and lease payments received	34,091			34,091	
Cash Flows from Operating Activities	<u>2,704,720</u>	<u>(690)</u>	<u>309,172</u>	<u>3,013,202</u>	<u>328,987</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Taxes received		16,182	51,299	67,481	
Transfers in	20,254	50,000		70,254	
Cash Flows from Noncapital Financing Activities	<u>20,254</u>	<u>66,182</u>	<u>51,299</u>	<u>137,735</u>	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	(6,943,510)		(145,646)	(7,089,156)	(335,637)
Proceeds from sale of equipment					2,392
Principal payments on capital debt	(855,000)			(855,000)	
Interest paid	(285,799)	(65,253)		(351,052)	
Cash Flows from Capital and Related Financing Activities	<u>(8,084,309)</u>	<u>(65,253)</u>	<u>(145,646)</u>	<u>(8,295,208)</u>	<u>(333,245)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest	103,229	1,332	13,173	117,734	11,650
Cash Flows from Investing Activities	<u>103,229</u>	<u>1,332</u>	<u>13,173</u>	<u>117,734</u>	<u>11,650</u>
Net Cash Flows	(5,256,106)	1,571	227,998	(5,026,537)	7,392
Cash and investments at beginning of period	16,671,118	209,025	1,710,104	18,590,247	1,532,443
Cash and investments at end of period	<u>\$11,415,012</u>	<u>\$210,596</u>	<u>\$1,938,102</u>	<u>\$13,563,710</u>	<u>\$1,539,835</u>
Reconciliation of Operating Income to Cash Flows from Operating Activities:					
Operating income (loss)	\$408,080	\$1,247	\$266,208	\$675,535	(\$28,451)
Adjustments to reconcile operating income (loss) to cash flows from operating activities:					
Depreciation	2,077,731	5,707	41,251	2,124,689	241,091
Change in assets and liabilities:					
Accounts receivable	(148,643)	3,779	(1,520)	(146,384)	1,840
Accounts payable and other liabilities	100,921	(3,059)	3,233	101,095	120,815
Deposits	150,886			150,886	
Accrued vacation and other fringe benefits	(24,760)			(24,760)	(4,758)
Accrued wages and benefits					(1,550)
Unearned revenue	(1,435)	(8,364)		(9,799)	
Retirement system	141,940			141,940	
Cash Flows from Operating Activities	<u>\$2,704,720</u>	<u>(\$690)</u>	<u>\$309,172</u>	<u>\$3,013,202</u>	<u>\$328,987</u>

See accompanying notes to financial statements

FIDUCIARY FUNDS

FIDUCIARY FUNDS

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

CITY OF MARTINEZ
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET POSITION
 JUNE 30, 2016

	<u>Trust Fund</u>	<u>Agency Funds</u>
ASSETS		
Restricted cash and investments (Note 3)	\$89,324	\$343,144
Prepays	<u> </u>	<u>2,250</u>
Total Assets	<u><u>\$89,324</u></u>	<u><u>\$345,394</u></u>
LIABILITIES		
Accounts payable		\$6,708
Deposits payable		6,818
Due to bondholders		217,017
Due to members	<u> </u>	<u>114,851</u>
Total Liabilities	<u> </u>	<u><u>\$345,394</u></u>
NET POSITION		
Restricted for private purpose activities	<u>\$89,324</u>	
Total Net Position	<u><u>\$89,324</u></u>	

See accompanying notes to financial statements

CITY OF MARTINEZ
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2016

	<u>Trust Fund</u>
ADDITIONS:	
Donations	\$7,458
Interest	<u>535</u>
Total Additions	<u>7,993</u>
DEDUCTIONS:	
Supplies	260
Beneficiary payments	1,592
Improvements	<u>15,591</u>
Total Deductions	<u>17,443</u>
CHANGE IN NET POSITION	(9,450)
NET POSITION, BEGINNING OF YEAR	<u>98,774</u>
NET POSITION, END OF YEAR	<u><u>\$89,324</u></u>

See accompanying notes to financial statements

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CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

B. Basis of Presentation

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

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

C. Major Funds

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

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

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, Sanitation District #6, and the Senior Center Club. The financial activities of these funds are excluded from the Government-wide financial statement, but are presented in separate Fiduciary Fund financial statements.

D. Basis of Accounting

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

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

E. *Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow resources (expense/expenditure) until then. The City has only one item that qualifies for reporting in this category, deferred outflows related to pensions. For further discussion see Note 11.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition to liabilities, the statement of net position and balance sheet reports a separate section for deferred inflows of resources. The separate financial element, *deferred inflows of resources*, represents an acquisition of net position or fund balance that applies to future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item *unavailable revenue*, is reported in the governmental funds balance sheet. The governmental funds report unavailable revenues from miscellaneous receivables and loans receivable. The City has one type of deferred inflow which arises only under a full accrual basis of accounting, deferred inflows related to pensions.

F. *Revenue Recognition for Water System Enterprise Fund*

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

G. *Property Taxes and Special Assessment Revenue*

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

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

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

H. *Compensated Absences*

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

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The changes of the compensated absences during the fiscal year ended June 30, 2016 were as follows:

	Governmental Activities	Business-Type Activities	Total
Beginning Balance	\$1,709,156	\$232,535	\$1,941,691
Additions	1,274,338	179,553	1,453,891
Payments	(1,391,748)	(204,313)	(1,596,061)
Ending Balance	<u>\$1,591,746</u>	<u>\$207,775</u>	<u>\$1,799,521</u>
Current Portion	<u>\$1,056,000</u>	<u>\$147,000</u>	<u>\$1,203,000</u>

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

I. *Prepays and Inventory*

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

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

J. *Fair Value Measurements*

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. 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

A. Budgetary Accounting

The City adopts a biennial budget for the General Fund and all Special Revenue Funds with the exception of the 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% of 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.

B. Expenditures in Excess of Appropriations

The City had the following fund with expenditures in excess of appropriations for the year ended June 30, 2016:

Fund Name	Amount
General Fund	
General government	\$1,441
Administrative services	63,552

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 3 - CASH AND INVESTMENTS

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

A. Policies

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

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

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

B. Classification

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

Cash and investments available for operations	\$36,925,746
Restricted cash and investments	<u>8,107,586</u>
Total Primary Government cash and investments	45,033,332
Restricted cash and investments in Fiduciary Funds (separate statement)	<u>432,468</u>
Total cash and investments	<u><u>\$45,465,800</u></u>

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

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 3 - CASH AND INVESTMENTS (Continued)

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

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

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

As of June 30, 2016, the City had investments in CalTrust Short Term Fund, which is not included as an allowable investment in the City's Investment Policy. As a result, the City is not in compliance with its investment policy.

D. Investments Authorized by Debt Agreements

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

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality
Repurchase Agreements	30 days	A
U.S. Treasury Obligations	N/A	N/A
U.S. Agency Securities and U.S. Government Sponsored Enterprise	N/A	N/A
State Obligations	N/A	Second Highest Rating Category
Commercial Paper	270 days	A-1
Negotiable Certificates of Deposit	N/A	N/A
Time Certificates of Deposit	N/A	N/A
Shares of Beneficial Interest	N/A	Top Rating Category
Money Market Funds	N/A	Aam
Bankers' Acceptances	360 days	A-1
California Local Agency Investment Fund (LAIF Pool)	Upon Demand	N/A
California Asset Management Program (CAMP)	Upon Demand	N/A

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 3 - CASH AND INVESTMENTS (Continued)

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.

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

Investment Type	12 Months or less	Total
California Local Agency Investment Fund	\$40,948,669	\$40,948,669
Money market funds	103,227	103,227
CalTrust Short Term Fund	1,014,044	1,014,044
Certificates of deposit	480,000	480,000
Total Investments	\$42,545,940	42,545,940
Cash in banks and on hand		2,919,860
Total Cash and Investments		\$45,465,800

F. Fair Value Hierarchy

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 3 - CASH AND INVESTMENTS (Continued)

The following is a summary of the fair value hierarchy of the fair value of investments of the City as of June 30, 2016:

	Level 2	Total
Investments by Fair Value Level:		
California Local Agency Investment Fund	\$40,948,669	\$40,948,669
CalTrust Short Term Fund	1,014,044	1,014,044
	\$41,962,713	41,962,713
 Investments Measured at Amortized Cost:		
Money market funds		103,227
 Investments Reported at Cost:		
Certificates of deposit		480,000
Total Investments		\$42,065,940

The California Local Agency Investment Fund and CalTrust Short Term Fund, classified in Level 2 of the fair value hierarchy, are valued based on the fair value factor provided by the Treasurer of the State of California which is calculated as fair value divided by the amortized cost of the investment pools. Fair value is defined as the quoted market value on the last trading day of the period.

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, 2016, these investments have an average maturity of 167 days and were not rated.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 3 - CASH AND INVESTMENTS (Continued)

The City is a participant in the Short-Term Fund of the Investment Trust of California (CalTrust), a joint powers authority and public agency established by its members under the provisions of Section 6509.7 of the California Government Code. Members and participants are limited to California public agencies. CalTrust is governed by a Board of Trustees of seven Trustees, at least seventy-five percent of whom are from the participating agencies. The City reports its investment in CalTrust at the fair value amount provided by CalTrust, which is the same as the value of the pool shares. The balance is available for withdrawal on demand, and is based on the accounting records maintained by CalTrust. Included in CalTrust's investment portfolio are: United States Treasury Notes, Bills, Bonds or Certificates of Indebtedness; registered state warrants or treasury notes or bonds; California local agency bonds, notes, warrants or other indebtedness; federal agency or United States government-sponsored enterprise obligations; bankers acceptances; commercial paper; negotiable certificates of deposit; repurchase agreements; medium-term notes; money market mutual funds; notes, bonds or other obligation secured by a first priority security interest in securities authorized under Government Code Section 53651; and mortgage passthrough securities, collateralized mortgage obligations, and other asset – backed securities. At June 30, 2016, the Short-Term Fund investments matured in an average of 409 days . As of June 30, 2016, the Short-Term Fund was rated AAf by Standard and Poor's investment Rating System.

Money market mutual funds are available for withdrawal on demand and at June 30, 2016, have an average maturity ranging from 6 to 26 days. Money market mutual funds were rated AAAM by Standard and Poor's investment rating system. The certificates of deposit were not rated as of June 30, 2016.

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, 2016 were as follows:

<u>Fund Receiving Transfers</u>	<u>Fund Making Transfers</u>	<u>Amount Transferred</u>
Capital Improvements Fund	General Fund	\$182,800 A
	Non-Major Funds	1,425,000 A
Non-Major Funds	Capital Improvements Fund	32,048 B
	General Fund	8,000 B
	Non-Major Funds	42,453 B
Marina Services Enterprise Fund	General Fund	50,000 B
Water System Enterprise Fund	General Fund	20,254 B
	Total Interfund Transfers	<u>\$1,760,555</u>

A: To fund capital projects
B: To fund operations

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 4 – INTERFUND TRANSACTIONS (Continued)

B. *Long-Term Interfund Advance*

In fiscal year 2007-08 the General Fund made an advance to the Alhambra Creek Improvements Capital Projects Fund in the amount of \$65,828, to be repaid in annual installments. The advance bears no interest. As of June 30, 2016, the balance was \$17,841.

C. *Internal Balances*

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

NOTE 5 – LOAN RECEIVABLE AND UNAVAILABLE REVENUE

A. *Riverhouse Associates*

The City made a loan to Riverhouse Associates, which was used to rehabilitate the Riverhouse Hotel, an affordable housing project. The loan is secured by a deed of trust, bears no interest, and is due August 14, 2021. At June 30, 2016, 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*

The Martinez Unified School District (MUSD) requested financial assistance from the City in order to retain seventeen teachers. Without the City's assistance the District would not have been able to maintain class room 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 the repayment. The fee service portion of the agreement was terminated on July 27, 2014. The joint facility use portion of the agreement was for the District to maintain \$150,000 in the District's Capital Improvement Fund for the purpose of a joint facility, which terminates July 27, 2019. At the end of the fee service agreement the District opted to increase the restricted capital funds for the remaining 5 years of the agreement to the actual amount owed. As of June 30, 2016, the balance owed to the City was \$169,680.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 6 - CAPITAL ASSETS

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

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

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

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

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 6 - CAPITAL ASSETS (Continued)

A. Capital Asset Additions and Retirements

Capital asset activities for the year ended June 30, 2016 comprise:

	Balance at June 30, 2015	Additions	Retirements	Transfers	Balance at June 30, 2016
Governmental activities					
Capital assets not being depreciated:					
Land	\$16,055,114				\$16,055,114
Construction in progress	3,296,959	\$2,337,232	(\$62,621)	(\$1,344,388)	4,227,182
Total capital assets not being depreciated	<u>19,352,073</u>	<u>2,337,232</u>	<u>(62,621)</u>	<u>(1,344,388)</u>	<u>20,282,297</u>
Capital assets being depreciated:					
Buildings	12,480,329				12,480,329
Improvements	36,920				36,920
Equipment	7,290,777	284,962	(59,231)	119,110	7,635,618
Infrastructure	64,692,510	640,535	(187,235)	1,225,278	66,371,088
Total capital assets being depreciated	<u>84,500,536</u>	<u>925,497</u>	<u>(246,466)</u>	<u>1,344,388</u>	<u>86,523,955</u>
Less accumulated depreciation:					
Buildings	(3,452,299)	(365,994)			(3,818,293)
Improvements	(7,386)	(1,229)			(8,615)
Equipment	(4,895,810)	(489,105)	59,231		(5,325,684)
Infrastructure	(33,239,657)	(2,260,383)	187,235		(35,312,805)
Total accumulated depreciation	<u>(41,595,152)</u>	<u>(3,116,711)</u>	<u>246,466</u>		<u>(44,465,397)</u>
Net capital assets being depreciated	<u>42,905,384</u>	<u>(2,191,214)</u>		<u>1,344,388</u>	<u>42,058,558</u>
Governmental activities capital assets, net	<u>\$62,257,457</u>	<u>\$146,018</u>	<u>(\$62,621)</u>		<u>\$62,340,855</u>
	Balance at June 30, 2015	Additions	Transfers	Balance at June 30, 2016	
Business-type activities					
Capital assets, not being depreciated:					
Land	\$1,917,444				\$1,917,444
Construction in progress	5,647,019	\$6,048,669	(\$3,756,836)		7,938,852
Total capital assets not being depreciated	<u>7,564,463</u>	<u>6,048,669</u>	<u>(3,756,836)</u>		<u>9,856,296</u>
Capital assets being depreciated:					
Buildings	16,042,657	826,495	3,756,836		20,625,988
Improvements	1,221,585	36,091			1,257,676
Equipment	2,288,005	177,901			2,465,906
Infrastructure	89,375,680				89,375,680
Net capital assets being depreciated	<u>108,927,927</u>	<u>1,040,487</u>	<u>3,756,836</u>		<u>113,725,250</u>
Less accumulated depreciation for:					
Buildings	(10,173,158)	(534,605)			(10,707,763)
Improvements	(290,749)	(29,334)			(320,083)
Equipment	(1,841,169)	(126,313)			(1,967,482)
Infrastructure	(70,475,865)	(1,434,437)			(71,910,302)
Total accumulated depreciation	<u>(82,780,941)</u>	<u>(2,124,689)</u>			<u>(84,905,630)</u>
Net capital assets being depreciated	<u>26,146,986</u>	<u>(1,084,202)</u>	<u>3,756,836</u>		<u>28,819,620</u>
Business-type activities capital assets, net	<u>\$33,711,449</u>	<u>\$4,964,467</u>			<u>\$38,675,916</u>

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 6 - CAPITAL ASSETS (Continued)

B. Capital Asset Contributions

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

C. Depreciation Allocation

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

<i>Governmental Activities</i>	
General Government	\$23,439
Public Works	31,680
Community & Economic Development	2,714,707
Police	105,794
Capital assets held by the City's Internal Service Funds	241,091
	<hr/>
Total Governmental Activities	\$3,116,711
	<hr/> <hr/>
<i>Business-Type Activities</i>	
Water System	\$2,077,731
Marina Services	5,707
Parking Services	41,251
	<hr/>
Total Business-Type Activities	\$2,124,689
	<hr/> <hr/>

NOTE 7 - LONG-TERM DEBT

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

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

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

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

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, 2015	Retirements	Balance at June 30, 2016	Current Portion
Governmental Activity Debt					
<i>General Long-Term Debt</i>					
2009 General Obligation Bonds					
Election of 2008, Series A, 4-5.875%, due 2/01/39	\$15,000,000	\$14,090,000	\$65,000	\$14,025,000	\$85,000
2012 General Obligation Bonds					
Election of 2008, Series B, 4-5%, due 8/01/42	10,000,000	8,965,000	45,000	8,920,000	40,000
Total governmental activity debt		<u>\$23,055,000</u>	<u>\$110,000</u>	<u>\$22,945,000</u>	<u>\$125,000</u>
Business-Type Activity Debt					
<i>Enterprise Long-Term Debt</i>					
Certificates of Participation:					
2003 Refinancing Project, 2-4%, due 12/01/18	\$5,595,000	\$1,675,000	\$395,000	\$1,280,000	\$415,000
2012 Refunding Water System Improvements, 2-4%, due 12/01/26	8,025,000	6,680,000	460,000	6,220,000	475,000
Plus: Unamortized Bond Premium	696,947	543,380	47,250	496,130	
Total business-type activity debt		<u>\$8,898,380</u>	<u>\$902,250</u>	<u>\$7,996,130</u>	<u>\$890,000</u>

B. 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 \$22,945,000 and \$21,167,265, respectively. Principal and interest paid for the current fiscal year and total Ad Valorem Property Tax Revenues were \$1,236,362, and \$1,913,527, respectively.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 7 – LONG TERM DEBT (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. 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 business type portion of the bonds is \$1,356,534. The City's principal and interest paid for the current year was \$452,649.

D. 2012 Certificates of Participation

On February 10, 2012, the City issued Certificates of Participation (COPs) in the amount of \$8,025,000 to refund the 1999 COPs and for the acquisition and construction of improvements to the City's existing water system. Semi-annual interest payments are due on June 1 and December 1 of each year, and annual principal payments are due on December 1. Interest and principal payments are payable from net revenues derived from the operation of the water system. The total principal and interest remaining to be paid on the certificates is \$7,613,375. The City's principal and interest paid for the current fiscal year is \$688,150.

The City has pledged future Water System Enterprise Fund revenues, net of specified operating expenses, to repay the installment agreement portion of the 2003 COPs and the 2012 Certificates of Participation through 2027. Annual principal and interest payments on the 2003 bonds are expected to require less than 14.46% percent and 2.11% percent of net water revenues. Annual principal and interest payments on the 2012 bonds are expected to require less than 16.84% percent and 8.35% percent of net water revenues. The Water Fund's total principal and interest remaining to be paid on the bonds is \$8,969,909. The Water Fund's principal and interest paid for the current year and total customer net revenues were \$1,140,799 and \$2,730,980 respectively. The City is in compliance with its debt covenants for the year ended June 30, 2016.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 7 – LONG TERM DEBT (Continued)

E. Debt Service Requirements

Annual debt service requirements are shown below:

For the Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2017	\$125,000	\$1,121,662	\$890,000	\$258,528
2018	145,000	1,116,262	920,000	227,681
2019	175,000	1,109,862	940,000	195,725
2020	205,000	1,102,262	520,000	171,650
2021	240,000	1,093,362	535,000	155,825
2022 - 2026	1,845,000	5,266,576	3,020,000	447,000
2027 - 2031	3,230,000	4,673,858	675,000	13,500
2032 - 2036	5,125,000	3,639,473		
2037 - 2041	7,840,000	1,870,653		
2042 - 2043	4,015,000	173,295		
Total	<u>\$22,945,000</u>	<u>\$21,167,265</u>	7,500,000	<u>\$1,469,909</u>
Plus: Unamortized Bond Premium			<u>496,130</u>	
Gross Long-term Debt			<u>\$7,996,130</u>	

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, 2016.

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, 2016.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 8 – LOANS PAYABLE TO STATE OF CALIFORNIA

At June 30, 2016, the Marina Services Fund owed \$4,248,223 in loans to the State. The City made an interest payment of \$65,253 to the Department of Boating and Waterways in fiscal 2016 to cover current year interest accrued on the unpaid loan balances.

A. Current Year Transactions and Balances

	Original Issue Amount	Balance at June 30, 2015	Additions	Balance at June 30, 2016	Current Portion
Marina Loans					
Loan Payable - 1964	\$1,300,000	\$850,000		\$850,000	
Accrued interest		1,789,014	\$25,500	1,814,514	
Loan Payable - 1973	450,000	251,136		251,136	\$66,108
Loan Payable - 1978	175,000	131,574		131,574	26,808
Loan Payable - 1982	300,000	323,922		323,922	45,527
Loan Payable - 1984	770,425	877,077		877,077	94,616
Total Marina Loans		<u>\$4,222,723</u>	<u>\$25,500</u>	<u>\$4,248,223</u>	<u>\$233,059</u>

During fiscal year 2003, accrued interest was added to the outstanding principal for all the State loans with the exception of the 1964 agreement.

B. Loan Payable – 1964

In January of 1960, the City entered into an agreement with the State of California, whereby a loan of \$1,300,000 was granted to the City for the construction of a Marina. In October of 1964, a Memorandum of Agreement which superseded the 1960 loan agreement was entered into. At June 30, 2016, the amount payable to the State including interest amounted to \$2,664,514.

