

CITY OF MONTEREY CALIFORNIA



COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2012

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Prepared by the Finance Department
Don Rhoads, Director



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

TABLE OF CONTENTS

INTRODUCTORY SECTION

Table of contents i
City organizational chart iv
City officials v
Certificate of achievement for Excellence in financial reporting vi
Letter of transmittal vii

FINANCIAL SECTION

INDEPENDENT AUDITOR’S REPORT ON BASIC FINANCIAL STATEMENTS 1

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) 3

BASIC FINANCIAL STATEMENTS:

Entity-wide financial statements: 13
 Statement of net assets 14
 Statement of activities 15
Fund financial statements: 16
 Governmental funds: 16
 Balance sheet 18
 Reconciliation of the governmental funds balance sheet with the statement of net assets 19
 Statement of revenues, expenditures, and changes in fund balances 20
 Reconciliation of the net change in fund balances total governmental
 funds with the statement of activities 21
 Statement of revenues, expenditures, and changes in fund balances – budget and actual 22
 Proprietary funds: 25
 Statement of net assets 26
 Statement of revenues, expenses and changes in net assets 27

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

TABLE OF CONTENTS

FINANCIAL SECTION (continued)

Statement of cash flows.....	28
Fiduciary fund:	29
Statement of fiduciary net assets	30
Notes to the basic financial statements	31
 REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)	
Schedule of Funding Progress - Public miscellaneous & safety employees retirement system	63
Schedule of Funding Progress – Other post-employment benefits	64
 COMBINING AND INDIVIDUAL FUND STATEMENTS	
Non-major governmental funds:	66
Combining balance sheets.....	68
Combining statements of revenues, expenditures, and changes in fund balances	72
Combining statements of revenues, expenditures, and changes in fund balances-budget and actual.....	76
Non-major enterprise funds:	87
Combining statement of net assets.....	88
Combining statement of revenues, expenses and changes in funds net assets	89
Combining statement of cash flows	90
Internal service funds:	91
Combining statement of net assets.....	92
Combining statement of revenues, expenses and changes in net assets.....	93
Combining statement of cash flows	94
Fiduciary fund:	95
Statement of changes in fiduciary net assets-private purpose trust fund.....	96

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

TABLE OF CONTENTS

Statement of changes in assets and liabilities-agency fund..... 96

STATISTICAL SECTION (UNAUDITED)

Section Overview..... 98

FINANCIAL TRENDS

Net assets by component..... 99

Changes in net assets..... 100

Fund balances of governmental funds 101

Changes in fund balances of governmental funds 102

REVENUE CAPACITY

Transient occupancy tax by category..... 103

Principal transient occupancy tax generators..... 104

Assessed and estimated actual value of taxable property..... 105

Property tax rates - direct and overlapping governments 106

Principal property taxpayers..... 107

Property tax levies and collections..... 108

DEBT CAPACITY

Computation of direct and overlapping bonded debt 109

Ratio of outstanding debt by type 110

Legal debt margin information..... 112

DEMOGRAPHIC AND ECONOMIC INFORMATION

Demographic information 113

Summary of major employers..... 114

OPERATING INFORMATION

Authorized positions by department 115

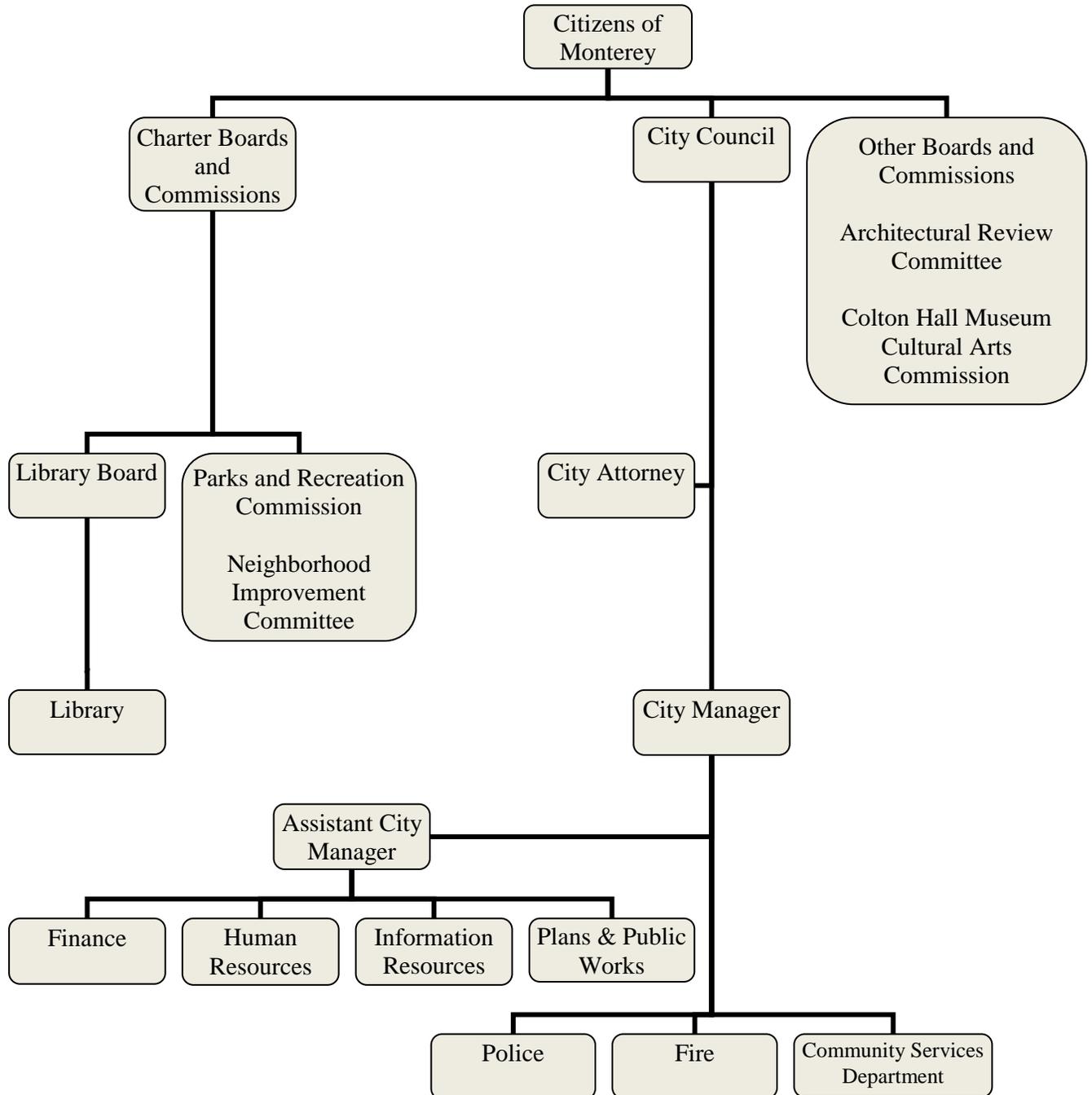
Operating indicators by function..... 116

Capital Asset Statistics 117

CITY OF MONTEREY

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

CITY ORGANIZATIONAL CHART



CITY COUNCIL

Chuck Della Sala
Mayor

Libby Downey
Nancy Selfridge

Jeff Haferman
Frank Sollecito

PRINCIPAL ADMINISTRATIVE OFFICERS

City Manager Fred Meurer
Assistant City Manager/HR Director Michael McCarthy
City Attorney Chrissy Davi
Information Resources Director and City Clerk..... Bonnie Gawf
Finance Director Don Rhoads
Fire Chief..... Andrew Miller
Community Services Director Kim Bui-Burton
Police Chief Philip Penko

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Monterey
California

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

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



Christopher P. Morill

President

Jeffrey R. Emery

Executive Director



December 31, 2012

Honorable Mayor and City Council
Fred Meurer, City Manager
City of Monterey

I am pleased to present to you the 2011/2012 Comprehensive Annual Financial Report (CAFR) for the City of Monterey. This "comprehensive" report is intended to present information that goes beyond the basic financial statements required by generally accepted accounting principles.

This report has been prepared by the Finance Department in accordance with generally accepted accounting principles (GAAP), as set forth in the pronouncements of the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB). It consists of management's representations concerning the finances of the City. Consequently, responsibility for the accuracy of the data including all disclosures rests with the management of the City.

We believe that the data as presented is accurate in all material respects, that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of the various funds, and that all disclosures necessary to enable the reader to gain the full understanding of the City's financial affairs have been included.

To support this representation, management has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuses and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements.

This is supported by the letter, included in this report, from the City's independent auditor that states they believe that the basic financial statements present fairly the City's financial position as of June 30, 2012, in conformity with GAAP. R.J. Ricciardi, Inc., a firm of licensed certified public accountants, conducted the Financial Statement audit. Their goal and that of any independent auditor was to provide a reasonable assurance that the financial statements of the City of Monterey for the fiscal year ended June 30, 2012, are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation.

This report includes all of the funds of the City of Monterey, the Redevelopment Agency of the City of Monterey (through January 31, 2012), and the Monterey Joint Powers Financing Authority.

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

City History and Overview

Las Bahia de los Pinos (Bay of Pines) was first discovered by Juan Rodriguez Cabrillo on November 17, 1542. This Spanish claim to California was reaffirmed in December, 1602, when Sebastian Viscaino officially named the port Monterey in honor of the Viceroy of New Spain who had ordered the expedition.

Founded on June 3, 1770 when Spanish soldiers claimed the land for King Charles III of Spain, the City was officially incorporated on May 30, 1850. The City's historic Colton Hall was the site of California's first constitutional convention where our state's constitution was signed in 1849.

The natural beauty, mild climate and unique attractions of Monterey draw an estimated 4 million visitors each year making our City one of the most popular destinations in the country. The Monterey Bay Aquarium, Old Fisherman's Wharf and Cannery Row are among the many interesting places to visit in Monterey. The City is also home to the Army's Defense Language Institute and Naval Postgraduate School.

Local Economy

The local economy continued to stabilize and to some degree beginning to turn around in 2011/12, which is welcome news. The City's top revenue, Transient Occupancy Tax (TOT), which was projected to increase 4% in fiscal year 2011/2012, instead increased a robust 12.9%. Part of this growth was due to the recovering economy, though part can also be attributed to an unusually warm winter bringing more visitors to town. Good weather cannot be relied upon, of course, so for fiscal year 2012/2013 an increase in TOT of 3.3% was programmed into the budget.

Real property values began to finally gain in earnest in the City of Monterey last year. The number of single-family residences sold in 2011/12 increased 21.2% and the total sales volume 10.5% to \$85.5 million over the previous year. Though property tax city-wide decreased 16% due to the elimination of Redevelopment Agencies, this real property sales data supports the fact that property tax revenue in the General Fund only actually increased in FY2011/12 by 9% from the prior year. It is important to note, however, that this more robust activity is only now bringing real estate sales back to pre-recession levels, though with much lower property valuations. For example, though sales of single-family residences last fiscal year (85.5 million) almost matched the volume in 2007 (85.7 million), it took the sale of 166 homes in 2011/12 versus only 95 homes sold in 2007 to get to the same dollar volume. This is a reflection of the decline in median sales price that still has a long way to go to recover. There is evidence, however, that this too may be on the mend as the median sales price of a single-family home rose from \$457,500 to \$510,000 as of the quarters ended September 2012 and 2011 respectively. A good sign but still far short of the \$795,000 median sales price reported in 2007. Given recent stronger numbers, for fiscal year 2012/13, property tax receipts are expected to increase another 8%.

Receipts from sales tax grew modestly in 2011/12 coming in almost 2.3% higher than the previous year, but 1.1% below projections. Drivers of this growth include restaurants, food markets, and service stations. General retail was up about 2%, though women's apparel grew at a 15% rate due to new stores at Del Monte Center. This somewhat muted overall showing is misleading due to the timing of the receipt of sales tax proceeds for the April-June 2012 quarter and the period of revenue accruals for those receipts. That is, the fourth quarter of fiscal year 2011/12 was actually quite strong at 8.7% growth. However, most of the receipts related to that activity are received after the accrual period ends for accounting purposes and will, therefore, be reflected in the following fiscal years reports. Sales tax estimates for 2012/2013 are expected to continue to grow by 5.9%.

Long-term financial planning

For long-term financial forecasting and planning purposes the City of Monterey uses conservative estimates for revenue growth. Despite the nearly 13% growth rate in 2011/12, revenue estimates for the City General Fund's largest revenue source, TOT, are projected to grow in the out-years at a slower rate than in the past. Historic growth patterns have shown a 4% increase annually over time. However, we expect TOT to

increase at a rate of 3.3% in 2012/2013, and then move to growth rate of about 3% annually after that. Out-year growth projections for property and sales taxes are 4% and 4%-6% respectively indicating that these key revenue streams are expected to continue to rebounds, although only slowly over time.

At fiscal year end the City of Monterey had \$1.4 million in its capital renewal reserves for the following facilities: public safety buildings, Conference Center, Sports Center, Library, Recreation Centers, City Hall and the wharves. The projected General Fund budget surpluses discussed below will, if realized, greatly increase these reserves, which will be used to fund capital replacement and renewal for these facilities in the future as needed. Beyond the General Fund, the City maintains nearly \$13 million in reserves to maintain and replace facilities and equipment with separate funding sources such as parking, marina and vehicle replacement.

Relevant Financial Policies

It is the City's policy to hold in a Reserve for Economic Uncertainty 15% of net General Fund expenditures in order to have a cushion against fiscal uncertainties that arise. Because of the economic downturn a decade ago resulting from the after-effects of 9-11 and the breaking of the dot-com bubble, The City Council authorized a drawdown of the Reserve for Economic Uncertainty of \$1.5 million to supplement \$2.5 million in budget reductions in order to solve a \$5 million budget gap at that time. Therefore, this reserve currently stands at approximately 10%. It is important to note, however, that this reserve was not tapped during the even more severe Great Recession as the City Council understood the importance of implementing what turned out to be \$12 million in structural budget reductions over about three years rather than rely on reserves. The City's current 5-year General Fund financial forecast includes plans to replenish this reserve back to policy over the next several years, bringing it back to 12% by 2015-16 and continuing to increase it annually until the 15% policy reserve level is achieved.

The stabilization and turn-around in revenues noted above is a key element in the City's current 5-year plan to address an existing under-funding of some key City infrastructure reserves. Additional funding for streets, storm drains, sewers and building facilities is needed to adequately care for the City's infrastructure and facilities over the long run. The current financial forecast shows General Fund budget surpluses growing from \$1.25 million in 2012/13 to \$3.5 million in 2015/16 dedicated to the City's capital facility and infrastructure obligations. In addition to the allocation of these planned surpluses to renewal projects, in regards to the City's sewer system in specific, in August of 2011 the City Council approved a rate increase in order to finance the debt service on a \$16.8 million loan from the State of California to rehabilitate much of the City's aging system. This major renewal project is currently undergoing environmental review and pre-project planning and engineering and should be ready to begin by the spring of 2013.

Due to the continued prudent fiscal management and foresight of the City's Council and management team, and the cooperation of all City employee groups and unions, the City's current 2012/2013 budget is balanced. And, as noted above, the City's 5-year financial forecast projects surpluses going forward, given current economic assumptions. This is a significant accomplishment in today's very challenging economic environment. But it is one that City Council and management take very seriously and will continue to by using a thoughtful, measured program for defining City values, programs and priorities. As we consider the City's economic outlook, one major risk factor we continue to face is the ever-present threat of State raids on City funds to balance its budget shortfalls. In 2009/2010, the State of California seized \$2.2 million from the City's Redevelopment Agency to help balance its own budget, another \$450,000 was taken in 2011/2012, and subsequent to year-end another \$3.2 million was demanded by the State. In addition, the State Department of Finance disallowed as an enforceable obligation an agreement between the City and the former Redevelopment Agency that was to provide about \$3 million annually to the General Fund over the next six years in the way of reimbursements for funds spent by the General Fund on behalf of the Redevelopment Agency in years past. The impact of the canceling of this agreement was already factored into the 5-year financial forecast mentioned above so it is accounted for in City plans to revitalize its facilities and infrastructure. The passing of Proposition 30 by the voters of California will relieve some of

the immediate financial pressure on the State so the hope is that further raids will not be necessary. However, there is always a threat in this regard.

Major Initiatives

Enterprise Content Management (ECM) – The ECM system is a software technology that will centralize content across the City organization, allow access to that content by employees and the public with security protections in place, enable collaboration on projects by employees in disparate offices and automate many time-consuming manual processes. It is expected that ECM will increase productivity, government transparency and the quality of information available to the City Council, Boards & Commissions, City executives, management, staff, and the public. To date features have become available that allow for instant online search and access to City Council agenda reports and resolutions going back several years, and staff now has the ability to electronically route agenda reports, a process which was formerly performed manually and in hard copy. Within the City, staff are now storing documents electronically that were previously stored in hard copy, such as accounts payable invoices, which has increased efficiency across the City. The next application that is about ready to put into use is electronic routing and management of legal agreements and contracts.

Priority-based Budgeting/Performance Measurements - It is City policy to adopt a balanced budget where ongoing inflows equal or exceed ongoing outflows. In order to accomplish this in a thoughtful and orderly fashion, in the fall of 2010 the City's management team gathered extensive staff and citizen input in order to refine the definition of the City's "value drivers" and, based on that input, prioritize the City's programs. Recognizing that a balanced budget is imperative and that the City cannot afford to do everything, this prioritization of program information proved to be extremely valuable during the 2010/11 budget process in helping the City Council make difficult decisions to balance the budget. This process was continued during fiscal year 2011/12 with further refinement of the program list and collection of data to begin a systematic performance measurement program to compliment our priority setting process. This performance measurement program, which is being coordinated through the International City Manager's Association (ICMA), is currently underway in 2012/13.

Fire Services Contract – In order to spread the overhead costs associated with running a fire department, the City of Monterey joined forces with the neighboring City of Pacific Grove in 2008 by contracting with them to provide fire services. In the fall of 2011, the nearby City of Carmel-by-the-Sea also decided to contract with Monterey for fire services, further reducing overhead costs for all three cities. These contracts are a continuation of efforts to use existing management and administrative staffing, equipment and facilities as efficiently as possible. Similar arrangements are in place for building inspection service with Pacific Grove and a wide variety of maintenance services with the Army at the Presidio of Monterey. The City continues to explore other avenues for sharing services in the region in order to reduce costs overall.

Business District Planning – In an effort to retool and revitalize several of the City's business districts a number of planning efforts are underway to determine what can be done to bring more business to the area. Significant public outreach and planning efforts are underway for the City's waterfront, downtown core, Lighthouse Avenue and North Fremont Avenue. A significant component of the downtown and waterfront planning involves the potential rehabilitation of the Monterey Conference Center. This facility was built in 1977 and is in need of significant upgrading in order to remain competitive in the market for conference and group meeting events. To date a study has been performed to provide the City Council and community with several options for how to proceed with such a project, if the decision is ultimately made to move forward. In addition, a financial advisory firm was hired to assist with identifying potential funding sources for the proposed project and the results of this study were brought before City Council in August of 2012. City staff was directed to further refine the plans for the rehabilitation project and meet with the hospitality industry to discuss the proposed funding source, which is a new tax on hotels and motels levied by a Convention Center Facilities District that would be created for this purpose.

FINANCIAL INFORMATION

Accounting System and Budgetary Control

The City's accounting records for general government operations are maintained on a modified accrual basis, with the revenues being recorded when measurable and available. Expenditures are recorded when the services or goods are received and the liabilities incurred. Accounting records for the City's proprietary activities are maintained on the full accrual basis, with revenues recorded when earned and expenses when incurred.

In maintaining the City's accounting system, consideration is given to the adequacy of internal controls. As mentioned earlier, internal controls are designed to provide reasonable assurance regarding the safeguarding of assets and to ensure the reliability of financial records and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived. The evaluation of costs and benefits requires continuing estimates and judgments by City management. We believe that the City's system of internal accounting controls continues to adequately safeguard assets and provide reasonable assurance that financial transactions are properly recorded.

Formal budgetary integration is employed as a management control device. Commitments for materials and services, such as purchase orders and contracts, are recorded as encumbrances in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary integration in the General, Special Revenue, and Capital Projects funds. Encumbrances lapse at year-end and are then added to the following year's budgeted appropriations. Encumbrances are reported at year-end as reservations of fund balances.

OTHER INFORMATION

Independent Audit

Article 6 of the City Charter requires an annual audit of the City's financial records by independent certified public accountants. The accounting firm of R.J. Ricciardi, Inc. was selected by the City Council to perform the audit.

In addition to meeting the requirements of the City Charter, the audit was also designed to meet the requirements of the Federal Single Audit Act of 1984, Single Audit Act Amendments of 1996 and related OMB Circular A-133, "Audits of States, Local Governments and Non-profit Organizations."

The auditor's report on the basic financial statements and combining and individual non-major fund statements and schedules is included in the financial section of the report. The auditor's reports related specifically to the single audit are included in the Single Audit reports, which are separate documents.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Monterey for its comprehensive annual financial report for the fiscal year ended June 30, 2012. This was the 16th consecutive year the City has received this most prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of the Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated service of the entire staff of the finance department throughout the fiscal year, Robin Briggs, Carol Bouchard, Rhonda Combs, Vicki Courtney, Wendy Davies, Linda English, Pam Erlandson, Herlinda Franklin, Lorraine Franks, Pamela Hart, Liza Linsao, Melanie Martin, Erika Martinez, Felicia Ming, Mike McCann, Rachel Nolin, Rachel Polen, Julie Porter, Vickie Rahman and Matteo Russo. It is only through the year round effectiveness and efficiency of these valuable staff members that the preparation and development of this report is possible. Each member of the department has my sincere appreciation for their contributions.

In closing, without the leadership and support throughout fiscal year 2011-12 of Mayor Chuck Della Sala, Council Members Libby Downey, Jeff Haferman, Nancy Selfridge and Frank Sollecito, the City Manager, Fred Meurer, and Assistant City Manager, Michel McCarthy, preparation of this report would not have been possible.

Sincerely,



Don Rhoads
Finance Director

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Monterey
Monterey, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Monterey, California as of and for the year ended June 30, 2012, which collectively comprise the City of Monterey's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City of Monterey's management; our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of City of Monterey's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Monterey, California as of June 30, 2012, and the respective changes in the financial position and cash flow, where applicable, and the budgetary comparison for the general fund for the year then ended, in conformity with U.S. generally accepted accounting principles.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2012, on our consideration of City of Monterey's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Monterey's basic financial statements. The accompanying introductory section and the combining and individual nonmajor fund financial statements and schedules listed as supplementary information in the table of contents and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

R. J. Ricciardi, Inc.

R. J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
December 31, 2012



MANAGEMENT'S DISCUSSION & ANALYSIS

As management of the City of Monterey, we offer readers of the City of Monterey's financial statements this narrative overview and analysis of the financial activities of the City of Monterey for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found at the beginning of the introductory section, immediately following the table of contents.

