

## CITY OF MONTEREY

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

#### 1. SIGNIFICANT ACCOUNTING POLICIES

**Description of Reporting Entity** - The reporting entity, the **City of Monterey**, California (the City) is comprised of the primary government and component units. A component unit is a legally separate organization whose financial operations are closely related to the City to the extent that exclusion would cause the financial statements to be misleading. The members of the Monterey City Council act as governing bodies and have financial accountability for these entities. Financial accountability is based on the ability to adopt budgets and levy taxes. The financial activities of the City of Monterey Parking Authority reported in the Parking Enterprise Fund, the City of Monterey Redevelopment Agency reported in the Debt Service Fund and the Low and Moderate Income Housing Special Revenue Fund, and the City of Monterey Joint Powers Financing Authority reported in the Materials Recovery Enterprise Fund, are blended with the general-purpose financial statements of the City of Monterey. Separate financial statements for the City of Monterey Redevelopment Agency and the City of Monterey Joint Powers Financing Authority can be obtained from City Hall, Monterey, CA 93940.

The Authority For California Cities Excess Liability (ACCEL), a joint powers authority, is not included in these financial statements because it does not meet the above financial accountability criteria. It is administered by a governing board separate from the City (See Note 9). Financial Statements may be obtained from ACCEL, P.O. Box 7601, San Francisco, CA 94120-7601.

**Description of Funds and Account Groups** - 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. City resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The City's funds and account groups are organized as follows:

. 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 a different fund.
- .. Special revenue funds are used to account for the proceeds of specific revenue sources (other than debt service, expendable trusts and major capital projects) that are legally restricted to expenditures for specified purposes.
- .. Debt service fund is used to account for the accumulation of resources for, and the payment of, principal, interest and related costs of general long-term obligations.
- .. Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

. 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 (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 revenue 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 the vehicle management, information services and the self-insurance programs the City administers.

. Fiduciary Fund Types -

- .. Trust and agency funds are used to account for assets held for individuals, private organizations and other governmental units. These include expendable and nonexpendable trust funds and agency funds. Agency funds are custodial in nature and do not involve measurement of the results of operations. Nonexpendable trust funds are accounted for in essentially the same manner as proprietary fund types. Expendable trust funds and agency funds are accounted for in essentially the same manner as governmental fund types.

. Account Groups:

- .. General fixed assets account group - Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the general fixed assets account group, rather than in the governmental fund types.
- .. General long-term obligations account group - Long-term liabilities, including vested compensated absence obligations, expected to be financed by governmental fund types are accounted for in the general long-term obligations account group, rather than in the governmental fund types.

***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.

- . Governmental fund types, expendable trust funds, 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. Property tax revenues and assessments receivable is considered susceptible to accrual when collected within 60 days following year-end. Other revenues considered susceptible to accrual include sales, utility users and transient occupancy taxes, interest, rent, grants earned and certain other intergovernmental revenues. Expenditures are generally recognized when the related fund liability is incurred, except that interest and principal on general long-term obligations are recognized when due.
- . Proprietary fund types and nonexpendable trust funds are accounted for using the accrual basis of accounting. Their revenues are recognized when earned, and their expenses are recognized when incurred.

The City has elected under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities that use Proprietary Fund Accounting", to apply all GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless they contradict or conflict with GASB Pronouncements.

**Budgets, Budgetary Accounting, and Encumbrances** - The City operates under the general laws of the State of California and annually adopts a budget for each ensuing fiscal year. The City adopts a budget before June 30, for all funds and component units other than the agency funds. Budgets are subject to public hearing before they are adopted by the City Council.

Budgets submitted to the Council include both proposed appropriations and the means of financing them. The Council approves total appropriations on a fund by fund basis and must approve any expenditure over the appropriation in any fund.

The City Manager is authorized to transfer budget appropriations between accounts within the same fund. Additional appropriations or interfund transfers not included in the original budget resolutions require approval by the City Council.

The Combined Statement of Revenues and Expenditures - Budget and Actual (Budget Basis) - General, Special Revenue and Debt Service Funds has been prepared on the legally prescribed budgetary basis of accounting for California governmental entities. The method does not differ from generally accepted accounting principles (GAAP) except as follows below.