The agreement was modified in 1964 with the following conditions:

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

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

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

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

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

C. *Loan Payable – 1973*

On December 20, 1973, the City entered into another agreement with the State of California, whereby a loan of \$450,000 was granted to the City to complete the Martinez Small Craft Harbor (MSCH). At June 30, 2016, the amount payable to the State was \$251,136. The terms are as follows:

- The loan is payable from the gross revenues from operations of the facilities located or erected within the MSCH Project, prior to any other expenditures from such revenues.
- Payments of principal and interest at 4.5% shall be payable in equal annual installments on August 1 of each year with a final payment due on August 1, 2026.
- Any retained earnings arising from the operation of the MSCH Project after deductions for repayments of the State loan, operating and maintenance expenses and reserve funds provided for by the State, shall be invested in reasonably liquid assets. No transfer of such funds, other than for advance repayment of the State loan, shall be made so long as any principal or interest remains unpaid.
- Whenever the retained earnings exceeds two years of MSCH Project operating and loan repayment expenses, such excess may be required by the State for advance repayment of the loan.

D. *Loan Payable – 1978*

On January 30, 1978, the City entered into another agreement with the State of California, whereby a loan of \$175,000 was granted to the City for construction of Marina Improvements. At June 30, 2016, the amount payable to the State was \$131,574. The terms are as follows:

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

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

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, 2016, 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 – 1984*

On January 14, 1984 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, 2016, the amount payable to the State was \$877,077. The loan terms are as follows:

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

G. *Loan Repayment*

The above loan agreements, except for the 1960 loan which has no specified repayment terms, require the Marina to remit annual debt service payments. The City failed to make the current year principal payment of \$48,616, in addition to the non-payment of principal in the prior fiscal years in the amount of \$133,640, the City has not made total principal payments in the amount of \$182,256 since August 1, 2012. The past due amounts have been included in the current portion of the loans payable. The State has assessed a late penalty fee of 5% of the unpaid balances. See discussion in Note 10D.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

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

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

H. Debt Service Requirements

For the Year Ending June 30	Principal	Interest
2017	\$233,059	\$63,063
2018	53,090	60,776
2019	55,477	58,389
2020	57,975	55,891
2021	60,584	53,282
2022 - 2026	346,350	222,981
2027 - 2031	320,676	144,224
2032 - 2036	300,423	74,871
2037 - 2039	156,075	14,249
Total	1,583,709	<u>\$747,726</u>
Plus: Marina Loan 1964	850,000	
Plus: Accrued interest	1,814,514	
Total	<u>\$4,248,223</u>	

NOTE 9 – DEBT WITHOUT CITY COMMITMENT

A. Special Assessment Bonds

The Alhambra Creek Assessment District issued Assessment Bonds of 1999, but the City has no legal or moral liability with respect to the payment of this debt, which is secured only by assessments on the properties in this District. Therefore, this debt is not included as debt of the City. At June 30, 2016, the District’s outstanding debt amounted to \$350,000.

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, 2016 was \$1,800,000.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 10 – NET POSITION AND FUND BALANCES

A. Net Position

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

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

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

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

B. Fund Balances

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

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

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

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

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

Committed fund balances have constraints imposed by formal action of the City Council which may be altered only by formal action of the City Council. Encumbrances and nonspendable amounts subject to council commitments are included along with spendable resources. As of June 30, 2016, the City does not have committed fund balance.

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

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

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

Detailed classifications of the City's fund balances, as of June 30, 2016, are below:

Fund Balance Classifications	General Fund	Capital Project Funds		Other Governmental Funds	Total
		Measure H	Capital Improvements		
Nonspendable:					
Advance to Other Funds	\$17,841				\$17,841
Inventory and Prepaids	53,371				53,371
Total Nonspendable Fund Balances	71,212				71,212
Restricted for:					
Debt Service				\$2,117,441	2,117,441
Park & Facilities Improvements		\$4,502,028			4,502,028
Street Improvements			\$4,896,899	2,726,363	7,623,262
Housing				353,810	353,810
Recycle				56,823	56,823
PEG Access				539,392	539,392
Lighting & Landscape				272,921	272,921
Traffic Mitigation			154,251		154,251
Park Impact			657,144		657,144
Child Care			51,906		51,906
Drainage			78,553		78,553
Cultural Facilities			563,576		563,576
Public Safety			68,343	212,846	281,189
Total Restricted Fund Balances		4,502,028	6,470,672	6,279,596	17,252,296
Assigned to:					
Insurance	582,425				582,425
Pension Obligation	250,000				250,000
Improvements	1,416,553				1,416,553
Health Benefits	360,363				360,363
Encumbrances	394,918				394,918
Special Events	57,132				57,132
SB1186 - Disability Access	2,762				2,762
Seismic	318				318
Total Assigned Fund Balances	3,064,471				3,064,471
Unassigned:					
General Fund	9,826,549				9,826,549
Other Governmental Fund Deficit				(17,840)	(17,840)
Total Unassigned Fund Balances	9,826,549			(17,840)	9,808,709
Total Fund Balances	\$12,962,232	\$4,502,028	\$6,470,672	\$6,261,756	\$30,196,688

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

C. *Minimum Fund Balance Policies*

The City adopted a Fund Balance Reserve Policy with Resolution 110-15, which established minimum fund balance policies as well as four types of reserves to address unanticipated, one-time needs. The policy requires the City maintain a minimum of 20% unassigned fund balance based on operating expenditures. The City will maintain two assigned reserves and two unassigned-contingency reserves to address unforeseen emergencies or disasters, significant changes in economic environment, escalating employee benefit costs, and key infrastructure improvements. These include:

- Pension/OPEB Obligation Assigned Fund Balance Reserve: Funds designated to mitigate pension, insurance and retiree health benefits due to an extreme fluctuation in rates due to a specific cause.
- Infrastructure Assigned Fund Balance Reserve: Funds designated for infrastructure and deferred maintenance.
- Catastrophic Unassigned-contingency Fund Balance Reserve: Funds reserved under this category shall be used to mitigate costs associated with unforeseen emergencies, including natural disasters.
- Economic Uncertainty Unassigned-contingency Fund Balance Reserve: Funds designated to mitigate revenue shortfalls due to downturn in economic cycles, as well as reductions in revenues caused by actions from State/Federal governments, thereby avoiding the need for service-level reductions within the fiscal year. Should any unanticipated reductions in revenues be deemed to be recurring, adjustments will be made in the next budget cycle to reflect the revised revenue projections.

The General Fund reserve levels are as follows:

The City must commit to maintaining the unassigned fund balance at the stated 20% minimum based on the General Fund's annual operating expenditures (minus one-time expenditures).

The City must commit to maintaining the combined assigned and unassigned-contingency reserve fund balance at a minimum of \$5,000,000.

The General Fund Reserve Policy is reviewed by the City Council as part of the biannual operating budget review and adoption process. Appropriations of General Fund reserves require formal Council authorization.

At June 30, 2016, the City is in compliance with their Fund Balance Policy.

D. *Contingency Arrangements*

The City's annual budget requires the City to implement and maintain fund balance to handle any unforeseen contingencies in the future, rather than continued reliance on the City's operating General Fund reserves.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

These unforeseen contingencies include Economic Uncertainty, Catastrophes and Contingencies. As of June 30, 2016, the following are reported within the unassigned fund balance of the General Fund:

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

E. Fund Balance and Net Position Deficits

At June 30, 2016, the Alhambra Creek Improvements Capital Projects Fund had a deficit fund balance of \$17,840. Future revenues are expected to offset this fund deficit.

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Marina as a going concern. The Marina Services Enterprise Fund has an accumulated net deficit of \$3,387,680 as of June 30, 2016, made up primarily of State loans which the City has not had sufficient operating revenues to repay. The fund is used to account for the operation of the City's Marina. Management has taken steps to remedy this situation by privatizing the Marina and entering into an operating agreement with an independent company to manage the Marina. In fiscal year 2006-07, the State agreed to allow the City to make interest-only annual payments until August 2008, at which time the City commenced making principal payments on the loans. During fiscal year 2013 through 2016, the City was again unable to make principal payments on the loans. See discussion in Note 8. Contained in the loan agreements with the State is a provision which allows the State to take over the Marina with a 90 day notice. As of June 30, 2016, the City had not received such notice.

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

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 11 – PENSION PLAN

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

A. General Information about the Pension Plan

Plan Description – All qualified permanent and probationary employees are eligible to participate in the City's separate Safety (police), Miscellaneous (all other), and Miscellaneous Joint Facilities Agency Employee Rate Plans. The City's Safety, Miscellaneous, and Miscellaneous Joint Facilities Agency Rate Plans are part of the public agency cost-sharing multiple-employer defined benefit pension plan (PERF C), which is administered by the California Public Employees' Retirement System (CalPERS). PERF C consists of a miscellaneous pool and a safety pool (also referred to as "risk pools"), which are comprised of individual employer miscellaneous and safety rate plans, respectively. Individual employers may sponsor more than one miscellaneous and safety rate plan. The employer participates in one cost-sharing multiple-employer defined benefit pension plan regardless of the number of rate plans the employer sponsors. The City sponsors nine rate plans (6 miscellaneous and 3 safety). Benefit provisions under the Plan are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

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

The City's labor contracts of miscellaneous employees require the City to pay 4% of the employee contribution of 7% and the full employer contribution. The City's labor contracts for safety employees require the City to pay the full 9% of the employee contribution, with the employee paying 4% of the employer contribution.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 11 – PENSION PLANS (Continued)

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous		
	Tier 1	Tier 2**	PEPRA**
Hire date	Prior to July 1, 2012*	On or after July 1, 2012*	On or after January 1, 2013
Benefit formula	2% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 63	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.092% to 2.418%	1.000% to 2.500%
Required employee contribution rates	7%	7%	6.25%
Required employer contribution rates	8.512%	N/A	6.237%

	Miscellaneous Joint Facilities Agency		
	Tier 1	Tier 2	PEPRA
Hire date	Prior to July 1, 2012*	On or after July 1, 2012*	On or after January 1, 2013
Benefit formula	2% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 63	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.092% to 2.418%	1.000% to 2.500%
Required employee contribution rates	7%	7%	6.25%
Required employer contribution rates	8.512%	6.709%	6.237%

	Safety		
	Tier 1	Tier 2	PEPRA
Hire date	Prior to July 1, 2012*	On or after July 1, 2012*	On or after January 1, 2013
Benefit formula	3% @ 50	3% @ 55	2.7% @ 57
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 - 55	50 - 57
Monthly benefits, as a % of eligible compensation	3.0%	2.4% to 3.0%	2.0% to 2.7%
Required employee contribution rates	9%	9%	11.50%
Required employer contribution rates	18.524%	15.627%	11.153%

*A Classic PERS member is an employee who qualifies under one of the following categories:
 An employee who was brought into CalPERS membership for the first time prior to January 1, 2013. An employee that was hired after January 1, 2013, yet is eligible for reciprocity with another public retirement system. An employee who is hired by a different CalPERS employer after January 1, 2013, after a break in service of less than six months. An employee who is brought back by the same CalPERS employer, regardless of the length of the break in service.

**There were no employees in the Miscellaneous Tier 2 and PEPRA Plans as of the June 30, 2014 valuation date. Therefore the plans are not included in the net pension liability at June 30, 2016.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 11 – PENSION PLAN (Continued)

Beginning in fiscal year 2016, CalPERS collects employer contributions for the Plan as a percentage of payroll for the normal cost portion as noted in the rates above and as a dollar amount for contributions toward the unfunded liability and side fund. The dollar amounts are billed on a monthly basis. The City's required contribution for the unfunded liability and side fund was \$1,808,488 in fiscal year 2016.

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

For the year ended June 30, 2016, the contributions to the Plan were as follows:

	<u>Miscellaneous</u>	<u>Miscellaneous Joint Facilities Agency</u>	<u>Safety</u>	<u>Total</u>
Contributions - employer	\$152,716	\$1,097,873	\$2,116,539	\$3,367,128
Contributions - employee (paid by employer)	9,455	222,245	272,202	503,902

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

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

As of June 30, 2016, the City reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous	\$2,872,914
Miscellaneous - Joint Facilities Agency	8,242,482
Safety	18,343,345
Total Net Pension Liability	<u>\$29,458,741</u>

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 11 – PENSION PLAN (Continued)

The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The City's proportionate share of the net pension liability for the Plan as of June 30, 2014 and 2015 was as follows:

	Miscellaneous	Miscellaneous Joint Facilities Agency	Safety	Total
Proportion - June 30, 2014	0.10933%	0.31739%	0.44743%	0.87415%
Proportion - June 30, 2015	0.10472%	0.30044%	0.44518%	0.85034%
Change - Increase (Decrease)	-0.00461%	-0.01695%	-0.00225%	-0.02381%

For the year ended June 30, 2016, the City recognized pension expense of \$2,059,166. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 3,367,128	
Differences between actual and expected experience	49,251	\$ (185,253)
Changes in assumptions	-	(1,318,008)
Net differences between projected and actual earnings on plan investments	-	(665,415)
Change in proportion and differences between actual contributions and proportionate share of contributions	504,036	(2,093,352)
Total	\$ 3,920,415	\$ (4,262,028)

\$3,367,128 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Annual Amortization
2017	(\$1,875,164)
2018	(1,712,634)
2019	(949,620)
2020	828,676
2021	-
Thereafter	-

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 11 – PENSION PLAN (Continued)

Actuarial Assumptions – For the measurement period ended June 30, 2015, the total pension liability was determined by rolling forward the June 30, 2014 total pension liability. The June 30, 2015 total pension liability was based on the following actuarial methods and assumptions:

	All Plans (4)
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Projected Salary Increase	(1)
Investment Rate of Return	7.65% (2)
Mortality	Derived using CalPERS' Membership Data for all funds (3)
	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75 % thereafter
Post Retirement Benefit Increase	% thereafter

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

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

Change of Assumptions – GASB 68, paragraph 68 states that the long long-term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expense. The discount rate of 7.50 percent used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65 percent used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense. All other assumptions for the June 30, 2014 measurement date were the same as those used for the June 30, 2015 measurement date.

Discount Rate – The discount rate used to measure the total pension liability was 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 11 – PENSION PLAN (Continued)

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

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

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	<u>100%</u>		

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

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

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 11 – PENSION PLANS (Continued)

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

	Miscellaneous	Miscellaneous Joint Facilities Agency	Safety	Total
1% Decrease	6.65%	6.65%	6.65%	6.65%
Net Pension Liability	\$4,909,999	\$14,674,493	\$26,994,303	\$46,578,795
Current Discount Rate	7.65%	7.65%	7.65%	7.65%
Net Pension Liability	\$2,872,914	\$8,242,482	\$18,343,345	\$29,458,741
1% Increase	8.65%	8.65%	8.65%	8.65%
Net Pension Liability	\$1,191,064	\$2,932,110	\$11,249,720	\$15,372,894

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

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, 44 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, 49 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, 2016, those costs totaled \$955,995.

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.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

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 percent of the increase in the Kaiser premium.

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

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

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

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

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

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

Years of Service with the City	Percent of Health Insurance To be Paid by City
0 through 9 years	0%
10 through 14 years	25%
15 through 19 years	50%
20 through 24 years	75%
Over 25 years	100%

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

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

As of June 30, 2016, approximately 93 plan participants were eligible to receive retirement health care benefits.

A. *Funding Policy and Actuarial Assumptions*

The annual required contribution (ARC) was determined as part of a July 1, 2013 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 7.61% discount rate; (b) 3.25% projected annual salary increase, (c) inflation 3.00% and (d) 4.64% - 8.00% health inflation increases. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the City and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least biannually as results are compared to past expectations and new estimates are made about the future. The City's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a closed 30 year amortization period.

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

B. *Funding Progress and Funded Status*

Generally accepted accounting principles permits contributions to be treated as OPEB assets and deducted from the Actuarial Accrued Liability (AAL) when such contributions are placed in an irrevocable trust or equivalent arrangement.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

Annual required contribution (ARC)	(\$1,204,510)
Interest on net OPEB asset	327,744
Adjustment to annual required contribution	<u>(314,295)</u>
Annual OPEB cost	<u>(1,191,061)</u>
Contributions made:	
City portion of current year premiums paid	<u>955,995</u>
Total contributions	<u>955,995</u>
Change in net OPEB asset	(235,066)
Net OPEB Asset at June 30, 2015	<u>4,306,976</u>
Net OPEB Asset at June 30, 2016	<u><u>\$4,071,910</u></u>

The actuarial accrued liability (AAL) representing the present value of future benefits, included in the actuarial study dated July 1, 2013, amounted to \$17,039,752 and was partially funded since assets have been transferred into CERBT. The City's prior year contributions, the current year annual required contribution, along with investment income net of current year premiums resulted in assets with CERBT of \$9,011,110 as of June 30, 2016, which partially reduced the unfunded actuarial accrued liability. The Plan's annual OPEB cost and actual contributions for the fiscal year ended 2016 is set forth below. Multi-year trend information is presented in the required supplementary information immediately following the notes to the financial statements.

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of OPEB Cost Contributed	Net OPEB (Obligation) Asset
June 30, 2016	\$1,191,061	\$955,995	80%	\$4,071,910

The Schedule of Funding Progress below and the required supplementary information immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the most recent actuarial study is presented below:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	Unfunded (Overfunded) Actuarial Accrued Liability (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll [(B-A)/C]
July 1, 2013	\$7,257,908	\$17,039,752	\$9,781,844	42.59%	\$9,802,211	99.79%

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 13 – SOCIAL SECURITY

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

The City's part-time, seasonal, and temporary employees are covered under Social Security, which requires these employees and the City to each contribute 6.2% of the employees' pay. Total contributions to Social Security during the year ended June 30, 2016 amounted to \$115,415 of which the City paid \$57,708.

NOTE 14 – DEFERRED COMPENSATION PLAN

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

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

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 15 – RISK MANAGEMENT

A. Municipal Pooling Authority

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

Type of Coverage (Deductible)	Coverage Limits
Liability (\$25,000)	\$29,000,000
Employment Risk Management Authority (\$50,000)	2,000,000
Vehicle - Physical Damage (\$3,000 for police vehicles, \$2,000 for all others)	250,000
Government Crime (\$10,000)	1,000,000
Workers' Compensation (no deductible)	Statutory Limits
All Risk Fire & Property (\$25,000, except water claims \$150,000)	1,000,000,000
Earthquake (20% of replacement cost values, \$25,000 minimum)	7,333,058
Flood (\$100,000 per occurrence)	25,000,000
Boiler & Machinery (\$5,000)	100,000,000
Cyber Liability (\$50,000)	2,000,000
Public Entity Pollution Liability (\$100,000)	1,000,000

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

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

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

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

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:

	2016	2015
Beginning balance	\$80,000	\$80,000
Liability for current fiscal year claims	39,640	83,624
Increase (decrease) in liability for prior fiscal year claims and claims incurred but not reported (IBNR)	(28,311)	(50,591)
Claims paid	(11,329)	(33,033)
Ending balance	\$80,000	\$80,000

The amount of settled claims has not exceeded the City's maximum coverages in any of the past three years.

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.

CITY OF MARTINEZ
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 16 - COMMITMENTS AND CONTINGENCIES (Continued)

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, 2016 were as listed below:

	Amount
Governmental funds:	
General Fund	\$394,918
Measure H Capital Project Fund	796,756
Capital Improvements	3,138,363
Non-Major Governmental Funds	202,025
Total	\$4,532,062

C. Midhill/Morello Sales Tax Sharing Agreement

In fiscal year 1992, the City entered into a sales tax sharing agreement with Contra Costa County. The agreement became effective in fiscal year 1992 and the City is to make semi-annual payments each year equal to 60% of the total sales tax generated by the Midhill/Morello Annexation Area and received by the City. During fiscal year 2016, payments made to the County under the agreement totaled \$202,976.

D. Golden Gate Petroleum Sales Tax Sharing Agreement

In fiscal year 2010, the City entered into a sales tax sharing agreement with Golden Gate Petroleum. The agreement became effective in fiscal year 2010 and the City is to make quarterly payments each year equal to 60% of the total sales tax generated by Golden Gate Petroleum and received by the City. The agreement terminates on December 31, 2021, however there are two five year renewal options that may follow the termination date. During fiscal year 2016, payments made to Golden Gate Petroleum under the agreement totaled \$325,610.