Financial Highlights

Government-Wide Highlights:

- The City had net assets (total assets less total liabilities) of \$206.6 million at June 30, 2012. Most of this amount (\$139 million) is made up of capital assets, net of related debt, such as infrastructure, roads, land and buildings. Restricted net assets of \$34 million may be used for the City's ongoing obligations related to programs with external restrictions. Another \$34 million was reported as unrestricted net assets, though much of that is classified as "non-spendable" such as the \$17.7 million Parking Fund long-term receivable. The remainder is designated for purposes such as economic uncertainty and capital renewal.
- Government-wide revenues rose a total of \$2.3 million in 2011/2012 mainly due to a \$2.7 million increase in revenue from governmental activities and a slight drop in revenue of \$342 thousand from business-type activities. All these fluctuations were due primarily to an increase in transient occupancy tax and charges for services, which include an increase in Conference Center revenues and administrative support for the maintenance and project management contract with the Presidio of Monterey.
- The City's total expenditures decreased by \$0.6 million in 2011/2012. This consisted of a moderate \$0.5 million decline in expenditures related to governmental activities and a \$98 thousand decline in expenses for business-type activities, which is a net result of a \$252 thousand increase in the Marina fund and a \$463 increase in the Parking fund, and a decrease of \$690 thousand in the Presidio Fund.

Fund Highlights

- From the City's fund level statements, operating revenues from Business Type Activities exceeded operating expenses by \$2.3 million. This operating surplus was generated primarily by the Marina and Parking Funds, which generated \$520 thousand and \$1.4 million in operating income respectively.
- From the City's fund level statements, the Ending Fund Balance for the General Fund increased by \$582 thousand during 2011/2012 to \$34 million. Twenty-three million dollars of this ending balance is "non-spendable" in that it represents long-term advances to other funds, primarily the Parking Fund. The remaining balance of just over \$11 million has been set aside in a variety of reserves for encumbrances and for contingencies such as economic uncertainty and capital renewal.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Monterey's basic financial statements, which are comprised of three components: 1) entity-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Entity-wide financial statements. The entity-wide financial statements are designed to provide readers with a broad overview of the City of Monterey's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Monterey's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Monterey is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the entity-wide financial statements distinguish functions of the City of Monterey that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Monterey include community protection, community development, public works and transportation and policy and administration. The business-type activities of the City of Monterey include a marina, cemetery, parking, materials recovery facility, service contracts for the Army & Navy and the operation of a communication network.

The entity-wide financial statements include the City of Monterey itself (known as the primary government), the Redevelopment Agency of the City of Monterey and the Monterey Joint Powers Financing Authority.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Monterey, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Monterey can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the entity-wide financial statements. However, unlike the entity-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the entity-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the entity-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Monterey maintains 23 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Capital Projects Fund, Debt Service Fund and Low/Mod Income Housing Funds, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements and are located after the notes to the financial statements.

The City of Monterey adopts annual appropriated budgets, prepared on a cash basis. A budgetary comparison statement has been provided for Monterey's General Fund and major governmental funds to demonstrate compliance with these budgets.

Proprietary funds. The City of Monterey maintains two different types of proprietary funds; Enterprise and Internal Service. Enterprise funds are used to report the same functions presented as business-type activities in the entity-wide financial statements. The City of Monterey maintains 7 enterprise funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Monterey's various functions. The City of Monterey uses internal service funds to account for equipment replacement, vehicle maintenance, information services and risk management. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the entity-wide financial statements. The City maintains 4 internal service funds.

Proprietary funds provide the same type of information as the entity-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Marina, Parking and Presidio of Monterey Public Works funds, as these are considered to be major funds of the City of Monterey. Data from the other four enterprise funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major enterprise funds is provided in the form of combining statements following the notes to the financial statements. Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements following the notes to the financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the entity-wide financial statement because the resources of those funds are not available to support the City of Monterey's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City has two types of fiduciary

CITY OF MONTEREY

Management's Discussion and Analysis

June 30, 2012

funds: an agency fund for City assessment and promotion districts and a trust fund for the Redevelopment Retirement Obligation Fund. The total assets held in the agency fund at June 30, 2012 were \$397 thousand. The Private Purpose Trust Fund, which holds funds for the Redevelopment Retirement Obligation Fund, had total assets of \$4.7 million at fiscal year-end.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the entity-wide and fund financial statements.

Other information. The combining statements referred to earlier in connection with non-major governmental funds, non-major enterprise funds, internal service funds, and agency funds are presented immediately following the notes to the financial statements.

Entity-wide Financial Analysis

Net Assets. Net assets may serve as a useful indicator of a government's financial position. In the case of the City of Monterey, total net assets were \$206.6 million at the close of the fiscal year ended June 30, 2012.

By far the largest portion of the City of Monterey's net assets (67%) reflects its investment in capital assets (e.g. infrastructure, land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Monterey uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Monterey's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A summary of net assets follows:

City of Monterey's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	FY 2012	FY 2011	FY 2012	FY 2011	FY 2012	FY 2011
Current & other assets	\$ 96,705,371	\$ 94,774,408	\$ (1,840,134)	\$ (2,685,093)	\$ 94,865,237	\$ 92,089,315
Capital assets, net	129,878,172	131,762,366	23,599,044	24,171,169	153,477,216	155,933,535
Total assets	226,583,543	226,536,774	21,758,910	21,486,076	248,342,453	248,022,850
Long-term liabilities outstanding	14,400,450	13,075,166	5,739,180	6,191,223	20,139,630	19,266,389
Other liabilities	17,240,937	16,882,262	4,400,503	4,631,913	21,641,440	21,514,175
Total liabilities	31,641,387	29,957,428	10,139,683	10,823,136	41,781,070	40,780,564
Net assets:						
Invested in capital assets, net of related debt	120,401,873	123,156,792	18,280,879	18,360,622	138,682,752	141,517,414
Restricted	33,409,687	37,216,421	411,276	414,540	33,820,963	37,630,961
Unrestricted	41,130,596	36,206,132	(7,072,928)	(8,112,222)	34,057,668	28,093,910
Total net assets	\$ 194,942,156	\$ 196,579,345	\$ 11,619,227	\$ 10,662,940	\$ 206,561,383	\$ 207,242,285

CITY OF MONTEREY

Management's Discussion and Analysis

June 30, 2012

Total net assets for the Governmental Activities consisted of \$195 million, which was comprised of \$120 million in net capital assets (infrastructure, buildings, roads, land, etc.), \$33 million in amounts legally restricted, and \$41 million, classified as Unrestricted for accounting purposes. However, as mentioned previously, a large portion of this unrestricted amount is reserved for the purposes such as economic uncertainty (\$5.8 million), capital and neighborhood improvement programs (\$9.2 million), capital renewal & cultural arts (\$1.3 million), or is not currently available, such as the \$17.7 million Parking fund long-term receivable.

Revenue and Expenses. The City's total net assets decreased by \$681 thousand during the fiscal year. This was primarily related to an extraordinary loss of \$4.8 million incurred due to the dissolution of the redevelopment agency.

The table below is a summary of all the City's revenues and expenses. A summary of the top revenues follows this table:

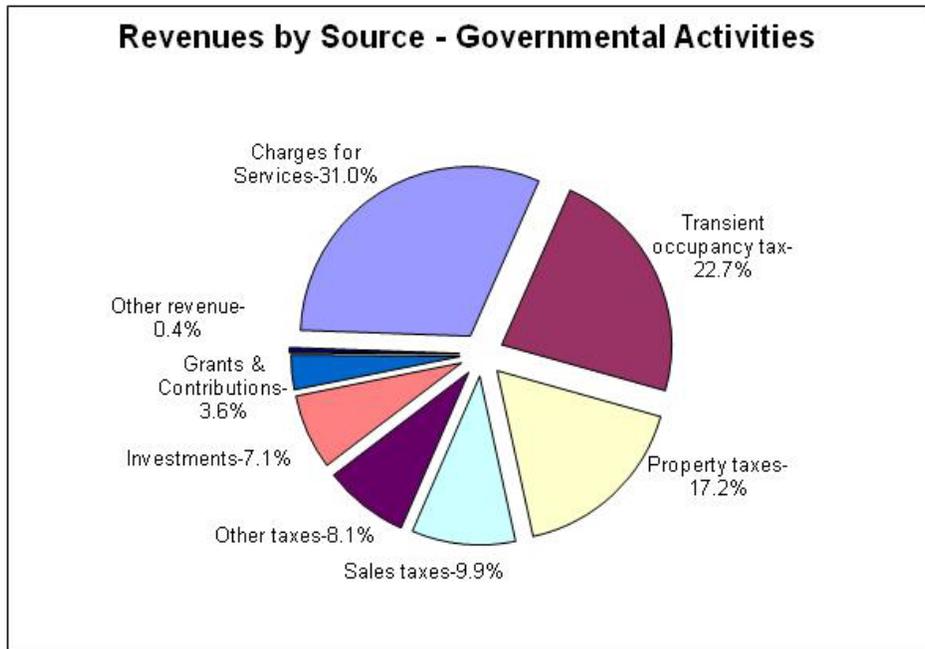
City of Monterey's Summary of Revenues & Expenses

	Governmental Activities		Business-Type Activities		Total	
	FY 2012	FY 2011	FY 2012	FY 2011	FY 2012	FY 2011
Revenues:						
Program Revenues:						
Charges for services	\$ 22,577,839	\$ 20,552,496	\$ 24,548,799	\$ 24,818,414	\$ 47,126,638	\$ 45,370,910
Operating grants & contributions	1,054,621	947,647	-	-	1,054,621	947,647
Capital grants & contributions	1,351,930	1,661,932	-	-	1,351,930	1,661,932
General Revenues:						
Transient occupancy tax	16,536,943	14,655,418	-	-	16,536,943	14,655,418
Property tax	10,286,705	12,247,862	-	-	10,286,705	12,247,862
Sales tax	5,384,692	5,257,314	-	-	5,384,692	5,257,314
In-lieu sales taxes	1,827,101	1,792,836	-	-	1,827,101	1,792,836
Other taxes	5,912,623	5,635,273	-	-	5,912,623	5,635,273
Investment income	5,271,786	4,647,197	157,926	230,896.00	5,429,712	4,878,093
Motor vehicle in lieu	15,159	140,274	-	-	15,159	140,274
In-lieu VLF	2,219,428	2,250,982	-	-	2,219,428	2,250,982
Other revenues	280,134	249,936	-	-	280,134	249,936
Total revenues	72,718,961	70,039,167	24,706,725	25,049,310	97,425,686	95,088,477
Expenses:						
General government	8,727,041	7,674,774	-	-	8,727,041	7,674,774
Public safety	24,635,437	24,479,714	-	-	24,635,437	24,479,714
Public works	19,662,862	19,706,824	-	-	19,662,862	19,706,824
Community development	882,990	1,857,119	-	-	882,990	1,857,119
Recreation and community service	8,255,901	8,454,787	-	-	8,255,901	8,454,787
Library	3,203,459	3,251,530	-	-	3,203,459	3,251,530
Public facilities	4,184,110	4,574,830	-	-	4,184,110	4,574,830
Nondepartmental	-	-	-	-	-	-
Interest and fiscal charges	403,001	471,315	-	-	403,001	471,315
Marina	-	-	2,299,601	2,047,929	2,299,601	2,047,929
Parking	-	-	7,299,420	6,836,439	7,299,420	6,836,439
Presidio of Monterey Public Works	-	-	13,022,559	13,712,889	13,022,559	13,712,889
Other Business-type activities	-	-	778,632	901,748	778,632	901,748
Total Expenses	69,954,801	70,470,893	23,400,212	23,499,005	93,355,013	93,969,898
Change in net assets before transfers	2,764,160	(431,726)	1,306,513	1,550,305	4,070,673	1,118,579
Transfers	350,226	244,433	(350,226)	(244,433)	-	-
Extraordinary Event	(4,751,575)	-	-	-	(4,751,575)	-
Change in net assets	(1,637,189)	(187,293)	956,287	1,305,872	(680,902)	1,118,579
Net assets - Beginning	196,579,345	196,766,639	10,662,940	9,357,068	207,242,285	206,123,707
Net assets - Ending	\$ 194,942,156	\$ 196,579,345	\$ 11,619,227	\$ 10,662,940	\$ 206,561,383	\$ 207,242,285

The largest components of the City’s revenue were as follows:

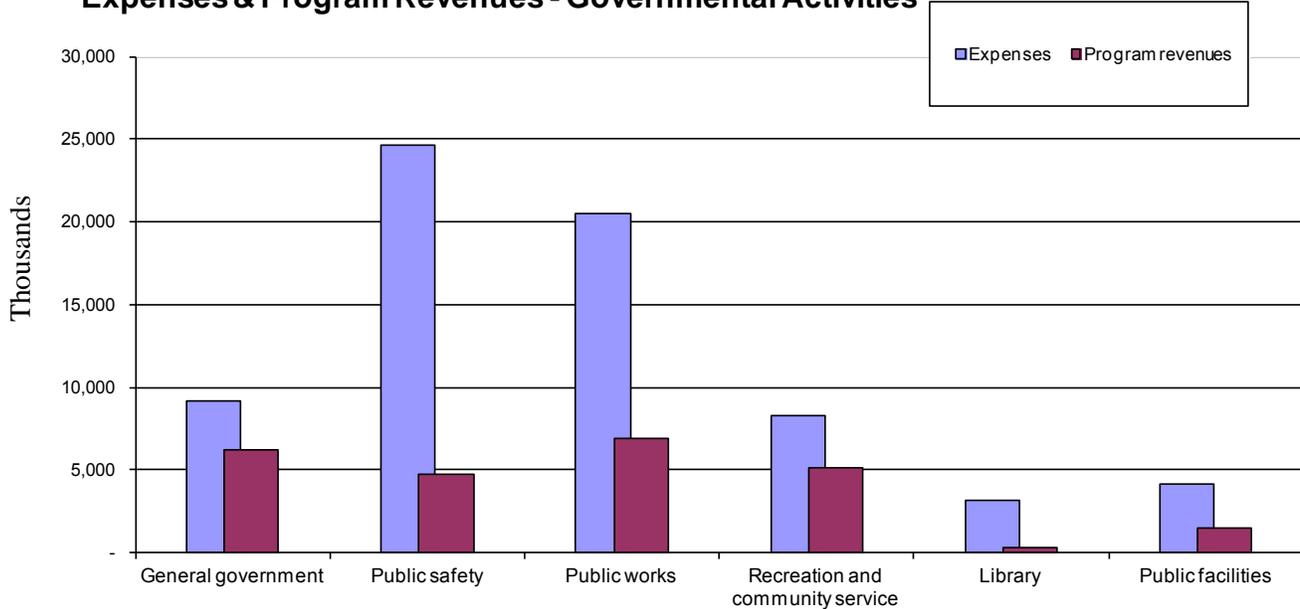
- Transient Occupancy Tax (TOT) receipts were 23% of all governmental activities’ revenues totaling \$16.5 million. For the fiscal year ended June 30, 2012, TOT increased by \$1.9 million (including both General Fund and Neighborhood Improvement Fund allocations) or 12.9%. This exceeded even the revised estimate of 11.2% growth, and is attributed to a generally improving tourism economy and an unseasonably warm winter across the state.
- Charges for Services, as an overall category, consists of individual departmental and program fees collected from users of the City’s programs and services (e.g. Fire, Recreation, Planning and Building, Conference Center). These revenues increased by \$1.8 million (4%) to \$47.1 million during the fiscal year. This was due to a combination increases in new Fire Service Contracts with neighboring cities, construction permits, conference center room rentals and administrative support for the Presidio of Monterey contract.
- Property Tax decreased by \$2 million (16%) to \$10.3 million due to the elimination of Redevelopment and loss of property tax increment. However, property taxes related to only the General Fund increased by 9%.
- Sales Tax receipts (includes “In-lieu sales tax”) increased by \$161 thousand (2.3%) to \$7.2 million reflecting a continued improvement in the local retail sales economy. This key revenue source appears to lag behind the relatively robust growth in General Fund TOT and property taxes. However, due to the timing of receipt of sales taxes from the State of California versus the timing of our revenue accrual periods, a rather healthy second quarter in calendar year 2012 was not reflected in the fiscal year 2011-12 financial reports.
- Business-Type Activities increased the City of Monterey’s net assets by \$1 million. The key elements of this increase were the excess of revenues over expenses generated primarily by Parking and Marina operations.

The pie chart below depicts the percentage of the total governmental revenues allocated by each revenue type.



This bar chart provides a comparison by governmental activity of expenditures and revenues that are related to each activity. This illustrates the degree to which the City subsidizes its primary services to the Citizens. The difference between the costs and the program revenues is funded by taxes and other general revenues.

Expenses & Program Revenues - Governmental Activities



Fund level Financial Analysis

As noted earlier, the City of Monterey uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Monterey’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Monterey’s financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the City of Monterey. At the end of the fiscal year, unassigned fund balance of the General Fund was \$529 thousand, while total fund balance was \$34 million. Current revenues exceeded current expenditures by \$1.9 million. An excess of transfers to other funds over transfers in from reserves, primarily for capital projects and debt service, resulted in a decrease of \$1.3 million into the fund from transfers. So overall, General Fund activities generated a net increase of \$582 thousand in fund balance during 2011/12. As a measure of the General Fund’s liquidity, though unassigned fund balance represented less than 1% of General Fund expenditures, total fund balance represented a healthy 57% of that amount.

The Debt Service Fund’s largest revenue source is receipt of property taxes by the former Redevelopment Agency of the City of Monterey, which is used, in part, for repayment of loans made by the City’s General Fund to the former Redevelopment Agency under the terms of a repayment agreement. In 2012 the open balance on this agreement decreased \$2.7 million. However, as described in Note 15 to the financial statements, subsequent to year end the final net balance of the agreement of \$16 million became uncollectable when the reimbursement agreement was deemed invalid by the State Department of Finance under Assembly Bill X1 26.

The Capital Projects Fund has a total fund balance of \$183 thousand, all of which is restricted or committed. The net decrease in fund balance during the fiscal year was \$279 thousand, reflecting the completion and close-out of several projects, leaving a total of 89 projects of varying sizes and durations funded in this and previous periods, which is up from 79 projects the previous year.

Proprietary funds. The City of Monterey's proprietary funds provide the same type of information found in the entity-wide financial statements, but in more detail. Total net assets of the major Enterprise funds at the end of the year were as follows: the Marina fund: \$1.6 million, the Presidio of Monterey Public Works fund: \$648 thousand, and the Parking fund: \$8.4 million, which reflects an increase of \$707 thousand as resources are accumulated for future capital expenditure needs (net assets are used as a comparison for the Parking Fund due to a repayment agreement with the General Fund, as reflected in Note 3c). The Presidio fund had an increase in net assets recognizing completed projects and increases in operating reserves.

General Fund Budgetary Highlights

Actual General Fund revenues were \$179 thousand higher than the final amended budget. Property Tax, Transient Occupancy Tax, Rental Income and Licenses and Permits and Charges for Current Services were all ahead of budget, partially offset by Sales Tax, Investment Income and Interfund Lease Revenue shortfalls. Expenditure estimates for the General Fund, final amended budget were \$2.7 million higher than the original adopted budget. The largest increase, \$1 million, was in the Fire department for the addition of a new contract to provide Fire Services to the neighboring City of Carmel.

Total expenditures were under budget by \$301 thousand. Overall, general fund expenditures were less than 1% under budget and only 2.3% above prior year expenditures, reflecting the City's continuing efforts to live within its means in the current economic environment.

It is important to note that while operating revenues and expenditures are treated separately for budget purposes from non-operating or "one-time" revenues and expenditures (in order to match ongoing revenues with ongoing expenditures), generally accepted accounting principles (GAAP) does not allow for this distinction. In addition, under GAAP, certain transactions are accounted for differently in this report than in the budget (e.g. depreciation of fixed assets, payment of debt principal, etc.). Therefore, the reader should be aware that there may be some differences between how this report and City budget documents categorize and characterize certain revenue and expense items.

Capital Asset and Debt Administration

Capital assets. The City of Monterey's investment in capital assets for its governmental and business-type activities as of June 30, 2012, amounts to \$153.5 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads and infrastructure. Below is a summary of the City's capital assets at fiscal yearend:

Additional information on the City of Monterey's capital assets can be found in note 5 of this report.

**City of Monterey's Capital Assets
(net of depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	FY 2012	FY 2011	FY 2012	FY 2011	FY 2012	FY 2011
Land	\$ 29,913,755	\$ 29,913,755	\$ 9,205,157	\$ 9,205,157	\$ 39,118,912	\$ 39,118,912
Buildings	30,769,863	32,185,678	9,440,777	9,927,780	40,210,640	42,113,458
Improvements other than buildings	8,126,131	8,213,670	4,103,220	4,285,050	12,229,351	12,498,720
Machinery and Equipment	4,320,213	4,539,997	651,031	322,349	4,971,244	4,862,346
Infrastructure	48,386,945	49,095,734	-	-	48,386,945	49,095,734
Construction in Progress	8,361,265	7,813,532	198,859	430,833	8,560,124	8,244,365
TOTAL CAPITAL ASSETS	\$ 129,878,172	\$ 131,762,366	\$ 23,599,044	\$ 24,171,169	\$ 153,477,216	\$ 155,933,535

Long-term debt. At the end of the current fiscal year, the City of Monterey had \$14.8 million in long-term debt (not including \$5.3 million in compensated absences and OPEB obligations). This includes \$9.9 million in lease revenue bonds issued by the former Redevelopment Agency and the Joint Powers Financing Authority, and \$4.9 million in loans issued by the State of California, County of Monterey and utility programs. Below is a summary of the City’s outstanding liabilities:

**City of Monterey's Outstanding Debt
(net of Compensated Absences & OPEB Obligations)**

	Governmental Activities		Business-Type Activities		Total	
	FY 2012	FY 2011	FY 2012	FY 2011	FY 2012	FY 2011
Lease Revenue Bonds	\$ 7,880,000	\$ 8,115,000	\$ 1,970,000	\$ 2,210,000	\$ 9,850,000	\$ 10,325,000
Loans Payable	1,596,299	490,574	3,348,165	3,600,547	4,944,464	4,091,121
TOTAL OUTSTANDING DEBT	\$ 9,476,299	\$ 8,605,574	\$ 5,318,165	\$ 5,810,547	\$ 14,794,464	\$ 14,416,121

Additional information on the City of Monterey’s long-term debt can be found in note 6 of this report.