Budgeted amounts shown are as amended by the City Council and include both original and supplemental budget appropriations. Supplemental budget appropriations for all funds were 6% of the fiscal year 1998-1999 adopted budget. Budgets for capital project funds, capital outlay expenditures and operating transfers are based on a project time frame, rather than a fiscal year "operating" time frame, reappropriating unused appropriations from year to year until project completion. As capital expenditures and other financing sources (uses) are budgeted on a project basis rather than an annual basis, such expenditures and other financing sources (uses) have been excluded from the Combined Statement of Revenues and Expenditures - Budget and Actual (Budget Basis). A reconciliation of resultant differences in the excess (deficiency) of revenues and other sources over expenditures and other uses for the year ended June 30, 1999 is presented below:

	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>DEBT SERVICE</u>
Excess of revenues over (under) expenditures (budget basis)	\$ 1,705,949	\$ 5,543,393	\$ 647,120
Other financing sources (uses)	<u>(1,943,829)</u>	<u>(4,958,501)</u>	<u>(1,728,123)</u>
Excess of revenues and other sources over (under) expenditures and other uses (GAAP basis)	<u>(\$237,880)</u>	<u>\$ 584,892</u>	<u>(\$1,081,003)</u>

The City uses an encumbrance system as an extension of normal budgetary accounting for the general fund, special revenue funds, capital projects funds, debt service fund and expendable trust 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 reservations of fund balance since they do not constitute expenditures or liabilities. Outstanding encumbrances at year-end are automatically reappropriated the following year. Unencumbered and unexpended appropriations lapse at year-end.

**Property Tax Levy, Collection and Maximum Rates** - State of California (State) Constitution Article 13 provides for a maximum general property tax rate statewide of \$1.00 per \$100 of assessed value. Assessed value is calculated at 100% of market value as defined by the above referenced Article 13. The State Legislature has determined the method of distribution of receipts from \$1.00 tax levy among counties, cities, school and other districts. Counties, cities and school districts may levy such additional tax rate as is necessary to provide for voter approved debt service.

The County of Monterey assesses properties, bills for and collects property taxes, as follows:

	<u>Secured</u>	<u>Unsecured</u>
Valuation dates	March 1	March 1
Lien/levy dates	July 1	
Due dates	50% on November 1 50% on February 1	July 1
Delinquent as of	December 10 (for November) April 10 (for February)	August 31

The term "Unsecured" refers to taxes on personal property other than land and buildings. These taxes are secured by liens on the property being taxed.

Property tax revenues are recognized in the fiscal year for which the taxes have been levied, provided they become available. Available means due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

**Cash and investments** are pooled by the City for investment purposes except for investments managed by paying agents under bonded debt agreements, and certain investments of the Scholze Park Trust (a nonexpendable trust fund).

Effective July 1, 1997 the City adopted Governmental Accounting Standards Board (GASB) Statement No. 31 "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." GASB 31 requires the City to report its investments at fair value and to report changes in the fair value of investments as revenue in the statement of revenues and expenses. The fair value of the City's investments is estimated based on quoted market prices. In connection with reporting its investments at fair value, the City recorded gains (losses) for the fiscal year ended June 30, 1999 as follows:

General Fund	\$ (187,113)
Special Revenue Funds	(101,874)
Debt Service Fund	( 47,916)
Expendable Trust Funds	( 23,673)

Nonexpendable Trust Fund	147,190
Enterprise Funds	(109,195)
Internal Service Funds	(150,373)

**Statement of Cash Flows** - For the purposes of the statement of cash flows, all cash and investments on deposit with the City Treasurer are, in effect, demand deposits and therefore considered to be cash equivalents. Cash and investments with fiscal agents are restricted for use in servicing debt and are not considered cash equivalents.

**Fixed assets** are valued at historical cost or at 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.

Governmental fund type fixed assets are recorded as expenditures at the time of acquisition. Such amounts, except for public domain ("infrastructure") assets (including roads, bridges, curbs and gutters, streets, sidewalks, drainage systems, and lighting systems), are then capitalized in the general fixed assets account group. No depreciation has been provided on general fixed assets.

Proprietary fund type fixed assets are capitalized in the appropriate proprietary fund. Depreciation is charged as an expense against their operations and accumulated depreciation is reported on the proprietary fund balance sheet. Depreciation has been provided over the assets' estimated useful lives using the straight-line method. The estimated useful lives are as follows:

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

**Downpayment assistance loans** consist of loans to qualified moderate income residents of the City or persons employed in the City for up to 15% of the purchase price of a residence within 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 will review the income status of the borrower. Based on such review, the balance of the loan will either be paid 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.