E. Pleasant Hill-Martinez Joint Facilities Agency

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

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

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION

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

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

	Miscellaneous	Miscellaneous Joint Facilities	Miscellaneous	Miscellaneous Joint Facilities
Measurement Date:	6/30/2014	Agency 6/30/2014	6/30/2015	Agency 6/30/2015
Plan's proportion of the Net Pension Liability (Asset)	0.10933%	0.31739%	0.10472%	0.30044%
Plan's proportion share of the Net Pension Liability (Asset)	\$2,701,972	\$7,844,364	\$2,872,914	\$8,242,482
Plan's Covered Employee Payroll	\$259,522	\$6,828,544	\$355,081	\$6,015,665
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	1041.13%	118.10%	809.09%	137.02%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	83.03%	83.03%	80.79%	82.55%
Measurement Date:	Safety 6/30/2014	Safety 6/30/2015		
Plan's proportion of the Net Pension Liability (Asset)	0.44743%	0.44518%		
Plan's proportion share of the Net Pension Liability (Asset)	\$16,782,851	\$18,343,345		
Plan's Covered Employee Payroll	\$3,754,044	\$3,162,539		
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	447.06%	580.02%		
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	72.87%	70.93%		

* Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

REQUIRED SUPPLEMENTARY INFORMATION

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

SCHEDULE OF CONTRIBUTIONS

	Miscellaneous Joint		Miscellaneous Joint	
	Miscellaneous 2015	Facilities Agency 2015	Miscellaneous 2016	Facilities Agency 2016
Fiscal Year Ended June 30:				
Actuarially determined contribution	\$11,530	\$1,024,854	\$152,716	\$1,097,873
Contributions in relation to the actuarially determined contributions	(11,530)	(1,024,854)	(152,716)	(1,097,873)
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Covered-employee payroll	\$259,522	\$6,828,544	\$355,081	\$6,015,665
Contributions as a percentage of covered-employee payroll	4.44%	24.61%	43.01%	18.25%
	<u>Safety</u>	<u>Safety</u>		
Fiscal Year Ended June 30:	2015	2016		
Actuarially determined contribution	\$1,680,603	\$2,116,539		
Contributions in relation to the actuarially determined contributions	(1,680,603)	(2,116,539)		
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>		
Covered-employee payroll	\$3,754,044	\$3,162,539		
Contributions as a percentage of covered- employee payroll	44.77%	66.93%		
Notes to Schedule				
Valuation date:	6/30/2012	6/30/2013		

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Inflation	2.75%
Salary increases	3.3% to 14.2%, depending on Age, Service and type of employment
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are derived from CalPERS' Membership Data for all Funds based on CalPERS' specific data from a 2014 CalPERS Experience Study. The table includes 20 years of mortality improvements using the Society of Actuaries Scale BB.

* Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

REQUIRED SUPPLEMENTARY INFORMATION

POST-RETIREMENT HEALTH CARE DEFINED BENEFIT PLAN

SCHEDULE OF CONTRIBUTIONS

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of OPEB Cost Contributed	Net OPEB (Obligation) Asset
June 30, 2014	\$1,044,335	\$1,073,620	103%	\$4,285,285
June 30, 2015	1,144,904	1,166,595	102%	4,306,976
June 30, 2016	1,191,061	955,995	80%	4,071,910

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	Unfunded (Overfunded) Actuarial Accrued Liability (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll [(B-A)/C]
June 30, 2011	\$4,990,000	\$15,734,000	\$10,744,000	31.71%	\$10,735,000	100.08%
January 1, 2013	6,667,146	16,612,936	9,945,790	40.13%	9,802,211	101.46%
July 1, 2013	7,257,908	17,039,752	9,781,844	42.59%	9,802,211	99.79%

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Gas Tax Funds

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

NPDES Stormwater Fund

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

Measure J Fund

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

COPS Grant Fund

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

Housing In-Lieu Fund

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

PEG Access Fund

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

Recycling Fund

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

DEBT SERVICE FUND

Measure H Debt Service Fund

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

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.

CITY OF MARTINEZ
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2016

	SPECIAL REVENUE FUNDS			
	Gas Tax Funds	NPDES Stormwater Fund	Measure J Fund	COPS Grant Fund
ASSETS				
Cash and investments:				
Available for operations	\$454,226	\$719,029	\$1,392,214	\$326,803
Restricted				
Receivables:				
Accounts receivables (net of allowance for uncollectibles)				500
Intergovernmental			2,953	
Total Assets	<u>\$454,226</u>	<u>\$719,029</u>	<u>\$1,395,167</u>	<u>\$327,303</u>
LIABILITIES				
Accounts payable	\$7,843	\$39	\$2,496	\$4,390
Accrued wages and benefits		4,365		
Deposits				110,067
Advance from other funds				
Total Liabilities	<u>7,843</u>	<u>4,404</u>	<u>2,496</u>	<u>114,457</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - miscellaneous receivables				
FUND EQUITY				
Fund balances:				
Restricted	446,383	714,625	1,392,671	212,846
Unassigned				
Total Fund Balances (Deficit)	<u>446,383</u>	<u>714,625</u>	<u>1,392,671</u>	<u>212,846</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$454,226</u>	<u>\$719,029</u>	<u>\$1,395,167</u>	<u>\$327,303</u>

SPECIAL REVENUE FUNDS			DEBT SERVICE FUND	CAPITAL PROJECTS FUNDS		
Housing In-Lieu Fund	PEG Access	Recycling Fund	Measure H Debt Service Fund	Alhambra Creek Improvements	Lighting and Landscaping Fund	Total Nonmajor Governmental Funds
\$353,810	\$524,366	\$227,761	\$2,117,441		\$273,971	\$4,272,180
	15,026					2,117,441
		4,736		\$17,842		15,526
<u>\$353,810</u>	<u>\$539,392</u>	<u>\$232,497</u>	<u>\$2,117,441</u>	<u>\$17,842</u>	<u>\$273,971</u>	<u>\$6,430,678</u>
		\$2,990			\$1,050	\$18,808
				\$17,841		4,365
						110,067
				17,841		17,841
		2,990		17,841	1,050	151,081
				17,841		17,841
\$353,810	\$539,392	229,507	\$2,117,441	(17,840)	272,921	6,279,596
						(17,840)
<u>353,810</u>	<u>539,392</u>	<u>229,507</u>	<u>2,117,441</u>	<u>(17,840)</u>	<u>272,921</u>	<u>6,261,756</u>
<u>\$353,810</u>	<u>\$539,392</u>	<u>\$232,497</u>	<u>\$2,117,441</u>	<u>\$17,842</u>	<u>\$273,971</u>	<u>\$6,430,678</u>

CITY OF MARTINEZ
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016

	SPECIAL REVENUE FUNDS			
	Gas Tax Funds	NPDES Stormwater Fund	Measure J Fund	COPS Grant Fund
REVENUES				
Special assessments				
Licenses, permits, and fees				
Intergovernmental	\$817,190	\$492,588	\$1,172,017	\$338,943
Charges for services		626		
Fines and forfeits				5,166
Use of money and property	7,427	4,812	10,590	1,008
Miscellaneous		109		13,554
Total Revenues	<u>824,617</u>	<u>498,135</u>	<u>1,182,607</u>	<u>358,671</u>
EXPENDITURES				
Current:				
Administrative services				
Community & economic development	350,211	427,331	138,236	
Police				342,806
Debt Service:				
Principal				
Interest and fiscal charges				
Capital outlay				8,507
Total Expenditures	<u>350,211</u>	<u>427,331</u>	<u>138,236</u>	<u>351,313</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>474,406</u>	<u>70,804</u>	<u>1,044,371</u>	<u>7,358</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	32,048	34,753		
Transfers (out)	<u>(716,753)</u>	<u>(100,700)</u>	<u>(650,000)</u>	
Total Other Financing Sources (Uses)	<u>(684,705)</u>	<u>(65,947)</u>	<u>(650,000)</u>	
NET CHANGE IN FUND BALANCES	(210,299)	4,857	394,371	7,358
BEGINNING FUND BALANCES (DEFICIT)	<u>656,682</u>	<u>709,768</u>	<u>998,300</u>	<u>205,488</u>
ENDING FUND BALANCES (DEFICIT)	<u>\$446,383</u>	<u>\$714,625</u>	<u>\$1,392,671</u>	<u>\$212,846</u>

SPECIAL REVENUE FUNDS			DEBT SERVICE FUND	CAPITAL PROJECTS FUNDS		Total Nonmajor Governmental Funds
Housing In-Lieu Fund	PEG Access	Recycling Fund	Measure H Debt Service Fund	Alhambra Creek Improvements	Lighting and Landscaping Fund	
			\$1,913,527		\$122,761	\$2,036,288
		\$122				122
		82,415		\$6,001		2,909,154
		4,135				4,761
		12,096				17,262
\$2,752			10,328		1,937	38,854
	\$60,478	51,467				125,608
<u>2,752</u>	<u>60,478</u>	<u>150,235</u>	<u>1,923,855</u>	<u>6,001</u>	<u>124,698</u>	<u>5,132,049</u>
	16,450	207,238		80	103,711	223,688
						1,019,569
						342,806
			110,000			110,000
			1,126,363			1,126,363
						8,507
	16,450	207,238	1,236,363	80	103,711	2,830,933
2,752	44,028	(57,003)	687,492	5,921	20,987	2,301,116
					15,700	82,501
						(1,467,453)
					15,700	(1,384,952)
2,752	44,028	(57,003)	687,492	5,921	36,687	916,164
351,058	495,364	286,510	1,429,949	(23,761)	236,234	5,345,592
<u>\$353,810</u>	<u>\$539,392</u>	<u>\$229,507</u>	<u>\$2,117,441</u>	<u>(\$17,840)</u>	<u>\$272,921</u>	<u>\$6,261,756</u>

CITY OF MARTINEZ
 BUDGETED NON-MAJOR FUNDS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2016

	GAS TAX FUNDS			NPDES STORMWATER FUND		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Licenses, permits, and fees						
Intergovernmental	\$785,500	\$817,190	\$31,690	\$492,000	\$492,588	\$588
Charges for services				1,000	626	(374)
Fines and forfeits						
Use of money and property	1,000	7,427	6,427	800	4,812	4,012
Miscellaneous					109	109
Total Revenues	786,500	824,617	38,117	493,800	498,135	4,335
EXPENDITURES						
Current:						
Administrative services						
Community development	521,681	350,211	171,470	499,130	427,331	71,799
Police						
Capital outlay						
Total Expenditures	521,681	350,211	171,470	499,130	427,331	71,799
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	264,819	474,406	209,587	(5,330)	70,804	76,134
OTHER FINANCING SOURCES (USES)						
Transfers in	32,048	32,048		34,753	34,753	
Transfers (out)	(716,753)	(716,753)		(100,700)	(100,700)	
Total Other Financing Sources (Uses)	(684,705)	(684,705)		(65,947)	(65,947)	
NET CHANGE IN FUND BALANCES	(\$419,886)	(210,299)	\$209,587	(\$71,277)	4,857	\$76,134
BEGINNING FUND BALANCES		656,682			709,768	
ENDING FUND BALANCES		\$446,383			\$714,625	

MEASURE J FUND			COPS GRANT FUND			PEG ACCESS		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
\$593,290	\$1,172,017	\$578,727	\$360,169	\$338,943	(\$21,226)			
				5,166	5,166			
2,000	10,590	8,590	150	1,008	858			
			11,054	13,554	2,500	\$58,000	\$60,478	\$2,478
595,290	1,182,607	587,317	371,373	358,671	(12,702)	58,000	60,478	2,478
						65,000	16,450	48,550
222,193	138,236	83,957	439,591	342,806	96,785			
			37,118	8,507	28,611			
222,193	138,236	83,957	476,709	351,313	125,396	65,000	16,450	48,550
373,097	1,044,371	671,274	(105,336)	7,358	112,694	(7,000)	44,028	51,028
(650,000)	(650,000)							
(650,000)	(650,000)							
<u>(\$276,903)</u>	394,371	<u>\$671,274</u>	<u>(\$105,336)</u>	7,358	<u>\$112,694</u>	<u>(\$7,000)</u>	44,028	<u>\$51,028</u>
	998,300			205,488			495,364	
	<u>\$1,392,671</u>			<u>\$212,846</u>			<u>\$539,392</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, 2016

	RECYCLING FUND		
	Budget	Actual	Variance Positive (Negative)
REVENUES			
Licenses, permits, and fees	\$300	\$122	(\$178)
Intergovernmental	102,944	82,415	(20,529)
Charges for services	2,000	4,135	2,135
Fines and forfeits		12,096	12,096
Use of money and property			
Miscellaneous	46,500	51,467	4,967
Total Revenues	151,744	150,235	(1,509)
EXPENDITURES			
Current:			
Administrative services	327,864	207,238	120,626
Community development			
Police			
Capital outlay			
Total Expenditures	327,864	207,238	120,626
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(176,120)	(57,003)	119,117
OTHER FINANCING SOURCES (USES)			
Transfers (out)			
Total Other Financing Sources (Uses)			
NET CHANGE IN FUND BALANCES	(\$176,120)	(57,003)	\$119,117
BEGINNING FUND BALANCES		286,510	
ENDING FUND BALANCES		\$229,507	

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 Position.

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

Equipment Replacement

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

Management Information System

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

CITY OF MARTINEZ
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2016

	<u>Equipment Replacement</u>	<u>Management Information System</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and investments available for operations	\$918,150	\$621,685	\$1,539,835
Total Current Assets	<u>918,150</u>	<u>621,685</u>	<u>1,539,835</u>
Capital Assets:			
Equipment	3,929,506	403,917	4,333,423
Accumulated depreciation	<u>(2,806,058)</u>	<u>(400,072)</u>	<u>(3,206,130)</u>
	1,123,448	3,845	1,127,293
Construction in progress	<u>244,373</u>		<u>244,373</u>
Net Capital Assets	<u>1,367,821</u>	<u>3,845</u>	<u>1,371,666</u>
Total Assets	<u>2,285,971</u>	<u>625,530</u>	<u>2,911,501</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	176,370	4,304	180,674
Accrued liabilities	5,098	6,390	11,488
Accrued vacation and other fringe benefits	<u>31,959</u>	<u>29,769</u>	<u>61,728</u>
Total Liabilities	<u>213,427</u>	<u>40,463</u>	<u>253,890</u>
NET POSITION			
Net investment in capital assets	1,367,821	3,845	1,371,666
Unrestricted	<u>704,723</u>	<u>581,222</u>	<u>1,285,945</u>
Total Net Position	<u>\$2,072,544</u>	<u>\$585,067</u>	<u>\$2,657,611</u>

CITY OF MARTINEZ
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

	Equipment Replacement	Management Information System	Total
OPERATING REVENUES			
Charges for services	\$930,923	\$497,978	\$1,428,901
Other revenue	252	24,442	24,694
Total Operating Revenues	931,175	522,420	1,453,595
OPERATING EXPENSES			
Maintenance and repairs	707,616	533,339	1,240,955
Depreciation	230,387	10,704	241,091
Total Operating Expenses	938,003	544,043	1,482,046
Operating Income (Loss)	(6,828)	(21,623)	(28,451)
NONOPERATING REVENUES			
Interest income	6,869	4,781	11,650
Gain on disposal of equipment	2,392		2,392
Total Nonoperating Revenues	9,261	4,781	14,042
Income (Loss)	2,433	(16,842)	(14,409)
Change in Net Position	2,433	(16,842)	(14,409)
BEGINNING NET POSITION	2,070,111	601,909	2,672,020
ENDING NET POSITION	\$2,072,544	\$585,067	\$2,657,611

CITY OF MARTINEZ
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

	Equipment Replacement	Management Information System	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$933,015	\$522,420	\$1,455,435
Payments to suppliers	(386,753)	(340,162)	(726,915)
Payments to employees	(201,961)	(197,572)	(399,533)
	<u>344,301</u>	<u>(15,314)</u>	<u>328,987</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(330,030)	(5,607)	(335,637)
Proceeds from sale of equipment	2,392		2,392
	<u>(327,638)</u>	<u>(5,607)</u>	<u>(333,245)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest	6,869	4,781	11,650
	<u>6,869</u>	<u>4,781</u>	<u>11,650</u>
	23,532	(16,140)	7,392
Cash and investments at beginning of period	894,618	637,825	1,532,443
Cash and investments at end of period	<u>\$918,150</u>	<u>\$621,685</u>	<u>\$1,539,835</u>
Reconciliation of operating income (loss) to net cash flows from operating activities:			
Operating income (loss)	(\$6,828)	(\$21,623)	(\$28,451)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:			
Depreciation	230,387	10,704	241,091
Change in assets and liabilities:			
Accounts receivable	1,840		1,840
Accounts payable	129,865	(9,050)	120,815
Accrued wages and benefits	(1,925)	375	(1,550)
Accrued vacation and other fringe benefits	(9,038)	4,280	(4,758)
Cash Flows from Operating Activities	<u>\$344,301</u>	<u>(\$15,314)</u>	<u>\$328,987</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.

Sanitation District #6

To account for the operation and maintenance of the treatment facility in the Stonehurst subdivision.

CITY OF MARTINEZ
 AGENCY FUNDS
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE YEAR ENDED JUNE 30, 2016

	Balance June 30, 2015	Additions	Deductions	Balance June 30, 2016
<u>Alhambra Creek Assessment District</u>				
<u>Assets</u>				
Restricted cash and investments	\$217,432	\$109,682	\$110,097	\$217,017
Total assets	<u>\$217,432</u>	<u>\$109,682</u>	<u>\$110,097</u>	<u>\$217,017</u>
<u>Liabilities</u>				
Due to bondholders	\$217,432	\$109,682	\$110,097	\$217,017
Total liabilities	<u>\$217,432</u>	<u>\$109,682</u>	<u>\$110,097</u>	<u>\$217,017</u>
<u>Senior Center Club</u>				
<u>Assets</u>				
Restricted cash and investments	\$134,659	\$98,430	\$131,858	\$101,231
Prepays		2,250		2,250
Total assets	<u>\$134,659</u>	<u>\$100,680</u>	<u>\$131,858</u>	<u>\$103,481</u>
<u>Liabilities</u>				
Accounts payable	\$3,257	\$974	\$3,257	\$974
Deposits payable		6,818		6,818
Due to members	131,402	92,888	128,601	95,689
Total liabilities	<u>\$134,659</u>	<u>\$100,680</u>	<u>\$131,858</u>	<u>\$103,481</u>
<u>Sanitation District #6</u>				
<u>Assets</u>				
Restricted cash and investments		\$97,418	\$72,522	\$24,896
Total assets		<u>\$97,418</u>	<u>\$72,522</u>	<u>\$24,896</u>
<u>Liabilities</u>				
Accounts payable		\$5,734		\$5,734
Due to members		91,684	\$72,522	19,162
Total liabilities		<u>\$97,418</u>	<u>\$72,522</u>	<u>\$24,896</u>

CITY OF MARTINEZ
 AGENCY FUNDS
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE YEAR ENDED JUNE 30, 2016

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2016</u>
<hr/>				
Total Agency Funds				
<u>Assets</u>				
Restricted cash and investments	\$352,091	\$305,530	\$314,477	\$343,144
Prepays		2,250		2,250
Total assets	<u>\$352,091</u>	<u>\$307,780</u>	<u>\$314,477</u>	<u>\$345,394</u>
<u>Liabilities</u>				
Accounts payable	\$3,257	\$6,708	\$3,257	\$6,708
Deposits payable		6,818		6,818
Due to bondholders	217,432	109,682	110,097	217,017
Due to members	131,402	184,572	201,123	114,851
Total liabilities	<u>\$352,091</u>	<u>\$307,780</u>	<u>\$314,477</u>	<u>\$345,394</u>

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STATISTICAL SECTION

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

Financial Trends

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

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

Revenue Capacity

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

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

Debt Capacity

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

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

Demographic and Economic Information

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

1. Demographic and Economic Statistics
2. Principal Employers

Operating Information

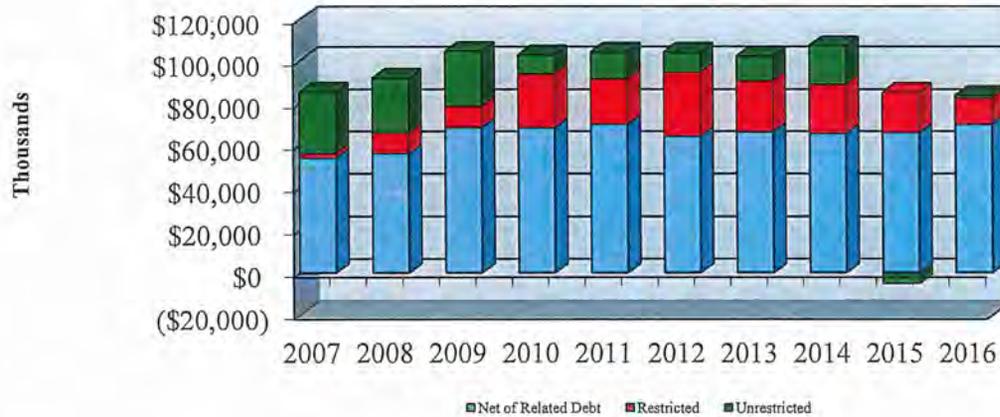
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

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

Sources

Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

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



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	Fiscal Year Ended June 30,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Governmental activities										
Net investment in capital assets	\$24,450,822	\$29,045,551	\$42,645,250	\$43,328,577	\$46,268,501	\$44,385,099	\$45,011,693	\$45,809,594	\$45,450,132	\$43,734,851
Restricted	1,647,325	3,091,564	2,947,166	17,697,648	13,524,459	18,207,558	16,908,562	12,532,439	11,108,552	10,781,624
Unrestricted	20,301,070	20,294,772	19,638,559	2,805,660	5,722,653	3,189,334	3,652,112	11,087,516	(13,666,690)	(8,401,847)
Total governmental activities net position	\$46,399,217	\$52,431,887	\$65,230,975	\$63,831,885	\$65,515,613	\$65,781,991	\$65,572,367	\$69,429,549	\$42,891,994	\$46,114,628
Business-type activities										
Net investment in capital assets	\$29,680,363	\$27,073,604	\$25,908,195	\$25,104,326	\$23,863,759	\$19,898,904	\$21,503,114	\$19,877,117	\$20,590,346	\$26,431,563
Restricted	473,896	6,613,067	7,224,675	7,620,488	7,941,902	12,086,217	7,116,866	10,711,495	8,016,662	1,306,401
Unrestricted	8,954,539	5,890,545	6,280,210	6,301,271	6,960,954	6,466,983	8,005,741	7,279,730	8,566,322	10,058,713
Total business-type activities net position	\$39,108,798	\$39,577,216	\$39,413,080	\$39,026,085	\$38,766,615	\$38,452,104	\$36,625,721	\$37,868,342	\$37,173,330	\$37,796,677
Primary government										
Net investment in capital assets	\$54,131,185	\$56,119,155	\$68,553,445	\$68,432,903	\$70,132,260	\$64,284,003	\$66,514,807	\$65,686,711	\$66,040,478	\$70,166,414
Restricted	2,121,221	9,704,631	10,171,841	25,318,136	21,466,361	30,293,775	24,025,428	23,243,934	19,125,214	12,088,025
Unrestricted	29,255,609	26,185,317	25,918,769	9,106,931	12,683,607	9,656,317	11,657,853	18,367,246	(5,100,368)	1,656,866
Total primary government net position	\$82,179,010	\$85,508,015	\$92,009,103	\$104,644,055	\$102,857,970	\$104,282,228	\$102,198,088	\$107,297,891	\$80,065,324	\$83,911,305