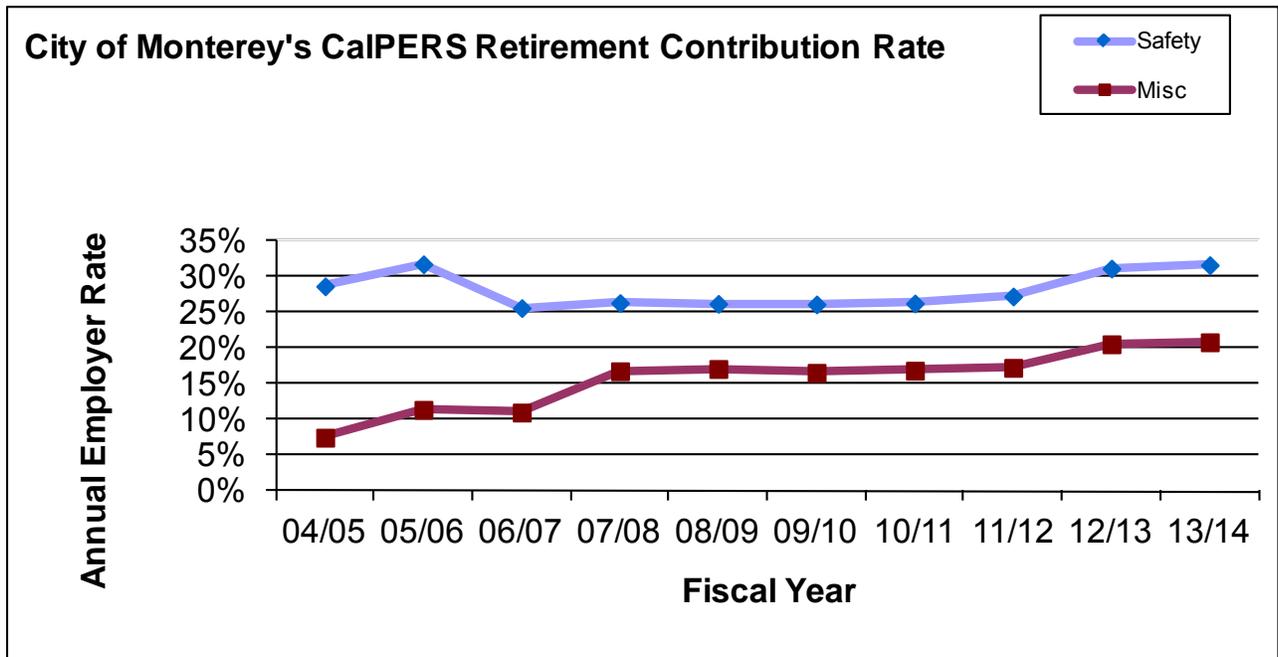
Economic Factors and Next Year's Budgets and Rates

The City’s preliminary estimates for 2012-13 show a general fund operating budget surplus of \$244 thousand and an available ending balance of \$693 thousand. All significant revenue estimates and this ending balance will be reviewed at mid-year due to consider whether any adjustments need to be made. So far in 2012-13 a stronger than expected increase in Transient Occupancy Tax and sales tax have helped the General Fund’s bottom line and may indicate an upward adjustment of typically conservative revenue estimates are necessary. However, even though the local economy continues to rebound, raids on City monies from the State of California and the need to set aside funds for capital renewal mean that budget austerity is still in order. City Staff is currently reviewing all budget assumptions, including any projected changes to expenditures, in order to update the estimated operating surplus for fiscal year 2012-13 and beyond.

Even though the 5-year financial forecast projects modest but growing surpluses in the General Fund, the City continues to face budget challenges like many other cities as well as the State of California. In fact, the state’s budget challenges are so great they continue to cast a shadow on the budget preparation processes of

all cities, counties and special districts due to the ever-present risk that the state will, yet again, balance its budget with other agency’s money. As indicated in the table below, pension rates paid to CalPERS continue to rise, though they are expected to rise more slowly in the next several years than they have in the recent past.

Despite these challenges, it is the City’s firm policy to adopt a balanced budget where ongoing inflows equal or exceed ongoing outflows and all infrastructure renewal and other unfunded liability obligations are met. Therefore, a significant review of all budget programs began in the fall of 2010 using a priority-based budgeting approach to resource allocation that has helped the City focus attention on services the City provides, their cost and relative priority within the community. This effort has continued in 2012 with the implementation of a complimentary program, organized by the International City Manager’s Association, performance measurements are gathered for dozens of City programs to provide further more refined input to City management and Council regarding the relative effectiveness of each program. These programs will help ensure that scarce City resources are allocated in the most efficient way to programs that are most desired by the citizens of Monterey.



Requests for Information

This financial report is designed to provide a general overview of the City of Monterey’s finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: City of Monterey, Finance Department, 735 Pacific Street, Suite A, Monterey, CA 93940.



ENTITY-WIDE FINANCIAL STATEMENTS

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

The Statement of Net Assets reports the difference between the City's total assets and the City's total liabilities, including all the City's capital assets and all its long-term debt. The Statement of Net Assets presents similar information to the old balance sheet format, but presents it in a way that focuses the reader on the composition of the City's net assets, by subtracting total liabilities from total assets.

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

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

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

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

Both these Statements include the financial activities of the City, the Redevelopment Agency of the City of Monterey and the City of Monterey Joint Powers Financing Authority. The later two entities are legally separate but are component units of the City because they are controlled by the City, which is financially accountable for the activities of these entities.

CITY OF MONTEREY
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments available for operations	\$ 47,552,308	\$ 9,497,268	\$ 57,049,576
Restricted cash and investments	4,371,637	411,276	4,782,913
Taxes receivable	3,412,132	-	3,412,132
Accounts receivable	3,917,964	7,273,051	11,191,015
Rehabilitation loans receivable	2,264,277	-	2,264,277
Downpayment assistance loans receivable	2,467,653	-	2,467,653
Project subsidy loans receivable	11,975,954	-	11,975,954
Interest receivable	229,431	87,010	316,441
Internal balances	19,116,079	(19,116,079)	-
Property held for resale	1,397,936	-	1,397,936
Issuance costs (net of accumulated amortization)	-	7,340	7,340
Capital assets:			
Non-depreciable assets	38,275,020	9,404,016	47,679,036
Depreciable assets (net of depreciation)	91,603,152	14,195,028	105,798,180
Total assets	226,583,543	21,758,910	248,342,453
LIABILITIES			
Accounts payable and accrued liabilities	3,298,402	4,181,775	7,480,177
Accrued interest	-	218,728	218,728
Accrued claims payable	10,653,688	-	10,653,688
Unearned revenue	3,288,847	-	3,288,847
Long-term debt:			
Due within one year	1,095,331	526,106	1,621,437
Due in more than one year	13,305,119	5,213,074	18,518,193
Total liabilities	31,641,387	10,139,683	41,781,070
NET ASSETS			
Invested in capital assets, net of related debt	120,401,873	18,280,879	138,682,752
Restricted for:			
Capital projects	6,389,147	-	6,389,147
Debt service	-	411,276	411,276
Permanent Endowments - nonexpendable	2,476,127	-	2,476,127
Permanent Endowments - expendable	23,425	-	23,425
Grants, contributions & fees for specific purpose	24,126,678	-	24,126,678
Specific purpose by contract	394,310	-	394,310
Total restricted net assets	33,409,687	411,276	33,820,963
Unrestricted	41,130,596	(7,072,928)	34,057,668
Total net assets	\$ 194,942,156	\$ 11,619,227	\$ 206,561,383

See accompanying notes to financial statements

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental Activities:							
General government	\$ 8,727,041	\$ 6,251,417	\$ -	\$ -	\$ (2,475,624)		\$ (2,475,624)
Public safety	24,635,437	4,430,705	333,641	6,883	(19,864,208)		(19,864,208)
Public works	19,662,862	5,038,460	188,821	1,345,047	(13,090,534)		(13,090,534)
Community development	882,990	94,181	267,715	-	(521,094)		(521,094)
Recreation and community service	8,255,901	5,132,533	-	-	(3,123,368)		(3,123,368)
Library	3,203,459	99,428	257,214	-	(2,846,817)		(2,846,817)
Public facilities	4,184,110	1,531,115	7,230	-	(2,645,765)		(2,645,765)
Interest and fiscal charges	403,001	-	-	-	(403,001)		(403,001)
Total governmental activities	69,954,801	22,577,839	1,054,621	1,351,930	(44,970,411)		(44,970,411)
Business-type Activities:							
Marina	2,299,601	2,644,373				\$ 344,772	344,772
Parking	7,299,420	7,879,181				579,761	579,761
Presidio of Monterey Public Works	13,022,559	13,087,837				65,278	65,278
Cemetery	274,918	322,825				47,907	47,907
Materials Recovery	221,653	369,419				147,766	147,766
Navy Services	280,582	245,164				(35,418)	(35,418)
Institutional Network	1,479	-				(1,479)	(1,479)
Total business-type activities	23,400,212	24,548,799	-	-	-	1,148,587	1,148,587
Total	\$ 93,355,013	\$ 47,126,638	\$ 1,054,621	\$ 1,351,930	(44,970,411)	1,148,587	(43,821,824)
General revenues:							
Taxes:							
Property taxes					10,286,705	-	10,286,705
Sales taxes					5,384,692	-	5,384,692
In-lieu sales taxes					1,827,101	-	1,827,101
Transient occupancy tax					16,536,943	-	16,536,943
Utility users tax					2,835,215	-	2,835,215
Other taxes					3,077,408	-	3,077,408
Investment income					5,271,786	157,926	5,429,712
Motor vehicle in lieu for general purposes					15,159	-	15,159
In-lieu VLF for general purposes					2,219,428	-	2,219,428
Other revenues					280,134	-	280,134
Transfers					350,226	(350,226)	-
Extraordinary Event (see Note 14)					(4,751,575)	-	(4,751,575)
Total general revenues and transfers					43,333,222	(192,300)	43,140,922
Changes in net assets					(1,637,189)	956,287	(680,902)
Net assets - beginning					196,579,345	10,662,940	207,242,286
Net assets - ending					\$ 194,942,156	\$ 11,619,227	\$ 206,561,383

See accompanying notes to financial statements



FUND FINANCIAL STATEMENTS

The Fund Financial Statements only present individual major funds, while non-major funds are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year.

MAJOR GOVERNMENTAL FUNDS

The funds described below were determined to be Major Funds. Individual non-major funds may be found in the Supplemental section.

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.

CAPITAL PROJECTS FUND

The **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, which is shown on the Combined Balance Sheet and the Combined Statement of Revenues, Expenditures and Changes in Fund Balances.

DEBT SERVICE FUND

The **Debt Service Fund** is used to account for the financial resources to be used for the payment of principal and interest on long-term obligations. The City maintains one Debt Service Fund, which is shown on the Combined Balance Sheet and the Combined Statement of Revenues, Expenditures and Changes in Fund Balances.

LOW/MOD INCOME HOUSING ASSET FUND

The **Low/Mod Income Housing Asset Fund** is used to account for transfers from the Low and Moderate Income Housing Fund upon elimination of redevelopment. This fund administers the remaining low interest loans issued under the previous Low and Moderate Income Housing Fund, and manages affordable housing opportunities.

LOW/MOD INCOME HOUSING FUND

The **Low/Mod Income Housing Fund** was used up through January 31, 2012 to assist low and moderate income families and individuals with low interest loans and affordable housing opportunities. The primary source of funding was 20% of all Redevelopment Agency tax increment revenues. Asset balances as of January 31, 2012 were transferred either to the Low/Mod Income Housing Asset Fund or to the Redevelopment Agency Retirement Fund, depending on whether they were identified as Housing Assets, or as assets to be used for existing recognized obligations as determined by the Oversight Board and State Department of Finance.

CITY OF MONTEREY
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2012

	General	Capital Projects	Debt Service	Low/Mod Income Housing	Low/Mod Income Housing Asset Fund	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and investments available for operations	\$ 12,297,967	\$ 510,412	\$ 155,993	\$ -	\$28,588	\$ 20,606,366	\$ 33,599,326
Restricted cash and investments:							
Held by fiscal agent	-	-	650,008	-	1,007	70,573	721,588
Held by city	-	-	-	-	-	2,476,127	2,476,127
Receivables:							
Taxes receivable	2,882,245	-	-	-	-	529,887	3,412,132
Accounts receivable	2,801,523	125,000	-	-	15,139	779,548	3,721,210
Interest receivable	147,562	-	1,004	-	-	75,676	224,242
Due from other funds	2,883,815	-	-	-	-	-	2,883,815
Advances to other funds	17,691,384	-	-	-	-	-	17,691,384
Repayment agreement receivable	28,725,278	-	-	-	-	-	28,725,278
Allowance for uncollectible repayment agreement receivable	(12,763,719)	-	-	-	-	-	(12,763,719)
Loans receivable:							
Rehabilitation	-	-	-	-	-	2,264,277	2,264,277
Downpayment assistance	-	-	-	-	1,469,833	997,820	2,467,653
Project subsidy	-	-	-	-	8,854,772	3,121,182	11,975,954
Property held for resale	-	-	-	-	780,779	617,157	1,397,936
Total assets	\$ 54,666,055	\$ 635,412	\$ 807,005	\$ -	\$ 11,150,118	\$ 31,538,613	\$ 98,797,203
LIABILITIES							
Accounts payable and accrued liabilities	\$ 2,439,763	\$ 229,840	\$ 19,591	\$ -	\$ 7,185	\$ 206,406	\$ 2,902,785
Due to other funds	-	-	-	-	-	1,170	1,170
Advances from other funds	893,890	222,625	268,860	-	-	1,000,000	2,385,375
Repayment agreement payable	-	-	28,725,278	-	-	-	28,725,278
Deferred revenue	17,500,903	-	-	-	1,283,958	465,545	19,250,406
Total liabilities	20,834,556	452,465	29,013,729	-	1,291,143	1,673,121	53,265,014
FUND BALANCES							
Nonspendable fund balance	22,816,967	-	-	-	9,040,648	6,672,973	38,530,588
Restricted fund balance	-	370,207	-	-	818,327	16,134,710	17,323,244
Committed fund balance	10,090,824	(187,260)	-	-	-	7,057,809	16,961,373
Assigned fund balance	394,310	-	-	-	-	-	394,310
Unassigned fund balance	529,398	-	(28,206,724)	-	-	-	(27,677,326)
Total fund balance	33,831,499	182,947	(28,206,724)	-	9,858,975	29,865,492	45,532,189
Total liabilities and fund balances	\$ 54,666,055	\$ 635,412	\$ 807,005	\$ -	\$ 11,150,118	\$ 31,538,613	\$ 98,797,203

See accompanying notes to financial statements

CITY OF MONTEREY
 Reconciliation of the
 GOVERNMENTAL FUNDS -- BALANCE SHEET
 with the
 STATEMENT OF NET ASSETS
 JUNE 30, 2012

Total fund balances (deficits) reported on the governmental funds balance sheet \$ 45,532,189

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

	Statement of Net Assets		
	Governmental Funds	Internal Service Funds	
CAPITAL ASSETS			
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds:	126,293,746	3,584,426	129,878,172
ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS			
Internal service funds are not governmental funds. However, they are used by management to charge the costs of certain activities, such as insurance and central services and maintenance to individual governmental funds. Currently due assets and liabilities of these funds are therefore included in Governmental Activities in the following line items in the Statement of Net Assets.			
Cash and investments			13,952,982
Restricted cash and cash equivalents			1,173,922
Accounts and interest receivable			1,487,192
Accounts payable and accrued liabilities			(11,407,129)
ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES			
A long-term repayment agreement between the General Fund and the Redevelopment Agency of Monterey is classified as deferred revenue on the Governmental Fund balance sheet because it does not meet the criteria for availability. This is not an issue under accrual accounting on the Statement of Net Assets			28,725,278
LONG TERM ASSETS AND LIABILITIES			
The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds. Except for internal service funds reported above, the adjustment is as follows:			
Other post employment benefit obligation	(1,533,085)	(69,967)	(1,603,052)
Long-term debt - due within one year	(405,411)	-	(405,411)
Compensated absences - due within one year	(681,601)	(8,319)	(689,920)
Subtotal	(2,620,097)	(78,286)	(2,698,383)
Long-term debt - due in more than one year	(9,070,888)	-	(9,070,888)
Compensated absences - due in more than one year	(2,502,295)	(128,884)	(2,631,179)
Subtotal	(11,573,183)	(128,884)	(11,702,067)
NET ASSETS OF GOVERNMENTAL ACTIVITIES			\$ 194,942,156

See accompanying notes to financial statements

CITY OF MONTEREY
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2012

	General	Capital Projects	Debt Service	Low/Mod Income Housing	Low/Mod Income Housing Asset Fund	Other Governmental Funds	Total Governmental Funds
REVENUES							
Property tax	\$ 6,715,412	\$ -	\$ 2,747,682	\$ 744,803	\$ -	\$ 78,808	\$ 10,286,705
Sales tax	5,384,692	-	-	-	-	-	5,384,692
In-lieu sales tax	1,827,101	-	-	-	-	-	1,827,101
Transient occupancy tax	13,891,338	-	-	-	-	2,645,605	16,536,943
Utility users tax	2,835,215	-	-	-	-	-	2,835,215
Other taxes	2,013,518	-	-	-	-	1,063,890	3,077,408
Intergovernmental	2,688,433	1,487,733	-	-	61,078	492,889	4,730,133
Investment income	1,210,158	-	38,233	53,636	58,609	379,099	1,739,735
Rental income	2,982,941	-	-	21,947	9,667	871,011	3,885,566
Interfund lease revenue	2,747,682	-	-	-	-	-	2,747,682
Licenses and permits	3,740,898	-	-	-	-	306,995	4,047,893
Charges for current services	14,226,540	-	-	-	-	2,848,875	17,075,415
Fines	293,276	-	-	-	-	-	293,276
Other revenue	493,232	4,251	17,825	10,099	1,749	449,843	976,999
Total revenues	61,050,436	1,491,984	2,803,740	830,485	131,103	9,137,015	75,444,763
EXPENDITURES							
Current:							
General government:							
City council	126,133	-	-	-	-	-	126,133
City manager	1,062,063	-	-	-	-	179,308	1,241,371
City attorney	809,508	-	-	-	-	-	809,508
Finance	1,969,854	-	-	-	-	-	1,969,854
Human Resources	827,393	-	-	-	-	-	827,393
Information Resources	678,645	-	-	-	-	-	678,645
Nondepartmental charges	427,969	-	7,714	-	-	410,104	845,787
Total general government:	5,901,565	-	7,714	-	-	589,412	6,498,691
Public safety:							
Police	12,081,174	-	-	-	-	-	12,081,174
Fire	12,768,991	-	-	-	-	19,367	12,788,358
Total public safety	24,850,165	-	-	-	-	19,367	24,869,532
Public works	13,816,884	-	-	-	-	2,117,784	15,934,668
Community development	386,286	-	-	99,907	67,267	306,187	859,647
Recreation and community service	7,520,062	-	-	-	-	24,963	7,545,025
Library	3,012,179	-	-	-	-	201,336	3,213,515
Public facilities	3,638,083	-	-	-	-	10	3,638,093
Total current	59,125,224	-	7,714	99,907	67,267	3,259,059	62,559,171
Capital outlay	-	3,714,247	-	-	-	1,150,997	4,865,244
Debt service:							
Principal	34,347	-	235,000	-	-	-	269,347
Interest and fiscal charges	-	-	396,053	-	-	-	396,053
Total debt service	34,347	-	631,053	-	-	-	665,400
Total expenditures	59,159,571	3,714,247	638,767	99,907	67,267	4,410,056	68,089,815
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,890,865	(2,222,263)	2,164,973	730,578	63,836	4,726,959	7,354,948
OTHER FINANCING SOURCES (USES)							
Transfers in	657,814	2,229,566	629,075	-	-	47,233	3,563,688
Transfers out	(1,966,854)	(286,357)	(1,415)	-	-	(1,446,388)	(3,701,014)
Total other financing sources (uses)	(1,309,040)	1,943,209	627,660	-	-	(1,399,155)	(137,326)
EXTRAORDINARY EVENT (see Note 14)	-	-	1,390,438	(15,937,152)	9,795,139	-	(4,751,575)
NET CHANGE IN FUND BALANCES	581,825	(279,054)	4,183,071	(15,206,574)	9,858,975	3,327,804	2,466,047
BEGINNING FUND BALANCES (DEFICITS)	33,249,674	462,001	(32,389,795)	15,206,574	-	26,537,688	43,066,142
ENDING FUND BALANCES (DEFICITS)	\$ 33,831,499	\$ 182,947	\$ (28,206,724)	\$ -	\$ 9,858,975	\$ 29,865,492	\$ 45,532,189

See accompanying notes to financial statements

CITY OF MONTEREY
Reconciliation of the
NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
with the
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 2,466,047

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

CAPITAL ASSETS TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the portion of the cost attributed to capital assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense. The remaining amount are expensed and allocated to the programs they support (Public Works & Transportation).

The capital outlay expenditures are therefore added back to fund balance	4,280,282
Depreciation expense is deducted from the fund balance (Depreciation expense is net of internal service fund depreciation of \$842,999 which has already been allocated to serviced funds)	(3,713,856)
Retirements of capital assets	(1,826,026)

LONG TERM DEBT PROCEEDS AND PAYMENTS

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

Repayment of debt principal is added back to fund balance	269,347
Issuance of new debt principal is deducted from fund balance	(1,140,072)

ACCRUAL OF NON-CURRENT ITEMS

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

Deferred revenue	(2,747,682)
Other post employment benefits	(427,550)
Compensated absences	(20,296)

ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY

Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds. The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.