**Rehabilitation loans** consist of loans to qualifying low-income homeowners in the City for up to \$75,000. 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.

**Bond discount and origination costs** related to long-term debt issuances of the Enterprise Fund are amortized on a straight-line basis over the lives of the related debt. Debt issuance costs on governmental fund debt issuances are expensed when incurred.

**Property held for resale** is stated at the lower of cost or net realizable value.

**Reservations and Designations of Fund Balances** - The term "reserved" is used to indicate that a portion of reported fund balance is (1) legally restricted to a specific use or (2) not available for appropriation or expenditure. The City's management will sometimes designate portions of fund balance based on tentative future spending plans. Designated portions of fund balance represent financial resources legally available for uses other than those tentatively planned.

The City has "reserved" fund balances as follows:

- . Reserved for encumbrances to reflect outstanding contractual obligations for which goods and services have not been received.
- . Reserved for long-term receivables to reflect advances to other funds, notes receivable, rehabilitation loans and downpayment assistance loans, all of which represent assets not considered to be available spendable resources.
- . Reserved for long-term investments to reflect donated investments (Scholze Trust) which are to be held in perpetuity.
- . Reserved for other consists of the following:
  - .. Reserved for sewer maintenance to reflect the portion of fees collected that are restricted for maintaining the sewer system (\$308,574).
  - .. Reserved for Neighborhood Improvement Projects to reflect amounts restricted for use in one or more particular neighborhoods (\$10,585).
  - .. Reserved for debt service to indicate that the fund balance is restricted for the retirement of long-term obligations (\$2,556,302).

The City has "designated" fund balance as follows:

- . Designated for economic uncertainty to indicate that a portion of the fund balance in the general fund is designated for an unexpected reduction in future revenues (\$5,455,425).
- . Designated for capital outlay and cultural arts to indicate that portion of the General Fund fund balance is designated for capital expenditures (\$3,054,355) and cultural activities (\$117,664).

At June 30, 1999 a deficit fund balance/retained earnings existed in the following individual funds:

Special Revenue Funds -	
State/Federal Grants Fund	\$ 32,846
Enterprise Funds -	
Cemetery Fund	\$ 158,524
Materials Recovery Facility	65,024
Internal Service Funds –	
Information Services	153,777

These deficits are expected to be covered by future intergovernmental revenues and transfers in from other funds.

**Compensated Absences** - Unused vacation leave may be accumulated and is paid at the time of termination from City employment. The liability for unpaid vacation is recorded within the general fund, proprietary funds and general long-term obligations account group depending on classification as a current or long-term liability. Accumulated sick leave is not paid to employees upon termination. Upon retirement, employees receive credit for unused sick leave in determining length of service for computation of PERS retirement benefits. Accordingly, no liability for unpaid sick leave is included in the accompanying general-purpose financial statements.

**Self-insurance** - The City is self-insured for workers' compensation claims up to \$300,000 for any single accident and has insurance with a commercial carrier for claims above \$300,000. The City is self-insured for general liability claims up to \$500,000 for any single occurrence. The City participates in ACCEL for general liability claims between \$500,000 and \$10,000,000 per occurrence. (see Note 9) The City and ACCEL have insurance with a commercial carrier for general liability claims between \$500,000 and \$20,000,000. The City is also self-insured for employees' dental care for annual claims ranging from \$1,000 to \$2,500 per person. The City records estimated liabilities for claims filed or expected to be filed in a separate self-insurance fund (internal service fund). Charges to the general fund and other funds are determined from an analysis of self-insured claim costs and recorded as operating expenditures from such funds to the self-insurance fund.

**"Total (Memorandum Only)" Information** - Columns on the accompanying combined financial statements captioned "Total (Memorandum Only)" do not present consolidated financial information. They are not necessary for a fair presentation of the financial statements, but are presented only to facilitate financial analysis

**Reclassification** – Certain 1998 Memorandum Only totals have been reclassified to conform to the 1999 presentation.

## 2. CASH AND INVESTMENTS

Cash and investments are pooled by the City for investment purposes except for investments managed by paying agents under bonded debt agreements, and certain investments of the Scholze Park Trust (a non-expendable trust fund).