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

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

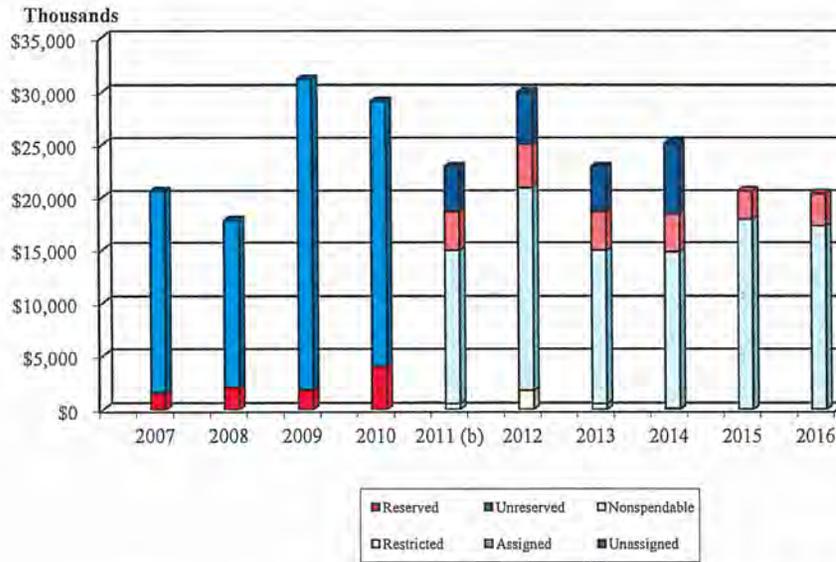
	Fiscal Year Ended June 30,									
	2007	2008	2009	2010	2011	2012	2013 (A)	2014	2015	2016
Expenses										
Governmental Activities:										
General Government	\$1,275,521	\$982,551	\$1,328,858	\$1,860,433	\$1,888,212	\$1,545,222	\$1,628,907	\$1,372,623	\$1,611,595	\$1,369,469
Nondepartmental Services	2,100,557	1,295,821	1,114,785							
Administrative Services	813,629	724,408	781,593	695,828	912,678	945,076	1,000,933	1,132,197	1,068,860	1,413,623
Public Works	931,263	3,515,810	3,369,089	3,842,513	4,181,381	3,466,780	3,975,144	3,790,730	3,886,364	5,020,506
Community & Economic Development	7,640,086	6,000,157	5,856,950	6,725,653	6,024,757	5,917,326	5,887,738	8,103,341	6,213,848	6,331,892
Police	9,048,033	9,660,925	9,853,949	10,616,620	10,665,218	10,483,295	10,932,911	10,993,156	10,113,586	10,857,018
Interest on Long-Term Debt	52,506	50,630	291,152	584,615	813,299	1,102,335	1,106,817	1,152,130	1,134,763	1,126,363
Total Governmental Activities Expenses	21,861,595	22,230,302	22,596,376	24,325,662	24,485,545	24,532,450	24,532,450	26,544,177	24,029,016	26,118,871
Business-Type Activities:										
Water System	10,221,974	10,068,412	10,317,436	10,200,676	9,891,686	10,782,125	10,854,257	10,849,585	11,521,664	10,870,282
Marina Services	441,823	797,453	345,533	388,591	558,512	410,669	707,155	253,902	210,585	227,217
Parking Services	375,634	391,841	454,122	451,488	483,876	365,585	232,110	229,773	200,029	240,781
Total Business-Type Activities Expenses	11,039,431	11,257,706	11,117,091	11,040,755	10,934,074	11,793,522	11,793,522	11,333,260	11,932,278	11,338,280
Total Primary Government Expenses	\$32,901,026	\$33,488,008	\$33,713,467	\$35,366,417	\$35,419,619	\$36,325,972	\$36,325,972	\$37,877,437	\$35,961,294	\$37,457,151
Program Revenues										
Governmental Activities:										
Charges for Services:										
General Government	\$127,720	\$48,383	\$27,359	\$32,079	\$26,863	\$29,694	\$37,921	\$58,935	\$54,962	\$67,270
Administrative Services					\$49,145	49,492	3,511	109,688	3,268	16879.00
Public Works	933,307	775,303	660,516	585,117	580,520	666,808	848,572	991,335	1,214,613	1,197,114
Community & Economic Development	1,149,605	954,885	731,853	549,109	547,115	708,532	1,143,313	1,921,226	1,108,481	1,066,618
Police	428,723	381,602	398,088	376,514	441,982	282,683	358,692	494,759	698,631	570,906
Operating Grants and Contributions	2,928,894	2,978,771	2,645,990	2,414,403	3,034,131	2,617,726	2,472,936	2,643,701	3,004,759	3,488,286
Capital Grants and Contributions	963,982	5,166,574	13,319,245	2,124,450	4,308,479	1,861,281	2,882,306	4,658,843	2,700,158	3,167,192
Total Governmental Activities Program Revenues	6,532,231	10,305,518	17,783,051	6,081,672	8,988,235	7,747,251	7,747,251	10,878,487	8,784,872	9,574,265
Business-Type Activities:										
Charges for Services:										
Water System	9,721,022	9,844,373	10,044,919	9,830,348	9,746,857	10,438,993	11,244,347	11,678,627	11,436,258	11,057,430
Marina Services	291,919	273,732	241,247	245,157	227,759	362,067	143,244	178,017	136,730	139,715
Parking Services	365,488	405,351	387,388	398,591	368,673	327,253	367,904	481,163	468,572	509,013
Operating Grants and Contributions										
Capital Grants and Contributions		430,343							1,019,923	
Total Business-Type Activities Program Revenues	10,378,429	10,953,799	10,673,554	10,474,096	10,343,289	11,128,313	11,755,495	12,337,807	13,061,483	11,706,158
Total Primary Government Program Revenues	\$16,910,660	\$21,259,317	\$28,456,605	\$16,555,768	\$19,331,524	\$17,344,529	\$19,502,746	\$23,216,294	\$21,846,355	\$21,280,423
Net (Expense)/Revenue										
Governmental Activities	(\$15,329,364)	(\$11,924,784)	(\$4,813,325)	(\$18,243,990)	(\$15,497,310)	(\$17,243,818)	(\$16,785,199)	(\$15,665,690)	(\$15,244,144)	(\$16,544,606)
Business-Type Activities	(661,002)	(303,907)	(443,537)	(566,659)	(590,785)	(430,096)	(38,027)	1,004,547	1,129,205	367,878
Total Primary Government Net Expense	(\$15,990,366)	(\$12,228,691)	(\$5,256,862)	(\$18,810,649)	(\$16,088,095)	(\$17,673,914)	(\$16,823,226)	(\$14,661,143)	(\$14,114,939)	(\$16,176,728)

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

	Fiscal Year Ended June 30,									
	2007	2008	2009	2010	2011	2012	2013 (A)	2014	2015	2016
General Revenues and Other Changes in Net Position										
Governmental Activities:										
Taxes:										
Property Taxes	\$6,749,316	\$6,778,683	\$6,833,240	\$6,440,055	\$6,413,918	\$6,262,596	\$6,154,962	\$6,603,214	\$7,165,086	\$7,755,254
Sales Taxes	2,845,391	2,910,391	2,548,963	2,890,078	3,216,371	3,239,219	3,544,810	3,775,971	3,088,342	4,017,775
State Tax Shift - ERAF III										
VLf Property Tax Swap	2,438,135	2,619,831	2,663,236	2,553,503	2,516,117	2,465,909	2,428,253	2,538,617	2,733,906	2,951,290
Other Taxes	2,639,579	2,502,998	2,475,992	2,363,498	2,257,290	2,667,102	2,779,809	4,424,621	2,175,417	2,144,745
Franchise Fees	1,377,064	1,432,161	1,380,404	1,355,211	1,356,952	1,379,610	1,468,924	1,516,127	1,546,295	1,624,289
Business Licenses									683,676	713,938
Intergovernmental	281,669	231,037	192,805	178,083	238,498	85,068	72,276	62,369	476,267	96,217
Investment Earnings	1,019,116	955,422	412,821	187,035	123,304	75,843	74,686	61,227	53,549	202,078
Miscellaneous	1,404,792	760,256	1,055,423	893,942	1,259,193	1,157,849	775,704	631,486	397,049	330,185
Gain on sale of capital assets						177,000		31,841	8,250	1,723
Transfers	138,832	(233,325)	49,529	(16,605)	(200,605)		(723,849)	(122,601)	(21,238)	(70,254)
Total Government Activities	<u>18,893,894</u>	<u>17,957,454</u>	<u>17,612,413</u>	<u>16,844,800</u>	<u>17,181,038</u>	<u>17,510,196</u>	<u>16,575,575</u>	<u>19,522,872</u>	<u>18,306,599</u>	<u>19,767,240</u>
Business-Type Activities:										
Other Taxes	56,545	63,240	64,263	61,579	67,403	62,620	70,237	69,169	67,888	67,481
Investment Earnings	507,764	475,760	263,207	82,093	63,307	52,965	45,531	46,304	43,074	117,734
Rents & Leases										
Miscellaneous			1,460							
Contributions				19,387						
Transfers	(138,832)	233,325	(49,529)	16,605	200,605		723,849	122,601	21,238	70,254
Total Business-Type Activities	<u>425,477</u>	<u>772,325</u>	<u>279,401</u>	<u>179,664</u>	<u>331,315</u>	<u>115,585</u>	<u>839,617</u>	<u>238,074</u>	<u>132,200</u>	<u>255,469</u>
Total Primary Government	<u>\$19,319,371</u>	<u>\$18,729,779</u>	<u>\$17,891,814</u>	<u>\$17,024,464</u>	<u>\$17,512,353</u>	<u>\$17,625,781</u>	<u>\$17,415,192</u>	<u>\$19,760,946</u>	<u>\$18,438,799</u>	<u>\$20,022,709</u>
Change in Net Position										
Governmental Activities	\$3,564,530	\$6,032,670	\$12,799,088	(\$1,399,090)	\$1,683,728	\$266,378	(\$209,624)	\$3,857,182	\$3,062,455	\$3,222,634
Business-Type Activities	(235,525)	468,418	(164,136)	(386,995)	(259,470)	(314,511)	801,590	1,242,621	1,261,405	623,347
Total Primary Government	<u>\$3,329,005</u>	<u>\$6,501,088</u>	<u>\$12,634,952</u>	<u>(\$1,786,085)</u>	<u>\$1,424,258</u>	<u>(\$48,133)</u>	<u>\$591,966</u>	<u>\$5,099,803</u>	<u>\$4,323,860</u>	<u>\$3,845,981</u>

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

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



	June 30,									
	2007	2008	2009	2010	2011 (b)	2012	2013	2014	2015	2016
General Fund										
Reserved	\$787,770	\$1,041,261	\$853,371	\$809,098						
Unreserved	14,531,543	9,618,304	8,973,975	7,692,426						
Nonspendable					536,597	526,565	\$75,090	\$77,969	\$67,211	\$71,212
Restricted					2,974	1,053				
Assigned					2,071,135	1,961,611	1,633,745	1,473,738	2,705,355	3,064,471
Unassigned					4,323,175	5,040,539	5,270,651	6,720,878	7,736,927	9,826,549
Total General Fund	\$15,319,313	\$10,659,565	\$9,827,346	\$8,501,524	\$6,933,881	\$7,529,768 (a)	\$6,979,486	\$8,272,585	\$10,509,493	\$12,962,232
All Other Governmental Funds										
Reserved	\$767,264	\$1,036,074	\$951,122	\$3,149,573						
Unreserved, reported in:										
Special revenue funds	781,421	2,014,107	1,789,329	1,837,726						
Capital project funds	3,747,215	4,087,770	18,567,181	15,641,080						
Unreserved										
Nonspendable						1,250,684			71,212	
Restricted					14,361,436	19,116,926	\$18,159,246	14,703,857	\$17,874,482	\$17,252,296
Assigned					1,668,389	2,179,333	1,981,587	2,177,057		
Unassigned					(48,017)	(41,976)	(35,473)	(29,644)	(23,761)	(17,840)
Total all other governmental funds	\$5,295,900	\$7,137,951	\$21,307,632	\$20,628,379	\$15,981,808	\$22,504,967	\$20,105,360	\$16,851,270	\$17,921,933	\$17,234,456

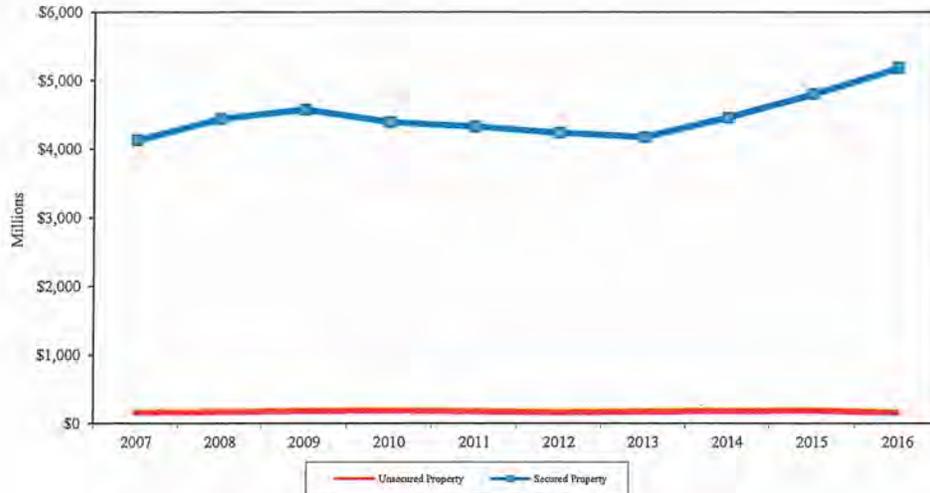
(a) The change in total fund balance for the General Fund and other governmental funds is explained in the Management's Discussion and Analysis.
(b) The City implemented the provisions of GASB Statement 54 in fiscal year 2011.

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

	Fiscal Year Ended June 30,			
	2007	2008	2009	2010
Revenues				
Taxes	\$16,049,485	\$16,244,064	\$15,901,834	\$15,602,345
Special assessments	618,402	592,675	593,327	1,391,343
Licenses, permits and fees	1,206,310	901,504	569,653	451,972
Intergovernmental revenues	3,366,831	7,854,354	14,976,879	3,985,583
Charges for services	769,834	714,089	716,173	562,189
Fines and forfeits	295,334	360,409	376,179	360,431
Use of money and property	967,531	907,560	403,693	249,043
Miscellaneous	1,755,786	942,321	1,126,603	911,374
Total Revenues	25,029,513	28,516,976	34,664,341	23,514,280
Expenditures				
Current:				
General government	1,249,523	1,055,630	1,327,384	1,324,418
Nondepartmental services	2,100,557	1,294,070	1,156,191	816,510
Administrative services	791,144	710,163	757,298	725,585
Public works	904,338	3,515,167	3,773,961	3,742,399
Community & economic development	6,664,397	4,899,818	4,975,417	5,321,903
Police	9,029,159	9,744,360	9,755,501	9,972,242
Capital outlay	1,288,687	5,488,729	14,524,632	2,295,078
Debt service:				
Principal repayment	200,000	205,000	215,000	220,000
Interest and fiscal charges	52,506	50,630	291,152	584,615
Total Expenditures	22,280,311	26,963,567	36,776,536	25,002,750
Excess (deficiency) of revenues over (under) expenditures	2,749,202	1,553,409	(2,112,195)	(1,488,470)
Other Financing Sources (Uses)				
Transfers in	1,623,555	1,837,479	1,514,146	609,610
Transfers (out)	(1,484,723)	(2,208,585)	(1,464,617)	(626,215)
Issuance of long-term debt			15,000,000	
Bond premium			400,128	
Sale of property				
Total other financing sources (uses)	138,832	(371,106)	15,449,657	(16,605)
Special Item:				
OPEB funding		(4,000,000)		
Loan to Martinez Unified School District				(500,000)
Net Change in fund balances	\$2,888,034	\$1,182,303	\$13,337,462	(\$1,505,075)
Debt service as a percentage of noncapital expenditures				
	1.2%	1.2%	2.3%	3.5%

Fiscal Year Ended June 30,					
2011	2012	2013	2014	2015	2016
\$15,809,271	\$16,063,061	\$16,376,758	\$17,310,873	\$17,392,721	\$19,207,291
2,110,101	2,131,149	2,103,941	1,667,428	1,865,833	2,036,288
537,305	599,672	1,073,745	1,984,339	1,204,818	947,244
5,536,564	2,351,629	3,074,644	6,735,114	5,204,168	4,773,110
470,550	658,908	771,351	1,168,252	1,054,933	1,233,169
429,593	260,961	328,365	533,779	422,704	467,825
172,727	131,211	136,927	178,395	165,951	321,512
1,281,478	1,338,225	840,525	687,225	362,590	417,198
<u>34,664,341</u>	<u>23,534,816</u>	<u>24,706,256</u>	<u>\$30,265,405</u>	<u>27,673,718</u>	<u>29,403,637</u>
1,312,555	1,119,861	1,232,407	1,189,903	1,311,797	1,234,239
1,712,090	1,140,089	1,248,093	1,206,920	1,151,381	1,389,052
816,218	881,894	913,886	933,807	1,037,182	1,568,815
3,627,781	3,551,258	3,764,743	3,569,702	3,754,724	3,657,350
4,162,888	3,692,811	3,741,772	5,832,338	3,675,189	3,589,532
10,013,872	9,651,789	10,064,111	10,013,626	9,444,399	10,738,380
9,332,495	6,766,413	2,724,783	7,655,369	2,596,686	4,083,178
570,000	595,000	885,000	550,000	310,000	110,000
813,299	1,102,335	1,106,817	1,152,130	1,134,763	1,126,363
<u>36,776,536</u>	<u>28,501,450</u>	<u>25,681,612</u>	<u>32,103,795</u>	<u>24,416,121</u>	<u>27,496,909</u>
<u>(2,112,195)</u>	<u>(4,966,634)</u>	<u>(975,356)</u>	<u>(1,838,390)</u>	<u>3,257,597</u>	<u>1,906,728</u>
963,037	1,135,700	529,742	377,353	2,467,091	1,690,301
(1,163,642)	(1,135,700)	(1,253,591)	(499,954)	(2,488,329)	(1,760,555)
	10,000,000				
	279,996				
	555,000				
<u>15,449,657</u>	<u>10,834,996</u>	<u>(723,849)</u>	<u>(122,601)</u>	<u>(21,238)</u>	<u>(70,254)</u>
<u>\$13,337,462</u>	<u>\$5,868,362</u>	<u>(\$1,699,205)</u>	<u>(\$1,960,991)</u>	<u>\$3,236,359</u>	<u>\$1,836,474</u>
6.0%	7.8%	8.7%	7.0%	6.7%	5.0%