Change in Net Assets - All Internal Service Funds	1,222,617
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (1,637,189)

See accompanying notes to financial statements

CITY OF MONTEREY
 BUDGETED MAJOR GOVERNMENTAL FUNDS
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund				Low/Mod Income Housing			
	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget-Over/(Under)	Original Budget	Final Budget	Actual Amounts	Variance-Over (Under)
REVENUES:								
Property tax	\$ 6,306,563	\$ 6,673,193	\$ 6,715,412	\$ 42,219	\$ 795,043	\$ 795,043	\$ 744,803	\$ (50,240)
Sales tax	5,673,461	5,673,461	5,384,692	(288,769)	-	-	-	-
In-lieu sales tax	1,621,144	1,621,144	1,827,101	205,957	-	-	-	-
Transient occupancy tax	12,763,613	13,692,695	13,891,338	198,643	-	-	-	-
Utility users tax	3,045,351	2,845,351	2,835,215	(10,136)	-	-	-	-
Other taxes	2,045,495	2,045,495	2,013,518	(31,977)	-	-	-	-
Intergovernmental	2,627,093	2,809,213	2,688,433	(120,780)	-	-	-	-
Investment income	1,312,669	1,312,669	1,210,158	(102,511)	134,542	134,542	53,636	(80,906)
Rental income	2,799,500	2,803,500	2,982,941	179,441	45,000	45,000	21,947	(23,053)
Interfund lease revenue	2,871,258	2,871,258	2,747,682	(123,576)	-	-	-	-
Licenses and permits	3,510,087	3,510,087	3,740,898	230,811	-	-	-	-
Charges for current services	13,034,836	13,840,761	14,226,540	385,779	-	-	-	-
Fines	383,500	383,500	293,276	(90,224)	-	-	-	-
Other revenue	741,216	788,831	493,232	(295,599)	270,000	270,000	10,099	(259,901)
Total revenues	58,735,786	60,871,158	61,050,436	179,278	1,244,585	1,244,585	830,485	(414,100)
EXPENDITURES:								
Current:								
General government:								
City council	124,131	124,131	126,133	2,002	-	-	-	-
City manager	1,051,865	1,075,865	1,062,063	(13,802)	-	-	-	-
City attorney	795,726	812,198	809,508	(2,690)	-	-	-	-
Finance	2,041,847	2,041,847	1,969,854	(71,993)	-	-	-	-
Human Resources	807,648	807,648	827,393	19,745	-	-	-	-
Information Resources	724,394	724,394	678,645	(45,749)	-	-	-	-
Nondepartmental charges	386,491	460,958	427,969	(32,989)	-	-	-	-
Total general government:	5,932,102	6,047,041	5,901,565	(145,476)	-	-	-	-
Public safety:								
Police	12,987,929	13,029,308	12,081,174	(948,134)	-	-	-	-
Fire	11,493,586	12,516,932	12,768,991	252,059	-	-	-	-
Total public safety	24,481,515	25,546,240	24,850,165	(696,075)	-	-	-	-
Public works	11,778,773	12,732,034	13,816,884	1,084,850	-	-	-	-
Community development	-	433,935	386,286	(47,649)	1,258,720	1,258,720	99,907	(1,158,813)
Recreation and community service	7,730,318	7,761,293	7,520,062	(241,231)	-	-	-	-
Library	2,984,883	3,040,136	3,012,179	(27,957)	-	-	-	-
Public facilities	3,829,480	3,899,661	3,638,083	(261,578)	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
Total current	56,737,071	59,460,340	59,125,224	(335,116)	1,258,720	1,258,720	99,907	(1,158,813)
Debt service:								
Principal	-	-	34,347	34,347	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-	-	-
Total debt service	-	-	34,347	34,347	-	-	-	-
Total expenditures	56,737,071	59,460,340	59,159,571	(300,769)	1,258,720	1,258,720	99,907	(1,158,813)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,998,715	1,410,818	1,890,865	480,047	(14,135)	(14,135)	730,578	744,713
OTHER FINANCING SOURCES (USES)								
Transfers in	-	-	657,814	657,814	-	-	-	-
Transfers out	-	-	(1,966,854)	(1,966,854)	-	-	-	-
Total other financing sources (uses)	-	-	(1,309,040)	(1,309,040)	-	-	-	-
EXTRAORDINARY EVENT (see Note 14)	-	-	-	-	-	-	(15,937,152)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ 1,998,715	\$ 1,410,818	581,825	\$ (828,993)	\$ (14,135)	\$ (14,135)	(15,206,574)	\$ 744,713
Fund balances, July 1, 2011			33,249,674				15,206,574	
Fund balances, June 30, 2012			<u>\$ 33,831,499</u>				<u>\$ -</u>	

See accompanying notes to financial statements

CITY OF MONTEREY
 BUDGETED MAJOR GOVERNMENTAL FUNDS
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Low/Mod Income Housing Asset Fund			
	Original Budget	Final Budget	Actual Amounts	Variance- Over (Under)
REVENUES:				
Property tax	\$ -	\$ -	\$ -	\$ -
Sales tax	-	-	-	-
In-lieu sales tax	-	-	-	-
Transient occupancy tax	-	-	-	-
Utility users tax	-	-	-	-
Other taxes	-	-	-	-
Intergovernmental	-	-	61,078	61,078
Investment income	-	-	58,609	58,609
Rental income	-	48,000	9,667	(38,333)
Interfund lease revenue	-	-	-	-
Licenses and permits	-	-	-	-
Charges for current services	-	-	-	-
Fines	-	-	-	-
Other revenue	-	176,000	1,749	(174,251)
Total revenues	-	224,000	131,103	(92,897)
EXPENDITURES:				
Current:				
General government:				
City council	-	-	-	-
City manager	-	-	-	-
City attorney	-	-	-	-
Finance	-	-	-	-
Human Resources	-	-	-	-
Information Resources	-	-	-	-
Nondepartmental charges	-	-	-	-
Total general government:	-	-	-	-
Public safety:				
Police	-	-	-	-
Fire	-	-	-	-
Total public safety:	-	-	-	-
Public works	-	-	-	-
Community development	-	207,820	67,267	(140,553)
Recreation and community service	-	-	-	-
Library	-	-	-	-
Public facilities	-	-	-	-
Capital outlay	-	-	-	-
Total current	-	207,820	67,267	(140,553)
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total debt service:	-	-	-	-
Total expenditures	-	207,820	67,267	(140,553)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	16,180	63,836	47,656
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
EXTRAORDINARY EVENT (see Note 14)	-	-	9,795,139	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ -	\$ 16,180	9,858,975	\$ 47,656
Fund balances, July 1, 2011			-	
Fund balances, June 30, 2012			<u>\$ 9,858,975</u>	





MAJOR PROPRIETARY FUNDS

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

The concept of major funds extends to Proprietary Funds. The City has identified the funds below as major proprietary funds. Individual non-major funds may be found in the Supplemental section.

MARINA FUND

This fund was created in 1960 to account for all Marina related revenues and expenditures. All revenues collected in the Marina area are used for operation, maintenance and improvements to the Marina.

PARKING FUND

This fund was established to pay for construction, operation, and maintenance of parking facilities and improvements. The revenue sources include parking fees, permits and fines.

PRESIDIO OF MONTEREY PUBLIC WORKS FUND

Created in fiscal year 1998-99, this fund accounts for costs and revenues pertaining to the Presidio of Monterey maintenance contract.

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

	Business-type Activities-Enterprise Funds				Totals	Governmental Activities - Internal Service Funds
	Marina	Parking	Presidio of Monterey Public Works	Other Enterprise Funds		
ASSETS						
Current assets:						
Cash and investments available for operations	\$ 1,275,361	\$ 7,444,266	\$ -	\$ 777,641	\$ 9,497,268	\$ 13,952,982
Cash held by fiscal agent	-	-	-	-	-	1,173,922
Accounts receivable	72,318	149,151	6,987,577	64,005	7,273,051	196,754
Interest receivable	5,967	37,446	-	43,597	87,010	5,189
Total current assets	<u>1,353,646</u>	<u>7,630,863</u>	<u>6,987,577</u>	<u>885,243</u>	<u>16,857,329</u>	<u>15,328,847</u>
Noncurrent assets:						
Restricted cash held by fiscal agent	-	-	-	411,276	411,276	-
Advances to other funds	1,000,000	1,397,509	-	-	2,397,509	1,285,249
Issuance costs (net of accumulated amortization)	-	-	-	7,340	7,340	-
Capital assets:						
Land	-	9,205,157	-	-	9,205,157	-
Construction in progress	163,884	34,975	-	-	198,859	-
Buildings and improvements	10,034,675	24,094,544	-	4,603,119	38,732,338	64,366
Machinery and equipment	513,938	727,976	-	8,800	1,250,714	13,785,678
Infrastructure	-	-	-	-	-	61,911
Accumulated depreciation	(6,715,706)	(17,148,226)	-	(1,924,092)	(25,788,024)	(10,327,529)
Total capital assets, net of accumulated depreciation	<u>3,996,791</u>	<u>16,914,426</u>	<u>-</u>	<u>2,687,827</u>	<u>23,599,044</u>	<u>3,584,426</u>
Total noncurrent assets	<u>4,996,791</u>	<u>18,311,935</u>	<u>-</u>	<u>3,106,443</u>	<u>26,415,169</u>	<u>4,869,675</u>
Total assets	<u>6,350,437</u>	<u>25,942,798</u>	<u>6,987,577</u>	<u>3,991,686</u>	<u>43,272,498</u>	<u>20,198,522</u>
LIABILITIES						
Current liabilities:						
Accounts payable and accrued liabilities	54,744	287,014	3,814,763	25,254	4,181,775	395,617
Accrued interest	138,112	-	-	80,616	218,728	-
Accrued claims payable	-	-	-	-	-	10,653,688
Due to other funds	-	-	2,524,820	-	2,524,820	357,824
Compensated absences-due within one year	-	11,132	-	3,300	14,432	8,319
Debt payable- due within one year	246,674	-	-	265,000	511,674	-
Total current liabilities	<u>439,530</u>	<u>298,146</u>	<u>6,339,583</u>	<u>374,170</u>	<u>7,451,429</u>	<u>11,415,448</u>
Noncurrent liabilities:						
Advances from other funds	1,174,885	-	-	879,383	2,054,268	-
Repayment Agreements Payable	-	16,934,500	-	-	16,934,500	-
Other post employment benefits	32,660	153,011	-	9,276	194,947	69,967
Compensated absences	44,979	158,900	-	7,757	211,636	128,884
Debt payable- due in more than one year	3,101,491	-	-	1,705,000	4,806,491	-
Total noncurrent liabilities	<u>4,354,015</u>	<u>17,246,411</u>	<u>-</u>	<u>2,601,416</u>	<u>24,201,842</u>	<u>198,851</u>
Total liabilities	<u>4,793,545</u>	<u>17,544,557</u>	<u>6,339,583</u>	<u>2,975,586</u>	<u>31,653,271</u>	<u>11,614,299</u>
NET ASSETS						
Invested in capital assets, net of related debt	648,626	16,914,426	-	717,827	18,280,879	3,584,426
Restricted for debt service	-	-	-	411,276	411,276	-
Unrestricted	<u>908,266</u>	<u>(8,516,185)</u>	<u>647,994</u>	<u>(113,003)</u>	<u>(7,072,928)</u>	<u>4,999,797</u>
Total net assets	<u>\$ 1,556,892</u>	<u>\$ 8,398,241</u>	<u>\$ 647,994</u>	<u>\$ 1,016,100</u>	<u>\$ 11,619,227</u>	<u>\$ 8,584,223</u>

See accompanying notes to financial statements

CITY OF MONTEREY
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN FUND NET ASSETS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Business-type Activities-Enterprise Funds					Governmental
	Marina	Parking	Presidio of Monterey Public Works	Other Enterprise Funds	Totals	Activities - Internal Service Funds
OPERATING REVENUES						
Charges for services	\$ 2,364,846	\$ 7,613,887	\$ 13,087,837	\$ 567,989	\$ 23,634,559	\$ 15,300,510
Lease revenue	230,699	191,273	-	369,419	791,391	-
Other revenue	48,828	74,021	-	-	122,849	101,623
Total operating revenues	<u>2,644,373</u>	<u>7,879,181</u>	<u>13,087,837</u>	<u>937,408</u>	<u>24,548,799</u>	<u>15,402,133</u>
OPERATING EXPENSES						
Salaries and benefits	884,572	3,522,654	3,651,432	188,360	8,247,018	2,126,339
Services and supplies	974,204	2,482,125	9,371,127	340,865	13,168,321	5,761,916
Claims and insurance	-	-	-	-	-	5,950,746
Depreciation and amortization	265,520	474,856	-	123,527	863,903	842,999
Total operating expenses	<u>2,124,296</u>	<u>6,479,635</u>	<u>13,022,559</u>	<u>652,752</u>	<u>22,279,242</u>	<u>14,682,000</u>
Operating income (loss)	<u>520,077</u>	<u>1,399,546</u>	<u>65,278</u>	<u>284,656</u>	<u>2,269,557</u>	<u>720,133</u>
NONOPERATING REVENUES (EXPENSES)						
Investment income	17,648	111,872	-	28,406	157,926	21,881
Interest and fiscal charges	(175,305)	(819,785)	-	(125,880)	(1,120,970)	(6,948)
Gain (loss) from disposal of capital assets	-	-	-	-	-	-
Total nonoperating revenues (expenses)	<u>(157,657)</u>	<u>(707,913)</u>	<u>-</u>	<u>(97,474)</u>	<u>(963,044)</u>	<u>14,933</u>
Income (loss) before transfers	362,420	691,633	65,278	187,182	1,306,513	735,066
Transfers in	2,070	241,578	-	-	243,648	513,700
Transfers out	(362,355)	(226,119)	(5,400)	-	(593,874)	(26,149)
Net transfers	<u>(360,285)</u>	<u>15,459</u>	<u>(5,400)</u>	<u>-</u>	<u>(350,226)</u>	<u>487,551</u>
Change in net assets	2,135	707,092	59,878	187,182	956,287	1,222,617
BEGINNING NET ASSETS	<u>1,554,757</u>	<u>7,691,149</u>	<u>588,116</u>	<u>828,918</u>	<u>10,662,940</u>	<u>7,361,606</u>
ENDING NET ASSETS	<u>\$ 1,556,892</u>	<u>\$ 8,398,241</u>	<u>\$ 647,994</u>	<u>\$ 1,016,100</u>	<u>\$ 11,619,227</u>	<u>\$ 8,584,223</u>

See accompanying notes to financial statements

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

	Business-type Activities-Enterprise Funds					Governmental Activities - Internal Service Funds
	Marina	Parking	Presidio of Monterey Public Works	Other Enterprise Funds	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	\$ 2,600,966	\$ 7,839,458	\$ 10,784,314	\$ 935,729	\$ 22,160,467	\$ 15,375,554
Payments to suppliers	(972,236)	(2,463,424)	(9,602,370)	(341,470)	(13,379,500)	(5,643,924)
Payments to employees	(893,348)	(3,459,996)	(3,651,432)	(201,903)	(8,206,679)	(2,119,626)
Claims and insurance paid	-	-	-	-	-	(5,950,496)
Cash flows from operating activities	<u>735,382</u>	<u>1,916,038</u>	<u>(2,469,488)</u>	<u>392,356</u>	<u>574,288</u>	<u>1,661,508</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Interfund receipts	15,329	-	2,474,888	-	2,490,217	(970,445)
Interfund payments	-	20,783	-	-	20,783	-
Transfers in	2,070	241,578	-	-	243,648	513,700
Transfers out	(362,355)	(226,119)	(5,400)	-	(593,874)	(26,149)
Cash flows from noncapital financing activities	<u>(344,956)</u>	<u>36,242</u>	<u>2,469,488</u>	<u>-</u>	<u>2,160,774</u>	<u>(482,894)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Acquisition of capital assets	(406,706)	117,663	-	-	(289,043)	(218,407)
Debt principal repayment	(252,382)	(970,273)	-	(240,000)	(1,462,655)	-
Interest paid	(185,716)	(819,785)	-	(135,700)	(1,141,201)	(6,948)
Cash flows from capital and related financing activities	<u>(844,804)</u>	<u>(1,672,395)</u>	<u>-</u>	<u>(375,700)</u>	<u>(2,892,899)</u>	<u>(225,355)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received	22,589	118,894	-	33,994	175,477	26,021
Purchase of investment securities	-	-	-	-	-	(227,148)
Cash flows from investing activities	<u>22,589</u>	<u>118,894</u>	<u>-</u>	<u>33,994</u>	<u>175,477</u>	<u>(201,127)</u>
Net cash flows	(431,789)	398,779	-	50,650	17,640	752,132
Cash and investments at beginning of period (including restricted cash)	<u>1,707,150</u>	<u>7,045,487</u>	<u>-</u>	<u>1,138,267</u>	<u>9,890,904</u>	<u>13,200,850</u>
Cash and investments at end of period (including restricted cash)	<u>\$ 1,275,361</u>	<u>\$ 7,444,266</u>	<u>\$ -</u>	<u>\$ 1,188,917</u>	<u>\$ 9,908,544</u>	<u>\$ 13,952,982</u>
Reconciliation of operating income (loss) to cash flows from operating activities:						
Operating income (loss)	\$ 520,077	\$ 1,399,546	\$ 65,278	\$ 284,656	\$ 2,269,557	\$ 720,133
Adjustments to reconcile operating income to cash flows from operating activities:						
Depreciation and amortization	265,520	474,856	-	123,527	863,903	842,999
Other post employment benefits liability	7,223	42,005	-	1,200	50,428	20,021
Compensated absence liability	(15,999)	20,653	-	(14,743)	(10,089)	(13,308)
Change in assets and liabilities:						
Accounts receivables, net	(43,407)	(39,723)	(2,303,523)	(1,679)	(2,388,332)	(26,579)
Accounts payable and other accrued expenses	1,968	18,701	(231,243)	(605)	(211,179)	117,992
Accrued claims payable	-	-	-	-	-	250
Cash flows from operating activities	<u>\$ 735,382</u>	<u>\$ 1,916,038</u>	<u>\$ (2,469,488)</u>	<u>\$ 392,356</u>	<u>\$ 574,288</u>	<u>\$ 1,661,508</u>

See accompanying notes to financial statements



FIDUCIARY FUND

The City has two fiduciary funds, an agency fund and a private purpose trust fund. The agency fund is used to account for assets held by the City as an agent for individuals, private organizations, and other governments. The private purpose trust fund is used to account for assets held by the Redevelopment Successor Agency pending distribution to the appropriate taxing entities after the payment of enforceable obligations that were in effect as of the signing of Assembly Bill X1 26. The financial activities of these funds are excluded from the Entity-wide financial statements, but are presented in a separate Fiduciary Fund financial statement later in this report.

CITY OF MONTEREY
 FIDUCIARY FUND
 STATEMENT OF FIDUCIARY NET ASSETS
 JUNE 30, 2012

	<u>Agency Fund</u>	<u>Private Purpose Trust Fund</u>
ASSETS		
Cash and investments	\$ 93,368	\$ 4,727,100
Accounts receivable	<u>303,680</u>	<u>21,220</u>
Total assets	<u><u>\$ 397,048</u></u>	<u><u>\$ 4,748,320</u></u>
LIABILITIES		
Accounts payable and accrued liabilities	\$ -	\$ 5,802
Special assessments	<u>397,048</u>	<u>-</u>
Total liabilities	<u><u>\$ 397,048</u></u>	<u><u>5,802</u></u>
NET ASSETS		
Held in trust pending distribution		<u><u>\$ 4,742,518</u></u>

NOTE 1 – SUMMARY OF 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 that are controlled by and dependent on the City. The City Council serves as the governing board of 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. Therefore, the financial activities of this Component Unit has been aggregated and merged (termed “blended”) with those of the City in the accompanying basic financial statements. Financial statements for the Authority may be obtained from the City of Monterey, 735 Pacific Street, Suite A, Monterey, California, 93940.

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.

Up through January 31, 2012, the City Council served as the governing board of the Redevelopment Agency of the City of Monterey (the “Agency”), which was dissolved under ABX1 26. Activities of the Agency up through January 31, 2012 have been included in these financial statements in the Low and Moderate Income Housing Special Revenue Fund and the Debt Service Fund. Effective February 1, 2012, the City elected to take on the role of the Successor Agency to the Redevelopment Agency and the Successor Housing Agency.

B. Basis of Presentation

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

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the primary government. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal service fund and similar activities. The effect of inter-fund services provided and used between functions is not eliminated in the process of consolidation. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category—*governmental*, *proprietary*, and *fiduciary*—are presented.

Proprietary fund *operating* revenues and expenses, such as charges for services, and payments to employees and vendors, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Non-operating* revenues and expenses, such as subsidies, investment earnings, changes in fair value of investments and interest charges result from non-exchange transactions or ancillary activities.

C. Major Funds

The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds in a single column, regardless of their fund-type.

Major funds are those that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds. For the fiscal year ending 06/30/2012, the City has elected to present the Low/Mod Income Housing Fund as a major fund, since it qualified as a major fund up until January 31, 2012, when it was eliminated.

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

General Fund – It 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 transient occupancy tax, property tax, sales tax, business license tax, utility user's 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.

Capital Projects Fund – It is used to account for the financial resources 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, which is shown on the Combined Balance Sheet and the Combined Statement of Revenues, Expenditures and Changes in Fund Balances.

Debt Service Fund – It is used to account for the financial resources to be used for the payment of principal and interest on long-term obligations. The City maintains one Debt Service Fund, which is shown on the Combined Balance Sheet and the Combined Statement of Revenues, Expenditures and Changes in Fund Balances.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Low and Moderate Income Housing Fund – This fund was used up through January 31, 2012 to assist low and moderate income families and individuals with low interest loans and affordable housing opportunities. The primary source of funding is 20% of all Redevelopment Agency tax increment revenues. Effective February 1, 2012, this fund was dissolved with the elimination of redevelopment, and assets transferred to the Low/Moderate Income Housing Asset Fund and the Redevelopment Obligation Retirement Fund, a Fiduciary Fund.

Low and Moderate Income Housing Asset Fund – This fund was created on February 1, 2012 to account for transfers from the Low and Moderate Income Housing Fund upon elimination of redevelopment. This fund administers the remaining low interest loans issued under the previous Low and Moderate Income Housing Fund, and manages affordable housing opportunities.

The concept of major funds extends to Proprietary Funds. The City has identified the funds below as major proprietary funds. Individual non-major funds may be found in the supplemental section.

Although proprietary funds generally prepare budgets, disclosure of budget vs. actual comparisons regarding proprietary funds that are major funds is not required or included in these financial statements:

Marina Fund – This fund was created in 1960 to account for all Marina related revenues and expenditures. All revenues collected in the Marina area are used for operation, maintenance and improvements to the Marina.

Parking Fund – This fund was established to pay for construction, operation, and maintenance of parking facilities and improvements. The revenue sources include parking fees, permits and fines.

Presidio of Monterey Public Works Fund – This fund was created in 1999 to account for costs and revenues pertaining to the Presidio of Monterey maintenance contract.

The City's financial statements also include as part of the Proprietary Fund Type Internal Service Funds and the Fiduciary Fund Type:

Internal Service Funds. These funds are established to finance and account for services and commodities furnished by designated department or agency to other departments and agencies within a single governmental unit, or to other governmental units, all of which are provided to other departments on a cost-reimbursement basis. These funds account for automotive services, automotive replacement, data processing and other information services, worker's compensation, and general liability.

Fiduciary Funds. The City uses Agency Funds to account for assets held by the City as an agent for special districts including Del Monte Beach Assessment; Ocean View Community Service; Monterey County Tourism; Cannery Row, North Fremont, New Monterey Business; and Downtown and Wharf Promotion District Funds. The City has one Private Purpose Trust Fund, which is used to report the resources held and administered by the Successor Agency to the former Redevelopment Agency of the City of Monterey. Agency Funds have no measurement focus and are excluded from the Government-wide financial statement, but are presented in separate Fiduciary Fund financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**D. Basis of Accounting**

The government-wide and proprietary financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Fiduciary fund financial statements for Agency funds have no measurement focus and are reported using the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*.

The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for claims and judgments, compensated absences, which are recognized as expenditures to the extent they have matured, and principal and interest on general long-term debt. 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 funds as their settlement will not require expenditure of existing fund assets.

Governmental capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as *other financing sources*. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of 3 years or greater. For infrastructure to be capitalized, it must meet the elevated cost and useful life threshold of \$150,000 and 5 years or greater. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed.

Capital asset depreciation is provided using mid-year convention, along with the straight-line method for the annual calculation. Useful lives of capital assets can be found in Note 5 of these statements.

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The City follows Statements and interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with Government Accounting Standards Board pronouncements.

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.

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.

F. 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.
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.
6. Budgeted amounts are as originally adopted or as amended by City Council. Individual amendments were not material in relation to the original appropriations.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Encumbrances, including presentation under GASB 54

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. Outstanding encumbrances at year-end are automatically reappropriated the following year. Unexpended appropriations lapse at year-end unless budgeted on a project basis.

All encumbrances outstanding at year-end are classified as a part of either Restricted Fund Balance or Assigned Fund Balance in the General Fund, or as Restricted Fund Balance or Committed Fund Balance in other governmental funds. There were no significant individual encumbrances outstanding as of June 30, 2012.

Open encumbrances at June 30 were predominately related to on-going routine construction and maintenance projects reported under the General Fund Capital Improvement, Neighborhood Improvement and Presidio of Monterey Public Works Funds. Scheduled Equipment and Information Systems replacement purchases are included in the appropriate funds.

Total encumbrances by fund balance classification and fund are presented below:

Open Encumbrances as of June 30, 2012

	Restricted Fund Balance	Committed Fund Balance	Assigned Fund Balance	Net Assets
<u>Governmental Funds - Major</u>				
General Fund	\$ -	\$ -	\$ 394,310	\$ -
Capital Projects	370,207	-	-	-
<u>Governmental Funds - Minor</u>				
Sewer/Storm	101,701	-	-	-
Neighborhood Improvement	-	251,119	-	-
State/Federal Grants	13,900	-	-	-
Construction Truck Impact Fee	144,147	-	-	-
Gas Tax	-	-	-	-
Housing	41,250	-	-	-
<u>Proprietary Funds</u>				
Marina	-	-	-	25,772
Parking	-	-	-	80,107
Presidio of Monterey Public Works	-	-	-	564,929
<u>Internal Service Funds</u>				
Equipment Replacement	-	-	-	996,915
Vehicle Maintenance	-	-	-	26,217
Information Services	-	-	-	192,096
Risk Management	-	-	-	10,387
<u>Agency Funds</u>				
RDA Obligation Retirement	-	-	-	5,768
Classification Totals	671,205	251,119	394,310	1,902,191
City Total				<u>\$ 3,218,825</u>

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**H. *Compensated Absences***

Compensated absences comprise unused vacation leave and compensated time off, which are accrued as earned, and become "due" upon the occurrence of relevant events such as resignations, retirements, and uses of leave balances by covered employees. Unused sick leave does not vest. The long-term liability for compensated absences is determined annually. An estimate has been made of compensated absences due within one year of the date of the statement of net assets.