**Deposits** – At June 30, 1999, the carrying amount of the City's time and demand deposits was an overdraft of \$1,204,112 and the bank balance was \$666,901. The difference between the carrying amount and the bank balance is due to deposits in transit, outstanding checks and other reconciling items. Of the bank balance, \$266,711 was insured by federal depository insurance and \$400,190 was collateralized 110% as required by Section 53652 of the California Government Code with securities held by the pledging financial institutions in the City's name.

**Investments** – Statutes authorize the City to invest in obligations of the U.S. Treasury, and other government agencies and instrumentalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, corporate notes, and the State Treasurer's Local Agency Investment Fund. The City's

investments, except for donated investments (Scholze Trust), consist of the following kinds of authorized investments:

- ◆ Obligations of the United States government and its agencies and instrumentalities
- ◆ State Treasurer's Local Agency Investment Fund
- ◆ Corporate notes

Investments are stated at fair value based on quoted market prices.

At June 30, 1999, all of the U.S. Government securities and corporate notes held in the City Treasury bear interest at fixed rates.

At June 30, 1999 investments in the City Treasury (other than equity securities in the Scholze Trust) are scheduled to mature approximately as follows: 2000, \$6,900,000, 2001, \$7,000,000; 2002, \$9,900,000; 2003, \$13,700,000, and 2004 \$5,400,000.

The City did not enter into any repurchase or reverse repurchase agreements, separately from the common investment pool of the State and investments held with fiscal agents, in fiscal 1999.

The City's investments are categorized below to give an indication of the level of credit risk assumed by the City at June 30, 1999. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party or by its trust department or agent but not in the City's name. At June 30, 1999 the City held no Category 2 investments.

	<u>Category 1</u>	<u>Category 3</u>	<u>Not Categorized</u>	<u>Market Value</u>
<b>Investments in City Treasury:</b>				
US Government Securities	28,972,188			28,972,188
Corporate Notes	8,933,030			8,933,030
Scholze Trust (various preferred and common stock)	1,442,018			1,442,018
State Treasurer's Local Agency Investment Fund			5,000,000	<u>5,000,000</u>
<b>TOTAL</b>				<u><u>44,347,236</u></u>
<b>Investments w/Fiscal Agents:</b>				
US Government Securities		2,630,810		2,630,810
Mutual Funds			3,164,582	<u>3,164,582</u>
<b>TOTAL</b>				<u><u>5,795,392</u></u>
<b>Total Investments</b>	<u><u>\$ 39,347,236</u></u>	<u><u>\$ 2,630,810</u></u>	<u><u>\$ 8,164,582</u></u>	<u><u>\$ 50,142,628</u></u>

### 3. FIXED ASSETS

A summary of changes in general fixed assets follows:

	Balance July 1, 1998	Additions & Transfers	Retirements & Transfers	Balance June 30, 1999
Land	\$ 18,625,301	\$ 1,651,271	\$ --	\$ 20,276,572
Buildings & Improvements	56,838,476	1,148,416	--	57,986,892
Equipment	5,999,445	338,602	69,502	6,268,545
Construction-in-progress	1,621,661	329,118	1,822,190	128,589
TOTAL	\$ <u>83,084,883</u>	\$ <u>3,467,407</u>	\$ <u>1,891,692</u>	\$ <u>84,660,598</u>

A summary of fixed assets in proprietary fund at June 30, 1999 follows:

	<u>Enterprise</u>	<u>Internal Service</u>
Land	\$ 5,954,315	\$ --
Buildings & Improvements	33,305,579	87,458
Equipment	467,892	7,327,351
Construction-in-progress	93,174	--
TOTAL	<u>39,820,960</u>	<u>7,414,809</u>
Accumulated depreciation	<u>(11,586,960)</u>	<u>(4,404,501)</u>
Property - net	<u>\$ 28,234,000</u>	<u>\$ 3,010,308</u>

Remaining commitments on construction in progress is composed of the following:

	<u>Project Authorization</u>	<u>Expended to June 30, 1999</u>	<u>Committed</u>
<b><u>General Fixed Assets Account Group:</u></b>			
Miscellaneous projects	\$ <u>747,372</u>	\$ <u>128,589</u>	\$ <u>618,783</u>
<b><u>Enterprise Funds:</u></b>			
Parking	\$ <u>244,112</u>	\$ <u>93,174</u>	\$ <u>150,938</u>

