

CITY OF MONTEREY
Notes to Financial Statements

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The City of Monterey, California was incorporated in 1850 as a charter city and operates under the Council-Manager form of government. The City provides the following services: public safety (police, fire and building inspection), highways and streets, sewer collection, leisure services, public improvements, planning and zoning, redevelopment and general administration services.

A. Reporting Entity

The financial statements of the City of Monterey include the financial activities of the City as well as separate legal entities which are controlled by and dependent on the City. The City Council serves as the governing board of the Redevelopment Agency of the City of Monterey (the "Agency") and the City of Monterey Joint Powers Financing Authority (the "Authority"), a joint powers authority between the City and the Agency. These financial activities are controlled entirely by the City, which also performs all their administrative and accounting functions. The financial activities of the Agency and the Authority have been aggregated and merged (termed "blended") with those of the City in the accompanying general purpose financial statements. Financial statements for the Agency and the Authority may be obtained from the City of Monterey, Monterey, California, 93940.

The Agency prepares and implements plans for improvement, rehabilitation, and development of certain areas within the City. The financial activities of the Agency have been included in these financial statements in the Low and Moderate Income Housing Special Revenue Fund, the Capital Projects Fund, the Debt Service Fund and the General Long-Term Obligations Account Group.

The Authority assists with the financing or refinancing of certain public capital facilities in the City. The financial activities of the Authority are not significant and are included in the Enterprise Funds.

B. Fund Accounting

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. These various funds are grouped as follows, in the general purpose financial statements:

GOVERNMENTAL FUND TYPES

General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specific purposes. The City maintains thirteen Special Revenue Funds.

Debt Service Fund is used to account for financial resources to be used for the payment of principal and interest on long-term obligations. The City maintains one Debt Service Fund.

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary fund types). The City maintains one Capital Projects Fund.

PROPRIETARY FUND TYPES

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs and expenses, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis.

FIDUCIARY FUND TYPES

Trust and Agency Funds are used to account for assets held by the City as an agent or trustee for individuals, private organizations, other governments and/or other funds. These include Agency Funds, Expendable Trust Funds and Non-expendable Trust Funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Nonexpendable Trust Funds are accounted for in the same manner as proprietary funds except that the principal of the trust may not be spent. Expendable Trust Funds are accounted for in the same way as government funds.

C. *Basis of Accounting*

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the general purpose financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental fund types, expendable trust and agency funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets.

Those revenues susceptible to accrual are property taxes, franchise taxes, licenses and interest. Sales taxes collected and held by the State at year end on behalf of the City also are recognized as revenue.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is principal and interest on general long-term debt, which is recognized when due. Financial resources usually are appropriated in other funds for transfer to the debt service fund in the period in which maturing debt principal and interest must be paid. Such amounts are not current liabilities of the debt service fund as their settlement will not require expenditure of existing fund assets.

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

All proprietary fund types are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

In accounting for proprietary fund activities, the City follows those Financial Accounting Standard Board Statements issued before November 30, 1989 which do not conflict with Governmental Accounting Standards Board Statements.

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

D. Measurement Focus

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund is determined by its measurement focus. All governmental fund types are accounted for on a spending or *financial flow* measurement focus, which means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of *available spendable resources*. Governmental fund types and expendable trust fund operating statements present increases and decreases in net current assets. Accordingly, they are said to present a summary of sources and uses of *available spendable resources* during a period.

All proprietary fund types and nonexpendable trust funds are accounted for on a cost of services or *capital maintenance* measurement focus, which means that all assets and all liabilities associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total assets.

E. Budgets and Budgetary Accounting

The City follows these procedures in establishing the operating budgetary data reflected in the financial statements:

1. Prior to June 30, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted to obtain taxpayer comments.
2. The budget is legally enacted through passage of a resolution during the second City Council meeting in the month of June.
3. The City Manager may transfer budgeted amounts among accounts within a fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.
4. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, Debt Service Fund, Enterprise Funds and the Capital Projects Fund; these are the only Funds with legally adopted budgets

CITY OF MONTEREY
Notes to Financial Statements

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP), except for Capital Projects Fund capital expenditures which are budgeted on a project length basis. Budget versus actual comparisons for these expenditures have therefore not been presented in these financial statements.
6. Budgeted amounts are as originally adopted or as amended by City Council. Individual amendments were not material in relation to the original appropriations.

F. *Encumbrances*

Encumbrance accounting is employed as an extension of formal budgetary integration in the governmental fund types. Under encumbrance accounting, purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances outstanding at year end are reported as reservations of fund balance since they do not constitute expenditures or liabilities. Outstanding encumbrances at year-end are automatically reappropriated the following year.

Unexpended appropriations lapse at year end unless budgeted on a project basis.

G. *Compensated Absences*

The liability for compensated absences includes the vested portions of vacation and compensated time off. Unused sick leave does not vest. The net change in the liability for vacation and compensated time off is measured annually at the fiscal year end. The liability was \$2,042,499 at June 30, 2002, an increase of \$312,499 from the liability at June 30, 2001. The entire liability is recorded in the general long-term obligations account group.