I. *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 30 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.

J. *Property Held for Resale*

As part of the City's previous Low & Moderate Income Housing Program, the former Redevelopment Agency purchased and sold affordable homes in the City to low/moderate income homebuyers in accordance with the affordable housing program. With the dissolution of the Redevelopment Agency, the City has elected to act as the Housing Successor Agency, which now administers this program. Homes are sold at below-market prices, but purchasers must resell these homes only to the City at approximately the same price and in the same condition. Homes owned by the City are accounted for at cost, which is below market. Homes are deed restricted units with a City option for purchase. Homes are resold back to the City under an indexed price increase linked to the Consumer Price Index for the San Jose/San Francisco area.

K. *Fund Balance Reporting for Governmental Type Funds*

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54) effective for years first ending June 30, 2011. This Statement specifies how fund balances of governmental funds will be displayed in financial reports. Fund balance will be displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

1. Non-spendable fund balances are associated with inventories, prepaid expenses, long-term loans and notes receivable, and property held for resale (unless the proceeds will be restricted, committed, or assigned once they do become available).
2. Restricted fund balances are subject to constraints for specific purposes imposed by external providers (such as grantors, bondholders and higher levels of government), through constitutional provisions or by enabling legislation.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Committed fund balances can be used only for specific purposes determined by formal resolution adopted by the City Council (the City's level of decision-making authority) and use of these funds requires the same formal Council action. Committed fund balances are specified in the annual adopted budget.
4. Assigned fund balances are intended by the Council to be used for specific purposes but do not meet the criteria to be classified as restricted or committed. Assigned fund balances include unexpended encumbrances not classified at a more restricted level.
5. Unassigned fund balance is the residual classification for the government's general fund and includes all amounts not contained in the other classifications. It is possible for other governmental funds to have negative unassigned fund balance when non-spendable amounts plus the restricted fund balances for specific purposes amounts exceed the positive fund balance for that fund.

L. *Order of Fund Balance Spending*

The Governmental Accounting Standards Board (GASB) Statement No. 54, requires City policy to state the order in which elements of fund balance are to be expended. At year-end restricted fund balances for specific purposes are determined (excluding non-spendable amounts). Remaining fund balance, considered spendable, is classified into committed, assigned or unassigned categories depending upon the intended use of the balances. Fund balance amounts for other governmental funds are classified as restricted or committed depending upon the purpose and restrictions imposed on each specific fund. The City applies expenditures to the most restrictive available balances first, then less restricted funds as required.

M. *Stabilization Reserve*

The City maintains a stabilization arrangement in the form of the "Reserve for Economic Uncertainty". The City Council retains the authority to establish the Reserve for Economic Uncertainty as a Committed Fund Balance by Council Resolution. The City goal is to maintain a reserve equivalent to 15% of the General Fund annual operating budget. The City Council approves additions to the stabilization arrangements through the adoption of the annual budget, should the reserve fall below 15%. The stabilization arrangement is established for the purpose of providing funds for an unforeseen, urgent event that affects the operations or safety of the City (eg. natural disaster). The recognition of an urgent event must be established by the City Council, and a budget revision must be approved. The balance of the reserve at the end of the fiscal year was \$5,821,470.

N. *Purposes of Major Special Revenue Funds*

1. The 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). Authorized general fund appropriations, grants and loans may be included in the fund.
2. The Debt Service Fund is used to account for the financial resources to be used for the payment of principal and interest on long term obligations. General fund and special revenue resources may be appropriated to the fund for debt service payments.

CITY OF MONTEREY

Notes to Basic Financial Statements

June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. **The Low and Moderate Income Housing Asset Fund** is used to account for asset transfers from the Low and Moderate Income Housing Fund upon elimination of redevelopment. This fund administers the remaining low interest loans issued under the previous Low and Moderate Income Housing Fund, carries out obligations of the former Redevelopment Agency, and manages affordable housing opportunities.

O. Fund Balances of General Fund and Major Special Revenue Funds

In the Governmental Funds Balance Sheet fund balances are summarized by classification for presentation purposes. Additional detail of the amounts within each classification for the general and major special revenue funds is provided here.

GOVERNMENTAL FUND BALANCES						
JUNE 30, 2012						
	General	Capital Projects	Debt Service	Low/Mod Income Housing Asset Fund	Other Governmental Funds	Total Governmental Funds
FUND BALANCES						
Nonspendable fund balance						
Long-term receivables	\$17,691,384	\$ -	\$ -	\$ 9,040,648	\$ 4,196,846	\$ 30,928,878
Amounts due other agencies	5,125,583	-	-	-	-	5,125,583
Scholze non-expendible trust	-	-	-	-	2,476,127	2,476,127
Total Nonspendable	22,816,967	-	-	9,040,648	6,672,973	38,530,588
Restricted fund balance						
Restricted for specific purposes	-	370,207	-	37,548	12,103,699	12,511,454
Property held for resale	-	-	-	780,779	617,157	1,397,936
Sewer mains projects	-	-	-	-	318,867	318,867
CR Hotel Proj. Feasibility Conting.	-	-	-	-	2,941,544	2,941,544
Bookmobile replacement	-	-	-	-	153,318	153,318
Frank Emilio La Cauza trust	-	-	-	-	125	125
Total Restricted	-	370,207	-	818,327	16,134,710	17,323,244
Committed fund balance						
Committed for specific purposes	-	-	-	-	655,735	655,735
Stabilization reserve	5,821,470	-	-	-	-	5,821,470
Capital outlay and cultural arts	1,457,051	-	-	-	-	1,457,051
Capital improvement program	2,812,303	(187,260)	-	-	6,402,074	9,027,117
Total Committed	10,090,824	(187,260)	-	-	7,057,809	16,961,373
Assigned fund balance:						
For unexpended encumbrances	394,310	-	-	-	-	394,310
Unassigned fund balance	529,398	-	(28,206,724)	-	-	(27,677,326)
Total fund balance	\$33,831,499	\$ 182,947	\$(28,206,724)	\$ 9,858,975	\$ 29,865,492	\$ 45,532,189

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**P. Net Assets**

Net Assets are measured on the full accrual basis as compared to Fund Balance, which is measured on the modified accrual basis. Net Assets is the excess of all the City's assets over all its liabilities, regardless of source. Net Assets are divided into three captions and are described as follows:

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

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These are principally debt service requirements and redevelopment funds restricted to low and moderate income purposes.

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

NOTE 2 - CASH AND INVESTMENTS**A. Deposits and Investments**

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. As of June 30, 2012, the City had the following investments:

	Total Fair Value	1 Year or less	1-3 Years	3-5 Years	Rating at June 30, 2012
Agency	\$ 32,966,503	\$ 14,799,196	\$ 17,116,081	\$ 1,051,226	AA
U.S. Treasury Note	10,795,387	3,754,039	3,992,129	3,049,219	AA
US Corporate	832,457	-	832,457	-	AAA
US Corporate	2,830,518	726,076	-	2,104,442	AA
US Corporate	8,007,107	471,816	5,411,162	2,124,129	A
Money Market Fund	144,124	144,124	-	-	P-1
Mutual Fund	5,860	5,860	-	-	Not Rated
Corporate Notes	998,180	998,180	-	-	Not Rated
1994 Bond	422,750	-	-	-	Not Rated
Local Agency Investment Fund	3,003,649	3,003,649	-	-	Not Rated
Investment Agreement	632,675	-	-	632,675	Not Rated
Total Investments	60,639,210	\$ 23,902,940	\$ 27,351,829	\$ 8,961,691	
Cash (overdraft) in bank and on hand	6,013,748				
Total cash and investments	\$ 66,652,958				

NOTE 2 – CASH AND INVESTMENTS (Continued)

Cash and investments as of June 30, 2012 are classified in the accompanying financial statements as follows:

Statement of Net Assets	
Cash & investments available for operations	\$ 57,049,576
Restricted cash & investments	4,782,913
Fiduciary Funds- Cash & investments	4,820,469
Total cash and investments	<u>\$ 66,652,958</u>

The total cash and investments above include those amounts held by the City in its Fiduciary funds. However, the entity-wide presentation excludes Fiduciary funds totals, as the City is merely acting as an agent for other parties (assessment and promotion districts).

B. Authorized Investments

The City's investment policy and the California Government Code allow the following investments:

- 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.

C. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City of Monterey's Investment Policy provides that the City manages its exposure to interest rate risks by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the table in Section A (Deposits and Investments) that shows the distribution of the City's investments by maturity date.

NOTE 2 – CASH AND INVESTMENTS (Continued)**D. Credit risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligations to the holder of the investment. The City of Monterey's Investment Policy provides that this risk be mitigated by investing in investment grade securities and by diversifying the investment portfolio. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented in Section A (Deposits and Investments) is the actual rating as of year-end for each investment type.

E. Concentration of Credit Risk

The City's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

F. Custodial Credit Risk

Custodial Credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

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. The carrying amount of the City's cash deposits was \$4,254,448 at June 30, 2012.

G. 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, 2012 was \$3,649 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.

CITY OF MONTEREY

Notes to Basic Financial Statements

June 30, 2012

NOTE 3 – INTERFUND TRANSACTIONS

A. Transfers Among City Funds

With Council approval, resources may be transferred from one City fund to another. Transfers between funds during the fiscal year ended June 30, 2012 were as follows:

	Transfer In:								Total Transfers Out
	Governmental Funds						Internal Service Funds		
	General Fund	Capital Projects	Debt Service	Non-Major Gov.	Parking	Marina			
Transfer Out from:									
Governmental Funds:									
General Fund	\$ -	\$ 790,119	\$ 629,075	\$ 37,290	\$ -	\$ 2,070	\$ 508,300	\$ -	\$ 1,966,854
Capital Projects	55,960	230,397	-	-	-	-	-	-	286,357
Debt Service	1,415	-	-	-	-	-	-	-	1,415
Non-major governmental	215,431	1,182,900	-	9,943	38,112	-	-	-	1,446,386
Enterprise Funds:									
Marina	158,889	-	-	-	203,466	-	-	-	362,355
Parking	226,119	-	-	-	-	-	-	-	226,119
Presidio of Monterey	-	-	-	-	-	-	5,400	-	5,400
Internal Service Funds	-	26,149	-	-	-	-	-	-	26,149
Total transfers in	\$ 657,814	\$ 2,229,565	\$ 629,075	\$ 47,233	\$ 241,578	\$ 2,070	\$ 513,700	\$ -	\$ 4,321,035

Transfers of \$657,814 into the General Fund came from:

- Non-major Governmental Funds: The Park Dedication fund (\$62,389) for park repairs, the Scholze fund for Park maintenance (\$44,000), the State COPS, AB1913 fund for a Domestic Violence Officer (\$100,227), the Gas Tax fund for Engineer payment (\$6,000), and the Golden 55 Travelers fund (\$2,816) for staff reimbursement.
- The Capital Projects fund for CIP project close-outs.
- The Marina Fund for expenses to maintain Wharf II & Harbor building repairs.
- The Parking Fund for custodial, parks, and street maintenance services.
- The Debt Service fund for interest.

Transfers of \$2,229,565 into the Capital Projects Fund came from:

- The General Fund, other Capital Projects funds, and Non-Major Governmental Funds for reimbursement of capital project expenses. The City utilizes Capital Project Funds for all capital projects expenses, and reimbursement comes from the appropriate funding sources.
- Internal Service fund for CIP projects Ryan Ranch I-Net Hub and City Hall Generator.

Transfers of \$629,075 into the Debt Service Fund from the General Fund were for the 2002 Lease Revenue Bond.

Transfers of \$47,233 into Non-Major Governmental Funds came from:

- The General Fund to fund the City’s share of Alvarado Street Maintenance District.
- The Homeland Security Grant fund for Fire safety purchases

Transfers of \$241,578 into the Parking Fund came from:

- The Marina Fund for annual parking support.
- Non-major Governmental Funds for excess cash from the various parking Adjustment Fee Funds.

Transfers of \$513,700 into Internal Service Funds came from:

- The General Fund to fund program costs in the Health Insurance Trust Funds (\$451,300) and to partially fund purchase of a fire truck.

NOTE 3 – INTERFUND TRANSACTIONS (Continued)

- The Presidio Fund for vehicle purchases.

B. Current Inter-fund Balances

Current inter-fund balances represent short-term loans to cover negative cash balances, which result from the timing of cash flows at year end. These inter-fund balances are expected to be repaid in the first quarter of the subsequent fiscal year. At June 30, 2012, inter-fund balances comprised the following:

	<u>Due From / To Other Funds</u>	
	<u>Receivable</u>	<u>Payable</u>
Governmental Funds		
General Fund	\$ 2,883,815	\$ -
Non-Major Funds		
State/Federal Grants	-	926
Park Dedication Fee	-	245
Low & Mod Income Asset Fund	-	-
Internal Service Funds		
Vehicle Maintenance Fund	-	357,824
Enterprise Funds		
Presidio of Monterey Public Works	-	2,524,820
	<u>\$ 2,883,815</u>	<u>\$ 2,883,815</u>

C. Long-Term Inter-fund Advances

At June 30, 2012 the funds below had made advances which were not expected to be repaid within the next year:

	<u>Advances From / To Other Funds</u>	
	<u>Receivable</u>	<u>Payable</u>
Governmental Funds		
General Fund	\$ 17,691,384	\$ 893,890
Capital Projects Fund	-	222,625
Debt Service Fund	-	268,860
Non-Major Funds		
Tidelands	-	1,000,000
Enterprise Funds		
Parking Fund	1,397,509	16,934,500
Marina Fund	1,000,000	1,174,885
Non-Major Funds: Cemetery Fund	-	879,382
Internal Service Funds		
Equipment Replacement Fund	1,285,249	-
	<u>\$ 21,374,142</u>	<u>\$ 21,374,142</u>

The General Fund received advances from the Parking Fund for project costs related to the East Catellus Design, specifically the boat storage and parking lot. Advances were also made from the

NOTE 3 – INTERFUND TRANSACTIONS (Continued)

Equipment Replacement Fund in FY2012 for the purchase of a public safety radio system and for the funding of a fire truck.

The Parking Fund recorded an advance from the General Fund, per Council Resolution, representing several years of annual debt service payments on the Custom House Parking Garage Bond, made by the General Fund to Parking's benefit.

The Capital Projects Fund received advances from the Parking Fund for project costs related to Window on the Bay, specifically Del Monte Avenue reconstruction.

The Debt Service Fund recorded an advance from the Equipment Replacement fund for the purchase of Fire Apparatus to be repaid over 20 years, beginning in 2009.

The Tidelands Fund received advances from the Marina Fund for \$1 million in 2005 as part of the agreement with the developer of the Cannery Row Hotel project. The monies in the Tidelands Fund (including the Marina Fund advance) have been set aside to ensure that the terms of the agreement can be met. These terms include the potential of loaning the hotel money during the first ten years of operation should there be an operating shortfall. The Tidelands advance would be repaid to the Marina Fund no later than ten years after the opening of the hotel.

The Cemetery Fund received advances from the General Fund to cover debt service payments related to the construction of columbarium niches. These advances will begin to be repaid to the General Fund beginning in 2012 after the debt service has been paid.

The Marina Fund received advances from the Parking Fund in Fiscal Year 2007 for the Marina Fire Water System Replacement and Marina Electrical System Inspection/Repairs CIP projects. This advance will be repaid when the Tidelands Fund repays the advance from the Marina Fund.

D. *Advance Repayment Agreement*

In December 1993 the City Council and Redevelopment Agency (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 \$2,747,682 were made within the current fiscal year. The entire amount due to the City is reported as a current liability of the Agency within these statements and in its own statements.

During the fiscal year, the City analyzed this repayment agreement and determined, based on a current tax increment cash flow analysis, that the Agency will be unable to liquidate a portion of the liability within its remaining life. Therefore, the City recorded an Allowance for Doubtful accounts in the amount of \$12,763,719.

NOTE 4 – LOANS AND MORTGAGES RECEIVABLE**A. *Down Payment 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 \$50,000) to allow the purchasers total housing costs to be under 35% of their gross income. The City provides a 15 year deferred loan with simple interest at 5% (3% for HOME funded loans). At the end of the 15 year period the loan can be extended for an additional 5 year period if the household is still income eligible. 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 former Redevelopment 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. This asset was transferred to the Housing Successor Agency in 2012. No principal or interest repayment is required until 2018.

In July 2007 the City entered into a development agreement to provide a loan for the development of 18 affordable rental units in the Monterey Hotel Mixed-Use Project, on a vacant lot in the Old Town Redevelopment Project Area. As of June 30, 2012, the City has provided \$2,106,441 under this agreement. This project remains in a receivership status. Pursuant to an Inter-creditor Agreement executed between the primary lender, Rabobank, the Receiver and the Redevelopment Agency, the Receiver has completed and recorded a two-unit parcel map condominium plan (Unit 1 is Commercial and Unit 2 is residential) for the purpose of securing the RDA loan on the separate residential condominium airspace parcel. The residential condominium contains all of the projects' 18 affordable apartment units. To date the Receiver has completed the exterior finish of the building and nearly completed the process to partially reconvey the Rabobank loan to the commercial condominium unit and the former RDA loan to the residential condominium unit. Upon dissolution of the City of Monterey Redevelopment Agency, the city elected to become Successor Agency and take on the housing activities of the former RDA. The Successor Agency with Oversight Board approval has transferred the former RDA loan to the City of Monterey as a housing asset. The City is now waiting for confirmation of the transfer from the State Department of Finance (DOF).

All parties to the Inter-creditor agreement are actively working to complete the partial reconveyance of the loan deeds of trust. Upon reconveyance of the City loan, the City intends to pursue ownership of the condominium unit through a deed in lieu procedure and complete the residential units. Additional housing funds have been transferred by the Successor Agency and approved by DOF, and these funds will be used to complete the residential apartments. The City

NOTE 4 – LOANS AND MORTGAGES RECEIVABLE (Continued)

is now anticipating gaining ownership of the residential condominium unit in early 2013. Completion will begin soon after ownership is gained.

In August, 2004, the City entered into “Feasibility Contingency Plan” loan agreement with the developer of the Cannery Row Hotel Project at 750 Cannery Row. As of June 30, 2012, the City has provided \$2,106,139 under this agreement. Repayments under this agreement will begin in the eleventh full calendar year of operations.

NOTE 5 – CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of 3 years or greater.

For infrastructure to be capitalized, it must meet the elevated cost and useful life threshold of \$150,000 and 5 years or greater. In accordance with GASB Statement 34, the City capitalizes major general infrastructure assets that were acquired (purchased, constructed, or donated), or that received major renovations, restorations, or improvements since 1980.

A. Value of Capital Assets

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. The cost includes all ancillary charges necessary to place the asset in its intended location and condition for use. Contributed capital assets are valued at their estimated fair market value on the date contributed.

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

B. Depreciating Capital Assets

All capital assets with limited useful lives are depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year’s pro-rata share of the cost of capital assets.

Depreciation is provided using mid-year convention (all assets receive exactly ½ year of depreciation in the acquisition and disposal year) along with the straight-line method for the annual calculation. Thus, 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.

NOTE 5 –CAPITAL ASSETS (Continued)

The City has assigned the useful lives listed below to capital assets:

Bridges, Roadways, Railroads, Bridges, Wharves	50 years
Buildings	40 years
Building improvements	20 years
Improvements other than Buildings	30 years
Docks, Sea Walls, Bulkheads	30 Years
Vehicles	5-10 years
Machinery and Equipment	5-15 years

C. Capital Asset Contributions

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

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CITY OF MONTEREY

Notes to Basic Financial Statements

June 30, 2012

NOTE 5 – CAPITAL ASSETS (Continued)

D. Capital Asset Additions and Retirements

Capital asset activity for the year ended June 30, 2012 was as follows:

<u>Primary Government</u>	<u>Balance</u>			<u>Transfers &</u>	<u>Balance</u>
	<u>June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>June 30, 2012</u>
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 29,913,755	\$ -	\$ -	\$ -	\$ 29,913,755
Construction in progress	7,813,532	2,435,670	(1,887,937)	-	8,361,265
Total assets not being depreciated	<u>37,727,287</u>	<u>2,435,670</u>	<u>(1,887,937)</u>	<u>-</u>	<u>38,275,020</u>
Capital assets, being depreciated:					
Buildings and Improvements	59,488,248	-	-	-	59,488,248
Improvements other than buildings	23,599,427	582,510	-	-	24,181,937
Machinery and Equipment	17,394,768	754,504	(696,364)	-	17,452,908
Infrastructure	75,445,114	808,125	-	-	76,253,239
Intangible Assets	-	-	-	-	-
Total assets being depreciated	<u>175,927,557</u>	<u>2,145,139</u>	<u>(696,364)</u>	<u>-</u>	<u>177,376,332</u>
Less accumulated depreciation for:					
Buildings and Improvements	(27,302,570)	(1,415,815)	-	-	(28,718,385)
Improvements other than buildings	(15,385,757)	(670,049)	-	-	(16,055,806)
Machinery and Equipment	(12,854,771)	(954,076)	676,152	-	(13,132,695)
Infrastructure	(26,349,380)	(1,516,914)	-	-	(27,866,294)
Total accumulated depreciation	<u>(81,892,478)</u>	<u>(4,556,854)</u>	<u>676,152</u>	<u>-</u>	<u>(85,773,180)</u>
Total capital assets, being depreciated, net	<u>94,035,079</u>	<u>(2,411,715)</u>	<u>(20,212)</u>	<u>-</u>	<u>91,603,152</u>
Governmental activities capital assets, net	<u>\$ 131,762,366</u>	<u>\$ 23,955</u>	<u>\$ (1,908,149)</u>	<u>\$ -</u>	<u>\$ 129,878,172</u>
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 9,205,157	\$ -	\$ -	\$ -	\$ 9,205,157
Construction in progress	430,832	1,197,871	(1,429,844)	-	198,859
Total assets not being depreciated	<u>9,635,989</u>	<u>1,197,871</u>	<u>(1,429,844)</u>	<u>-</u>	<u>9,404,016</u>
Capital assets, being depreciated:					
Buildings and Improvements	26,418,262	-	-	-	26,418,262
Improvements other than buildings	12,203,794	110,282	-	-	12,314,076
Machinery and Equipment	839,980	410,735	-	(1)	1,250,714
Infrastructure	-	-	-	-	-
Total assets being depreciated	<u>39,462,036</u>	<u>521,017</u>	<u>-</u>	<u>(1)</u>	<u>39,983,052</u>
Less accumulated depreciation for:					
Buildings and Improvements	(16,490,482)	(487,003)	-	-	(16,977,485)
Improvements other than buildings	(7,918,744)	(292,112)	-	-	(8,210,856)
Machinery and Equipment	(517,631)	(82,052)	-	-	(599,683)
Total accumulated depreciation	<u>(24,926,857)</u>	<u>(861,167)</u>	<u>-</u>	<u>-</u>	<u>(25,788,024)</u>
Total capital assets, being depreciated, net	<u>14,535,179</u>	<u>(340,150)</u>	<u>-</u>	<u>(1)</u>	<u>14,195,028</u>
Business-type activities capital assets, net	<u>\$ 24,171,168</u>	<u>\$ 857,721</u>	<u>\$ (1,429,844)</u>	<u>\$ (1)</u>	<u>\$ 23,599,044</u>

NOTE 5 – CAPITAL ASSETS (Continued)

E. Depreciation Allocation

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

Governmental activities:	
General Government	\$ 5,175
Police	39,677
Fire	35,863
Public Works, including infrastructure assets	2,203,046
Community Development	25,482
Recreation and Community Service	774,176
Library	38,330
Public Facilities	592,106
Capital assets held by the City's internal service funds are charged to the various functions based on their usage	<u>842,999</u>
Total depreciation expense - governmental activities	<u>\$ 4,556,854</u>
Business-type activities:	
Marina	\$ 265,520
Parking	474,856
Other business-type activities	<u>120,791</u>
Total depreciation expense - business-type activities	<u>\$ 861,167</u>

F. Assets not capitalized

Art Collections, Library Reserve Collections, and Museum and Historical Collections, that are considered inexhaustible in that their value does not diminish over time, are not required to be capitalized if all of the following conditions are met:

- The collection is held for public exhibition, education, or research in furtherance of public service, rather than financial gain.
- The collection is protected, kept unencumbered, cared for, and preserved.
- The City maintains a policy that requires proceeds from sales to be used to acquire other items for the collections.