### 4. LONG-TERM OBLIGATIONS

#### **ISSUANCE OF 1999 LEASE REVENUE REFUNDING BONDS**

On May 1, 1999, the Redevelopment Agency of the City of Monterey issued lease revenue refunding bonds of \$19,045,000 with interest rates ranging from 3.0% to 4.6% to refund the 1992 and the 1993 Lease Revenue Bonds. The 1992 and 1993 bonds had interest rates of 4.7% to 6.625% and 5.8% to 5.9%, respectively. In addition, a portion of the 1999 Bond proceeds were used to repay the Columbarium loan in July 1999. The loan had an interest rate of 6.34%. The 1999 bonds mature on November 1, 2012, and are callable after November 1, 2004, at a premium of one-quarter of one percent (¼ of 1%).

The lease revenue refunding bonds were issued at par. The underwriter's discount and issuance costs were \$439,608. The remaining balance of the 1992 and 1993 bond reserve funds was \$236,032. The net proceeds used to defease the 1992 and the 1993 bonds and to repay the Columbarium loan were \$18,840,944. The proceeds of the 1999 bond issue were placed in an irrevocable trust account. The 1992 and 1993 bonds were defeased on June 18, 1999. As of June 30, 1999 bond proceeds in the amount of \$914,361 were held in the Cemetery Fund to be used to pay the Columbarium loan in full on July 30, 1999.

As a result of the refunding, the Redevelopment Agency reduced its total debt service requirements by \$1,425,025, which resulted in an economic gain (the difference between the present value of the debt service payments on the old and the new debt) of \$983,000. The Redevelopment Agency has entered into a lease agreement with the City of Monterey. The City will lease the project from the Agency and the lease payments will be made from the Parking Enterprise Fund, the Cemetery Enterprise Fund and the General Fund. The advance refunding will result in an economic gain to the Enterprise Funds of \$623,000 and an economic gain to the General Fund of \$360,000.

The following is a summary of the City's long-term obligations as of June 30, 1999:

	Interest Rates	Maturity Dates	Outstanding June 30, 1999
<u>Lease Revenue Bonds:</u>			
1977 Custom House (b)	5.25% - 5.60%	4/1/00 - 2004	\$ 1,975,000
1978 Conference Center (b)	5.93%	6/1/00 - 2005	3,960,000
1999 Redevelopment Agency (b)	3.0% - 4.60%	11/1/99 - 2012	6,284,850
<u>Miscellaneous Loans:</u>			
California Energy Commission	4.68%	12/22/99 - 2003	99,550
CaLease Public Funding Corporation	6.97%	8/15/99 - 2004	63,051
Daniel Green (purchase of 132 Spray Ave)	7%	7/1/99 - 2003	99,228
<u>Compensated Absences</u>			
Total General Long-Term Obligations Account Group			1,561,000
			<u>14,042,679</u>
<u>Lease Revenue Bonds:</u>			
1994 Materials Recovery Facility (a)	5.0% - 5.75%	2/15/00 - 2018	3,850,000
1999 Redevelopment Agency (a)	3.0% - 4.60%	11/1/99 - 2012	12,760,150
<u>Miscellaneous Loans:</u>			
Columbarium (a)	6.34%	7/30/99	913,050
<u>State of California Loans:</u>			
Small Craft Harbor Loans (a)	4.5% - 4.70%	8/1/99 - 2024	6,402,665
<u>Special Assessment Bonds with Governmental Commitment -</u>			
1974 Cannery Row (a)	6.5%	7/2/99 - 2000	<u>160,000</u>
Total Enterprise Fund			<u>24,085,865</u>
Total Long-Term Obligations			<u>\$ 38,128,544</u>

Debt service payments are generally to be made from the following sources:

- (a) Enterprise fund revenues
- (b) Combination of general fund revenues, enterprises fund revenues and debt service fund revenues

	Lease Revenue Bonds	Miscellaneous Loans	Special Assessment Bonds	Compensated Absences	Total Long-Term Obligations
Balance, 7/1/98	\$29,505,000	\$7,903,300	\$225,000	\$1,492,000	\$39,125,300
Borrowings	19,045,000	0	--	--	19,045,000
Repayments	(19,720,000)	(325,756)	(65,000)	--	(20,110,756)
Net increase in compensated absences	--	--	--	69,000	69,000
Balance, 6/30/99	<u>\$28,830,000</u>	<u>\$7,577,544</u>	<u>\$ 160,000</u>	<u>\$1,561,000</u>	<u>\$38,128,544</u>