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



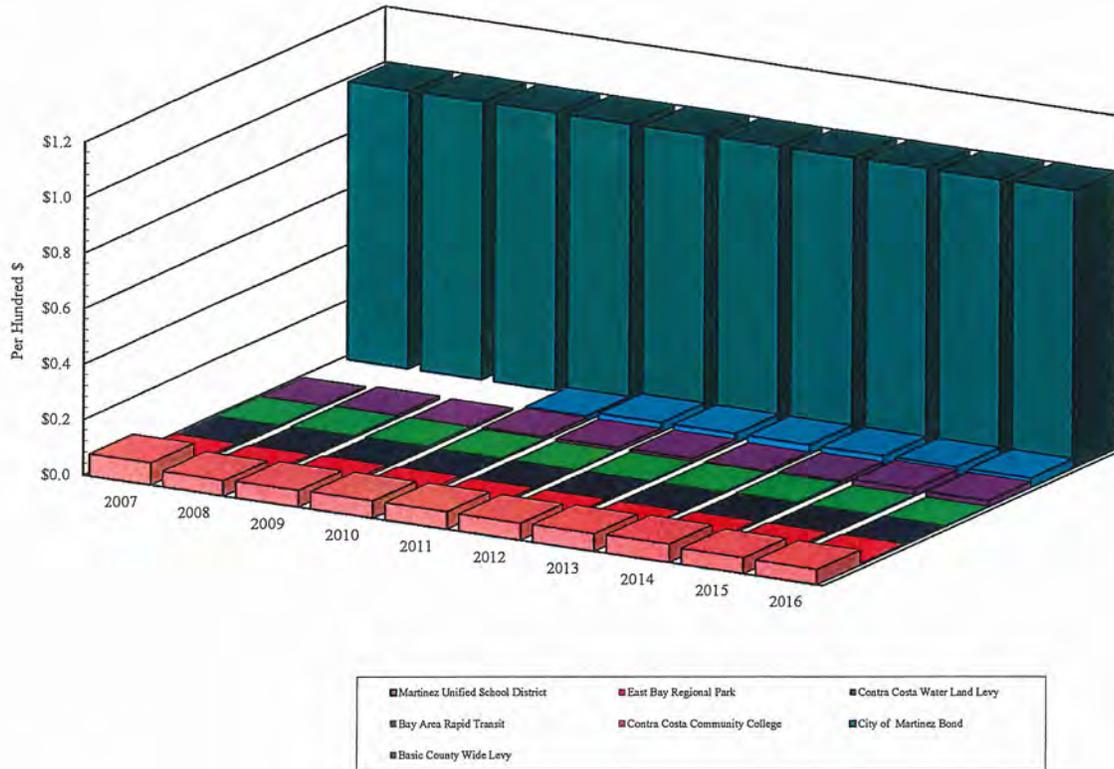
Fiscal Year	Real Property				Total Real Secured Property	Unsecured Property	Total Assessed (a)	Estimated Full Market (a)	Total Direct Tax Rate (b)
	Residential Property	Commercial Property	Industrial Property	Other					
2007	\$ 3,337,522,088	\$ 251,751,868	\$ 311,532,867	\$73,168,763	\$ 3,973,975,586	\$ 153,320,879	\$ 4,127,296,465	\$ 4,127,296,465	1%
2008	3,526,510,149	270,957,611	403,333,442	76,161,039	4,276,962,241	164,132,730	4,441,094,971	4,441,094,971	1%
2009	3,633,226,219	275,675,065	425,243,421	66,391,574	4,400,536,279	177,818,280	4,578,354,559	4,578,354,559	1%
2010	3,396,269,139	281,325,148	469,892,706	62,478,908	4,209,965,901	180,171,657	4,390,137,558	4,390,137,558	1%
2011	3,344,430,122	283,901,765	466,229,666	57,623,622	4,152,185,175	174,543,244	4,326,728,419	4,326,728,419	1%
2012	3,270,983,316	278,173,641	475,085,062	58,146,935	4,082,388,954	157,024,907	4,239,413,861	4,239,413,861	1%
2013	3,180,388,843	273,588,400	483,885,447	67,569,176	4,005,431,866	170,207,139	4,175,639,005	4,175,639,005	1%
2014	3,450,089,512	272,590,309	496,280,160	65,053,984	4,284,013,965	175,316,982	4,459,330,947	4,459,330,947	1%
2015	3,790,278,674	275,814,808	478,871,404	76,665,537	4,621,630,423	180,770,037	4,802,400,460	4,802,400,460	1%
2016	4,126,901,318	294,812,660	532,101,663	74,824,562	5,028,640,203	155,618,777	5,184,258,980	5,184,258,980	1%

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

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

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

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



Fiscal Year	Basic County Wide Levy	Bay Area Rapid Transit	Contra Costa Community College	Contra Costa Water Land Levy	East Bay Regional Park	Martinez Unified School District	City of Martinez Bond	Total
2007	\$1.0000	\$0.0050	\$ 0.0043	\$ 0.0043	\$ 0.0085	\$ 0.0794		\$ 1.1015
2008	1.0000	0.0076	0.0108	0.0039	0.0080	0.0557		1.0860
2009	1.0000	0.0090	0.0066	0.0041	0.0100	0.0597		1.0894
2010	1.0000	0.0057	0.0126	0.0048	0.0108	0.0619	\$0.0181	1.1139
2011	1.0000	0.0031	0.0133	0.0049	0.0084	0.0629	0.0347	1.1273
2012	1.0000	0.0041	0.0144	0.0051	0.0071	0.0608	0.0347	1.1262
2013	1.0000	0.0043	0.0087	0.0045	0.0051	0.0633	0.0347	1.1206
2014	1.0000	0.0075	0.0133	0.0042	0.0078	0.0658	0.0347	1.1333
2015	1.0000	0.0045	0.0252	0.0037	0.0085	0.0568	0.0347	1.1334
2016	1.0000	0.0026	0.0220	0.0035	0.0067	0.0550	0.0347	1.1245

Source: Contra Costa County Auditor Controller

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

<u>Fiscal Year</u>	<u>Water Sales</u>	<u>Total Operating Revenue</u>	<u>Percentage of Water Sales to Operating Revenue</u>
2007	\$ 9,215,311	\$ 9,721,022	94.80%
2008	9,523,618	9,844,373	96.74%
2009	9,603,050	10,046,379	95.59%
2010	9,484,712	9,830,348	96.48%
2011	9,413,940	9,746,857	96.58%
2012	10,058,440	10,438,993	96.35%
2013	10,688,120	11,244,347	95.05%
2014	10,902,108	11,678,627	93.35%
2015	10,166,736	11,436,258	88.90%
2016	10,215,923	11,057,430	92.39%

Source: City of Martinez Administrative Services Department

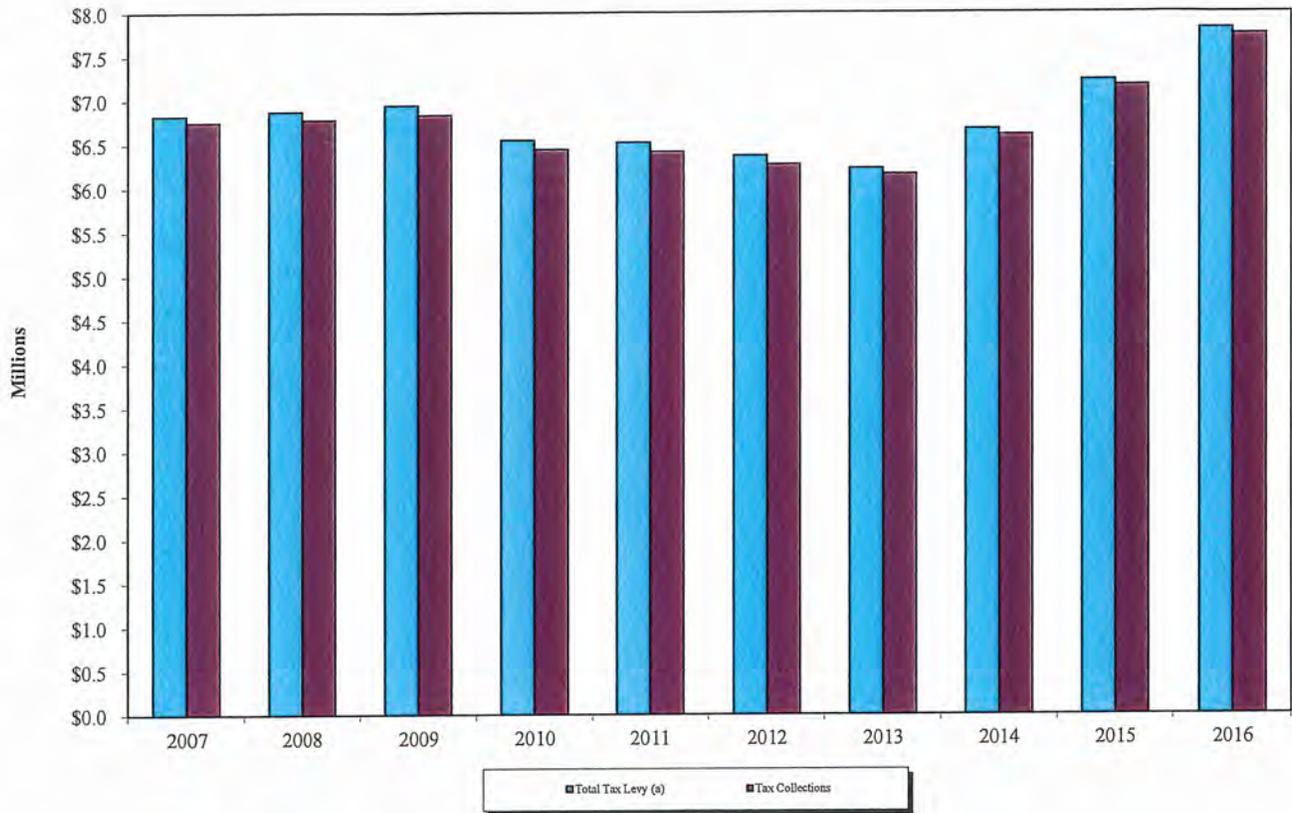
CITY OF MARTINEZ
Principal Property Tax Payers
Current Year and Nine Years Ago

Taxpayer	2015-16			2006-07		
	Taxable Assessed Value Secured & Unsecured	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value Secured & Unsecured	Rank	Percentage of Total City Taxable Assessed Value
Equilon Enterprises LLC	\$223,987,891	1	4.3%	\$141,978,365	1	3.4%
Pacific Atlantic Terminals LLC	149,019,038	2	2.9%	47,682,046	2	1.1%
Tesoro Refining & Marketing Company	55,073,219	3	1.1%			0.0%
Muirwood Square Investors	37,101,152	4	0.7%	17,399,025	8	
ECO Services Operations, LLC	30,410,000	5	0.6%			
Fairfield Hidden Creek LLC	22,219,435	6	0.4%			0.0%
Wal Mart Real Estate	20,576,215	7	0.4%	17,901,161	5	0.4%
Muir Station Center LLC	20,296,680	8	0.4%	17,849,998	6	0.4%
Rutherford Valley Ridge LLC	18,911,853	9	0.4%			0.0%
Marina Spill Response Corporation	16,141,922	10	0.3%	17,434,815	7	
Stauffer Chemical Company			0.0%	31,276,628	3	0.7%
Kenneth H. & Martha Hofmann Trust			0.0%	18,096,069	4	0.4%
Collier Village Oaks LLC			0.0%	14,267,659	9	0.3%
The Center - Martinez			0.0%	11,572,753	10	0.3%
Subtotal	\$593,737,405		11.5%	\$335,458,519		8.0%

Total Net Assessed Valuation:
Fiscal Year 2015-16 \$5,184,258,980
Fiscal Year 2005-2006 \$4,191,679,646

Source: HDL Coren & Cone

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



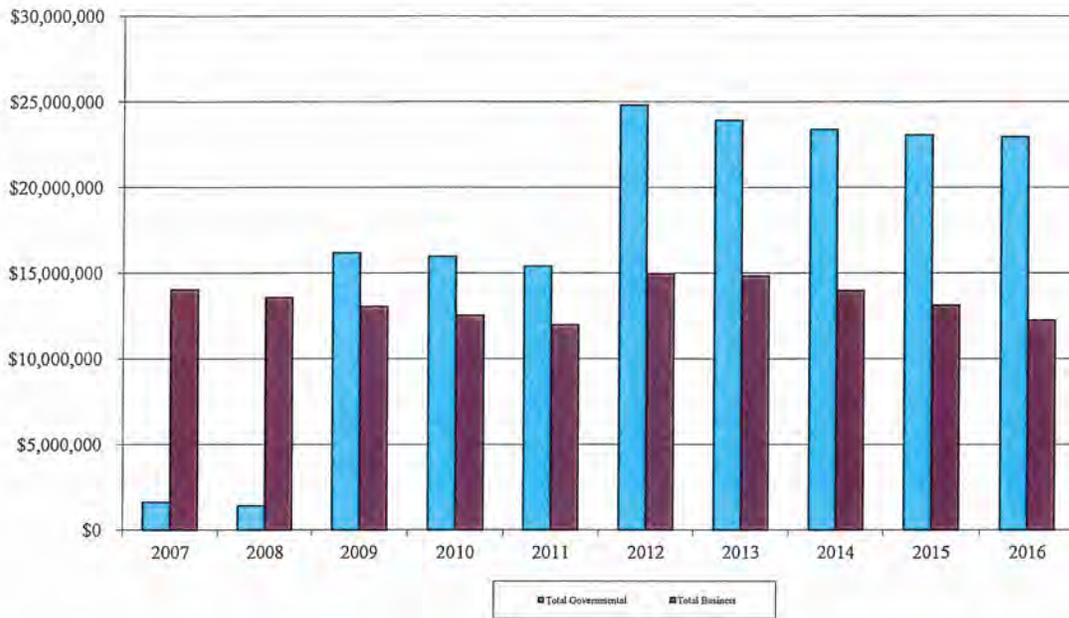
Fiscal Year	Total Tax Levy (a)	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	County Administrative Fee	Total Tax Collections	Percent of Total Tax Collections to Tax Levy
2007	\$6,822,167	\$6,822,167	100.00%	\$0	(\$72,851)	\$6,749,316	100.00%
2008	6,873,959	6,873,959	100.00%	0	(95,276)	6,778,683	100.00%
2009	6,946,652	6,946,652	100.00%	0	(113,412)	6,833,240	100.00%
2010	6,548,656	6,548,656	100.00%	0	(108,601)	6,440,055	100.00%
2011	6,517,643	6,517,643	100.00%	0	(103,726)	6,413,918	100.00%
2012	6,364,044	6,364,044	100.00%	0	(101,448)	6,262,596	100.00%
2013	6,218,195	6,218,195	100.00%	0	(63,233)	6,154,962	100.00%
2014	6,668,234	6,668,234	100.00%	0	(65,020)	6,603,214	100.00%
2015	7,227,747	7,227,747	100.00%	0	(62,661)	7,165,086	100.00%
2016	7,813,158	7,813,158	100.00%	0	(65,017)	7,748,141	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
2007		\$1,605,000	\$1,605,000		
2008		1,400,000	1,400,000		
2009	\$15,000,000	1,185,000	16,185,000	0.33%	\$412.68
2010	15,000,000	965,000	15,965,000	0.34%	409.13
2011	14,660,000	735,000	15,395,000	0.34%	409.13
2012	24,300,000	500,000	24,800,000	0.57%	407.70
2013	23,660,000	255,000	23,915,000	0.57%	670.81
2014	23,365,000		23,365,000	0.52%	635.97
2015	23,055,000		23,055,000	0.48%	616.71
2016	22,945,000		22,945,000	0.44%	619.23

Business-Type Activities						
Fiscal Year	Certificates of Participation	Loans Payable	Total	Total Primary Government	Percentage of Personal Income (a)	Per Capita
2007	\$9,735,000	\$4,300,680	\$14,035,680	\$15,640,680	0.78%	\$432.31
2008	9,265,000	4,300,680	13,565,680	14,965,680	0.72%	414.06
2009	8,780,000	4,264,958	13,044,958	14,444,958	0.70%	397.41
2010	8,280,000	4,247,215	12,527,215	28,492,215	1.40%	777.14
2011	7,760,000	4,228,497	11,988,497	27,383,497	1.34%	761.54
2012	10,805,000	4,146,224	14,951,224	39,751,224	1.78%	1,097.34
2013	10,647,884	4,171,723	14,819,607	38,096,723	1.64%	1,041.52
2014	9,780,632	4,197,223	13,977,855	37,342,855	(a)	1,016.44
2015	8,898,380	4,222,723	13,121,103	36,176,103	(a)	967.69
2016	7,996,130	4,248,223	12,244,353	35,189,353	(a)	949.68

(a) Personal Income data not available for fiscal years 2014 through 2015

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, 2016

2015-16 Assessed Valuation \$5,184,258,980

DIRECT LONG-TERM DEBT	Total Debt 06/30/16	(1) % Applicable	City's Share of Debt 6/30/16
City of Martinez	\$23,295,000	100.000%	\$23,295,000
Subtotal Direct Long-term Debt	23,295,000		23,295,000
OVERLAPPING TAX AND ASSESSMENT DEBT			
Bay Area Rapid Transit District	527,065,000	0.861%	4,538,030
East Bay Regional Park District	149,945,000	1.319%	1,977,775
Contra Costa Community College District	432,135,000	3.019%	13,046,156
Martinez Unified School District	43,795,548	57.713%	25,275,725
Mount Diablo Unified School District	449,332,785	5.284%	23,742,744
Mount Diablo Unified School District Community Facilities District #1	13,790,000	5.284%	728,664
Contra Costa County Certificates of Participation	253,715,570	3.008%	7,631,764
Contra Costa County Pension Obligations	212,765,000	3.008%	6,399,971
Contra Costa Community College District Certificates of Participation	525,000	3.019%	15,850
Contra Costa Fire Protection District Pension Obligations	84,695,000	6.541%	5,539,900
Subtotal Overlapping Long-term Debt	2,167,763,903		88,896,579
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			112,191,579 (2)
Less: Contra Costa County supported obligations			2,064,772
TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			\$110,126,807

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

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

RATIOS TO 2015-16 ASSESSED VALUATION:

Direct Debt	0.45%
Total Overlapping Debt	1.71%
Net Combined Total Debt	2.12%

Source: California Municipal Statistics, Inc.

**CITY OF MARTINEZ
COMPUTATION OF LEGAL BONDED DEBT MARGIN
JUNE 30, 2016**

ASSESSED VALUATION:

Secured property assessed value, net of
exempt real property \$5,184,258,980

BONDED DEBT LIMIT (3.75% OF ASSESSED VALUE) (a) \$194,409,712

AMOUNT OF DEBT SUBJECT TO LIMIT:

Total Bonded Debt 22,945,000

Less Tax Allocation Bonds and Sales Tax Revenue
Bonds, Certificate of Participation not subject to limit 0

Amount of debt subject to limit 22,945,000

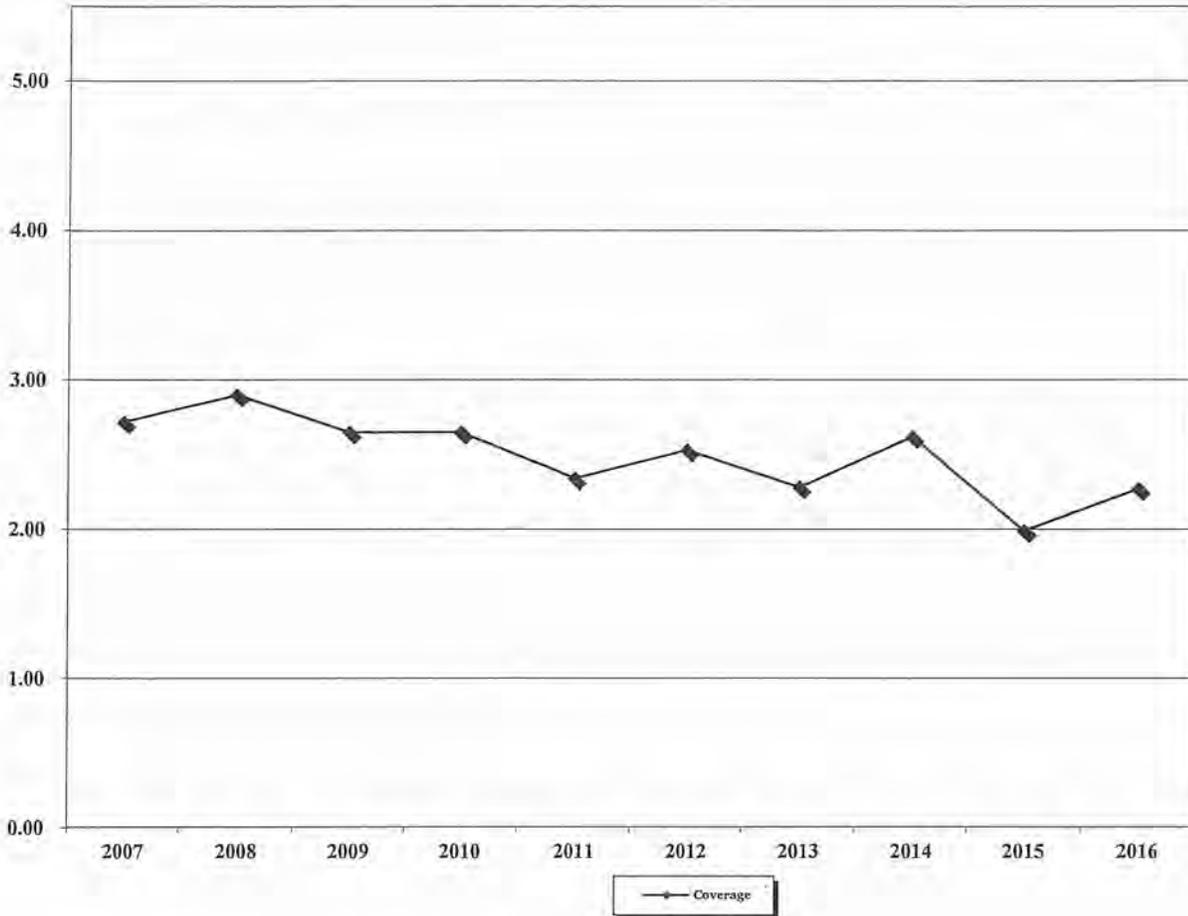
LEGAL BONDED DEBT MARGIN \$171,464,712

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
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%
2013	156,586,463	23,660,000	132,926,463	17.80%
2014	167,224,911	23,365,000	143,859,911	16.24%
2015	180,090,017	23,055,000	157,035,017	14.68%
2016	194,409,712	22,945,000	171,464,712	13.38%