Living things will not be capitalized due to the high level of ongoing maintenance and/or training (animals) to extend its life and/or add usefulness. Some examples are; Trees, grass/sod, other vegetation, Police/fire dogs, horses or other animals.

Street related infrastructure items such as regular road maintenance with an expected life of less than 5 years (slurry seals) or traffic calming measures (street striping, speed bumps, medians, vegetation) are items that do not materially add to the value of the asset or extend its useful life.

CITY OF MONTEREY

Notes to Basic Financial Statements

June 30, 2012

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 that will have useful lives equal to or greater than the related debt.

B. Transactions and Balances

The following summarizes the City's long-term debt transactions, including liability for compensated absences, and balances at June 30, 2012:

	<u>Balance</u>			<u>Balance</u>	<u>Due Within</u>
	<u>June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2012</u>	<u>One Year</u>
GOVERNMENTAL ACTIVITIES					
Lease Revenue Bonds Payable:					
2002 Joint Powers Financing Authority, 4.0-5.0%, due 05/01/32	\$ 8,115,000	\$ -	\$ 235,000	\$ 7,880,000	\$ 245,000
Loans Payable:					
County of Monterey 911 Dispatch Center various %, due 9/17	152,634	-	24,040	128,594	24,848
California Energy Commission 1.0%, due 12/22/22	-	1,104,522	-	1,104,522	99,103
California Energy Commission 3.95%, due 6/25/25	337,940	-	4,838	333,102	20,052
Pacific Gas & Electric Loan Pool Pump Loan 0.0%, due 4/2014	-	35,550	5,469	30,081	16,408
Compensated Absences:	3,314,110	2,518,282	2,511,293	3,321,099	689,920
Net OPEB Obligation	1,155,481	447,571	-	1,603,052	-
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 13,075,165</u>	<u>\$ 4,105,925</u>	<u>\$ 2,780,640</u>	<u>\$ 14,400,450</u>	<u>\$ 1,095,331</u>
BUSINESS TYPE ACTIVITIES					
Lease Revenue Bonds Payable:					
1994 Materials Recovery Facility, 5.50-5.75%, due 3/1/18	\$ 2,210,000	\$ -	\$ 240,000	\$ 1,970,000	\$ 265,000
Loans Payable:					
State of California Small Craft Harbor Loans, (a), 4.50%, due 2024	3,600,547	-	252,382	3,348,165	246,674
Compensated Absences:	236,157	209,546	219,635	226,068	14,433
Net OPEB Obligation	144,519	50,428	-	194,947	-
TOTAL BUSINESS TYPE ACTIVITIES	<u>\$ 6,191,223</u>	<u>\$ 259,974</u>	<u>\$ 712,017</u>	<u>\$ 5,739,180</u>	<u>\$ 526,107</u>

The City had \$1,061,285 in restricted cash and investments at June 30, 2012 held by fiscal agents, which may only be disbursed 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.

The General Fund typically has been used in prior years to liquidate liabilities for governmental fund compensated absences as they occur. This year, as in the past, annual additions to the account balance are greater than retirements.

NOTE 6 – LONG TERM DEBT (Continued)

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

C. Repayment Requirements

At June 30, 2012 future annual principal and interest payment requirements for governmental type activities and business type activities for all long-term debt were as follows:

For the Year Ending June 30	Lease Revenue Bonds		Miscellaneous Loans		Totals
	Principal	Interest	Principal	Interest	
Governmental					
2013	\$ 245,000	\$ 384,440	\$ 159,043	\$ 29,026	\$ 817,509
2014	255,000	374,150	162,901	25,168	817,219
2015	265,000	363,185	150,488	22,541	801,214
2016	280,000	351,525	153,133	19,896	804,554
2017	290,000	338,925	152,513	17,086	798,524
2018-2022	1,680,000	1,473,203	670,361	50,752	3,874,316
2023-2027	2,135,000	1,013,500	147,860	6,786	3,303,146
2028-2032	2,730,000	422,500	-	-	3,152,500
TOTAL	<u>\$ 7,880,000</u>	<u>\$ 4,721,428</u>	<u>\$ 1,596,299</u>	<u>\$ 171,255</u>	<u>\$ 14,368,982</u>
Business Type					
2013	\$ 265,000	\$ 112,125	\$ 246,674	\$ 150,667	\$ 774,466
2014	285,000	97,285	257,774	139,567	779,626
2015	310,000	81,325	269,369	127,967	788,661
2016	340,000	63,655	209,499	115,846	729,000
2017	370,000	44,275	218,926	106,418	739,619
2018-2022	400,000	23,000	1,251,576	375,145	2,049,721
2023-2025	-	-	894,347	81,671	976,018
TOTAL	<u>\$ 1,970,000</u>	<u>\$ 421,665</u>	<u>\$ 3,348,165</u>	<u>\$ 1,097,281</u>	<u>\$ 6,837,111</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.

D. Description of Major Debt Issues**Lease Revenue Bonds**

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 3.85% to 4.60% and are due November 1, 2012. 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%. On April 22, 2011, the 1999 Lease Revenue Bonds were paid and defeased through the irrevocable deposit of moneys in an Escrow Fund. Funds deposited in the Escrow Fund were calculated to provide sufficient moneys to pay the respective redemption prices of \$2,490,000, and the accrued interest on, the 1999 Bonds on the Redemption Date.

NOTE 6 – LONG TERM DEBT (Continued)

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 5.10% to 5.75% and are due March 1, 2018. Principal payments are due annually on March 1 and interest payments are due semi-annually on March 1 and September 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 received by 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 4.0% 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%. The bonds will be repaid from lease revenues from the City's General Fund.

Loans Payable

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% 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 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 are made from the City's General Fund.

On November 24, 2008, an agreement was entered into with the California Energy Commission to complete energy efficiency projects including lighting retrofits and installation of a photovoltaic system. The total amount of funds disbursed through September, 2010 under the agreement was \$337,940 with an interest rate of 3.95%. The loan calls for semi-annual principal and interest payments each December 22 and June 25. The source of these payments comes from energy savings generated by the projects.

On March 10, 2010, the City entered into an energy conservation assistance loan agreement with the California Energy Commission. The 1% interest bearing loan in the amount of \$1,104,522.28 was used to complete the retrofit of the bike path/trail lighting with induction lighting; the retrofit of all City street lights with LED lights; and the replacement of all the tunnel lights with LED lighting. Principal and interest payments are due semi-annually on December 22 and June 22. The due date for the first payment is December 22, 2012. The loan will be repaid from rebates and energy savings estimated at over \$100,000 annually.

NOTE 6 – LONG TERM DEBT (Continued)

On May 3rd, 2011, the City Council approved a no-interest loan in the amount of \$35,549.75 from PG&E for the installation of energy efficient variable frequency drives on the pool pump motors at the Monterey Sports Center. The first of 26 payments was due March 2012, with subsequent payments made monthly. The final payment is due April 2014.

NOTE 7 – PENSION PLANS**A. CALPERS Safety and Miscellaneous Employees Plans**

Plan Description: 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 for the miscellaneous employees and a cost-sharing employer defined benefit pension plan for the safety employees, 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, 2012, are summarized as follows:

	Safety-Fire	Safety-Police	Miscellaneous
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life	Monthly for life
Retirement age	50	50	55
Benefits per year of service, as a percent of salary	3.00%	3.00%	2.70%
Required employee contribution rates*	12%	13%	11%
Required employer contribution rates (FY 2012)	27.31%	26.31%	17.32%

*Effective September 16, 2011 the City amended its contract with CalPERS to incorporate cost-sharing of the City's employer contribution rate. Miscellaneous and Safety-Fire employees contribute 3% and Safety-Police 4% of the employer contribution rate.

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

Funding policy: 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

NOTE 7 – PENSIONS PLANS (Continued)

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.

Annual pension costs: For the year ended June 30, 2012, the City's annual pension costs were \$7,434,345. CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.50% is assumed beginning with the June 30, 2011 annual valuation report, including inflation at 2.75%. 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.

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
<i>Miscellaneous Plan</i>			
2009/2010	\$ 4,034,931	100%	0
2010/2011	\$ 4,092,090	100%	0
2011/2012	\$ 4,226,992	100%	0
<i>Safety Plan</i>			
2009/2010	\$ 3,180,755	100%	0
2010/2011	\$ 3,011,445	100%	0
2011/2012	\$ 3,207,353	100%	0

Funding Status and Funding Progress: As of June 30, 2011, the most recent actuarial valuation date, the Miscellaneous Plan was 77.3% funded. The actuarial accrued liability for benefits was \$171 million, and the actuarial value of assets was \$132 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$39 million. The covered payroll (annual payroll of active employees covered by the plan) was \$24 million, and the ratio of the UAAL to the covered payroll was 160.9%.

As of June 30, 2011, the most recent actuarial valuation date, the Safety Plan was 79.8% funded. The actuarial accrued liability for benefits was \$131 million, and the actuarial value of assets was \$105 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$26 million. The covered payroll (annual payroll of active employees covered by the plan) was \$11 million, and the ratio of the UAAL to the covered payroll was 239.1%. In addition to the Plan's UAAL, the liability of the Side Fund as of June 30, 2012 was \$13 million, for a total unfunded liability of \$39 million.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE 7 – PENSIONS PLANS (Continued)**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.

NOTE 8 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSION

Plan Description. The City of Monterey Retiree Healthcare Plan (Plan) is a single-employer defined benefit healthcare plan. The plan provides healthcare benefits to eligible retirees and their dependents. Benefit provisions are established and may be amended through agreements and memorandums of understanding between the City and its various bargaining units. The Plan does not issue a financial report.

The City provides retiree healthcare benefits to employees retiring directly from the City under CalPERS. Medical coverage is provided through Public Employees' Medical and Hospital Care Act (PEMHCA). The City pays a portion of retiree healthcare premiums equal to the PEMHCA required minimum contribution under the unequal method, currently \$95.20 per month. Retirees and their beneficiaries pay the annual premium cost not paid by the employer. Dental, vision and life insurance benefits are not provided. As of June 30, 2012, plan membership consisted of 371 active participants and 155 retirees and beneficiaries currently receiving benefits.

The City also implements the Retirement Health Savings Plan (RHSP) for POA, PLMA, IAFF, and FMA employees. RHSP is an individual account defined contribution retiree healthcare plan with employer contributions. RHSP was not included in this note.

Funding Policy. There is no statutory requirement for the City to prefund its OPEB obligation. The City currently pays for retiree healthcare benefits on a pay-as-you-go basis and is planning a 5 year phase-in pre-funding through the California Employers' Retiree Benefit Trust (CERBT) beginning in 2012/13. There are no employee contributions.

For fiscal year 2011/12, the City paid approximately \$164,000 for retiree healthcare plan benefits.

Annual OPEB Cost and Net OPEB Obligation. The City's annual other postemployment benefit cost (expense) is calculated based on the annual required contribution (ARC) of the employer. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

NOTE 8—POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

The following table, based on the City's actuarial valuation as of June 30, 2011, shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's Net OPEB obligation (dollar amounts in thousands):

Annual required contribution	\$ 677
Interest on net OPEB obligation	55
Adjustment to annual required contribution	<u>(75)</u>
Annual OPEB cost (expense)	657
Contributions (benefit payments)	<u>(159)</u>
Increase in net OPEB obligation	499
Net OPEB obligation – beginning of year	<u>1,300</u>
Net OPEB obligation – end of year	\$ 1,798

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2009/10 through 2011/12 are as follows (dollar amounts in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 518	22.8%	\$ 820
June 30, 2011	\$ 618	22.3%	\$1,300
June 30, 2012	\$ 657	24.2%	\$1,798

Funded Status and Funding Progress. The funded status of the plan as of June 30, 2012 was (dollar amounts in thousands):

	6/30/11	6/30/12
Actuarial accrued liability (AAL)	\$6,247	\$6,660
Actuarial value of plan assets	0	0
Unfunded actuarial accrued liability (UAAL)	\$6,247	\$6,660
Funded ratio (actuarial value of plan assets/AAL)	0%	0%
Projected covered payroll (active Plan members)	\$35,287	\$36,434
UAAL as a percentage of covered payroll	17.7%	18.3%

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used are consistent with the long-term perspective of the calculations.

For the June 30, 2011 actuarial valuation, the plan's most recent actuarial date, the entry age normal actuarial cost method was used. The actuarial assumptions included (a) a select and ultimate discount rate, which blends the expected long-term investment return of 4.25% on City investments and the expected long-term investment return of 7.25% on the CERBT trust each year based on the percentage of the ARC contributed to the CERBT trust, (b) an annual aggregate payroll increase rate of 3.25% and (c) a 4.5% increase rate beginning in 2013 for the PEMHCA required minimum contribution. Both (b) and (c) include an inflation component of 3%.

The unfunded actuarial liability is being amortized over a fixed 30-year closed period for initial UAAL as a level percentage of projected payroll beginning with the year ended June 30, 2009 (27 years remaining on June 30, 2012).

NOTE 9 – 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 \$1,000,000	Up to \$400,000
Coverage through:		
pooled insurance	\$1,000,000 to \$2,000,000	\$400,000 to \$5,000,000
excess insurance	\$2,000,000 to \$20,000,000	\$5,000,000 to \$100,000,000

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's Board of Directors. 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. The City paid a deposit premium of \$323,824 to ACCEL for the year ended June 30, 2012.

NOTE 9 – RISK MANAGEMENT (Continued)

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 judgements included in the internal service fund is based on the results of a bi-annual actuarial study obtained by the City. The liability includes amount 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 judgements, 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. Management has no reliable method to forecast the timing of claims payments and therefore, as a matter of conservatism under GAAP, considers the full amount to be a current liability. 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.

In the opinion of the City Attorney there are no pending claims and judgements likely to have a material adverse effect on the financial position due within one year of June 30, 2012.

Preliminary Claims activities for the plan years ended June 30, 2012 and 2011 are presented as follows:

	Workers' Compensation	General Liability	Total	
			2012	2011
Beginning balance	\$ 9,084,000	\$ 1,527,374	\$ 10,611,374	\$ 10,508,374
Liability for current fiscal year claims	2,424,000	335,000	2,759,000	2,759,000
Change in liability for prior fiscal year claims and claims incurred but not reported (IBNR)	(4,606,457)	(378,817)	(4,985,274)	(4,150,556)
Claims paid	2,182,457	43,817	2,226,274	1,494,556
Ending balance	<u>\$ 9,084,000</u>	<u>\$ 1,527,374</u>	<u>\$ 10,611,374</u>	<u>\$ 10,611,374</u>

NOTE 10 – 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 \$112.00 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 \$550.00 and \$1,483.00 per month per employee which can be used towards insurance premiums or other employment benefits. Dental and vision insurance is provided at no 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 regular part-time and part-time seasonal employees.

NOTE 11 – 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.

As of June 30, 2012, the City had outstanding receivables of \$6,987,577. These receivables are still subject to further investigation by the U.S. Army and U.S. Department of Defense. The amount of any receivables as of 6/30/12 which may be disallowed cannot be determined at this time. The City estimates such amounts, if any, to be immaterial.

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.

NOTE 12 – COMMITMENT 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.

NOTE 13 – STEWARDSHIP AND COMPLIANCE

At June 30, 2012, several non-major funds had an excess of expenditures over budget as follows:

Construction Truck Impact	\$ 1,652	Public Education & Gov't Access	\$ 8,241
Gas Tax	\$ 197	Special Deposits	\$ 202,027
Park Dedication	\$ 629	Scholze Park	\$ 7,776
Parking Adjustments	\$ 10	Tidelands	\$ 18,595

The Debt Service Governmental Fund had a deficit fund balance (\$28,206,724) as a the result of the accounting treatment required by generally accepted accounting principles (GAAP) for the Repayment Agreement (Agreement) between the City Council and Redevelopment Agency (Agency). The entire amount due to the City is required to be reported as a current liability of the Agency within these statements and in its own statements. An apparent deficit is therefore created because GAAP does not allow these same statements to show corresponding capital assets. The Agreement requires the Agency to make repayments annually out of available cash; repayments of \$2,747,682 were made within the current fiscal year. The 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 Non-Major Cemetery Enterprise Fund negative net assets (\$158,900) has decreased by \$48,487 from fiscal year 2010/11, and is expected to continue to decrease due to a departmental staffing reduction and the payoff of the 1999 Lease Revenue Bonds during fiscal year 2010/11. This fiscal year, revenues exceeded operating expenses by \$47,907, surpassing projections of \$29,000.

NOTE 14 – EXTRAORDINARY EVENT

In fiscal year 2012, Assembly Bill X1 26 required the dissolution of the Redevelopment Agency of the City of Monterey. This dissolution qualifies as an extraordinary item since this state-wide dissolution was both unusual and infrequent. Accordingly, the movement of net assets of the former redevelopment agency as of February 1, 2012 from governmental funds of the City to a fiduciary fund is recorded as an extraordinary loss in the governmental fund financial statements and in the government-wide financial statements equal to \$4,751,575. The receipt of these net assets as of February 1, 2012 is reported in the Private Purpose Trust Fund as “Net Assets Received upon Dissolution of Redevelopment Agency” in the amount of \$4,751,575.

NOTE 15 – SUBSEQUENT EVENTS

The City is in the process of applying for a \$16.8 million dollar low interest loan from a Clean Water State Revolving Fund financial assistance agreement administered by the State Water Resources Control Board. Repayment of this loan is fully funded by a Council approved fee structure, which was implemented in 2011. The application is expected to be submitted to the State June 15, 2013, leading to a series of construction projects over the next three years to rehabilitate the City’s aging sewer infrastructure.

On June 27, 2012, the Legislature passed and the Governor signed Assembly Bill 1484 as part of the FY2012-13 state budget package. Section 34183.5 subdivision (b) was added to the Health

NOTE 15 – SUBSEQUENT EVENTS (Continued)

and Safety Code that places property taxes distributed in December 2011 or January 2012 under the distribution mechanism of ABX1 26. As a result of this, the City was required to remit to the County Auditor-Controller a total of \$3,223,812 in July, 2012. \$744,803 of this was paid from funds transferred to the Redevelopment Successor Agency, and the balance by the General Fund.

The Redevelopment Agency of the City of Monterey was dissolved on January 31, 2012. Upon dissolution, the City submitted to the California State Department of Finance the Recognized Obligation Schedule (ROPS) itemizing continuing obligations of the Redevelopment Agency to be resumed by the Redevelopment Successor Agency. Two items on the “ROPS” were not initially approved by the Department of Finance, and were appealed by the City. One item for \$2 million is for the replacement housing required due to the sale of Ocean Harbor House units, and the other is for the Advance Reimbursement Agreement between the Agency and the City. Since the submission of the last “ROPS” on August 1, 2012, while the City still believes the Reimbursement Agreement is valid for accounting purposes, to be conservative, the City has decided to write-off the balance of the Reimbursement Agreement. The balance of the Reimbursement Agreement in the General Fund at the end of the fiscal year was \$15,961,559, which is the net of the repayment agreement receivable, offset by the allowance for uncollectable receivable. The balance of the repayment agreement payable in the Debt Service fund as the end of the fiscal year was \$28,725,278. The City had a “meet and confer” with the Department of Finance on November 5, 2012 regarding the second item, and received notification from the Department of Finance on December 18, 2012 that they continued to deny the item. \$2,058,279 was remitted to the County Auditor-Controller on December 19, 2012 from funds held in the Private Purpose Trust Fund.

On December 11, 2012, the Successor Agency received the completed Due Diligence Review required under Assembly Bill 1484 for Successor Agency “Other Funds”. The Oversight Board held a public comment session on December 19, 2012, with final approval scheduled on January 9, 2013. This review identified \$4,441,141 to potentially be remitted to the County Auditor-Controller, and is subject to review and final approval by the Department of Finance.

The California Public Employees’ Pension Reform Act of 2013, which takes effect January 1, 2013, makes substantial and wide-ranging changes to the public employee pension laws in California. The actual financial impact of these reforms are not known at this time, however, it is expected that it will ultimately lower the City’s pension costs, as new employees will participate in a reduced pension formula plan.

SCHEDULE OF FUNDING PROGRESS**PENSION PLAN - 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).

The Miscellaneous Employee Plan is an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers.

The Safety Employee Plan is a cost-sharing employer defined benefit pension plan which acts as a common investment and administrative agent for its' participating member employers. Effective fiscal year 2002-03, the city participates in the CALPERS Safety Risk Pool, as required for cities with less than 100 active members in the plan. In addition to the unfunded liability listed below, the liability of the Side Fund as of June 30, 2011 was \$12,612,195, for a total Safety Employee Plan unfunded liability of \$39,087,018.

The Plans' actuarial values (which differ 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, 2011.

Public Miscellaneous Employees Retirement System
Schedule of Funding Progress

Valuation Date	Plan Actuarial		Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
	Entry Age Accrued Liability	Value of Assets				
	2009	\$ 151,226,171				
2010	158,978,385	123,714,092	35,264,293	77.8%	24,413,463	144.4%
2011	170,927,827	132,117,980	38,809,847	77.3%	24,120,548	160.9%

Public Safety Employees Retirement System
Schedule of Funding Progress

Valuation Date	Plan Actuarial		Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
	Entry Age Accrued Liability	Value of Assets				
	2011	\$ 131,147,036				

SCHEDULE OF FUNDING PROGRESS*Post-Employment Health Care Benefits*

Other Postemployment Benefits
Schedule of Funding Progress
(dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
01/01/10	\$ 0	\$ 4,642	\$ 4,642	0%	\$36,458	18.2%
06/30/11	0	6,247	6,247	0%	35,287	17.7%
06/30/12	0	6,660	6,666	0%	36,434	18.3%





NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Sewer/Storm Water System Improvements Fund – This fund is used to account for revenues and expenditures for improvements, operations and maintenance of the City’s sewer lines, storm drain and storm water management systems, Wharf 1 fire sprinkler system, and fire hydrants. Revenues are derived from developer fees and user fees.

Landscape Maintenance Fund – The Alvarado Street Maintenance District was formed to help pay for the maintenance and upkeep of Alvarado Street. A special assessment is levied on all parcels within the district for this specific purpose. The Skyline forest Service District was created in 1966 to provide for perpetual landscaping maintenance of the Skyline Forest area. A tax is levied on the properties in the district to pay for the landscape contract.