H. *Property Tax*

Monterey County assesses properties and bills, collects, and distributes the City's portion of actual property taxes collected to the City. Secured and unsecured property taxes are levied on January 1. Property taxes levied are recorded as revenue and receivables in the fiscal year of levy, provided they are collected during the fiscal year or within 60 days of the fiscal year end.

Secured property tax is due in two installments, on November 1 and March 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, which is property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed.

I. *Property Held for Resale*

As part of its Low & Moderate Income Housing Program, the Redevelopment Agency purchases and sells affordable homes in the City to low/moderate income homebuyers in accordance with the affordable housing program. Homes are sold at below-market prices, but purchasers must resell these homes only to the Agency at approximately the same price and in the same condition. Homes owned by the Agency are accounted for at cost, which is below market.

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Notes to Financial Statements

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Total Columns on Combined Statements

Although each of the City's funds is a separate accounting entity, the Combined Financial Statements also include total columns, which are captioned Memorandum Only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in cash flow in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation, since no interfund eliminations have been made in the aggregation of this data.

K. New Funds

During the year the City established the Public Safety Training and Services Special Revenue Fund.

NOTE 2 - CASH AND INVESTMENTS

A. Categorization of Credit Risk of Securities Instruments

The City and its fiscal agents invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system.

The City categorizes its individual securities instruments in ascending order to reflect the relative risk of loss of these instruments. This risk is called Credit Risk; the lower the number, the lower the risk. The three levels of risk prescribed by generally accepted accounting principles are described below:

Category 1 - Securities instruments in this category are in the City's name and are in the possession of the Trust Department of the bank employed by the City solely for this purpose. The City is the registered owner of securities held in book entry form by the bank's Trust Department.

Category 2 - Securities instruments and book entry form securities in this category are in the bank's name but are held by its Trust Department in a separate account in the City's name.

Category 3 - None of the City's investments are in this category, which would include only City-owned securities instruments or book entry form securities which were not in the City's name or which were not held by the bank's Trust Department.

CITY OF MONTEREY
Notes to Financial Statements

NOTE 2 - CASH AND INVESTMENTS (Continued)

Pooled Investments - Pooled investments are not categorized because of their pooled, rather than individual, nature.

Investments are carried at fair value, which is the same as market value, and are categorized as follows at June 30, 2002:

	<u>Available for Operations</u>	<u>Restricted</u>	<u>Total Fair Value</u>
Category 1 investments:			
U.S. Government Securities:			
Federal National Mortgage Assoc.	\$9,077,510		\$9,077,510
Federal Home Loan Mortgage Corp.	4,053,430		4,053,430
Federal Farm Credit Bank	4,038,430		4,038,430
Federal Home Loan Bank	19,544,563		19,544,563
Corporate Notes	1,024,790		1,024,790
Corporate Stocks		\$ 1,265,758	1,265,758
Category 2 investments:			
Repurchase Agreement		1,904,500	1,904,500
U.S. Government Securities:			
Federal Home Loan Bank		2,733,594	2,733,594
Non-categorized investments:			
Local Agency Investment Fund	15,307,439		15,307,439
Mutual Funds (U.S. Securities)		5,482,333	5,482,333
Investment Agreement		632,675	632,675
	<u>53,046,162</u>	<u>12,018,860</u>	<u>65,065,022</u>
Cash (overdraft) in bank and on hand	<u>(429,727)</u>	<u>86,580</u>	<u>(343,147)</u>
Total cash and investments	<u><u>\$52,616,435</u></u>	<u><u>\$12,105,440</u></u>	<u><u>\$64,721,875</u></u>

B. Cash Deposits

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 value of 150% of the deposit as collateral for these deposits. Under California Law, this collateral is held in the City's name and places the City ahead of general creditors of the institution. The City has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

Cash in banks is entirely insured (Category 1) or collateralized by the institution holding the deposit (Category 2), as discussed above.

The carrying amount of the City's cash deposits was an overdraft of \$429,727 at June 30, 2002. At that date bank balances before reconciling items were \$1,183,294 of which \$186,580 was insured (Category 1), and \$996,714 was collateralized (Category 2) as discussed above.

CITY OF MONTEREY
Notes to Financial Statements

NOTE 2 - CASH AND INVESTMENTS (Continued)

C. *Authorized Investments*

The City's investment policy and the California Government Code allow the City to invest in the following:

- Securities of the U.S. Government or its Agencies
- Certificates of Deposit (or Time Deposits) placed with commercial banks and/or savings and loan companies
- Negotiable Certificates of Deposit
- Bankers' Acceptances
- Commercial Paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record
- Medium Term Corporate Notes
- California Local Agency Investment Fund
- Repurchase Agreements
- Passbook Savings Accounts
- Reverse Repurchase Agreements
- Shares of beneficial interest issued by diversified management companies holding U.S. Treasury or Government agency obligations

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.

D. *Local Agency Investment Fund*

The City is a voluntary 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 fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The City reports its investment in LAIF at the fair value amount provided by LAIF, which at June 30, 2002 was \$42,439 more than the City's cost. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are 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, and corporations.