As of June 30, 1999 debt service requirements to maturity, excluding compensated absences which have no predetermined maturity dates are as follows:

Fiscal Year Ending	Lease Revenue Bonds		Miscellaneous Loans		Special Assessment Bonds		Total Debt Service Requirements
	Principal	Interest	Principal	Interest	Principal	Interest	
June 30 2000	\$ 1,205,000	\$ 1,293,165	\$ 1,177,737	\$ 331,966	\$ 80,000	\$ 7,594	\$ 4,095,462
2001	2,200,000	1,215,493	265,398	290,157	80,000	2,531	4,053,580
2002	2,470,000	1,121,713	278,321	277,235	--	--	4,147,269
2003	2,560,000	1,018,030	291,794	263,661	--	--	4,133,485
2004	2,685,000	907,508	248,802	250,658	--	--	4,091,967
Thereafter	<u>17,710,000</u>	<u>4,045,315</u>	<u>5,315,493</u>	<u>2,695,171</u>	--	--	<u>29,765,979</u>
TOTAL	<u>\$28,830,000</u>	<u>\$9,601,224</u>	<u>\$7,577,544</u>	<u>\$4,108,848</u>	<u>\$160,000</u>	<u>\$10,125</u>	<u>\$50,287,741</u>

The City has various special assessment bonds outstanding in the amount of \$410,000 at June 30, 1999 which are not reflected in the City's general purpose financial statements because the City is not liable for the repayment of these bonds in the event of default. Such bonds relate to the following improvement projects:

Del Monte Shopping Center Assessment District	Series 85-2	\$175,000
Del Monte Shopping Center Assessment District	Series 90-1	40,000
Alvarado Street Improvement Assessment District	Series 85-1	85,000
Del Monte Beach Assessment District	Series 91-1	<u>110,000</u>
		<u>\$410,000</u>

## 5. EMPLOYEES' RETIREMENT PLAN

**Plan Description** - The City contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating entities within the State of California. The benefits for the public agencies are established by contract with CalPERS in accordance with the provisions of the Public Employees Retirement Law. CalPERS issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information for CalPERS. A copy of that report may be obtained by writing to CalPERS, Central Supply, P.O. Box 942715, Sacramento, CA 94229-2715.

**Funding Policy** - Public safety personnel are required to contribute 9% of covered salary to CalPERS. Other covered employees are required to contribute 7% of covered salary to CalPERS. The City is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by CalPERS actuaries and actuarial consultants and adopted by the CalPERS Board of Administration. For the fiscal year ended June 30, 1999 the employer contribution rate was 13.255% for public safety personnel and 0.00% for other covered employees.

**Annual Pension Cost** - For the fiscal year ended June 30, 1999, the City's annual pension cost of \$848,000 for CalPERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 1997 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return, and (b) projected salary increases that vary by duration of service. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of the City's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The difference between the actuarial value of assets and the actuarial accrued liability is being amortized over a period ending June 30, 2000.

**Three- Year Trend Information**

<u>Fiscal Year End</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/97	1,652,000	100%	--
6/30/98	1,556,000	100%	--
6/30/99	848,000	100%	--

**Required Supplementary Information – Schedule of Funding Progress**

<u>Actuarial Valuation Date</u>	<u>Actuarial Accrued Liability (Entry Age Normal)</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Actuarial Liability (UAAL)</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
<b>Safety Plan</b>						
6/30/96	\$ 37,314,000	\$ 37,119,000	\$ 195,000	99.5%	\$ 5,539,000	3.5%
6/30/97	40,244,000	42,952,000	(2,708,000)	106.7%	5,834,000	(46.4%)
6/30/98	46,321,000	51,022,000	(4,700,000)	110.1%	6,291,000	(74.7%)
<b>Miscellaneous Plan</b>						
6/30/96	\$ 40,635,000	\$ 43,963,000	\$(3,328,000)	108.2%	\$11,530,000	(28.9%)
6/30/97	41,361,000	50,503,000	(9,142,000)	122.1%	12,505,000	(73.1%)
6/30/98	46,101,000	60,399,000	(14,298,000)	131.0%	14,402,000	(99.3%)

6. DEFERRED COMPENSATION PLAN

The City offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. One plan, available only to regular employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. In the other plan, available only to part-time, temporary and seasonal (PTS) employees, participation is not optional. In lieu of participation in PERS, PTS employees contribute 3.75% of their earnings to the plan, which the City matches. The funds for each of the plans are invested by the City, through administrators, as directed by and on behalf of the employees, in various investment options.