Neighborhood Improvement Fund – This fund was established to provide a means for financing neighborhood related capital improvements. 16% of all transient occupancy tax revenue collected by the City is deposited in this fund.

State/Federal Grants Fund – This fund accounts for monies received from state and federal agencies for specific purposes.

Construction Truck Impact Fees Fund – This fund was established to account for fees collected, based on building permit project valuations, to provide for reconstruction and resurfacing of City streets impacted by construction truck traffic.

Gas Tax Fund – This fund is comprised of state and federal monies made available to the City for general road improvements and for specific road projects.

Parking Adjustments Fund – This fund is a repository for parking adjustment fees collected within each of the three parking districts within the City. Fees are assessed if a property owner wishes to develop or redevelop property in such a manner that will intensify the need for parking but is unable to provide all of the parking required by the zoning ordinance. Parking adjustment fees are used for construction, operation, and maintenance of common public parking facilities.

Housing Grants Fund – This fund was created to account for financial transactions relating to the Community Development Block Grant Program of the Federal Department of Housing and Urban Development. Program income is currently used for low interest housing rehabilitation loans and for grants to non-profit organizations for community services.

NON-MAJOR GOVERNMENTAL FUNDS (continued)

Park Dedication Fund – In 1974, an ordinance established regulations for the dedication of land and the payment of fees for park and recreational land in subdivisions and multiple family developments. This fund accounts for and controls payment of fees and uses of fees for specific park and recreation purposes as prescribed by the ordinance.

Public Safety Training and Services Fund – This fund is used to account for revenues and expenditures pertaining to training programs provided by the City’s Police and Fire Departments to personnel from outside agencies.

Asset Seizure Fund – This fund is a repository for funds received from the sale of assets seized by the Police Department.

Public Education and Government Access Fund – The City has a franchise agreement with AT&T for cable services and contracts with Access Monterey Peninsula, Inc. for support of public education and government access services. This fund is used to account for revenues and expenditures pertaining to these agreements.

Senior Center Programs Fund – This fund is used to account for revenues and expenditures pertaining to Senior Center Programs.

Sports Center Fund – This fund has been endowed with general purpose revenues and donations in order to fund the costs of the Monterey Sports Center.

Tidelands Fund – This fund was established, as prescribed by the State, to account for all revenues and expenditures within the tidelands area of the City.

Library Fund – This fund was created so that gifts, bequests and miscellaneous revenues from the library operation could be deposited and reserved for library purposes. All expenditures from the fund are requested by the Library Board of Trustees and approved by the City Council.

Museum Fund – This fund is comprised of donations from visitors to the Colton Hall Museum and contributions by individual donors. The monies are used for the acquisition and preservation of historical artifacts.

Special Deposits Fund – This fund was established to account for various contributions received by the City to be used to support Monterey citizens.

PERMANENT FUNDS

Scholze Park Trust Fund – This fund was created for the purpose of maintaining and improving parks and playgrounds owned by the City. It is specified by ordinance that only income from assets be distributed and divided 50% for park and 50% for playground purposes.

CITY OF MONTEREY
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2012

SPECIAL REVENUE FUNDS

	Sewer/Storm Water System Improvements	Landscape Maintenance	Neighborhood Improvement	State/Federal Grants	Construction Truck Impact Fee
ASSETS					
Cash and investments available for operations	\$ 3,840,643	\$ 174,222	\$ 6,526,528	\$ 9,782	\$ 158,928
Restricted cash and investments:					
Held by fiscal agent	-	-	-	-	-
Held by city	-	-	-	-	-
Receivables:					
Taxes receivable	-	-	444,413	-	-
Accounts receivable	431,994	19,976	113,102	25,000	-
Interest receivable	17,404	815	-	-	-
Loans receivable:					
Rehabilitation	-	-	-	-	-
Downpayment assistance	-	-	-	-	-
Project loans	-	-	-	-	-
Property held for resale	-	-	-	-	-
Total assets	<u>\$ 4,290,041</u>	<u>\$ 195,013</u>	<u>\$ 7,084,043</u>	<u>\$ 34,782</u>	<u>\$ 158,928</u>
LIABILITIES					
Accounts payable and accrued liabilities	\$ 51,590	\$ 3,094	\$ 16,797	\$ 159	\$ 4,434
Due to other funds	-	-	-	926	-
Advances from other funds	-	-	-	-	-
Deferred revenue	-	-	113,102	-	-
Total liabilities	<u>51,590</u>	<u>3,094</u>	<u>129,899</u>	<u>1,085</u>	<u>4,434</u>
FUND EQUITY					
Nonspendable fund balance	-	-	-	-	-
Restricted fund balance	4,238,451	191,919	-	33,697	154,494
Committed fund balance	-	-	6,954,144	-	-
Total fund balance	<u>4,238,451</u>	<u>191,919</u>	<u>6,954,144</u>	<u>33,697</u>	<u>154,494</u>
Total liabilities and fund balances	<u>\$ 4,290,041</u>	<u>\$ 195,013</u>	<u>\$ 7,084,043</u>	<u>\$ 34,782</u>	<u>\$ 158,928</u>

SPECIAL REVENUE FUNDS

Gas Tax	Parking Adjustments	Housing Grants	Park Dedication	Public Safety Training and Services	Asset Seizure	Public Education and Government Access
\$ 1,506,106	\$ 3,830	\$ 1,235,347	\$ -	\$ 90,030	\$ 72,445	\$ 1,651
-	-	70,573	-	-	-	-
-	-	-	-	-	-	-
85,474	-	-	-	-	-	-
-	784	45,141	-	13,750	564	36,237
7,063	197	5,782	-	-	-	8
-	-	2,264,277	-	-	-	-
-	-	997,820	-	-	-	-
-	-	1,015,043	-	-	-	-
-	-	617,157	-	-	-	-
<u>\$ 1,598,643</u>	<u>\$ 4,811</u>	<u>\$ 6,251,140</u>	<u>\$ -</u>	<u>\$ 103,780</u>	<u>\$ 73,009</u>	<u>\$ 37,896</u>
\$ 10,073	\$ -	\$ 29,922	\$ -	\$ 115	\$ 51,521	\$ 30,385
-	-	-	244	-	-	-
-	-	-	-	-	-	-
-	-	352,443	-	-	-	-
<u>10,073</u>	<u>-</u>	<u>382,365</u>	<u>244</u>	<u>115</u>	<u>51,521</u>	<u>30,385</u>
-	-	4,196,846	-	-	-	-
1,588,570	4,811	1,671,929	(244)	-	21,488	7,511
-	-	-	-	103,665	-	-
<u>1,588,570</u>	<u>4,811</u>	<u>5,868,775</u>	<u>(244)</u>	<u>103,665</u>	<u>21,488</u>	<u>7,511</u>
<u>\$ 1,598,643</u>	<u>\$ 4,811</u>	<u>\$ 6,251,140</u>	<u>\$ -</u>	<u>\$ 103,780</u>	<u>\$ 73,009</u>	<u>\$ 37,896</u>

CITY OF MONTEREY
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2012

SPECIAL REVENUE FUNDS

	<u>Senior Center Programs</u>	<u>Tidelands</u>	<u>Library</u>	<u>Museum</u>
ASSETS				
Cash and investments available for operations	\$ 216,821	\$ 5,686,383	\$ 770,662	\$ 142,250
Restricted cash and investments:				
Held by fiscal agent	-	-	-	-
Held by city	-	-	-	-
Receivables:				
Taxes receivable	-	-	-	-
Accounts receivable	-	92,500	500	-
Interest receivable	1,015	26,614	4,328	666
Loans receivable:				
Rehabilitation	-	-	-	-
Downpayment assistance	-	-	-	-
Project loans	-	2,106,139	-	-
Property held for resale	-	-	-	-
Total assets	<u>\$ 217,836</u>	<u>\$ 7,911,636</u>	<u>\$ 775,490</u>	<u>\$ 142,916</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 8,086	\$ -
Due to other funds	-	-	-	-
Advances from other funds	-	1,000,000	-	-
Deferred revenue	-	-	-	-
Total liabilities	<u>-</u>	<u>1,000,000</u>	<u>8,086</u>	<u>-</u>
FUND EQUITY				
Nonspendable fund balance	-	-	-	-
Restricted fund balance	217,836	6,911,636	767,404	142,916
Committed fund balance	-	-	-	-
Total fund balance	<u>217,836</u>	<u>6,911,636</u>	<u>767,404</u>	<u>142,916</u>
Total liabilities and fund balances	<u>\$ 217,836</u>	<u>\$ 7,911,636</u>	<u>\$ 775,490</u>	<u>\$ 142,916</u>

SPECIAL REVENUE FUNDS	PERMANENT FUND	
Special Deposits	Scholze Park	TOTAL
\$ 158,957	\$ 11,781	\$ 20,606,366
-	-	70,573
-	2,476,127	2,476,127
-	-	529,887
-	-	779,548
140	11,644	75,676
-	-	2,264,277
-	-	997,820
-	-	3,121,182
-	-	617,157
<u>\$ 159,097</u>	<u>\$ 2,499,552</u>	<u>\$ 31,538,613</u>
\$ 230	\$ -	\$ 206,406
-	-	1,170
-	-	1,000,000
-	-	465,545
<u>230</u>	<u>-</u>	<u>1,673,121</u>
-	2,476,127	6,672,973
158,867	23,425	16,134,710
-	-	7,057,809
<u>158,867</u>	<u>2,499,552</u>	<u>29,865,492</u>
<u>\$ 159,097</u>	<u>\$ 2,499,552</u>	<u>\$ 31,538,613</u>

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

SPECIAL REVENUE FUNDS

	Sewer/Storm Water System Improvements	Landscape Maintenance	Neighborhood Improvement	State/Federal Grants	Construction Truck Impact Fee
REVENUES					
Property tax	\$ -	\$ 78,808	\$ -	\$ -	\$ -
Transient occupancy tax	-	-	2,645,605	-	-
Other taxes	-	-	-	-	-
Intergovernmental	-	-	-	217,420	-
Investment income	42,260	2,119	-	201	-
Rental income	-	-	-	-	-
Licenses and permits	-	-	-	-	286,919
Charges for services	2,756,620	-	-	-	-
Other	2,250	-	-	-	-
	<u>2,801,130</u>	<u>80,927</u>	<u>2,645,605</u>	<u>217,621</u>	<u>286,919</u>
Total revenues					
EXPENDITURES					
Current:					
General government	8,180	-	183,476	-	-
Fire	-	-	-	-	-
Public works	1,908,705	67,952	-	139,278	1,652
Community development	-	-	-	-	-
Recreation and community service	-	-	-	-	-
Library	-	-	-	-	-
Capital outlay	-	-	1,150,997	-	-
	<u>1,916,885</u>	<u>67,952</u>	<u>1,334,473</u>	<u>139,278</u>	<u>1,652</u>
Total expenditures					
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>884,245</u>	<u>12,975</u>	<u>1,311,132</u>	<u>78,343</u>	<u>285,267</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	37,290	-	8,128	-
Transfers out	(101,097)	-	(10,300)	(100,227)	(681,204)
	<u>(101,097)</u>	<u>37,290</u>	<u>(10,300)</u>	<u>(92,099)</u>	<u>(681,204)</u>
Total other financing sources (uses)					
NET CHANGE IN FUND BALANCES	783,148	50,265	1,300,832	(13,756)	(395,937)
BEGINNING FUND BALANCES (DEFICITS)	<u>3,455,303</u>	<u>141,654</u>	<u>5,653,312</u>	<u>47,453</u>	<u>550,431</u>
ENDING FUND BALANCES (DEFICITS)	<u>\$ 4,238,451</u>	<u>\$ 191,919</u>	<u>\$ 6,954,144</u>	<u>\$ 33,697</u>	<u>\$ 154,494</u>

(Continued)

SPECIAL REVENUE FUNDS

Gas Tax	Parking Adjustments	Housing Grants	Park Dedication	Public Safety Training and Services	Asset Seizure	Public Education and Government Access
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
915,930	-	-	-	-	-	147,960
-	-	267,715	-	-	2,454	-
15,050	339	199,527	385	-	-	30
-	-	365,584	-	-	-	-
-	20,076	-	-	-	-	-
-	18,174	-	-	27,265	-	-
-	-	81,983	-	-	-	-
<u>930,980</u>	<u>38,589</u>	<u>914,809</u>	<u>385</u>	<u>27,265</u>	<u>2,454</u>	<u>147,990</u>
-	-	20,060	629	-	-	148,333
-	-	-	-	19,367	-	-
197	-	-	-	-	-	-
-	-	306,187	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>197</u>	<u>10</u>	<u>326,247</u>	<u>629</u>	<u>19,367</u>	<u>-</u>	<u>148,333</u>
<u>930,783</u>	<u>38,579</u>	<u>588,562</u>	<u>(244)</u>	<u>7,898</u>	<u>2,454</u>	<u>(343)</u>
-	-	-	-	-	-	-
<u>(396,300)</u>	<u>(38,112)</u>	<u>-</u>	<u>(62,389)</u>	<u>(8,128)</u>	<u>-</u>	<u>-</u>
<u>(396,300)</u>	<u>(38,112)</u>	<u>-</u>	<u>(62,389)</u>	<u>(8,128)</u>	<u>-</u>	<u>-</u>
534,483	467	588,562	(62,633)	(230)	2,454	(343)
<u>1,054,087</u>	<u>4,344</u>	<u>5,280,213</u>	<u>62,389</u>	<u>103,895</u>	<u>19,034</u>	<u>7,854</u>
<u>\$ 1,588,570</u>	<u>\$ 4,811</u>	<u>\$ 5,868,775</u>	<u>\$ (244)</u>	<u>\$ 103,665</u>	<u>\$ 21,488</u>	<u>\$ 7,511</u>

(Continued)

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

SPECIAL REVENUE FUNDS

	Senior Center Programs	Tidelands	Library	Museum
REVENUES				
Property tax	\$ -	\$ -	\$ -	\$ -
Transient occupancy tax	-	-	-	-
Other taxes	-	-	-	-
Intergovernmental	-	-	5,300	-
Investment income	2,892	74,853	9,259	1,675
Rental income	-	505,427	-	-
Licenses and permits	-	-	-	-
Charges for services	-	-	10,582	5,886
Other	-	-	197,675	7,610
Total revenues	2,892	580,280	222,816	15,171
EXPENDITURES				
Current:				
General government	-	18,595	-	336
Fire	-	-	-	-
Public works	-	-	-	-
Community development	-	-	-	-
Recreation and community service	24,963	-	-	-
Library	-	-	198,598	2,738
Capital outlay	-	-	-	-
Total expenditures	24,963	18,595	198,598	3,074
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(22,071)	561,685	24,218	12,097
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	(1,815)
Total other financing sources (uses)	-	-	-	(1,815)
NET CHANGE IN FUND BALANCES	(22,071)	561,685	24,218	10,282
BEGINNING FUND BALANCES (DEFICITS)	239,907	6,349,951	743,186	132,634
ENDING FUND BALANCES (DEFICITS)	\$ 217,836	\$ 6,911,636	\$ 767,404	\$ 142,916

(Continued)

<u>SPECIAL REVENUE FUNDS</u>	<u>PERMANENT FUND</u>	
<u>Special Deposits</u>	<u>Scholze Park</u>	<u>TOTAL</u>
\$ -	\$ -	\$ 78,808
-	-	2,645,605
-	-	1,063,890
-	-	492,889
-	30,509	379,099
-	-	871,011
-	-	306,995
30,348	-	2,848,875
<u>160,325</u>	<u>-</u>	<u>449,843</u>
<u>190,673</u>	<u>30,509</u>	<u>9,137,015</u>
202,027	7,776	589,412
-	-	19,367
-	-	2,117,784
-	-	306,187
-	-	24,963
-	-	201,336
<u>-</u>	<u>-</u>	<u>1,150,997</u>
<u>202,027</u>	<u>7,776</u>	<u>4,410,056</u>
<u>(11,354)</u>	<u>22,733</u>	<u>4,726,959</u>
1,815	-	47,233
<u>(2,816)</u>	<u>(44,000)</u>	<u>(1,446,388)</u>
<u>(1,001)</u>	<u>(44,000)</u>	<u>(1,399,155)</u>
(12,355)	(21,267)	3,327,804
<u>171,222</u>	<u>2,520,819</u>	<u>26,537,688</u>
<u>\$ 158,867</u>	<u>\$ 2,499,552</u>	<u>\$ 29,865,492</u>

(Concluded)

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

	Sewer/Storm Water System Improvements			Landscape Maintenance		
	Budget	Actual	Variance- Over (Under)	Budget	Actual	Variance- Over (Under)
REVENUES						
Property tax	\$ -	\$ -	\$ -	\$ 78,630	\$ 78,808	\$ 178
Transient occupancy tax	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Investment income	43,224	42,260	(964)	2,119	2,119	-
Rental income	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Charges for services	2,483,100	2,756,620	273,520	-	-	-
Other	-	2,250	2,250	-	-	-
Total revenues	2,526,324	2,801,130	274,806	80,749	80,927	178
EXPENDITURES						
Current:						
General government	-	8,180	8,180	-	-	-
Fire	-	-	-	-	-	-
Public works	2,276,711	1,908,705	(368,006)	146,580	67,952	(78,628)
Community development	-	-	-	-	-	-
Recreation and community service	-	-	-	-	-	-
Library	-	-	-	-	-	-
Public facilities	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Total expenditures	2,276,711	1,916,885	(359,826)	146,580	67,952	(78,628)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	249,613	884,245	634,632	(65,831)	12,975	78,806
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	37,290	37,290
Transfers out	-	(101,097)	(101,097)	-	-	-
Total other financing sources (uses)	-	(101,097)	(101,097)	-	37,290	37,290
NET CHANGE IN FUND BALANCES	\$ 249,613	783,148	\$ 533,535	\$ (65,831)	50,265	\$ 116,096
BEGINNING FUND BALANCES		3,455,303			141,654	
ENDING FUND BALANCES		\$ 4,238,451			\$ 191,919	

(Continued)

Neighborhood Improvement			State/Federal Grants		
Budget	Actual	Variance-Over (Under)	Budget	Actual	Variance-Over (Under)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2,608,132	2,645,605	37,473	-	-	-
-	-	-	-	-	-
-	-	-	38,175	217,420	179,245
-	-	-	72	201	129
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>2,608,132</u>	<u>2,645,605</u>	<u>37,473</u>	<u>38,247</u>	<u>217,621</u>	<u>179,374</u>
299,177	183,476	(115,701)	-	-	-
-	-	-	-	-	-
-	-	-	481,029	139,278	(341,751)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>7,471,425</u>	<u>1,150,997</u>	<u>(6,320,428)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>7,770,602</u>	<u>1,334,473</u>	<u>(6,436,129)</u>	<u>481,029</u>	<u>139,278</u>	<u>(341,751)</u>
<u>(5,162,470)</u>	<u>1,311,132</u>	<u>6,473,602</u>	<u>(442,782)</u>	<u>78,343</u>	<u>521,125</u>
-	-	-	-	8,128	8,128
<u>-</u>	<u>(10,300)</u>	<u>(10,300)</u>	<u>-</u>	<u>(100,227)</u>	<u>(100,227)</u>
<u>-</u>	<u>(10,300)</u>	<u>(10,300)</u>	<u>-</u>	<u>(92,099)</u>	<u>(92,099)</u>
<u>\$ (5,162,470)</u>	<u>1,300,832</u>	<u>\$ 6,463,302</u>	<u>\$ (442,782)</u>	<u>(13,756)</u>	<u>\$ 429,026</u>
	<u>5,653,312</u>			<u>47,453</u>	
	<u>\$ 6,954,144</u>			<u>\$ 33,697</u>	

(Continued)

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

	Construction Truck Impact Fee			Gas Tax		
	Budget	Actual	Variance- Over (Under)	Budget	Actual	Variance- Over (Under)
REVENUES						
Property tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transient occupancy tax	-	-	-	-	-	-
Other taxes	-	-	-	793,692	915,930	122,238
Intergovernmental	-	-	-	-	-	-
Investment income	-	-	-	8,622	15,050	6,428
Rental income	-	-	-	-	-	-
Licenses and permits	-	286,919	286,919	-	-	-
Charges for services	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total revenues	-	286,919	286,919	802,314	930,980	128,666
EXPENDITURES						
Current:						
General government	-	-	-	-	-	-
Fire	-	-	-	-	-	-
Public works	-	1,652	1,652	-	197	197
Community development	-	-	-	-	-	-
Recreation and community service	-	-	-	-	-	-
Library	-	-	-	-	-	-
Public facilities	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Total expenditures	-	1,652	1,652	-	197	197
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	285,267	285,267	802,314	930,783	128,469
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	-	(681,204)	(681,204)	-	(396,300)	(396,300)
Total other financing sources (uses)	-	(681,204)	(681,204)	-	(396,300)	(396,300)
NET CHANGE IN FUND BALANCES	\$ -	(395,937)	\$ (395,937)	\$ 802,314	534,483	\$ (267,831)
BEGINNING FUND BALANCES		550,431			1,054,087	
ENDING FUND BALANCES		\$ 154,494			\$ 1,588,570	

(Continued)

Parking Adjustments			Housing Grants		
Budget	Actual	Variance- Over (Under)	Budget	Actual	Variance- Over (Under)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
325	339	14	252,291	267,715	15,424
-	-	-	63,901	199,527	135,626
19,610	20,076	466	358,000	365,584	7,584
20,946	18,174	(2,772)	-	-	-
-	-	-	-	-	-
-	-	-	812,822	81,983	(730,839)
<u>40,881</u>	<u>38,589</u>	<u>(2,292)</u>	<u>1,487,014</u>	<u>914,809</u>	<u>(572,205)</u>
-	-	-	-	20,060	20,060
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	1,546,360	306,187	(1,240,173)
-	-	-	-	-	-
-	10	10	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>10</u>	<u>10</u>	<u>1,546,360</u>	<u>326,247</u>	<u>(1,220,113)</u>
<u>40,881</u>	<u>38,579</u>	<u>(2,302)</u>	<u>(59,346)</u>	<u>588,562</u>	<u>647,908</u>
-	-	-	-	-	-
<u>-</u>	<u>(38,112)</u>	<u>(38,112)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>(38,112)</u>	<u>(38,112)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 40,881</u>	<u>467</u>	<u>\$ (40,414)</u>	<u>\$ (59,346)</u>	<u>588,562</u>	<u>\$ 647,908</u>
	<u>4,344</u>			<u>5,280,213</u>	
	<u>\$ 4,811</u>			<u>\$ 5,868,775</u>	

(Continued)

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

	Park Dedication			Public Safety Training and Services		
	Budget	Actual	Variance- Over (Under)	Budget	Actual	Variance- Over (Under)
REVENUES						
Property tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transient occupancy tax	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Investment income	319	385	66	-	-	-
Rental income	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Charges for services	-	-	-	168,000	27,265	(140,735)
Other	-	-	-	-	-	-
Total revenues	<u>319</u>	<u>385</u>	<u>66</u>	<u>168,000</u>	<u>27,265</u>	<u>(140,735)</u>
EXPENDITURES						
Current:						
General government	-	629	629	-	-	-
Fire	-	-	-	159,464	19,367	(140,097)
Public works	-	-	-	-	-	-
Community development	-	-	-	-	-	-
Recreation and community service	-	-	-	-	-	-
Library	-	-	-	-	-	-
Public facilities	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Total expenditures	<u>-</u>	<u>629</u>	<u>629</u>	<u>159,464</u>	<u>19,367</u>	<u>(140,097)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>319</u>	<u>(244)</u>	<u>(563)</u>	<u>8,536</u>	<u>7,898</u>	<u>(638)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	-	(62,389)	(62,389)	-	(8,128)	(8,128)
Total other financing sources (uses)	<u>-</u>	<u>(62,389)</u>	<u>(62,389)</u>	<u>-</u>	<u>(8,128)</u>	<u>(8,128)</u>
NET CHANGE IN FUND BALANCES	<u>\$ 319</u>	<u>(62,633)</u>	<u>\$ (62,952)</u>	<u>\$ 8,536</u>	<u>(230)</u>	<u>\$ (8,766)</u>
BEGINNING FUND BALANCES		<u>62,389</u>			<u>103,895</u>	
ENDING FUND BALANCES		<u>\$ (244)</u>			<u>\$ 103,665</u>	