E. *Cash Equivalents*

For purposes of the statement of cash flows, the City considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents. Proprietary fund types' cash and investments balances classified as Available for Operations are considered cash equivalents for purposes of the statement of cash flows. Restricted cash is excluded because it is not liquid and may not be used to liquidate liabilities in the ordinary course of business.

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Notes to Financial Statements

NOTE 3 - INTERFUND TRANSACTIONS

A. Operating Transfers Between City Funds

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers, called operating transfers, is to reimburse a fund which has made an expenditure on behalf of another fund. Less often, a residual equity transfer may be made to open or close a fund. Fiscal 2002 operating transfers comprised the following:

	Operating Transfers	
	Out	In
General Fund	\$11,141,978	\$405,303
Special Revenue Funds		
Neighborhood Improvement Fund	1,453	2,881
State/Federal Grants Fund	582,398	
Gas Tax Fund	1,173,175	
Landscape Maintenance Fund		30,184
Parking Adjustment Fee	20,000	
Sewer/Storm Water Improvements Fund	317,195	400,000
Debt Service Fund	5,183,140	1,681,067
Capital Projects Fund	35,751	16,457,273
Enterprise Funds:		
Marina Fund	229,455	
Cemetery Fund		60,340
Parking Fund	506,411	187,995
Materials Recovery Facility Fund		9,500
Internal Service Funds:		
Risk Management Fund		58,000
Trust Funds:		
Tidelands Trust Fund	85,587	
Scholze Park Nonexpendable Trust Fund	16,000	
	\$19,292,543	\$19,292,543

CITY OF MONTEREY
Notes to Financial Statements

NOTE 3 - INTERFUND TRANSACTIONS (Continued)

B. Current Interfund Balances

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. At June 30, 2002 interfund balances were as follows:

	Due To/ (From) Other Funds	
	Receivable	Payable
General Fund	\$3,385,737	
Special Revenue Funds:		
State/Federal Grants Fund		\$59,004
Capital Projects Fund		293,348
Enterprise Funds:		
Presidio of Monterey Public Works Fund		3,010,561
Navy Service Fund		22,824
	\$3,385,737	\$3,385,737

C. Long Term Interfund Advances

Long-term interfund advances are not expected to be repaid in the next year. At June 30, 2002, these advances comprised the following:

	Receivable	Payable
General Fund	\$1,263,221	
Special Revenue Funds:		
Sewer/Storm Water System Improvement Fund	807,355	1,497,265
Low and Moderate Income Housing Fund	1,472,383	
Debt Service Fund		1,472,383
Enterprise Funds:		
Cemetery Fund		118,923
Expendable Trust Fund:		
Tidelands Trust Fund		454,388
	\$3,542,959	\$3,542,959

CITY OF MONTEREY
Notes to Financial Statements

NOTE 3 - INTERFUND TRANSACTIONS (Continued)

D. *Repayment Agreement*

In December 1993 the City Council and Redevelopment Agency Board of Directors authorized repayment of certain costs incurred by the City on behalf of the Agency. The Repayment Agreement covers assets constructed by the City in the redevelopment areas, assets leased to the City from the Agency and projects paid for with debt financing.

The Repayment Agreement requires the Agency to make repayments annually out of available cash; repayments of \$3,750,567 were made in fiscal 2002, while the Agency received additional advances of \$1,229,530,

NOTE 4 - LOANS AND MORTGAGES RECEIVABLE

A. *Downpayment Assistance Loans*

These are loans to qualified moderate income residents of the City or qualified moderate income individuals employed in the City for up to 15% of the purchase price of a residence in the City (to a maximum of \$45,000). Such loans bear simple interest at 5% per annum, with principal and interest deferred for the first five years. At the end of five years the City reviews the income status of the borrower. Based on such review, the balance of the loan is payable in monthly installments over a period of up to 15 years, or deferred for an additional period of five years with repayment upon sale or transfer of the residence. Due to the long-term nature of the interest receivable, interest on the loans is recorded only when it becomes available as net current assets.

B. *Rehabilitation Loans*

These are loans up to \$90,000 to qualifying low-income homeowners in the City. Such loans bear simple interest at 5% per annum, with principal and interest due upon the sale or transfer of the residence. Due to the long-term nature of the interest receivable, interest on the loans is recorded only when it becomes available as net current assets.

C. *Project Subsidy Loans*

In October 1997, the Agency entered into a Development Agreement and Ground Lease with a developer for the C-21 Redevelopment Mixed Use Project in the Custom House Redevelopment Project Area. Under the terms of the agreement, the developer constructed a theater/retail complex, which included affordable housing units. The developer agreed to provide on-site management of the housing units. The Agency agreed to provide a project subsidy loan to implement the project. No principal or interest repayment is required until 2018.

CITY OF MONTEREY
Notes to Financial Statements

NOTE 5 - FIXED ASSETS

Governmental fixed assets are recorded at cost in the General Fixed Assets Account Group, which provides accounting control over the cost of fixed assets used by the City's governmental funds. The General Fixed Assets Account Group is not a fund and its balances are not financial resources available for expenditure. Public domain or infrastructure assets are not recorded in the financial statements.

Proprietary fund fixed assets are recorded at cost and depreciated over their estimated useful lives. All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair market value on the date donated.