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**



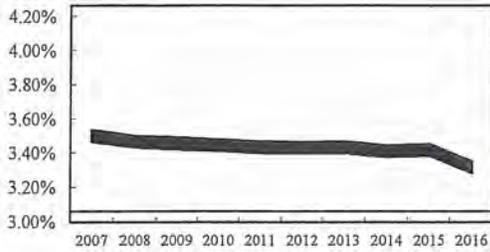
Fiscal Year	Gross Revenue (1)	Operating Expenses (2)	Net Revenue Available for Debt Service	Principal	Interest	Total	Coverage
2007	\$10,188,402	\$7,760,258	\$2,428,144	\$455,000	\$433,661	\$893,808	2.72
2008	10,287,823	7,706,998	2,580,825	470,000	423,808	891,326	2.90
2009	10,285,545	7,924,631	2,360,914	485,000	406,326	889,642	2.65
2010	9,906,086	7,823,809	2,082,277	500,000	389,642	889,642	2.65
2011	9,805,813	7,548,774	2,257,039	520,000	371,092	891,092	2.34
2012	10,488,260	8,318,126	2,170,134	345,000	181,771	890,698	2.53
2013	11,286,802	8,670,144	2,616,658	795,000	354,089	1,149,089	2.28
2014	11,722,012	8,703,244	3,018,768	820,000	332,370	1,152,370	2.62
2015	11,476,090	9,202,430	2,273,660	835,000	309,485	1,144,485	1.99
2016	11,160,659	8,571,619	2,589,040	855,000	285,799	1,140,799	2.27

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

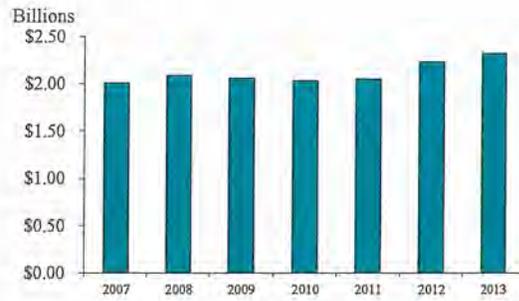
(2) Includes all Water Operating Expenses less Depreciation and Interest

Source: City of Martinez Annual Financial Statements

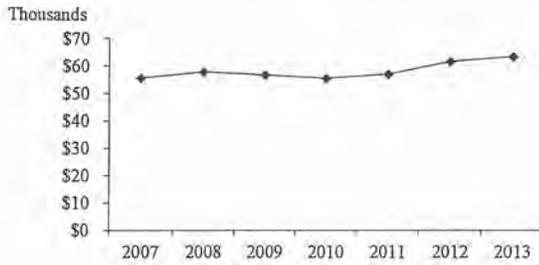
CITY OF MARTINEZ
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS



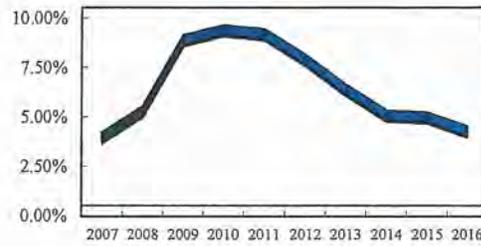
■ City Population as a % of County Population



■ Total Personal Income (\$)



◆ Per Capita Personal Income (\$)



■ 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
2007	36,179	\$2,010,828,820	\$55,580	3.7%	1,042,341	3.47%
2008	36,144	2,091,797,856	57,874	5.0%	1,051,674	3.44%
2009	36,348	2,061,040,644	56,703	8.6%	1,060,435	3.43%
2010	36,663	2,033,513,295	55,465	9.1%	1,073,055	3.42%
2011	35,958	2,050,001,538	57,001	8.9%	1,056,064	3.40%
2012	36,225	2,232,836,550	61,638	7.6%	1,065,117	3.40%
2013	36,578	2,319,154,934	63,403	6.1%	1,074,702	3.40%
2014	36,739	(b)	(b)	4.8%	1,086,553	3.38%
2015	37,384	(b)	(b)	4.7%	1,102,871	3.39%
2016	37,054	(b)	(b)	4.0%	1,126,745	3.29%

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 2014, 2015, and 2016 not available

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

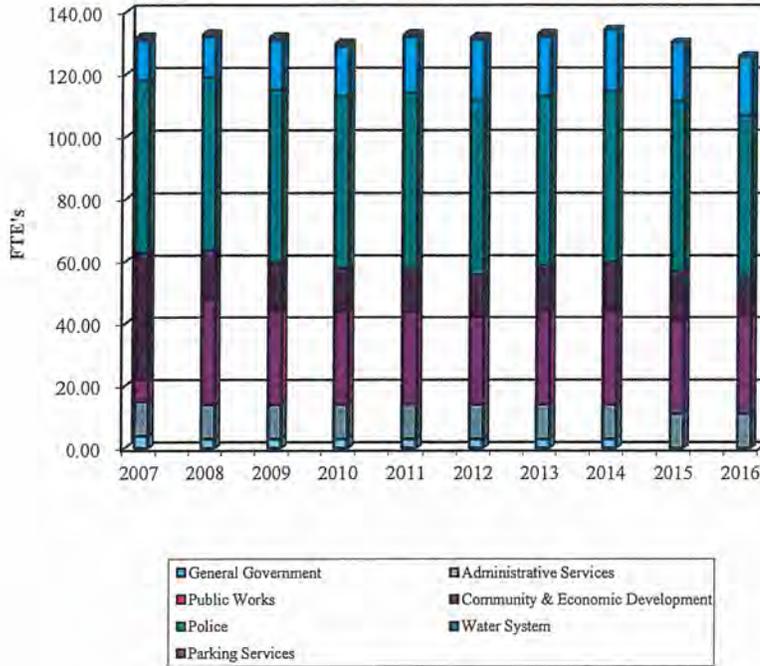
CITY OF MARTINEZ
Principal Employers
Current Year and Nine Years Ago

<u>Employer</u>	<u>2015-16</u>			<u>2006-07</u>		
	<u>Number of Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	<u>Number of Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
Contra Costa County (a)	9,273	1	45.46%	5,079	1	24.07%
Veterans Admin Medical Center	962	2	4.72%	661	4	3.13%
Kaiser Permanente	730	3	3.58%	1,097	2	5.20%
Shell Oil Refinery	702	4	3.44%	715	3	3.39%
Martinez Unified School District	696	5	3.41%	425	5	2.01%
Wal-Mart Store	275	6	1.35%	278	7	1.32%
Safeway Stores	190	7	0.93%			0.0%
Home Depot	125	8	0.61%	135	9	0.64%
City of Martinez	114	9	0.56%	129	10	0.61%
Brand Energy & Infrastructure Service	120	10	0.59%			0.0%
Contra Costa Electric				395	6	1.87%
California Grand Casino				145	8	0.69%
Total Top Employers	<u>13,187</u>		<u>64.64%</u>	<u>9,059</u>		<u>44.41%</u>
Total City Employment	<u>20,400</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



Function	June 30,										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
General Government	4.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	
Administrative Services	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	
Public Works	7.00	34.00	30.00	30.00	30.00	28.00	30.00	30.00	30.00	31.00	
Community & Economic Development	40.80	15.80	15.80	13.80	13.80	13.80	14.80	15.80	15.60	12.60	
Police	55.00	55.00	55.00	55.00	56.00	56.00	54.00	54.50	54.50	52.00	
Water System	13.00	13.00	16.00	16.00	18.00	19.00	19.00	20.00	19.00	19.00	
Parking Services	1.00	1.00	1.00	1.00	1.00	1.00	1.00				
Total	131.80	132.80	131.80	129.80	132.80	131.80	132.80	134.30	133.10	128.60	

Source: City of Martinez Administrative Services Department

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

Function/Program	Fiscal Year		
	2007	2008	2009
Public safety:			
Police:			
Police calls for Service	30,710	30,354	30,794
Law violations:			
Part I and Part II crimes	5,460	5,970	4,923
Physical arrests (adult and juvenile)	1,693	1,714	1,585
Traffic violations	1,642	1,340	2,598
Parking violations	5,929	8,895	8,790
 Public works			
Street resurfacing			
Seal Coat (miles)	5	5.60	3.41
Asphalt overlay (miles)	0.70	0.57	0.89
 Culture and recreation:			
Community Services:			
Number of recreation classes	595	596	462
Number of community events	55	55	67
Number of facility rentals	253	286	273
 Water			
Water service connections - active	9,739	9,745	9,751
Water main breaks	35	52	46
Average daily consumption (thousands of gallons)	5,214	4,948	4,663

Note: n/a denotes information not available.

Source: City of Martinez

Fiscal Year						
2010	2011	2012	2013	2014	2015	2016
29,463	27,501	24,700	27,584	28,782	32,234	32,234
4,343	4,079	3,612	3,857	3,854	3,802	3,802
1,655	1,622	1,162	1,348	1,417	1,394	1,394
2,985	1,738	1,040	1,012	1,464	886	886
8,864	9,226	3,143	7,554	12,153	9,739	9,739
14.75	0.00	0.00	0.00	1.82	0.10	0.10
1.70	1.90	0.50	0.87	0.15	0.10	0.10
504	458	520	726	730	720	720
69	72	72	150	162	170	170
290	416	263	521	532	660	660
9,755	9,767	9,777	9,768	9,807	9,846	9,846
38	34	40	52	33	23	23
3,970	3,470	3,594	3,770	3,779	3,829	3,829

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

Function/Program	Fiscal Year		
	2007	2008	2009
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	4,996	5,005
Traffic Signals	253	265	265
Culture and recreation:			
Community services:			
City parks	17	17	17
City parks acreage	271	271	271
Playgrounds	14	14	14
City trails	9	9	9
Roadway landscaping acreage	11	12	12
Community gardens	1	1	1
Senior centers	1	1	1
Performing arts centers	1	1	1
Swimming pools	1	1	1
Tennis courts	10	10	10
Skateboard Park	1	1	1
Baseball/softball diamonds	11	11	11
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						
2010	2011	2012	2013	2014	2015	2016
1	1	1	1	1	1	1
39	39	37	37	37	37	37
122	122	122	122	122	122	122
5,005	5,005	5,005	5,017	5,017	5,017	5,017
265	265	265	265	265	265	265
17	17	17	17	17	17	17
271	271	271	271	271	271	271
14	14	14	14	14	14	14
9	9	9	9	9	9	9
12	12	12	12	12	12	12
1	1	1	1	1	1	1
1	1	1	1	1	1	1
1	1	1	1	1	1	1
1	1	1	1	1	1	1
10	10	10	10	10	10	10
1	1	1	1	1	1	1
11	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, 2016

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**CITY OF MARTINEZ
WATER SYSTEM
ENTERPRISE FUND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

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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 Water System Enterprise Fund (Water System) of the City of Martinez as of and for the year ended June 30, 2016, and the related notes to the financial statements, as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water System Enterprise Fund of the City as of June 30, 2016, and the changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Management adopted the provisions of Governmental Accounting Standard Board Statement No. 72 – *Fair Value Measurement and Application*, which became effective during the year ended June 30, 2016 and required revisions to certain disclosures of the financial statements.

The emphasis of this matter does not constitute a modification to our opinions.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements. The Supplemental Information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Maze & Associates

Pleasant Hill, California
December 14, 2016

CITY OF MARTINEZ - WATER SYSTEM
ENTERPRISE FUND
STATEMENT OF NET POSITION
JUNE 30, 2016

ASSETS	
Current Assets:	
Cash and investments (Note 2):	
Available for operations	\$10,241,766
Restricted cash and cash equivalents	1,173,246
Accounts and other receivables	<u>1,440,677</u>
Total Current Assets	<u>12,855,689</u>
Noncurrent Assets:	
Capital assets - at cost (Note 1D):	
Buildings	20,317,394
Improvements other than buildings	1,012,554
Equipment	1,687,943
Infrastructure	<u>89,352,180</u>
Total Depreciable Capital Assets	112,370,071
Less: Accumulated depreciation	<u>(83,801,935)</u>
Land	630,912
Construction in progress	<u>7,928,440</u>
Total Capital Assets - net	<u>37,127,488</u>
Other Non-Current Assets:	
Loan receivable (Note 3)	<u>22,920</u>
Total Noncurrent Assets	<u>37,150,408</u>
Total Assets	<u>50,006,097</u>
DEFERRED OUTFLOWS OF RESOURCES	
Related to pensions (Note 7)	<u>240,049</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	692,652
Accrued liabilities	76,660
Deposits	<u>199,076</u>
Total Current Liabilities	<u>968,388</u>
Current Liabilities Payable from Restricted Assets:	
Accrued interest payable	25,036
Current portion of compensated absences (Note 1F)	147,000
Current maturities of certificates of participation (Note 6)	<u>890,000</u>
Total Current Liabilities Payable from Restricted Assets	<u>1,062,036</u>
Noncurrent Liabilities:	
Accrued compensated absences (Note 1F)	60,775
Certificates of participation (Note 6)	7,106,130
Net pension liability (Note 7)	<u>1,849,600</u>
Total Liabilities	<u>11,046,929</u>
DEFERRED INFLOWS OF RESOURCES	
Related to pensions (Note 7)	<u>433,576</u>
NET POSITION (Note 1C)	
Net investment in capital assets	29,131,358
Restricted for:	
Debt service	1,173,246
Unrestricted	<u>8,461,037</u>
Total Net Position	<u>\$38,765,641</u>

See accompanying notes to financial statements

CITY OF MARTINEZ - WATER SYSTEM
ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

OPERATING REVENUES	
Water sales	\$10,215,923
Rents and leases	75,790
Other fees	755
Charges for services	730,871
Other revenue	<u>34,091</u>
Total Operating Revenues	<u>11,057,430</u>
OPERATING EXPENSES	
Filtration plant	4,782,245
Maintenance, repairs and distribution	1,836,070
Administration	1,953,304
Depreciation and amortization	<u>2,077,731</u>
Total Operating Expenses	<u>10,649,350</u>
Operating income, net	<u>408,080</u>
NONOPERATING REVENUE (EXPENSE)	
Interest income	103,229
Interest expense	<u>(238,760)</u>
Income (loss) before transfers	<u>(135,531)</u>
Transfers in (Note 4)	<u>20,254</u>
Change in Net Position	292,803
Net position at beginning of year	<u>38,472,838</u>
Net position at end of year	<u><u>\$38,765,641</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, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$10,873,261
Payments to suppliers	(7,681,500)
Payments to employees	(521,132)
Rent and lease payments received	<u>34,091</u>
 Cash Flows from Operating Activities	 <u>2,704,720</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers in	<u>20,254</u>
 Cash Flows from NonCapital Financing Activities	 <u>20,254</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(6,943,510)
Principal payments on capital debt	(855,000)
Interest paid	<u>(285,799)</u>
 Cash Flows from Capital and Related Financing Activities	 <u>(8,084,309)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>103,229</u>
 Cash Flows from Investing Activities	 <u>103,229</u>
 Net Cash Flows	 (5,256,106)
 Cash and investments at beginning of period	 <u>16,671,118</u>
 Cash and investments at end of period	 <u><u>\$11,415,012</u></u>
Financial Statement Presentation:	
Cash and Investments	\$10,241,766
Restricted Cash and Cash Equivalents	<u>1,173,246</u>
 Total	 <u><u>\$11,415,012</u></u>
Reconciliation of Operating Income to Cash Flows	
from Operating Activities:	
Operating income	\$408,080
Adjustments to reconcile operating income to cash flows	
from operating activities:	
Depreciation	2,077,731
Change in assets and liabilities:	
Accounts and other receivables	(148,643)
Accounts payable and accrued liabilities	100,921
Deposits	150,886
Accrued compensated absences	(24,760)
Unearned revenue	(1,435)
Retirement system	<u>141,940</u>
 Cash Flows from Operating Activities	 <u><u>\$2,704,720</u></u>

See accompanying notes to the financial statements

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**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

B. Basis of Presentation

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

C. Basis of Accounting

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

Statement of Net Position – The statement of net position is designed to display the financial position of the Water System. The Water System's fund equity is segregated into three categories defined as follows:

- **Net Investment in Capital Assets** – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and deferred outflows of resources; reduced by the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets. This net position is considered non-expendable.
- **Restricted Net Position** – This component of net position consists of constraints placed on net position used through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments. It also pertains to constraints imposed by law or constitutional provisions or enabling legislation.
- **Unrestricted Net Position** – This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets". Amounts included as unrestricted net position are available for designation for specific purposes as established by the City Council.

Statement of Revenues, Expenses and Changes in Net Position – The statement of revenues, expenses and changes in net position is the operating statement for proprietary funds. Revenues are reported by major source. These statements distinguish between operating and non-operating revenues and expenses and present a separate subtotal for operating revenues, operating expenses, and operating income.

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Capital Assets

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

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

E. Premium

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

F. Compensated Absences

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

The changes of the compensated absences were as follows:

	Business-Type Activities
Beginning Balance	\$232,535
Additions	179,553
Payments	(204,313)
Ending Balance	\$207,775
Current Portion	\$147,000

G. Use of Estimates

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

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Deferred Outflows/Inflows of Resources

In additions to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow resources (expense/expenditure) until then. The Water System has one item that qualifies for reporting in this category, related to pensions.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. The separate financial element, *deferred inflows of resources*, represents an acquisition of net position that applies to future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Water System has one item that qualifies for reporting in this category, related to pensions.

I. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The City categorizes its fair value measurements within the fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

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
For the Year Ended June 30, 2016**

NOTE 2- CASH AND INVESTMENT (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	30 days	A
U.S. Treasury Obligations	N/A	N/A
U.S. Agency Securities and U.S. Government Sponsored Enterprise	N/A	N/A
State Obligations	N/A	Second Highest Rating Category
Commercial Paper	270 days	A-1
Negotiable Certificates of Deposit	N/A	N/A
Time Certificates of Deposit	N/A	N/A
Shares of Beneficial Interest	N/A	Top Rating Category
Money Market Funds	N/A	Aam
Bankers' Acceptances	360 days	A-1
California Local Agency Investment Fund (LAIF Pool)	Upon Demand	N/A
California Asset Management Program (CAMP)	Upon Demand	N/A

As of June 30, 2016, the City had investments in CalTrust Short Term Fund. However, CalTrust is not included as an allowable investment in the City's Investment Policy. As a result, the City is not in compliance with its investment policy.

As of June 30, 2016, Restricted Assets consisted of \$1,173,246 of investments in Certificates of Deposit and cash deposits, which are reported using Level 1, inputs (cost).

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, 2016 the loan balance was \$262,010 of which \$22,920 is owed to the Water System Enterprise Fund.

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 4 – TRANSFER FROM THE CITY

During the fiscal year ended June 30, 2016, the City’s General Fund transferred \$20,254 to the Water System Fund to fund operations.

NOTE 5 – RATE SCHEDULES

Monthly service charges, service line and meter installation fees and consumption rates are as follows for fiscal year 2016:

Meter Size (Inches)	Monthly Service Charges	Service Line Installation Charges	Meter Installation Charges	
5/8	\$28.30	\$2,914.84	\$182.18	
1	63.65	2,914.84	364.36	
1-1/2	122.58	3,643.55	447.16	
2	193.29	3,643.55	620.50	
3	381.79	Actual Costs	Actual Costs	
4	593.88			
6	1,183.01			
8	2,125.61			
10	3,421.66			
<u>Consumption Rate</u>	<u>Zone 1</u>	<u>Zone 2</u>	<u>Zone 3</u>	<u>Zone 4</u>
Per hundred cubic feet	\$3.91	\$4.15	\$4.31	\$4.57

NOTE 6 – CERTIFICATES OF PARTICIPATION

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

A. Current Year Transactions and Balances

	Original Issue Amount	Balance at June 30, 2015	Retirements	Balance at June 30, 2016	Current Portion
Certificates of Participation:					
2003 Refinancing Project, 2-4%, due 12/01/18	\$5,595,000	\$1,675,000	\$395,000	\$1,280,000	\$415,000
2012 Refunding Water System Improvements, 2-4%, due 12/01/26	8,025,000	6,680,000	460,000	6,220,000	475,000
Plus: Unamortized bond premium	696,947	543,380	47,250	496,130	
Total Enterprise Long-Term Debt		<u>\$8,898,380</u>	<u>\$902,250</u>	<u>\$7,996,130</u>	<u>\$890,000</u>

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 6 – CERTIFICATES OF PARTICIPATION (Continued)

B. 2003 Certificates of Participation

On March 11, 2003, the City issued Certificates of Participation (COPs) in the amount of \$7,795,000 to refund and retire the outstanding 1992 City Hall Refurbishment Certificates of Participation and the 1993 Water System Improvements Certificates of Participation. The portion of the 2003 COPs used to refund the 1993 COPS have been recorded in the Water System Fund as they are payable from lease revenues derived from the operation of the water system repayable from fund resources. Interest payments on the 2003 COPs are due semiannually on June 1 and December 1, and annual principal payments are due on December 1. The Water System's total principal and interest remaining to be paid on the bonds is \$1,356,534. The Water System's principal and interest paid for the current year is \$452,649.

C. 2012 Certificates of Participation

On February 10, 2012, the City issued Certificates of Participation (COPs) in the amount of \$8,025,000 to refund the 1999 COP for the acquisition and construction of improvements to the City's existing municipal water system. Semi-annual interest payments are due on June 1 and December 1 of each year, and annual principal payments are due on December 1. Interest and principal payments are payable from net revenues derived from the operation of the water system. The total principal and interest remaining to be paid on the certificates is \$7,613,375. The City's principal and interest paid for the current fiscal year is \$688,150.

The City has pledged future Water System Enterprise Fund revenues, net of specified operating expenses, to repay the installment agreement portion of the 2003 COPs and the 2012 Certificates of Participation through 2027. Annual principal and interest payments on the 2003 bonds are expected to require less than 14.46 percent and 2.11% percent of net water revenues. Annual principal and interest payments on the 2012 bonds are expected to require less than 16.84% percent and 8.35% percent of net water revenues. The Water Fund's total principal and interest remaining to be paid on the bonds is \$8,969,909. The Water Fund's principal and interest paid for the current year and total customer net revenues were \$ 1,140,799 and \$2,730,980 respectively. The City is in compliance with its debt covenants for the year ended June 30, 2016.