In accordance with the Small Business Protection Act of 1996, which amended Internal Revenue Code Section 457, the City established a trust to hold the assets of the deferred compensation plans for the exclusive benefit of the participants. Prior to this Act, and the establishment of such a trust, all assets of the plans were the property of the city and were subject to the claims of the City's general creditors. The City determined that the establishment of the trust eliminated the need for the City to report the assets and liabilities of the deferred compensation plans on its general-purpose financial statements. Accordingly, during the fiscal year ended June 30, 1999, the City removed the deferred compensation agency fund from its balance sheet in accordance with Governmental Accounting Standards Board Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans."

## 7. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City has five enterprise funds, which provide marina, cemetery, parking, recycling and public works services. Segment information for the year ended June 30, 1999 is as follows:

	<u>Marina</u>	<u>Cemetery</u>	<u>Parking</u>	<u>Materials Recovery</u>	<u>Presidio of Monterey Authority</u>	<u>Total</u>
Operating Revenues	\$ 1,638,239	\$ 290,453	\$ 4,695,070	\$ 276,698	\$ 1,091,505	\$ 7,991,965
Depreciation & Amortization	551,055	41,434	820,012	95,821	295	1,508,617
Operating Income	471,800	28,370	682,958	173,769	358,218	1,715,115
Operating Transfers In	--	85,000	142,700	9,500	--	237,200
Operating Transfers Out	(316,236)	(1,630)	(611,892)	--	(263,624)	(1,193,382)
Net Income (loss)	(118,134)	51,381	(52,453)	(12,971)	94,594	(37,583)
Net Working Capital	874,614	900,750	6,874,259	78,406	88,990	8,817,019
Additions to Fixed Assets	4,174	--	135,991	--	5,899	146,064
Total Assets	8,441,259	2,100,946	25,313,101	3,863,750	528,606	40,247,662
Bonds and Other Long-Term Liabilities	<u>6,966,552</u>	<u>1,865,300</u>	<u>11,967,900</u>	<u>3,850,000</u>	<u>--</u>	<u>24,649,752</u>
Total Equity	<u>\$ 1,185,166</u>	<u>\$ 196,022</u>	<u>\$ 13,089,827</u>	<u>\$ (65,024)</u>	<u>\$ 94,594</u>	<u>\$ 14,500,585</u>

## 8. INTERFUND TRANSACTIONS

At June 30, 1999 interfund receivables and payables consist of:

	<u>Receivables</u>	<u>Payables</u>
<u>Due To/From Other Funds:</u>		
General Fund	\$ 942,500	\$ --
Special Revenue:		
Federal/State Grants	--	519,389
Low & Moderate Income Housing		38,048
Storm Drain Improvement Fund	--	23,663
Enterprise Funds:		
Presidio of Monterey Public Works Authority	<u>--</u>	<u>361,400</u>
Total	<u>\$ 942,500</u>	<u>\$ 942,500</u>

Advances To/From Other Funds:

General Fund	\$ 1,413,889	\$ --
Special Revenue Funds:		
Storm Water Utility Fund	--	365,614
Storm Drain Fund		30,000
Low and Moderate Income Housing Fund	1,472,383	319,851
Debt Service Funds:		
Custom House Redevelopment Fund	--	1,472,383
Enterprise Fund:		
Marina Fund	--	563,887
Parking Fund	319,851	--
Expendable Trust Funds:		
Tidelands Trust Fund		<u>454,388</u>
 Total	 <u>\$ 3,206,123</u>	 <u>\$ 3,206,123</u>

Operating transfers in and out for fiscal year 1998-99 do not balance by \$642. This was due to a transfer into the Capital Projects Fund from the Special Deposits Agency Fund.

9. RISK MANAGEMENT

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 is self-insured for its general liability and workers' compensation liability. All risk management activities are accounted for in Internal Service Funds.