Depreciation of all proprietary fund fixed assets is charged as an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the proprietary funds' balance sheet as a reduction in the book value of the fixed assets.

Depreciation of fixed assets in service 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 proprietary fund fixed assets.

Buildings	40 years
Building improvements	20 years
Furniture and equipment	5-15 years
Vehicles	5-10 years

A. General Fixed Assets

A summary of changes in general fixed assets at June 30, 2002 follows:

	Balance June 30, 2001	Additions	Retirements	Transfers	Balance June 30, 2002
Land and improvements	\$22,672,149	\$4,118,355			\$26,790,504
Buildings and improvements	55,764,216	720,729	(\$432,555)		56,052,390
Machinery and equipment	5,751,149	341,899	(1,449,639)	\$5,899	4,649,308
Construction in progress	816,489	5,669,869	(532,405)		5,953,953
Total General Fixed Assets	<u>\$85,004,003</u>	<u>\$10,850,852</u>	<u>(\$2,414,599)</u>	<u>\$5,899</u>	<u>\$93,446,155</u>

CITY OF MONTEREY
Notes to Financial Statements

NOTE 5 - FIXED ASSETS (Continued)

B. General Fixed Assets Construction in Progress

A summary of General Fixed Assets construction in progress as of June 30, 2002 follows:

	<u>Project Authorization</u>	<u>Expended to June 30, 2002</u>	<u>Committed</u>
Civic Center Improvement	\$1,048,500	\$486,153	562,347
Ryan Ranch Kennel Renovation	\$50,000	\$2,621	47,379
Vasquez Adobe Reconstruction	\$48,150	\$48,124	26
Ketcham, Gordon House Rehabilitation	\$197,000	\$172,020	24,980
FS #3 Emergency Water Storage Tank	20,000	900	19,100
Monterey Sports Center Expansion	5,090,000	5,103,254	(13,254)
Police Department Remodel Women's Restroom	115,000	71,605	43,395
Pavement Management System Reinv I	35,000	23,054	11,946
Monterey City Library Remodel	28,000	28,353	(353)
NERT Containers Security Upgrade	20,000	17,869	2,131
	<u>\$6,651,650</u>	<u>\$5,953,953</u>	<u>\$697,697</u>

C. Expenditures on Infrastructure

Fiscal year 2002 capital outlays included the above additions to Fixed Assets as well as the following expenditures on infrastructure:

Capital Outlay:

Neighborhood improvements	\$1,626,298
Street resurfacing	1,020,614
Sand Dunes Drive bikeway	762,040
Pedestrian signals Citywide	321,472
Other miscellaneous projects	202,441
	<u>\$3,932,865</u>

CITY OF MONTEREY
Notes to Financial Statements

NOTE 5 - FIXED ASSETS (Continued)

D. Proprietary Fixed Assets

A summary of changes in fixed assets in proprietary funds at June 30, 2002 follows:

	<u>Balance</u> <u>June 30, 2001</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2002</u>
Enterprise Funds					
Land	\$9,205,157				\$9,205,157
Buildings and improvements	36,301,008		(\$472,028)		\$35,828,980
Machinery and equipment	433,451		(95,423)	(5,899)	\$332,129
Construction in progress	3,838	200,467			\$204,305
Less accumulated depreciation	<u>(15,692,203)</u>	<u>(1,482,727)</u>	<u>461,507</u>		<u>(\$16,713,423)</u>
Net book value of Enterprise Fixed Assets	<u>\$30,251,251</u>	<u>(\$1,282,260)</u>	<u>(\$105,944)</u>	<u>(\$5,899)</u>	<u>\$28,857,148</u>
Internal Service Funds					
Buildings and improvements	\$87,458				\$87,458
Machinery and equipment	8,344,701	\$1,944,381	(\$334,895)		\$9,954,187
Less accumulated depreciation	<u>(5,384,087)</u>	<u>(795,756)</u>	<u>321,487</u>		<u>(\$5,858,356)</u>
Net book value of Internal Service Fixed Assets	<u>\$3,048,072</u>	<u>\$1,148,625</u>	<u>(\$13,408)</u>		<u>\$4,183,289</u>

E. Proprietary Fixed Assets Construction in Progress

A Summary of Enterprise Funds construction in progress as of June 30, 2002 follows:

	<u>Authorization</u>	<u>June 30, 2002</u>	<u>Committed</u>
Calle Principal Restroom	200,000	204,305	(4,305)

NOTE 6 - LONG TERM DEBT

A. The City's 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.

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 out of governmental funds but is not accounted for in these funds because this part of the debt does not require an appropriation or expenditure in the current accounting period.