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 6 – CERTIFICATES OF PARTICIPATION (Continued)

D. Debt Service Requirements

Annual debt service requirements are shown below:

For the Year Ending June 30	Business-type Activities	
	Principal	Interest
2017	\$890,000	\$258,528
2018	920,000	227,681
2019	940,000	195,725
2020	520,000	171,650
2021	535,000	155,825
2022-2026	3,020,000	447,000
2027	675,000	13,500
Total	7,500,000	\$1,469,909
Plus: Unamortized Bond Premium	496,130	
Gross Long-term debt	\$7,996,130	

E. Authorized but Unissued Debt

The City has previously issued Water Revenue Bonds authorized by the electorate at a bond election held on June 7, 1966. Series A, B, and C Bonds in the amount of \$3,250,000 were previously issued and have been fully retired. \$1,400,000 remains authorized but unissued as of June 30, 2016.

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 7 – PENSION PLAN

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

A. General Information about the Pension Plans

Plan Description – All qualified permanent and probationary employees are eligible to participate in the City's Miscellaneous and Miscellaneous Joint Facilities Agency Employee Pension Rate Plan. The City's Miscellaneous and Safety Rate Plans are part of the public agency cost-sharing multiple-employer defined benefit pension plan (PERF C), which is administered by the California Public Employees' Retirement System (CalPERS). PERF C consists of a miscellaneous pool and a safety pool (also referred to as "risk pools"), which are comprised of individual employer miscellaneous and safety rate plans, respectively. Individual employers may sponsor more than one miscellaneous and safety rate plan. The employer participates in one cost-sharing multiple-employer defined benefit pension plan regardless of the number of rate plans the employer sponsors. The City sponsors six rate plans (six miscellaneous plans). Benefit provisions under the Plan are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

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

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 7 – PENSION PLAN (Continued)

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

The Plan's provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous		
	Tier 1	Tier 2**	PEPRA**
	Prior to July 1, 2012*	On or after July 1, 2012*	On or after January 1, 2013
Hire date			
Benefit formula	2% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 63	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.092% to 2.418%	1.000% to 2.500%
Required employee contribution rates	7%	7%	6.25%
Required employer contribution rates	8.512%	N/A	6.237%

	Miscellaneous Joint Facilities Agency		
	Tier 1	Tier 2	PEPRA
	Prior to July 1, 2012*	On or after July 1, 2012*	On or after January 1, 2013
Hire date			
Benefit formula	2% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 63	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.092% to 2.418%	1.000% to 2.500%
Required employee contribution rates	7%	7%	6.25%
Required employer contribution rates	8.512%	6.709%	6.237%

*A Classic PERS member is an employee who qualifies under one of the following categories:
An employee who was brought into CalPERS membership for the first time prior to January 1, 2013.
An employee that was hired after January 1, 2013, yet is eligible for reciprocity with another public retirement system. An employee who is hired by a different CalPERS employer after January 1, 2013, after a break in service of less than six months. An employee who is brought back by the same CalPERS employer, regardless of the length of the break in service.

**There were no employees in the Miscellaneous Tier 2 and PEPRA Plans as of the June 30, 2014 valuation date. Therefore the plans are not included in the net pension liability at June 30, 2016.

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 7 – PENSION PLAN (Continued)

Beginning in fiscal year 2016, CalPERS collects employer contributions for the Plan as a percentage of payroll for the normal cost portion as noted in the rates above and as a dollar amount for contributions toward the unfunded liability and side fund. The dollar amounts are billed on a monthly basis. The System's required contribution for the unfunded liability and side fund was \$65,067 in fiscal year 2016.

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

For the year ended June 30, 2016, the contributions to the Plan were as follows:

	<u>Miscellaneous</u>	<u>Miscellaneous Joint Facilities Agency</u>	<u>Total</u>
Contributions - employer	\$10,690	\$219,575	\$230,265
Contributions - employee (paid by employer)	662	44,449	45,111

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

As of June 30, 2016, the Water System reported a net pension liability for its proportionate share of the net pension liability of the Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous Joint Facilities Agency	\$1,648,496
Miscellaneous	201,104
Total Net Pension Liability	<u><u>\$1,849,600</u></u>

The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The City's proportionate share of the net pension liability for the Plan as of June 30, 2014 and 2015 was as follows:

	<u>Miscellaneous</u>	<u>Miscellaneous Joint Facilities Agency</u>	<u>Total</u>
Proportion - June 30, 2014	0.00000%	0.06415%	0.06415%
Proportion - June 30, 2015	0.00733%	0.06009%	0.06742%
Change - Increase (Decrease)	<u>0.00733%</u>	<u>-0.00406%</u>	<u>0.00327%</u>

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 7 – PENSION PLAN (Continued)

For the year ended June 30, 2016, the Water System recognized pension expense of \$245,311. At June 30, 2016, the Water System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 230,265	
Differences between actual and expected experience	9,784	
Changes in assumptions	-	\$ (92,564)
Net differences between projected and actual earnings on plan investments	-	(46,403)
Change in proportion and differences between actual contributions and proportionate share of contributions	-	(294,609)
	\$ 240,049	\$ (433,576)
Total	\$ 240,049	\$ (433,576)

\$230,265 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Annual Amortization
2017	(\$214,849)
2018	(189,745)
2019	(78,512)
2020	59,314
2021	-
Thereafter	-

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 7 – PENSION PLAN (Continued)

Actuarial Assumptions – For the measurement period ended June 30, 2015, the total pension liability was determined by rolling forward the June 30, 2014 total pension liability. The June 30, 2015 total pension liability was based on the following actuarial methods and assumptions:

	All Plans (4)
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Projected Salary Increase	(1)
Investment Rate of Return	7.65% (2)
Mortality	Derived using CalPERS' Membership Data for all funds (3) Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75 % thereafter
Post Retirement Benefit Increase	% thereafter

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

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

Change of Assumptions – GASB 68, paragraph 68 states that the long long-term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense. All other assumptions for the June 30, 2014 measurement date were the same as those used for the June 30, 2015 measurement date.

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 7 – PENSION PLAN (Continued)

Discount Rate – The discount rate used to measure the total pension liability was 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

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

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

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	<u>100%</u>		

- (a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 7 – PENSION PLAN (Continued)

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

	Miscellaneous Joint Facilities - Agency	Miscellaneous	Total
1% Decrease	6.65%	6.65%	6.65%
Net Pension Liability	\$2,937,833	\$15,712	\$2,953,545
Current Discount Rate	7.65%	7.65%	7.65%
Net Pension Liability	\$1,648,496	\$201,104	\$1,849,600
1% Increase	8.65%	8.65%	8.65%
Net Pension Liability	\$587,008	\$3,811	\$590,819

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

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, 2016, those costs totaled \$44,675 for the Water System.

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

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

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

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

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

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

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

Years of Service with the City	Percent of Health Insurance To be Paid by City
0 through 9 years	0%
10 through 14 years	25%
15 through 19 years	50%
20 through 24 years	75%
Over 25 years	100%

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

As of June 30, 2016, there were approximately 9 Water System’s employees that were eligible to receive retirement health care benefits.

A. Funding Policy and Actuarial Assumptions

The annual required contribution (ARC) was determined as part of a July 1, 2013 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 7.61% discount rate; (b) 3.25% projected annual salary increase, (c) inflation 3.0% and (d) 4.64%-8.0% 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
For the Year Ended June 30, 2016**

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.

B. Funding Progress and Funded Status

Generally accepted accounting principles permits contributions to be treated as OPEB assets and deducted from the Actuarial Accrued Liability (AAL) when such contributions are placed in an irrevocable trust or equivalent arrangement. During the fiscal year ended June 30, 2016, the City contributed the ARC amounting to \$1,204,510 to the Plan which represented 12.3% of the \$9,802,211 of covered payroll. The City also contributed additional funds to CERBT representing funds accumulated in prior years in the City’s General Fund. As a result, the City has recorded the Net OPEB Asset, representing the difference between the ARC, the amortization of the Net OPEB Asset and actual contributions, as presented on the following page.

Annual required contribution (ARC)	(\$1,204,510)
Interest on net OPEB asset	327,744
Adjustment to annual required contribution	<u>(314,295)</u>
Annual OPEB cost	<u>(1,191,061)</u>
Contributions made:	
City portion of current year premiums paid	<u>955,995</u>
Total contributions	<u>955,995</u>
Change in net OPEB asset	(235,066)
Net OPEB Asset at June 30, 2015	<u>4,306,976</u>
Net OPEB Asset at June 30, 2016	<u><u>\$4,071,910</u></u>

Note: balances are shown gross for the entire City; the Water System is only charged its share.

The actuarial accrued liability (AAL) representing the present value of future benefits, included in the actuarial study dated July 1, 2013 amounted to \$17,039,752 and was partially funded since assets have been transferred into CERBT. The City’s prior year contributions, the current year annual required contribution, along with investment income net of current year premiums resulted in assets with CERBT of \$7,257,908 as of June 30, 2016, which partially reduced the unfunded actuarial accrued liability.

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

The Plan's annual OPEB cost and actual contributions for the fiscal year ended 2016 is set forth below. Multi-year trend information is presented in the required supplementary information immediately following the notes to the financial statements.

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB (Obligation) Asset</u>
June 30, 2016	\$1,191,061	\$955,995	80%	\$4,071,910

The Schedule of Funding Progress below and the required supplementary information immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the most recent actuarial study is presented below:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Entry Age Actuarial Accrued Liability (B)</u>	<u>Unfunded (Overfunded) Actuarial Accrued Liability (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll [(B-A)/C]</u>
July 1, 2013	\$7,257,908	\$17,039,752	\$9,781,844	42.59%	\$9,802,211	99.79%

NOTE 9 – DEFERRED COMPENSATION PLAN

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

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

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 10 - INSURANCE

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

Insurance coverage through the Municipal Pooling Authority is as follows:

Type of Coverage (Deductible)	Coverage Limits
Liability (\$25,000)	\$29,000,000
Employment Risk Management Authority (\$50,000)	2,000,000
Vehicle - Physical Damage (\$3,000 for police vehicles, \$2,000 for all others)	250,000
Government Crime (\$10,000)	1,000,000
Worker's Compensation (no deductible)	Statutory Limits
All Risk Fire & Property (\$25,000, except water claims \$150,000)	1,000,000,000
Earthquake (20% replacement cost values, \$25,000 minimum)	7,333,058
Flood (\$100,000 per occurrence)	25,000,000
Boiler & Machinery (\$5,000)	100,000,000
Cyber Liability (\$50,000)	2,000,000
Public Entity Pollution Liability (\$100,000)	1,000,000

**CITY OF MARTINEZ – WATER SYSTEM
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Pleasant Hill-Martinez Joint Facilities Agency

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

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

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REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION

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

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

Measurement Date:	Miscellaneous Joint Facilities Agency 6/30/2014	Miscellaneous Joint Facilities Agency 6/30/2015	Miscellaneous 6/30/2015
Plan's proportion of the Net Pension Liability (Asset)	0.06415%	0.06009%	0.00733%
Plan's proportion share of the Net Pension Liability (Asset)	\$1,585,346	\$1,648,496	\$201,104
Plan's Covered Employee Payroll	\$1,380,049	1,203,133	\$24,856
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	118.10%	137.02%	809.08%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	83.03%	82.55%	80.79%

* Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

REQUIRED SUPPLEMENTARY INFORMATION

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

SCHEDULE OF CONTRIBUTIONS

Fiscal Year Ended June 30:	Miscellaneous Joint Facilities Agency 2015	Miscellaneous Joint Facilities Agency 2016	Miscellaneous 2016
Actuarially determined contribution	\$207,123	\$219,575	\$10,690
Contributions in relation to the actuarially determined contributions	(207,123)	(219,575)	(10,690)
Contribution deficiency (excess)	\$0	\$0	\$0
 Covered-employee payroll	 \$1,380,049	 \$1,203,133	 \$24,856
 Contributions as a percentage of covered-employee payroll	 15.01%	 18.25%	 43.01%

Notes to Schedule

Valuation date:	6/30/2012	6/30/2013	6/30/2013
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Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Inflation	2.75%
Salary increases	3.3% to 14.2%, depending on Age, Service and type of employment
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are derived from CalPERS' Membership Data for all Funds based on CalPERS' specific data from a 2014 CalPERS Experience Study. The table includes 20 years of mortality improvements using the Society of Actuaries Scale BB.

* Fiscal year 2015 was the 2nd year of implementation, therefore only two years are shown.

REQUIRED SUPPLEMENTARY INFORMATION

POST-RETIREMENT HEALTH CARE DEFINED BENEFIT PLAN

SCHEDULE OF CONTRIBUTIONS

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of OPEB Cost Contributed	Net OPEB (Obligation) Asset
June 30, 2014	\$1,044,335	\$1,073,620	103%	\$4,285,285
June 30, 2015	1,144,904	1,166,595	102%	4,306,976
June 30, 2016	1,191,061	955,995	80%	4,071,910

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	Unfunded (Overfunded) Actuarial Accrued Liability (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll [(B-A)/C]
June 30, 2011	\$4,990,000	\$15,734,000	\$10,744,000	31.71%	\$10,735,000	100.08%
January 1, 2013	6,667,146	16,612,936	9,945,790	40.13%	9,802,211	101.46%
July 1, 2013	7,257,908	17,039,752	9,781,844	42.59%	9,802,211	99.79%

SUPPLEMENTAL INFORMATION

CITY OF MARTINEZ - WATER SYSTEM
ENTERPRISE FUND
SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	Filtration Plant	Maintenance, Repairs and Distribution	Administration
Salaries	\$657,411	\$540,334	\$179,333
Salaries - overtime and temporary	76,569	92,439	74,983
Fringe benefits	395,074	289,774	304,471
Retirement medical	-	-	48,675
Labor provided by other departments, net	(315)	85,701	236,384
Rent and utilities	358,912	158,581	-
Communications	4,481	37,259	1,269
Operating supplies	118,118	225,674	2,073
Travel and entertainment	138	413	73
Dues and subscriptions	2,207	1,084	-
Office supplies	5,580	1,714	23,259
Postage	-	-	5,744
Equipment rental	53,166	200,750	20,454
Repairs and maintenance	26,188	32,822	-
Professional fees	178,348	101,696	215,050
Raw water and chemicals purchase	2,864,877	-	-
Training	3,430	2,003	340
Contractual services	-	4,605	63,391
Operating charges by other departments	-	31,121	311,685
Insurance	38,061	30,100	29,559
Tax in lieu	-	-	436,561
	<u>\$4,782,245</u>	<u>\$1,836,070</u>	<u>\$1,953,304</u>

CITY OF MARTINEZ
MARINA SERVICES ENTERPRISE FUND
FOR THE YEAR ENDED
JUNE 30, 2016

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

**Financial Statements
For the Year Ended June 30, 2016**

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Marina Services Enterprise Fund (Marina) of the City of Martinez as of and for the year ended June 30, 2016, and the related notes to the financial statements, as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marina Services Enterprise Fund of the City as of June 30, 2016, and the changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Marina will continue as a going concern. As discussed in Note 2 to the financial statements, the Marina Services Enterprise Fund has an accumulated net deficit of \$3,387,680 as of June 30, 2016 made up primarily of State loans which the City has not had sufficient operating revenues to pay. During the fiscal year ended June 30, 2016, the City did not pay the principal portion of the State loans during the fiscal year as discussed in Note 7. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Emphasis of a Matter

Management adopted the provisions of Governmental Accounting Standards Board Statement No. 72 – *Fair Value Measurement and Application*, which became effective during the year ended June 30, 2016 and required revisions to certain disclosures of the financial statements.

The emphasis of this matter does not constitute a modification to our opinions.

Other Matter

As discussed in Note 1, the financial statements present only the Marina Services Enterprise Fund and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2016, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements. The Supplemental Information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Pleasant Hill, California
December 14, 2016

CITY OF MARTINEZ - MARINA SERVICES
ENTERPRISE FUND
STATEMENT OF NET POSITION
JUNE 30, 2016

ASSETS

Current Assets:

Cash and cash equivalents (Note 3)	\$210,596
Receivables:	
Accounts	<u>75</u>
Total Current Assets	<u>210,671</u>

Noncurrent Assets:

Capital assets - at cost (Note 1D):	
Buildings	308,594
Less: accumulated depreciation	<u>(297,179)</u>
Depreciable capital assets, net	<u>11,415</u>
Land	<u>1,052,455</u>
Total Capital Assets - net	<u>1,063,870</u>
Total Assets	<u>1,274,541</u>

LIABILITIES

Current Liabilities:

Accounts payable	8,233
Deposits	46,867
Accrued interest	57,811
Unearned revenue (Note 5)	301,087
Current portion of loans payable (Note 7)	<u>233,059</u>
Total Current Liabilities	<u>647,057</u>

Noncurrent Liabilities:

Loans payable (Note 7)	<u>4,015,164</u>
Total Noncurrent Liabilities	<u>4,015,164</u>

NET POSITION (DEFICIT) (Note 1C)

Net investment in capital assets	(3,184,353)
Unrestricted	<u>(203,327)</u>
Total Net Position (Deficit) (Note 2)	<u><u>(\$3,387,680)</u></u>

See accompanying notes to financial statements

CITY OF MARTINEZ - MARINA SERVICES
ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

OPERATING REVENUES	
Rents and leases (Note 9)	\$139,540
Charges for services	<u>175</u>
Total Operating Revenues	<u>139,715</u>
OPERATING EXPENSES	
Administration	87,465
Maintenance and repair	45,296
Depreciation	<u>5,707</u>
Total Operating Expenses	<u>138,468</u>
Operating Income	<u>1,247</u>
NON OPERATING REVENUES (EXPENSE)	
Interest income	1,332
Interest expense	(88,749)
Taxes	<u>16,182</u>
Total Non Operating Revenues (Expense)	<u>(71,235)</u>
Income (Loss) Before transfers	(69,988)
Transfers (Note 4)	<u>50,000</u>
Change in Net Position	(19,988)
Net Position (Deficit) at Beginning of Year	<u>(3,367,692)</u>
Net Position (Deficit) at End of Year	<u><u>(\$3,387,680)</u></u>

See accompanying notes to financial statements

CITY OF MARTINEZ - MARINA SERVICES
ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$135,130
Payments to suppliers	<u>(135,820)</u>
Cash Flows from Operating Activities	<u>(690)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Taxes received	16,182
Transfers in	<u>50,000</u>
Cash Flows from Noncapital Financing Activities	<u>66,182</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Interest paid	<u>(65,253)</u>
Cash Flows from Capital and Related Financing Activities	<u>(65,253)</u>
CASH FLOWS FROM CAPITAL AND RELATED INVESTING ACTIVITIES	
Interest	<u>1,332</u>
Cash Flows from Investing Activities	<u>1,332</u>
Net Cash Flows	1,571
Cash and Investments at Beginning of Period	<u>209,025</u>
Cash and Investments at End of Period	<u><u>\$210,596</u></u>
Reconciliation of Operating Income to Cash Flows from Operating Activities:	
Operating income	\$1,247
Adjustments to reconcile operating loss to cash flows:	
Depreciation	5,707
Change in assets and liabilities:	
Accounts receivable	3,779
Accounts payable and other liabilities	(3,059)
Unearned revenue	<u>(8,364)</u>
Cash Flows from Operating Activities	<u><u>(\$690)</u></u>

See accompanying notes to financial statements

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CITY OF MARTINEZ – MARINA SERVICES
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

C. Basis of Accounting

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

Statement of Net Position – The statement of net position is designed to display the financial position of the Marina. The Marina's fund equity is segregated into three categories defined as follows:

- **Net Investment in Capital Assets** – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets. This net position is considered non-expendable.
- **Restricted Net Position** – This component of net position consists of constraints placed on net position used through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments. It also pertains to constraints imposed by law or constitutional provisions or enabling legislation.
- **Unrestricted Net Position** – This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets". Amounts included as unrestricted net position are available for designation for specific purposes as established by the City Council.

CITY OF MARTINEZ – MARINA SERVICES
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement of Revenues, Expenses and Changes in Net Position – The statement of revenues, expenses and changes in net position is the operating statement for proprietary funds. Revenues are reported by major source. These statements distinguish between operating and non-operating revenues and expenses and present a separate subtotal for operating revenues, operating expenses, and operating income.

D. Capital Assets

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

Buildings	30-40 years
Improvements	50 years

E. Use of Estimates

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

F. Deferred Outflows/Inflows of Resources

In additions to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow resources (expense/expenditure) until then. The Marina does not have any items that qualify for reporting in this category this fiscal year.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. The separate financial element, *deferred inflows of resources*, represents an acquisition of net position that applies to future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Marina does not have any items that qualify for reporting in this category this fiscal year.

**CITY OF MARTINEZ – MARINA SERVICES
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

NOTE 2 – CONTINUED OPERATION

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Marina as a going concern. The Marina Services Enterprise Fund has an accumulated net deficit of \$3,387,680 as of June 30, 2016 made up primarily of State loans which the City has not had sufficient operating revenues to repay. The fund is used to account for the operation of the City's Marina. Management has taken steps to remedy this situation by privatizing the Marina and entering into an operating agreement with an independent company to manage the Marina. In fiscal year 2006-07, the State agreed to allow the City to make interest-only annual payments until August 2008, at which time the City commenced making principal payments on the loans. During fiscal years 2013, 2014, 2015 and 2016 the City was again unable to make principal payments on the loans. See discussion in Note 7. Contained in the loan agreements with the State is a provision which allows the State to take over the Marina with a 90 day notice. As of June 30, 2016, the City had not received such notice.