A summary of the City's limits are as follows:

	<u>General liability</u>	<u>Worker's compensation</u>
Self-insurance, per occurrence	Up to \$500,000	Up to \$300,000
Commercial carrier	\$500,000 to \$20,000,000	above \$300,000

Amounts in excess of these limits are self-insured.

Excess coverage for general liabilities is provided 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. City contributions to ACCEL for the year were \$158,468. Condensed audited financial information of ACCEL for the year ended, June 30, 1999 is as follows (not covered by independent auditors' report):

Total assets	\$27,822,103
Total liabilities	27,787,649
Total members' equity	34,454
Total revenues	6,892,949
Total expenditures	6,938,934
Net decrease in members' equity	45,985
Basis of accounting	Accrual

Property risks are covered on an occurrence basis up to \$25,000,000, with a \$100,000 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.

The unpaid claims liability included in the Internal Service fund is based on the results of actuarial studies and includes amounts for claims incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts and other economic and social factors. It is the City's practice to obtain full actuarial studies bi-annually. Annual premiums are charged by the Internal Service fund using various allocation methods that include actual costs and trends in claims experience.

An analysis of claims activities for the years ended June 30, 1999 and 1998 is presented below:

	<u>1998-99</u>	<u>1997-98</u>
Claims liability, beginning of year	\$8,307,588	\$ 6,518,000
Claims incurred	938,376	2,605,737
Claims paid	<u>(988,376)</u>	<u>(816,149)</u>
Claims liability, end of year	<u>\$8,257,588</u>	<u>\$ 8,307,588</u>

10. COMMITMENTS AND CONTINGENT LIABILITIES

The City is a defendant in a number of lawsuits and has other claims pending, some of which seek substantial money damages and some of which may not be covered under the City's excess liability insurance policy. Management is of the opinion that the potential liability of the remaining claims would not have a material adverse effect on the general-purpose financial statements of the City.

The Del Monte Dunes lawsuit, originally filed against the City in 1988, was settled on September 30, 1999 for \$2,500,000. The City had, in prior years, recorded a liability for this lawsuit in the Risk Management Internal Service Fund.

The City participates in a number of state and federally assisted programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs for or including fiscal year 1999 have not yet been completed. Accordingly, the City's compliance with applicable program requirements is yet to be established. The amount, if any, of expenditures which may be disallowed by the program agencies cannot be determined, although the City does not expect such amounts, if any, to be material.

During 1999, the City contracted to have certain capital projects performed. The remaining authorized costs of completion are approximately \$769,721 as of June 30, 1999 and are to be paid out of the General Fund, Special Revenue Funds, Capital Projects Funds, and Enterprise Funds (see Note 3).

11. YEAR 2000 ISSUES (UNAUDITED)

In October 1998, the Government Accounting Standards Board (GASB) issued Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*. The provisions of the GASB technical bulletin require the City to make disclosures about its state of readiness in addressing Year 2000 issues for its internal computer systems and equipment.

The Year 2000 Issue arises because some computer software programs allocate two digits to the date field for "the year," assuming the first two digits will be "19". These programs may interpret the year 2000 as the year 1900. The Year 2000 issue affects computer hardware and software, and could impact data entry and data processing. However, because of the unprecedented nature of the Year 2000 issue, the effect of the problem and the success of remediation efforts will not be known until the year 2000.

With the assistance of other departments, the city's Information Services Division has been researching, analyzing, identifying and correcting Year 2000 compliance issues since September 1997. During this period, several critical areas that were not Year 2000 compliant were identified and brought into compliance. The City's Year 2000 remediation efforts have been directed at ensuring unimpeded and uninterrupted operation, including revenue collections, investment activities, and timely payment of obligations. Management is working to assure the City will be Year 2000 ready and the City's remediation efforts will be successful.

The following summary represents the status of our work to date:

- ◆ The Citywide network and servers are compliant;
- ◆ All application software is compliant;
- ◆ Finance software, except cash management, is compliant. Cash management will be upgraded and tested in November;
- ◆ Police software is compliant;
- ◆ Fire software is compliant;
- ◆ All Public Works systems are compliant;
- ◆ Recreation software will be upgraded tested in November;
- ◆ All Public Facilities systems are compliant;
- ◆ Personnel software is compliant;
- ◆ Library software is compliant;
- ◆ The City Attorney's software is compliant;
- ◆ Parking software is compliant;
- ◆ Traffic software is compliant.