CITY OF MONTEREY
Notes to Financial Statements

NOTE 6 - LONG TERM DEBT (Continued)

B. Transactions and Balances

The following summarizes the City's long-term debt transactions and balances at June 30, 2002:

	<u>Balance</u> <u>June 30, 2001</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2002</u>
General Long Term Debt:				
Lease Revenue Bonds:				
1977 Custom House, 5.25-5.6%, due 4/1/04	\$1,255,000		\$395,000	\$860,000
1978 Conference Center, 5.93%, due 6/1/05	3,305,000		250,000	3,055,000
1999 Redevelopment Agency, 3.0-4.6%, due 11/1/12	5,664,450		572,550	5,091,900
2002 Joint Powers Financing Authority, 4.0-5.0%, due 5/1/23		9,860,000		9,860,000
Loans Payable:				
Ashford Capital Corporation, 5.65%. 9/13/05		32,433	7,218	25,215
California Energy Commission, 4.68% 12/11/03	52,083		25,439	26,644
CaLease Public Funding Corporation, 6.97%, due 8/15/04	42,818		11,205	31,613
County of Monterey 911 Dispatch Center, 5.00-5.75 %, due 9/30/16		343,547		343,547
Daniel Green, 7%, due 7/1/03	53,070		25,610	27,460
	<u>\$10,372,421</u>	<u>\$10,235,980</u>	<u>\$1,287,022</u>	<u>\$19,321,379</u>
Enterprise Long Term Debt:				
Lease Revenue Bonds:				
1994 Materials Recovery Facility, 5.00-5.75%, due 03/1/18	\$3,700,000		\$90,000	\$3,610,000
1999 Redevelopment Agency, 3.0-4.6%, due 11/1/12	11,500,550		1,162,450	10,338,100
Loans Payable:				
State of California Small Craft Harbor Loans, 4.50-4.70%, due 2024	5,994,248		216,462	5,777,786
Special Assessment Bonds:				
1974 Cannery Row, 6.50%, due 7/2/00	20,000		5,000	15,000
	<u>\$21,214,798</u>		<u>\$1,473,912</u>	<u>\$19,740,886</u>
Internal Service Funds Long Term Debt:				
Loans Payable:				
SunTrust Leasing Corporation, 4.24%, 4/23/11		\$824,791	\$83,510	\$741,281
		<u>\$824,791</u>	<u>\$83,510</u>	<u>\$741,281</u>

The City had \$10,839,682 in restricted cash and investments at June 30, 2002 held by fiscal agents, which may only be disbursed for specified capital outlays or the for the payment of certain bonds. These funds have been invested only as permitted by either specific State statute or applicable City ordinance, resolution or bond indenture.

Enterprise Fund bond discount and origination costs are amortized on a straight-line basis over the lives of the related debt issues. General long-term debt issuance costs are accounted for as expenditures when incurred.

CITY OF MONTEREY
Notes to Financial Statements

NOTE 6 - LONG TERM DEBT (Continued)

C. Repayment Requirements

At June 30, 2002 future annual principal and interest payment requirements for general long-term debt and enterprise fund long-term debt were as follows:

For the Year Ending June 30	Lease Revenue Bonds	Miscellaneous Loans	Totals
General Long Term Debt			
2003	\$2,312,144	\$117,392	\$2,429,536
2004	2,332,796	60,151	2,392,947
2005	4,065,020	52,007	4,117,027
2006	1,146,604	43,864	1,190,468
2007	1,147,022	35,500	1,182,522
Thereafter	18,548,565	292,015	18,840,580
	<u>29,552,151</u>	<u>600,929</u>	<u>30,153,080</u>
Less amount representing interest	10,685,251	146,450	10,831,701
Outstanding principal balance	<u>\$18,866,900</u>	<u>\$454,479</u>	<u>\$19,321,379</u>
Enterprise Fund			
2003	\$1,884,761	\$486,204	\$2,370,965
2004	1,892,386	486,204	2,378,590
2005	1,911,398	486,204	2,397,602
2006	1,369,574	486,202	1,855,776
2007	1,373,257	468,625	1,841,882
Thereafter	9,834,105	6,586,715	16,420,820
	<u>18,265,481</u>	<u>9,000,154</u>	<u>27,265,635</u>
Less amount representing interest	4,317,381	3,207,368	7,524,749
Outstanding principal balance	<u>\$13,948,100</u>	<u>\$5,792,786</u>	<u>\$19,740,886</u>
Internal Service Fund			
2003		\$99,936	\$99,936
2004		99,936	99,936
2005		99,936	99,936
2006		99,936	99,936
2007		99,936	99,936
Thereafter		399,746	399,746
		<u>899,426</u>	<u>899,426</u>
Less amount representing interest		158,147	158,147
Outstanding principal balance		<u>\$741,279</u>	<u>\$741,279</u>

The City's bond indentures contain significant limitations and restrictions regarding annual debt service requirements, maintenance of and flow of monies through various restricted accounts and minimum revenue bond coverages. City management believes the City is in compliance with all such indenture requirements.

CITY OF MONTEREY
Notes to Financial Statements

NOTE 6 - LONG TERM DEBT (Continued)

D. Description of Major Debt Issues

Lease Revenue Bonds

On September 20, 1977, \$6,000,000 of Custom House Parking Facilities Lease Revenue Bonds, Series 1977, were issued to finance the construction of two parking structures. The bonds bear interest at 5.25% to 5.60% and mature April 1, 2004. Principal payments are due annually on April 1 and interest payments are due semi-annually on April 1 and October 1. The bonds are subject to early redemption at the discretion of the City upon payment of a redemption price equal to the outstanding principal and accrued interest, plus a premium of up to 2.5%. The bonds will be repaid from lease revenues from the City for the parking structures.