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

**CITY OF MARTINEZ – MARINA SERVICES
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

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 – TRANSFER FROM THE CITY

During the fiscal year ended June 30, 2016, the City's General Fund transferred \$50,000 to the Marina System Enterprise Fund to fund operations.

NOTE 5 – 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 \$301,087 at June 30, 2016.

**CITY OF MARTINEZ – MARINA SERVICES
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 6 – MARINA FEES

Monthly berthing fees and other fees are as follows for 2016:

<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		\$200.00/ month	
D.	Transient daily Berth Rate			
		\$18.00	/30 feet	
		\$20.00	/35 feet	
		\$22.00	/40 feet	
		\$25.00	/45 feet + \$1.00 per foot over 45	
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	
			Live-A-Board Electrical=Double regular electrical charge	
F.	Dock Box	\$4.00	/month	
<u>Other Fees</u>				
a.	Use of Launch Ramp	\$10.00	/day	
b.	R.V. Parking	\$15.00	/day	
c.	Key Deposit Fee	\$25.00	/key	

**CITY OF MARTINEZ – MARINA SERVICES
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 7 – LOANS PAYABLE

A. Current Year Transactions and Balances

	<u>Original Issue Amount</u>	<u>Balance at June 30, 2015</u>	<u>Additions</u>	<u>Balance at June 30, 2016</u>	<u>Current Portion</u>
Marina Loans					
Loan Payable - 1964	\$1,300,000	\$850,000		\$850,000	
Accrued interest		1,789,014	\$25,500	1,814,514	
Loan Payable - 1973	450,000	251,136		251,136	\$66,108
Loan Payable - 1978	175,000	131,574		131,574	26,808
Loan Payable - 1982	300,000	323,922		323,922	45,527
Loan Payable - 1984	770,425	877,077		877,077	94,616
Total Marina Loans		<u>\$4,222,723</u>	<u>\$25,500</u>	<u>\$4,248,223</u>	<u>\$233,059</u>

During fiscal year 2003, accrued interest was added to the outstanding principal for all the State loans with the exception of the 1964 agreement.

B. Loan Payable – 1964

In January of 1960, the City entered into an agreement with the State of California, whereby a loan of \$1,300,000 was granted to the City for the construction of a Marina. In October of 1964, a Memorandum of Agreement which superseded the 1960 loan agreement was entered into. At June 30, 2016, the amount payable to the State including interest amounted to \$2,664,514.

The agreement was modified in 1964 with the following conditions:

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

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

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

**CITY OF MARTINEZ – MARINA SERVICES
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

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, 2016, the amount payable to the State was \$251,136. The terms are as follows:

- The loan is payable from the gross revenues from operations of the facilities located or erected within the MSCH Project, prior to any other expenditures from such revenues.
- Payments of principal and interest at 4.5% shall be payable in equal annual installments on August 1 of each year with a final payment due on August 1, 2026.
- Any retained earnings arising from the operation of the MSCH Project after deductions for repayments of the State loan, operating and maintenance expenses and reserve funds provided for by the State, shall be invested in reasonably liquid assets. No transfer of such funds, other than for advance repayment of the State loan, shall be made so long as any principal or interest remains unpaid.
- Whenever the retained earnings exceeds two years of MSCH Project operating and loan repayment expenses, such excess may be required by the State for advance repayment of the loan.

D. Loan Payable – 1978

On January 30, 1978, the City entered into another agreement with the State of California, whereby a loan of \$175,000 was granted to the City for construction of Marina Improvements. At June 30, 2016 the amount payable to the State was \$131,574. The terms are as follows:

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

CITY OF MARTINEZ – MARINA SERVICES
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 7– LOANS PAYABLE (Continued)
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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, 2016, 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 – 1984

On January 14, 1984 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, 2016, the amount payable to the State was \$877,077. The loan terms are as follows:

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

G. Loan Repayment

At June 30, 2016, the Marina Fund owed \$4,248,223 in loans to the State. The City made an interest payment of \$65,253 to the Department of Boating and Waterways in fiscal 2016 to cover current year interest accrued on the unpaid loan balances.

**CITY OF MARTINEZ – MARINA SERVICES
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 7 – LOANS PAYABLE (Continued)

The above loan agreements, except for the 1960 loan which has no specified repayment terms, require the Marina to remit annual debt service payments. The City failed to make the current year principal payment of \$48,616, in addition to the non-payment of principal in the prior fiscal years in the amount of \$133,640, the City has not made total principal payments in the amount of \$182,256 since August 1, 2012. The past due amounts have been included in the current portion of the loans payable. The State has assessed a late penalty fee of 5% of the unpaid balances.

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

H. Debt Service Transactions

For the Year Ending June 30	Principal	Interest
2017	\$233,059	\$63,063
2018	53,090	60,776
2019	55,477	58,389
2020	57,975	55,891
2021	60,584	53,282
2022 - 2026	346,350	222,981
2027 - 2031	320,676	144,224
2032 - 2036	300,423	74,871
2037 - 2039	156,075	14,249
Total	1,583,709	<u>\$747,726</u>
Plus: Marina Loan 1964	850,000	
Plus: Accrued interest	<u>1,814,514</u>	
Total	<u>\$4,248,223</u>	

**CITY OF MARTINEZ – MARINA SERVICES
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 8 - INSURANCE

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

Insurance coverage through the Municipal Pooling Authority is as follows:

Type of Coverage (Deductible)	Coverage Limits
Liability (\$25,000)	\$29,000,000
Employment Risk Management Authority (\$50,000)	2,000,000
Vehicle - Physical Damage (\$3,000 for police vehicles, \$2,000 for all others)	250,000
Government Crime (\$10,000)	1,000,000
Workers' Compensation (no deductible)	Statutory Limits
All Risk Fire & Property (\$25,000, except water claims \$150,000)	1,000,000,000
Earthquake (20% of replacement cost values, \$25,000 to minimum)	7,333,058
Flood (\$100,000 per occurrence)	25,000,000
Boiler & Machinery (\$5,000)	100,000,000
Cyber Liability (\$50,000)	2,000,000
Public Entity Pollution Liability (\$100,000)	1,000,000

**CITY OF MARTINEZ – MARINA SERVICES
ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 9 – OPERATING LEASES

The Marina entered into a management agreement with Almar Management, Inc. on July 20, 2005 to manage and operate the Martinez Marina. The current agreement commenced on July 20, 2005 and continued to December 31, 2005 at which date the Agreement continues unless terminated by either party with at 60 day written notice. Revenue received per this Agreement is rents and other income from the marina, less expenditures at the marina under the management of Almar Management, Inc. Total rents and income from Almar as of June 30, 2016 was \$59,018.

The Marina entered into an operating lease with Eagle Marine for the Marina Boat Yard facility. The current lease term expires July 31, 2017. Lease payments are a percentage of gross receipts or the minimum monthly rent, whichever is greater. The minimum annual rent is \$48,000 per year until July 31, 2013 and then increases to \$51,000 a year until July 31, 2017. Lease payments received for the year ended June 30, 2016 were \$52,750.

The Marina also entered into an operating lease with the Martinez Yacht Club. The current lease term expires on December 31, 2019. Lease payments are \$725 per month. Lease payments received for the year ended June 30, 2016 were \$8,700.

The Marina entered into a lease agreement with Southern Pacific Transportation Company for the use of public trust lands. The current lease expires June 30, 2052. The City received the full payment and recognizes \$8,364 annually as lease revenue. The balance remains as unearned revenue. The lease payment for the year ended June 30, 2016 was \$8,364.

The Marina entered into a lease agreement January 16, 2013 with Rooster Productions, LLC for the use of the Kenney Family Production Facility, which is located on public trust lands. The current lease term expires on January 16, 2018. On February 1, 2014 the lease was increased from \$750 to \$773. With additional square footage added to the lease, on June 1, 2014 the lease payment was increased to \$855 and will increase annually on each January 23rd by 3%. Lease payments received for the year ended June 30, 2016 were \$10,708.

Revenue on leased land	
Eagle Marine	\$52,750
Martinez Yacht Club	8,700
Almar Management, Inc.	59,018
Subtotal	120,468
Revenue from public trust lands	
Southern Pacific Transportation	8,364
Rooster Productions, LLC	10,708
Subtotal	19,072
Total rents and leases revenue	\$139,540

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SUPPLEMENTAL INFORMATION

CITY OF MARTINEZ - MARINA SERVICES
ENTERPRISE FUND
SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Administration</u>	<u>Maintenance and Repair</u>
Professional services	\$7,101	
State Water Resource Control Board - permit	11,195	
Engineering services	3,905	
Legal services	3,401	
Consulting services	61,499	
Professional membership	300	
Travel	64	
Repair & maintenance		\$10,255
Property insurance		371
Utilities		33,675
Labor provided by other departments, net		835
Equipment rental		160
	<u>\$87,465</u>	<u>\$45,296</u>

CITY OF MARTINEZ
GRANTED PUBLIC TRUST LANDS
FOR THE YEAR ENDED JUNE 30, 2016

Fund Equity 06/30/15	\$390
<u>REVENUE</u>	
Lease - Rooster Productions	10,708
Lease - Southern Pacific Transportation	<u>8,364</u>
TOTAL REVENUE	<u>19,072</u>
<u>EXPENDITURES</u>	
Utilities	5,572
Consultation for mitigation	<u>14,240</u>
TOTAL EXPENDITURES	<u>19,812</u>
Fund Equity 06/30/16	<u><u>(\$350)</u></u>

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**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED UPON PROCEDURES FOR
COMPLIANCE WITH THE PROPOSITION 111
2015-2016 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, 2016. 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 2015-2016 Appropriations Limit of \$172,776,855 and annual adjustment factors were adopted by Resolution of the City Council. We also determined that the population and inflation options were selected by a recorded vote of the City Council.
- B. We recomputed the 2015-2016 Appropriations Limit by multiplying the 2014-2015 Prior Year Appropriations Limit by the Total Growth Factor.
- C. For the Appropriations Limitation Worksheet, we agreed the Per Capita Income Factor, City Population Factor and County Population Factor to California State Department of Finance Worksheets.

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

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

Maze & Associates

Pleasant Hill, California
December 14, 2016

**CITY OF MARTINEZ
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS
FOR THE YEAR ENDED JUNE 30, 2016**

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

For The Year Ended June 30, 2016

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MEMORANDUM ON INTERNAL CONTROL

To the City Council of
the City of Martinez, California

We have audited the basic financial statements of the City of Martinez for the year ended June 30, 2016, and have issued our report thereon dated December 14, 2016. In planning and performing our audit of the basic financial statements of the City of Martinez, as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control included on the Schedule of Significant Deficiencies to be significant deficiencies.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe are opportunities for strengthening internal controls and operating efficiency.

Management's written responses included in this report have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

Maze & Associates

Pleasant Hill, California
December 14, 2016

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF MATERIAL WEAKNESS

2016 - 01: Marina Going Concern and Technical Default of Marina Loans

Criteria: The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Marina as a going concern.

In accordance with the most recent loan agreements for the 1973, 1978, 1982 and 1984 marina loans from the State of California, Department of Boating and Waterways, the City is required to make annual debt service payments on the loans consisting of both a principal and an interest portion.

Condition: The Marina Services Enterprise Fund has an accumulated net deficit of \$3,387,680 as of June 30, 2016 made up primarily of State loans which the City has not had sufficient operating revenues to repay. The fund is used to account for the operations of the City's Marina. Management has taken steps to remedy this situation by privatizing the Marina and entering into an operating agreement with an independent company to manage the Marina. In fiscal year 2006-07, the State agreed to allow the City to make interest-only annual payments until August 2008, at which time the City commenced making principal payments on the loans. The City did not make the principal portion of the debt service payment in the amount of \$48,616 for the 1973, 1978, 1982 and 1984 marina loans that was due on August 1, 2014 in addition to the non-payment of the principal portion in the amount of \$87,178 of the above mentioned loans that was payable in the previous two fiscal years, which constitutes a total of \$135,794 of principal payments that have not been paid for the past three fiscal years. The past due amounts have been included in the current portion of loans payable. The City continues to only pay the interest portion of the debt service.

In view of the matters described in the preceding paragraph, recoverability of a major portion of the recorded asset amounts shown in the accompanying statement of net position is dependent upon continued operations of the Marina, which in turn is dependent upon the Marina's ability to meet its financing requirements on a continuing basis, to maintain present financing and to succeed in its future operations.

Cause: Costs of running the Marina continue to exceed the operating revenues that are earned, due to this, the City has not had sufficient funds to properly maintain and dredge the Marina, repair the seawall at the Marina entrance or pay the debt service on the loans.

Effect: The Marina's continued operations are a going concern. Failure to pay the principal portion of the loans caused the City to be in technical default on the loans. Additionally, the City has been assessed penalties on the unpaid portion of the debt service since fiscal year 2013.

Recommendation: The City should continue in its communications with the State in order to determine if the terms of the loans can be renegotiated and to come up with a plan of action for the future of the Marina.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF MATERIAL WEAKNESS

2016 - 01: Marina Going Concern and Technical Default of Marina Loans (Continued)

Management's Response:

The City has been working collaboratively with the State to seek a comprehensive solution to outstanding issues with the Marina, including the loans. Ongoing, the City has met with representatives from the Departments of Finance and Parks and Recreation respectively, as well as State legislators, to understand the value of the Marina to the region and the State as an important asset. The first part of this comprehensive solution was the enactment of SB 1424. This legislation provided a new grant of marina trust lands to the City. The land grant allows the City to manage and lease the granted lands according to the public trust doctrine with 100% of the revenue generated from the marina going back to the City's enterprise fund that supports the operation of the marina. The legislation also includes a six-year deferment period of revenue sharing between the City and the State, provided at the State's discretion. The City can now focus on developing a plan for the possible repair and renovation of the Marina, landside development, and renegotiation of the loan terms.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF SIGNIFICANT DEFICIENCIES

2016 - 02: Investment Policy Compliance

Criteria: The City's Investment Policy includes a listing of investment instruments the City is permitted to invest in. Any investment type not specifically approved by the policy shall be considered prohibited.

Condition: We reviewed the June 2016 Cash & Investment Report and noted the City has a new investment in CalTrust Short Term Fund. However, per review of the City's Investment Policy, CalTrust is not included as an allowable investment.

Cause: The investment was purchased without presentation to Council or comparison to the Policy.

Potential Effect: The City is not in compliance with its investment policy.

Recommendation: We recommend the City revise its investment policy to include this new investment type, and ensure responsible officials continue to review the City's investments for compliance with the City's policy.

Management's Response:

The City concurs with this finding. City staff is in the process of updating the investment policy to include this low risk investment in its policy.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF SIGNIFICANT DEFICIENCIES

2016-03: Updating Signature Cards

Criteria: Signature cards for the bank and investment accounts should be updated immediately whenever there is a change in authorized signers.

Condition: During our review of the bank and investment accounts at June 30, 2016, We noted the City had not updated its signature cards for the LAIF or CalTrust accounts to remove the former Assistant City Manager and former City Manager.

Potential Effect: Keeping ex-employees as authorized signers on the City's bank investment accounts exposes the City to the risk of unauthorized activity.

Cause: The City experienced turnover in the upper management positions.

Recommendation: We recommend that the City immediately remove the ex-employees from the authorized signer lists of all bank accounts. In the future, a step should be added to the employee departure checklist to ensure that outside parties (such as banks, investment advisors, and bond trustees) are informed that the departed employee no longer represents the City.

Management's Response:

The City concurs with this finding. City staff updated the signature cards for its more vulnerable bank account for the general and payroll accounts in a timely manner. City staff did wait for the less vulnerable account with LAIF and CalTrust due to the fact that transfers automatically go to the City's general bank account. Changes to the LAIF account requires two signatures therefore it could not be changed by one ex-employee. Staff has updated the LAIF account with the arrival of top management. The CalTrust account is in the process of being updated and the participation agreement will be presented to Council at the same time the investment policy will occur.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

2016-04: New GASB Pronouncements or Pronouncements not yet Effective

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

Effective in fiscal year 2016-17:

GASB 73 – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement 68 for pension plans and pensions that are within their respective scopes.

GASB 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*

The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

GASB 77 – *Tax Abatement Disclosures*

This Statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The disclosures required by this Statement encompass tax abatements resulting from both (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government's tax revenues.

GASB 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*

This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

GASB 80 – Blending Requirements for Certain Component Units an amendment of GASB Statement No. 14

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units.

Effective in fiscal year 2017-18:

GASB 75 –Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

GASB 81 – Irrevocable Split-Interest Agreements

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

Management's Response:

The City will implement all applicable pronouncements as they become effective.

MEMORANDUM ON INTERNAL CONTROL

STATUS OF PRIOR YEAR SCHEDULE OF MATERIAL WEAKNESS

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

Criteria: The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Marina as a going concern.

In accordance with the most recent loan agreements for the 1973, 1978, 1982 and 1984 marina loans from the State of California, Department of Boating and Waterways, the City is required to make annual debt service payments on the loans consisting of both a principal and an interest portion.

Condition: The Marina Services Enterprise Fund has an accumulated net deficit of \$3,367,692 as of June 30, 2015 made up primarily of State loans which the City has not had sufficient operating revenues to repay. The fund is used to account for the operations of the City's Marina. Management has taken steps to remedy this situation by privatizing the Marina and entering into an operating agreement with an independent company to manage the Marina. In fiscal year 2006-07, the State agreed to allow the City to make interest-only annual payments until August 2008, at which time the City commenced making principal payments on the loans. The City did not make the principal portion of the debt service payment in the amount of \$48,616 for the 1973, 1978, 1982 and 1984 marina loans that was due on August 1, 2014 in addition to the non-payment of the principal portion in the amount of \$87,178 of the above mentioned loans that was payable in the previous two fiscal years, which constitutes a total of \$135,794 of principal payments that have not been paid for the past three fiscal years. The past due amounts have been included in the current portion of loans payable. The City continues to only pay the interest portion of the debt service.

In view of the matters described in the preceding paragraph, recoverability of a major portion of the recorded asset amounts shown in the accompanying statement of net position is dependent upon continued operations of the Marina, which in turn is dependent upon the Marina's ability to meet its financing requirements on a continuing basis, to maintain present financing and to succeed in its future operations.

Cause: Costs of running the Marina continue to exceed the operating revenues that are earned, due to this, the City has not had sufficient funds to properly maintain and dredge the Marina, repair the seawall at the Marina entrance or pay the debt service on the loans.

Effect: The Marina's continued operations are a going concern. Failure to pay the principal portion of the loans caused the City to be in technical default on the loans. Additionally, the City has been assessed a 6% penalty on the unpaid portion of the debt service for fiscal year 2014 and 2015 and a 5% penalty on the unpaid portion of the debt service for fiscal year 2013.

Recommendation: The City should continue in its communications with the State in order to determine if the terms of the loans can be renegotiated and to come up with a plan of action for the future of the Marina.

Current Status:

See current year comment 2016-01.

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REQUIRED COMMUNICATIONS

To the City Council of
the City of Martinez, California

We have audited the basic financial statements of the City of Martinez for the year ended June 30, 2016. Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards.

Significant Audit Findings

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are included in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year except as follows:

The following Governmental Accounting Standards Board (GASB) pronouncements became effective, but did not have a material effect on the financial statements:

GASB Statement No. 76 – The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

GASB Statement No. 79 – Certain External Investment Pools and Pool Participants

The following pronouncement became effective and is disclosed in Note 1J to the financial statements:

GASB Statements No. 72 – Fair Value Measurement and Application

This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The requirements of this Statement enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also enhances fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position.

Unusual Transactions, Controversial or Emerging Areas

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City's financial statements were:

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

Estimated Fair Value of Investments: As of June 30, 2016, the City held approximately \$45.5 million of cash and investments as measured by fair value as discussed in Note 3 to the financial statements. Fair value is essentially market pricing in effect as of June 30, 2016. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2016.

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

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

Estimated Net OPEB Asset: Management's estimate of the Net OPEB Asset is disclosed in Note 12 to the financial statements and is based on an actuarial study determined by a consultant, which is based on the experience of the City. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

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

Disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was the disclosure of the going concern issues with the Marina in Note 10E to the financial statements and issue 2016-01 above. The Marina Services Enterprise Fund has an accumulated net deficit of \$3,387,680 as of June 30, 2016 made up primarily of State loans which the City has not had sufficient operating revenues to repay. The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregated, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in a management representation letter dated December 14, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Marina as a going concern. The Marina Services Enterprise Fund has an accumulated net deficit of \$3,387,680 as of June 30, 2016 made up primarily of State loans which the City has not had sufficient operating revenues to repay. The fund is used to account for the operation of the City's Marina. Management has taken steps to remedy this situation by privatizing the Marina and entering into an operating agreement with an independent company to manage the Marina. In fiscal year 2006-07, the State agreed to allow the City to make interest-only annual payments until August 2008, at which time the City commenced making principal payments on the loans. During fiscal year 2016, 2015, 2014 and 2013 the City was again unable to make principal payments on the loans. See discussion in Note 8. Contained in the loan agreements with the State is a provision which allows the State to take over the Marina with a 90 day notice. As of June 30, 2016, the City had not received such notice.

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

Other Information Accompanying the Financial Statements

We applied certain limited procedures to the required supplementary information that accompanies and supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the required supplementary information and do not express an opinion or provide any assurance on the required supplementary information.

We were engaged to report on the supplementary information, which accompanying the financial statements but are not required supplementary information. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

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



Pleasant Hill, California
December 14, 2016