On March 7, 1978, \$6,000,000 of Custom House Center Lease Revenue Bonds, Series 1978, were issued to refund the 1974 Custom House Center Lease Revenue Bonds, Series 1974. The bonds bear interest at 5.93% mature June 1, 2005. Principal payments are due annually on June 1 and interest payments are due semi-annually on June 1 and December 1. The bonds are subject to early redemption at the discretion of the City upon payment of a redemption price equal to the outstanding principal and accrued interest, plus a premium of up to 3%. The bonds will be repaid from lease revenues from the City for the Custom House Center.

On April 28, 1999, \$19,045,000 of Redevelopment Agency Lease Revenue Refunding Bonds, Series 1999, were issued to refund the Agency's 1992 and 1993 Lease Revenue Bonds and to prepay a lease entered into in 1998 by the City to construct the City's Columbarium. The bonds bear interest at 3.00% to 4.60% and are due November 1, 2012. Principal payments are due annually on November 1 and interest payments are due semi-annually on May 1 and November 1. Bonds maturing on or after November 1, 2004 are subject to early redemption at the discretion of the City upon payment of a redemption price equal to the outstanding principal and accrued interest, plus a premium of .25%. The bonds will be repaid from incremental property taxes of the Agency and lease revenues from the City's General Fund.

On February 15, 1994, \$4,045,000 of Lease Revenue Bonds, Series 1994, were issued to finance the construction of a Materials Recovery Facility. The bonds bear interest at 5.00% to 5.75% and are due March 1, 2018. Principal and interest payments are due annually on March 1. The bonds are subject to early redemption at the discretion of the City upon payment of a redemption price equal to the outstanding principal and accrued interest, plus a premium of .25%. The bonds will be repaid from lease revenues from the City for the materials recovery facility.

On May 23, 2002, \$9,860,000 of Lease Revenue Bonds, Series 2002 were issued to provide funds for the expansion of the Monterey Sports Center and the purchase of the Catellus East parcel. The bonds bear interest at 1.9% to 5.0% and are due May 1, 2032. Principal payments are due annually on May 1 and interest payments are due semi-annually on May 1 and November 1. The bonds are subject to early redemption at the discretion of the City upon payment of a redemption price equal to the outstanding principal and accrued interest, plus a premium that varies based on the redemption period of 0.00% to 2.00%.

CITY OF MONTEREY
Notes to Financial Statements

NOTE 6 - LONG TERM DEBT (Continued)

Loans Payable

On September 13, 2001 the City entered into a lease agreement with Ashford Capital Corporation for the purchase of three copiers for the Monterey Public Library. The principal amount of the agreement is \$32,433. Payments of principal and interest, at the rate of 5.65%, are due annually on September 13. The final payment is due on November 19, 2005. Payments will be made from the Library Trust Fund.

On October 18, 1994, the City entered into an agreement with the California Energy Commission of the State of California for an energy conservation assistance loan which would upgrade the interior lighting in the City of Monterey Conference Center. The principal balance was \$181,500, with principal and interest (4.68%) payments due semiannually in June and December with the first payment made on December 22, 1995. The final payment date is June 22, 2003 and the amount due at that time is \$13,791.

On August 15, 1996, an agreement was entered into by the City and CaLease Public Funding Corporation with a principal amount of \$84,739 to finance the City Hall lighting upgrade. Semiannual payments of \$6,999 began on February 15, 1997 and will conclude on August 15, 2004. The agreement has an interest rate of 6.97%.

On July 10, 2001, the City signed a Building Construction and Funding Agreement dated July 1, 2001, with the County of Monterey for a principal amount of \$343,547. This represents the City's share of the cost to construct and fund a consolidated dispatch center for 9-1-1 emergency communications. Payments of principal and interest are due annually on September 30. Annual interest is determined by applying the average quarterly rate of interest earned by the Monterey County Treasurer's pooled investment fund. The final payment is due on September 30, 2016. Payments will be made from the City's General Fund.

On various dates from 1975 to 1997, the State of California made loans to the City to finance various marina construction and improvement projects. These Small Craft Harbor loans bear interest at 4.50% to 4.70% and mature 28 to 30 years from the award date. Principal and interest payments are due annually on August 1. The loans will be repaid from fees and rentals charged by the City for marina facilities.

On October 23, 2001, an agreement was entered into with SunTrust Leasing Corporation to purchase two fire engines and one fire rescue vehicle. The agreement calls for an interest rate of 4.24% with principal and interest payments of \$49,968 made each year on April 23 and October 23. The final payment is due on April 23, 2011.

Special Assessment Debt Without Governmental Commitment

Special assessment districts exist in various parts of the City to provide improvements to properties located in those districts. Properties are assessed for the cost of improvements; these assessments are payable over the term of the debt issued to finance the improvements and must be sufficient to repay this debt. The City has no direct or contingent liability or moral obligation for repayment of these bonds, which are not included in the general debt of the City. The outstanding balance of these issues at June 30, 2002 was \$90,000.

CITY OF MONTEREY
Notes to Financial Statements

NOTE 7 - FUND EQUITY

A. *Fund Equity and Deficits*

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

A portion of unreserved fund balance may be designated to indicate plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans are subject to change and therefore might not be legally authorized or result in expenditures.

At June 30, 2002 deficit fund balances or retained earnings existed in the following funds:

Enterprise Funds:	
Cemetery Fund	\$138,488
Materials Recovery Facility Fund	5,859
Presidio Fund	166,486
Navy Services Fund	6,355

These deficits are expected to be funded by future operating revenues and operating transfers from other funds.

B. *Contributed Capital*

Contributed capital represents grants and other funds contributed to enterprise and internal service funds to acquire capital assets. Effective July 1, 2000 the City began accounting for these contributions as non-operating revenue.

CITY OF MONTEREY
Notes to Financial Statements

NOTE 8 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains enterprise funds which account for the operations of the marina, cemetery, parking operations, recycling facility, Presidio public works contract, Navy Services and telecommunication network. These funds are intended to be self-supporting, primarily through user fees charged for services rendered. Segment information for these funds for the year ended June 30, 2002 follows:

	Marina	Cemetery	Parking	Materials Recovery	Presidio of Monterey Public Works	Navy Services	Institutional Network
Operating revenues	\$1,989,063	\$239,337	\$5,687,099	\$295,698	\$7,030,206	\$373,296	
Depreciation and amortization	406,849	26,002	930,494	93,765			
Operating income (loss)	701,071	(74,186)	1,776,388	190,539	133,544	(42,567)	
Nonoperating revenue (expense), net	(303,097)	(27,192)	24,904	(181,124)	(4,424)	662	19,054
Net income (loss)	168,519	(41,038)	1,482,876	18,915	129,120	(41,905)	19,054
Fixed assets additions, net			(200,467)				
Net working capital (deficiency)	1,256,060	26,848	7,492,367	203,993	(166,486)	(6,355)	370,354
Total assets	7,712,452	1,121,027	27,991,149	3,678,005	3,825,178	43,722	370,354
Long Term Debt	5,777,786	890,423	9,581,600	3,610,000			
Total equity (deficit)	1,657,130	216,058	18,118,164	(5,859)	(166,486)	(6,355)	370,354

NOTE 9 - PENSION PLANS

A. CALPERS Safety and Miscellaneous Employees Plans

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

The Plans' provisions and benefits in effect at June 30, 2002, are summarized as follows:

	Safety	Miscellaneous
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	55
Monthly benefits, as a % of annual salary	3.00%	1.426%-2.418%
Required employee contribution rates	9%	7%
Required employer contribution rates (FY 2001)	0%	0%

CITY OF MONTEREY
Notes to Financial Statements

NOTE 9 - PENSION PLANS (Continued)

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the City must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liability. The City does not have a net pension obligation since it pays these actuarially required contributions monthly.

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 8.25% is assumed, including inflation at 3.5%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and ten percent of the net balance is amortized annually.

The Plans' actuarial values (which differs from market value) and funding progress over the most recently available three years are set forth below at their actuarial valuation date of June 30:

Safety Plan:

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
1999	50,344,783	57,687,708	(7,342,925)	114.6%	6,274,759	(117.023%)
2000	55,065,288	63,657,956	(8,592,668)	115.6%	6,873,101	(125.019%)
2001	64,836,290	65,668,956	(832,666)	101.3%	7,065,851	(11.784%)

Miscellaneous Plan:

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
1999	54,433,051	70,483,509	(16,050,458)	129.5%	15,180,519	(105.731%)
2000	59,693,975	77,109,517	(17,415,542)	129.2%	16,700,651	(104.281%)
2001	65,469,932	79,161,057	(13,691,125)	120.9%	18,119,830	(75.559%)

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

CITY OF MONTEREY
Notes to Financial Statements

NOTE 9 - PENSION PLANS (Continued)

PERS has reported that the value of the net assets in the Plans held for Pension Benefits changed as follows during the year ended June 30, 2000, the most recently available:

	Safety	Miscellaneous
Beginning Balance, June 30, 2000	\$63,657,956	\$77,109,517
Contributions received	940,004	1,407,921
Benefits and Refunds Paid	(2,362,735)	(2,954,004)
Expected Investment Earnings Credited	5,194,257	6,299,023
Expected Actuarial Value of Assets, June 30, 2001	\$67,429,482	\$81,862,457
Market Value of Assets, June 30, 2001	\$62,147,906	\$73,758,258
Actuarial Value of Assets, June 30, 2001	\$65,668,956	\$79,161,057

Actuarially required contributions for fiscal years 2002, 2001 and 2000 were \$0, \$256,803 and \$343,442 respectively. The City made these contributions as required, together with certain immaterial amounts required as the result of the payment of overtime and other additional employee compensation.

B. *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 as 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.

C. *Post Employment Benefits Other Than Pensions*

The City provides limited health care benefits through PERS to eligible retired employees. Benefits provided require sharing of cost by retirees. During the year ended June 30, 2002 the City paid \$7,454 for its share of benefits on behalf of 86 participants.

CITY OF MONTEREY
Notes to Financial Statements

NOTE 10 - RISK MANAGEMENT

A. Coverage

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees, health benefits for employees and natural disasters. The City retains the risk for its general liability, auto physical damage and worker's compensation liability. All risk management activities are accounted for in internal service funds.

A summary of the City's per-occurrence limits follows:

	General liability	Workers' compensation
Retained risk	Up to \$500,000	Up to \$300,000
Coverage through insurance	\$500,000 to \$19,500,000	Above \$300,000

Coverage above the retained risk amount for workers' compensation is provided through insurance purchased by the City. Coverage above the retained risk amount for general liability is provided through a joint purchase of coverage from insurance carriers by the Authority for California Cities Excess Liability (ACCEL), a joint powers authority whose purpose is to develop and fund programs of excess insurance for its members. The Board of Directors of ACCEL consists of representatives of its member cities.

The City's deposits with ACCEL are in accordance with formulas established by ACCEL. 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. City contributions to ACCEL for the year ended June 30, 2002 were \$170,400. Financial statements may be obtained from ACCEL, 500 Washington Street, Suite 300, San Francisco, CA 94111.

Property risks are covered on an occurrence basis up to \$500,000,000 with a \$50,000 deductible, by commercial insurance purchased from independent third parties. No settlement amounts have exceeded commercial or ACCEL insurance coverage for each of the past three years.

B. Liability for Uninsured Claims

The liability for the uninsured portion of claims and judgments included in the internal service fund is based on the results of a bi-annual actuarial study obtained by the City. The liability includes amounts for claims incurred but not reported (IBNR). The total liability is calculated by considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts and other economic social factors and is based on a 90% probability level (IBNR is based on the expected level). Claims and judgments, including a provision for claims incurred but not reported are recorded when a loss is deemed probable of assertion and the amount of the loss is reasonably determinable. Internal annual premiums are charged to the City's funds by the internal service funds using various allocation methods that include actual costs and trends in claims experience.

CITY OF MONTEREY
Notes to Financial Statements

NOTE 10 - RISK MANAGEMENT (Continued)

Claims activities for the years ended June 30, 2002 and 2001 are presented below.

	Workers'	General	Total	
	Compensation	Liability	2002	2001
Beginning balance	\$4,371,000	\$1,431,400	\$5,802,400	\$5,484,588
Liability for current fiscal year claims	2,033,000	348,000	2,381,000	1,435,000
Change in liability for prior fiscal year claims and claims incurred but not reported (IBNR)	302,710	(236,667)	66,043	376,071
Claims paid	(1,269,710)	(111,333)	(1,381,043)	(1,493,259)
Ending balance	<u>\$5,437,000</u>	<u>\$1,431,400</u>	<u>\$6,868,400</u>	<u>\$5,802,400</u>

NOTE 11 – EMPLOYMENT BENEFIT – INSURANCE COVERAGE

The City contracts with CalPERS to provide a Cafeteria type health insurance plan for its employees. The City pays the first \$16 of the monthly premium per employee. In addition, as a part of the Cafeteria plan, per approved Memorandum of Understanding (MOU) with its bargaining groups, the City also provides between \$ 347.31 and \$ 620.17 per month per employee which can be used towards insurance premiums or other employment benefits. For dental and vision insurance is provided at not cost to its employees (dependent dental insurance premiums are paid by the employee). The City also provides long-term disability for certain employees and life insurance to all but its part-time, seasonal employees.

NOTE 12 – PRESIDIO MUNICIPAL SERVICES AGENCY

At the request of the U.S. Army in 1997 the City and the City of Seaside formed the Presidio Municipal Services Agency (the “Presidio Agency”) under the Joint Exercise of Powers Act of the State of California. The sole function of the Presidio Agency is to coordinate the provision of services by each member City in the operation and maintenance of the U.S. Army’s Presidio facilities in Monterey. The Presidio Agency has no employees; the City of Monterey provides approximately 80% of the services required along with all the Presidio Agency’s administrative and financing requirements; the City of Seaside provides the remainder. The City’s share of these services is reported in the Presidio of Monterey Public Works Enterprise Fund.

The governing body of the Presidio Agency consists of two members, one appointed by each member city. As a separate legal entity, the Presidio Authority exercises full powers and authorities within the Joint Powers Agreement. Obligations of the Presidio Authority are not those of the member cities. Financial statements of the Presidio Agency may be obtained from the City of Monterey, Monterey, California, 93940.

CITY OF MONTEREY
Notes to Financial Statements

NOTE 13 - COMMITMENTS AND CONTINGENCIES

The City participates in several federal and state grant programs. These programs have been audited by the City's independent accountants in accordance with the provisions of the federal Single Audit Act of 1984 as amended in 1996 and applicable State requirements. No cost disallowances were proposed as a result of these audits; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

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

CITY OF MONTEREY
Notes to Financial Statements

GENERAL FUND

The **General Fund** is the primary operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The major revenue sources of this fund include property tax, sales tax, transient occupancy tax, business license tax, utility users tax and charges for services. These revenues support the general operations of the City which include police, fire, street maintenance, parks, recreation, planning and general government. In addition, the General Fund finances many capital improvements each year.