(Continued)

Asset Seizure			Public Education and Government Access		
Budget	Actual	Variance-Over (Under)	Budget	Actual	Variance-Over (Under)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	140,000	147,960	7,960
5,000	2,454	(2,546)	-	-	-
-	-	-	92	30	(62)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>5,000</u>	<u>2,454</u>	<u>(2,546)</u>	<u>140,092</u>	<u>147,990</u>	<u>7,898</u>
-	-	-	140,092	148,333	8,241
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>140,092</u>	<u>148,333</u>	<u>8,241</u>
<u>5,000</u>	<u>2,454</u>	<u>(2,546)</u>	<u>-</u>	<u>(343)</u>	<u>(343)</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 5,000</u>	<u>2,454</u>	<u>\$ (2,546)</u>	<u>\$ -</u>	<u>(343)</u>	<u>\$ (343)</u>
	<u>19,034</u>			<u>7,854</u>	
	<u>\$ 21,488</u>			<u>\$ 7,511</u>	

(Continued)

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

	Senior Center Programs			Tidelands		
	Budget	Actual	Variance- Over (Under)	Budget	Actual	Variance- Over (Under)
REVENUES						
Property tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transient occupancy tax	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Investment income	3,625	2,892	(733)	86,337	74,853	(11,484)
Rental income	-	-	-	448,000	505,427	57,427
Licenses and permits	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total revenues	3,625	2,892	(733)	534,337	580,280	45,943
EXPENDITURES						
Current:						
General government	-	-	-	-	18,595	18,595
Fire	-	-	-	-	-	-
Public works	-	-	-	-	-	-
Community development	-	-	-	-	-	-
Recreation and community service	25,000	24,963	(37)	-	-	-
Library	-	-	-	-	-	-
Public facilities	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
	25,000	24,963	(37)	-	18,595	18,595
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(21,375)	(22,071)	(696)	534,337	561,685	27,348
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
	-	-	-	-	-	-
NET CHANGE IN FUND BALANCES	\$ (21,375)	(22,071)	\$ (696)	\$ 534,337	561,685	\$ 27,348
BEGINNING FUND BALANCES		239,907			6,349,951	
ENDING FUND BALANCES		\$ 217,836			\$ 6,911,636	

(Continued)

Library			Museum		
Budget	Actual	Variance- Over (Under)	Budget	Actual	Variance- Over (Under)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
7,800	5,300	(2,500)	-	-	-
10,757	9,259	(1,498)	1,817	1,675	(142)
-	-	-	-	-	-
-	-	-	-	-	-
11,000	10,582	(418)	4,000	5,886	1,886
30,000	197,675	167,675	2,000	7,610	5,610
<u>59,557</u>	<u>222,816</u>	<u>163,259</u>	<u>7,817</u>	<u>15,171</u>	<u>7,354</u>
-	-	-	-	336	336
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
213,732	198,598	(15,134)	6,450	2,738	(3,712)
-	-	-	-	-	-
-	-	-	-	-	-
<u>213,732</u>	<u>198,598</u>	<u>(15,134)</u>	<u>6,450</u>	<u>3,074</u>	<u>(3,376)</u>
<u>(154,175)</u>	<u>24,218</u>	<u>178,393</u>	<u>1,367</u>	<u>12,097</u>	<u>10,730</u>
-	-	-	-	-	-
-	-	-	-	(1,815)	(1,815)
-	-	-	-	(1,815)	(1,815)
<u>\$ (154,175)</u>	<u>24,218</u>	<u>\$ 178,393</u>	<u>\$ 1,367</u>	<u>10,282</u>	<u>\$ 8,915</u>
	<u>743,186</u>			<u>132,634</u>	
	<u>\$ 767,404</u>			<u>\$ 142,916</u>	

(Continued)

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

	Special Deposits			Scholze Park		
	Budget	Actual	Variance- Over (Under)	Budget	Actual	Variance- Over (Under)
REVENUES						
Property tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transient occupancy tax	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Investment income	-	-	-	35,955	30,509	(5,446)
Rental income	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Charges for services	-	30,348	30,348	-	-	-
Other	-	160,325	160,325	-	-	-
Total revenues	-	190,673	190,673	35,955	30,509	(5,446)
EXPENDITURES						
Current:						
General government	-	202,027	202,027	-	7,776	7,776
Fire	-	-	-	-	-	-
Public works	-	-	-	-	-	-
Community development	-	-	-	-	-	-
Recreation and community service	-	-	-	-	-	-
Library	-	-	-	-	-	-
Public facilities	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Total expenditures	-	202,027	202,027	-	7,776	7,776
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(11,354)	(11,354)	35,955	22,733	(13,222)
OTHER FINANCING SOURCES (USES)						
Transfers in	-	1,815	1,815	-	-	-
Transfers out	-	(2,816)	(2,816)	-	(44,000)	(44,000)
Total other financing sources (uses)	-	(1,001)	(1,001)	-	(44,000)	(44,000)
NET CHANGE IN FUND BALANCES	\$ -	(12,355)	\$ (12,355)	\$ 35,955	(21,267)	\$ (57,222)
BEGINNING FUND BALANCES		171,222			2,520,819	
ENDING FUND BALANCES		\$ 158,867			\$ 2,499,552	

(Continued)

TOTALS		
Budget	Actual	Variance- Over (Under)
\$ 78,630	\$ 78,808	\$ 178
2,608,132	2,645,605	37,473
933,692	1,063,890	130,198
303,266	492,889	189,623
257,165	379,099	121,934
806,000	871,011	65,011
19,610	306,995	287,385
2,687,046	2,848,875	161,829
<u>844,822</u>	<u>449,843</u>	<u>(394,979)</u>
<u>8,538,363</u>	<u>9,137,015</u>	<u>598,652</u>
439,269	589,412	150,143
159,464	19,367	(140,097)
2,904,320	2,117,784	(786,536)
1,546,360	306,187	(1,240,173)
25,000	24,963	(37)
220,182	201,336	(18,846)
-	10	10
<u>7,471,425</u>	<u>1,150,997</u>	<u>(6,320,428)</u>
<u>12,766,020</u>	<u>4,410,056</u>	<u>(8,355,964)</u>
<u>(4,227,657)</u>	<u>4,726,959</u>	<u>8,954,616</u>
-	47,233	47,233
<u>-</u>	<u>(1,446,388)</u>	<u>(1,446,388)</u>
<u>-</u>	<u>(1,399,155)</u>	<u>(1,399,155)</u>
<u>\$ (4,227,657)</u>	<u>3,327,804</u>	<u>\$ 7,555,461</u>
	<u>26,537,688</u>	
	<u>\$ 29,865,492</u>	

(Concluded)





NON-MAJOR ENTERPRISE FUNDS

Cemetery Fund – All cemetery related revenues and expenditures are accounted for in this fund.

Materials Recovery Fund – In fiscal year 1994-95, this fund was established to account for the revenues and leases payments for the Materials Recovery Facility.

Navy Services Fund – This fund was established to account for costs and revenues pertaining to the Navy Services contract.

Institutional Network Fund – This fund was established to account for costs and revenues pertaining to the Institutional Network Agreement contracted with AT&T, in operating a communication network for educational institutions, City buildings and agencies, and other entities.

CITY OF MONTEREY
NON-MAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2012

	Cemetery	Materials Recovery	Navy Services	Institutional Network	Total
ASSETS					
Current assets:					
Cash and investments available for operations	\$ 56,725	\$ 148,973	\$ 69,720	\$ 502,223	\$ 777,641
Accounts receivable	5,383	-	58,622	-	64,005
Interest receivable	265	40,981	-	2,351	43,597
Total current assets:	<u>62,373</u>	<u>189,954</u>	<u>128,342</u>	<u>504,574</u>	<u>885,243</u>
Noncurrent assets:					
Restricted cash held by fiscal agent	-	411,276	-	-	411,276
Issuance costs (net of accumulated amortization)	-	7,340	-	-	7,340
Capital assets:					
Buildings and improvements	1,099,845	3,503,274	-	-	4,603,119
Equipment	8,800	-	-	-	8,800
Accumulated depreciation	(424,469)	(1,499,623)	-	-	(1,924,092)
Total capital assets, net of accumulated depreciation	<u>684,176</u>	<u>2,003,651</u>	<u>-</u>	<u>-</u>	<u>2,687,827</u>
Total noncurrent assets	<u>684,176</u>	<u>2,422,267</u>	<u>-</u>	<u>-</u>	<u>3,106,443</u>
Total assets	<u>746,549</u>	<u>2,612,221</u>	<u>128,342</u>	<u>504,574</u>	<u>3,991,686</u>
LIABILITIES					
Current liabilities:					
Accounts payable and accrued liabilities	5,733	42	19,479	-	25,254
Accrued interest	-	80,616	-	-	80,616
Compensated absences-due within one year	3,300	-	-	-	3,300
Debt payable- due within one year	-	265,000	-	-	265,000
Total current liabilities	<u>9,033</u>	<u>345,658</u>	<u>19,479</u>	<u>-</u>	<u>374,170</u>
Noncurrent liabilities:					
Advances from other funds	879,383	-	-	-	879,383
Other post employment benefits	9,276	-	-	-	9,276
Compensated absences	7,757	-	-	-	7,757
Debt payable- due in more than one year	-	1,705,000	-	-	1,705,000
Total noncurrent liabilities	<u>896,416</u>	<u>1,705,000</u>	<u>-</u>	<u>-</u>	<u>2,601,416</u>
Total liabilities	<u>905,449</u>	<u>2,050,658</u>	<u>19,479</u>	<u>-</u>	<u>2,975,586</u>
NET ASSETS					
Invested in capital assets, net of related debt	684,176	33,651	-	-	717,827
Restricted for debt service	-	411,276	-	-	411,276
Unrestricted	(843,076)	116,636	108,863	504,574	(113,003)
Total net assets	<u>\$ (158,900)</u>	<u>\$ 561,563</u>	<u>\$ 108,863</u>	<u>\$ 504,574</u>	<u>\$ 1,016,100</u>

CITY OF MONTEREY
NON-MAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Cemetery	Materials Recovery	Navy Services	Institutional Network	Total
OPERATING REVENUES					
Charges for services	\$ 322,825	\$ -	\$ 245,164	\$ -	\$ 567,989
Lease revenue	-	369,419	-	-	369,419
Total operating revenues	<u>322,825</u>	<u>369,419</u>	<u>245,164</u>	<u>-</u>	<u>937,408</u>
OPERATING EXPENSES					
Salaries and benefits	188,360	-	-	-	188,360
Services and supplies	59,093	2,356	279,416	-	340,865
Depreciation and amortization	27,465	96,062	-	-	123,527
Total operating expenses	<u>274,918</u>	<u>98,418</u>	<u>279,416</u>	<u>-</u>	<u>652,752</u>
Operating income (loss)	<u>47,907</u>	<u>271,001</u>	<u>(34,252)</u>	<u>-</u>	<u>284,656</u>
NONOPERATING REVENUES (EXPENSES)					
Investment income	580	21,659	(43)	6,210	28,406
Interest and fiscal charges	-	(123,235)	(1,166)	(1,479)	(125,880)
Total nonoperating revenues (expenses)	<u>580</u>	<u>(101,576)</u>	<u>(1,209)</u>	<u>4,731</u>	<u>(97,474)</u>
Income (loss)	<u>48,487</u>	<u>169,425</u>	<u>(35,461)</u>	<u>4,731</u>	<u>187,182</u>
BEGINNING NET ASSETS	<u>(207,387)</u>	<u>392,138</u>	<u>144,324</u>	<u>499,843</u>	<u>828,918</u>
ENDING NET ASSETS	<u>\$ (158,900)</u>	<u>\$ 561,563</u>	<u>\$ 108,863</u>	<u>\$ 504,574</u>	<u>\$ 1,016,100</u>

CITY OF MONTEREY
NON-MAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Cemetery	Materials Recovery	Navy Services	Institutional Network	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 323,424	\$ 369,419	\$ 242,886	\$ -	\$ 935,729
Payments to suppliers	(65,111)	(2,684)	(273,675)	-	(341,470)
Payments to employees	(201,903)	-	-	-	(201,903)
Cash flows from operating activities	<u>56,410</u>	<u>366,735</u>	<u>(30,789)</u>	<u>-</u>	<u>392,356</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Interfund receipts	-	-	-	-	-
Transfer in	-	-	-	-	-
Cash flows from noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:					
Debt principal repayment	-	(240,000)	-	-	(240,000)
Interest paid	-	(133,055)	(1,166)	(1,479)	(135,700)
Cash flows from capital financing activities	<u>-</u>	<u>(373,055)</u>	<u>(1,166)</u>	<u>(1,479)</u>	<u>(375,700)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest received	315	26,690	(43)	7,032	33,994
Cash flows from investing activities	<u>315</u>	<u>26,690</u>	<u>(43)</u>	<u>7,032</u>	<u>33,994</u>
Net Cash Flows	56,725	20,370	(31,998)	5,553	50,650
Cash and investments at beginning of period	-	539,879	101,718	496,670	1,138,267
Cash and investments at end of period	<u>\$ 56,725</u>	<u>\$ 560,249</u>	<u>\$ 69,720</u>	<u>\$ 502,223</u>	<u>\$ 1,188,917</u>
Reconciliation of operating income (loss) to net cash flows from operating activities:					
Operating income (loss)	\$ 47,907	\$ 271,001	\$ (34,252)	\$ -	\$ 284,656
Adjustments to reconcile operating income to net cash flows from operating activities:					
Depreciation and amortization	27,465	96,062	-	-	123,527
Other post employment benefits liability	1,200	-	-	-	1,200
Compensated absence liability	(14,743)	-	-	-	(14,743)
Change in assets and liabilities:					
Accounts receivable, net	599	-	(2,278)	-	(1,679)
Accounts payable and other accrued expenses	(6,018)	(328)	5,741	-	(605)
Cash flows from operating activities	<u>\$ 56,410</u>	<u>\$ 366,735</u>	<u>\$ (30,789)</u>	<u>\$ -</u>	<u>\$ 392,356</u>



INTERNAL SERVICE FUNDS

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

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

However, internal service funds are still presented separately in the Fund financial statements, including the funds below.

Equipment Replacement Fund – This fund serves to centrally account for the new or replacement costs for all vehicle apparatus, and heavy equipment assets. The cost of this service is charged back to the operating departments.

Vehicle Maintenance Fund – This fund serves to centrally account for the costs of maintenance operations for all vehicle apparatus, and heavy equipment assets. The cost of this service is charged back to the operating departments.

Information Services Fund – This fund centralizes data processing and other information services costs. The user departments are assessed a charge for these services and to accumulate funds for equipment replacement and enhancements as needed.

Risk Management Fund – This fund captures the costs and revenues for our insurance programs, including liability and benefits. The operating departments are charged the cost of insurance as well as for the accumulation of requisite reserve funds.

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

	<u>Equipment Replacement</u>	<u>Vehicle Maintenance</u>	<u>Information Services</u>	<u>Risk Management</u>	<u>Total</u>
ASSETS					
Current assets:					
Cash and investments available for operations	\$ 1,165,614	\$ -	\$ 1,828,597	\$ 10,958,771	\$ 13,952,982
Cash held by fiscal agent	-	-	-	1,173,922	1,173,922
Accounts receivable	4,964	24,587	133,350	33,853	196,754
Interest receivable	5,189	-	-	-	5,189
Total current assets:	<u>1,175,767</u>	<u>24,587</u>	<u>1,961,947</u>	<u>12,166,546</u>	<u>15,328,847</u>
Noncurrent assets:					
Advances to other funds	1,285,249				1,285,249
Capital assets:					
Buildings and improvements	-	-	64,366	-	64,366
Equipment	10,849,237	51,120	2,885,321	-	13,785,678
Infrastructure	-	-	61,911	-	61,911
Accumulated depreciation	(8,133,563)	(7,730)	(2,186,236)	-	(10,327,529)
Total capital assets, net of accumulated depreciation	<u>2,715,674</u>	<u>43,390</u>	<u>825,362</u>	<u>-</u>	<u>3,584,426</u>
Total noncurrent assets	<u>4,000,923</u>	<u>43,390</u>	<u>825,362</u>	<u>-</u>	<u>4,869,675</u>
Total assets	<u>5,176,690</u>	<u>67,977</u>	<u>2,787,309</u>	<u>12,166,546</u>	<u>20,198,522</u>
LIABILITIES					
Current liabilities:					
Accounts payable and accrued liabilities	179	66,883	138,690	189,865	395,617
Accrued claims payable	-	-	-	10,653,688	10,653,688
Due to other funds	-	357,824	-	-	357,824
Compensated absences-due within one year	-	-	2,775	5,544	8,319
Total current liabilities:	<u>179</u>	<u>424,707</u>	<u>141,465</u>	<u>10,849,097</u>	<u>11,415,448</u>
Noncurrent liabilities:					
Other post employment benefits	-	27,548	31,484	10,935	69,967
Compensated absences payable	-	26,078	65,189	37,617	128,884
Total liabilities	<u>179</u>	<u>478,333</u>	<u>238,138</u>	<u>10,897,649</u>	<u>11,614,299</u>
NET ASSETS					
Invested in capital assets, net of related debt	2,715,674	43,390	825,362	-	3,584,426
Unrestricted	2,460,837	(453,746)	1,723,809	1,268,897	4,999,797
Total net assets	<u>\$ 5,176,511</u>	<u>\$ (410,356)</u>	<u>\$ 2,549,171</u>	<u>\$ 1,268,897</u>	<u>\$ 8,584,223</u>

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

	<u>Equipment Replacement</u>	<u>Vehicle Maintenance</u>	<u>Information Services</u>	<u>Risk Management</u>	<u>Total</u>
OPERATING REVENUES					
Charges for services	\$ 684,975	\$ 1,772,859	\$ 2,728,442	\$ 10,114,234	\$ 15,300,510
Other revenue	88,608	13,015	-	-	101,623
Total operating revenues	<u>773,583</u>	<u>1,785,874</u>	<u>2,728,442</u>	<u>10,114,234</u>	<u>15,402,133</u>
OPERATING EXPENSES					
Salaries and benefits	-	712,696	1,001,699	411,944	2,126,339
Services and supplies	24,947	1,113,666	1,054,596	3,568,707	5,761,916
Claims and insurance	-	-	-	5,950,746	5,950,746
Depreciation	659,366	1,546	182,087	-	842,999
Total operating expenses	<u>684,313</u>	<u>1,827,908</u>	<u>2,238,382</u>	<u>9,931,397</u>	<u>14,682,000</u>
Operating income (loss)	<u>89,270</u>	<u>(42,034)</u>	<u>490,060</u>	<u>182,837</u>	<u>720,133</u>
NONOPERATING REVENUES (EXPENSES)					
Investment income	21,881	-	-	-	21,881
Interest and fiscal charges	(6,948)	-	-	-	(6,948)
Total nonoperating revenues (expenses)	<u>14,933</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,933</u>
Income (loss) before transfers	<u>104,203</u>	<u>(42,034)</u>	<u>490,060</u>	<u>182,837</u>	<u>735,066</u>
Transfers in	62,400	-	-	451,300	513,700
Transfers out	-	-	(26,149)	-	(26,149)
Net transfers	<u>62,400</u>	<u>-</u>	<u>(26,149)</u>	<u>451,300</u>	<u>487,551</u>
Change in net assets	166,603	(42,034)	463,911	634,137	1,222,617
BEGINNING NET ASSETS	<u>5,009,908</u>	<u>(368,322)</u>	<u>2,085,260</u>	<u>634,760</u>	<u>7,361,606</u>
ENDING NET ASSETS	<u>\$ 5,176,511</u>	<u>\$ (410,356)</u>	<u>\$ 2,549,171</u>	<u>\$ 1,268,897</u>	<u>\$ 8,584,223</u>

CITY OF MONTEREY
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Equipment Replacement	Vehicle Maintenance	Information Services	Risk Management	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 774,276	\$ 1,782,203	\$ 2,726,154	\$ 10,092,921	\$ 15,375,554
Payments to suppliers	(35,423)	(1,101,544)	(1,002,511)	(3,504,446)	(5,643,924)
Payments to employees	-	(708,778)	(1,007,788)	(403,060)	(2,119,626)
Claims and insurance paid	-	-	-	(5,950,496)	(5,950,496)
Cash flows from operating activities	<u>738,853</u>	<u>(28,119)</u>	<u>715,855</u>	<u>234,919</u>	<u>1,661,508</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Interfund receipts	(998,564)	28,119	-	-	(970,445)
Transfers in	62,400	-	-	451,300	513,700
Cash flows from noncapital financing activities	<u>(936,164)</u>	<u>28,119</u>	<u>(26,149)</u>	<u>451,300</u>	<u>(482,894)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	(115,922)	-	(102,485)	-	(218,407)
Interest paid	(6,948)	-	-	-	(6,948)
Cash flows from capital and related financing activities	<u>(122,870)</u>	<u>-</u>	<u>(102,485)</u>	<u>-</u>	<u>(225,355)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	26,021	-	-	-	26,021
Purchase of investment securities	-	-	-	(227,148)	(227,148)
Cash flows from investing activities	<u>26,021</u>	<u>-</u>	<u>-</u>	<u>(227,148)</u>	<u>(201,127)</u>
Net cash flows	(294,160)	-	587,221	459,071	752,132
Cash and investments at beginning of period	<u>1,459,774</u>	<u>-</u>	<u>1,241,376</u>	<u>10,499,700</u>	<u>13,200,850</u>
Cash and investments at end of period	<u>\$ 1,165,614</u>	<u>\$ -</u>	<u>\$ 1,828,597</u>	<u>\$ 10,958,771</u>	<u>\$ 13,952,982</u>
Reconciliation of operating income (loss) to net cash flows from operating activities:					
Operating income (loss)	\$ 89,270	\$ (42,034)	\$ 490,060	\$ 182,837	\$ 720,133
Adjustments to reconcile operating income to net cash flows from operating activities:					
Depreciation	659,366	1,546	182,087	-	842,999
Other post employment benefits	-	7,851	8,973	3,197	20,021
Compensated absence liability	-	(3,933)	(15,062)	5,687	(13,308)
Change in assets and liabilities:					
Accounts receivables, net	693	(3,671)	(2,288)	(21,313)	(26,579)
Accounts payable and other accrued expenses	(10,476)	12,122	52,085	64,261	117,992
Accrued claims payable	-	-	-	250	250
Cash flows from operating activities	<u>\$ 738,853</u>	<u>\$ (28,119)</u>	<u>\$ 715,855</u>	<u>\$ 234,919</u>	<u>\$ 1,661,508</u>



FIDUCIARY FUND

The City maintains two fiduciary funds: an agency fund and a private purpose trust fund. These funds are presented separately from the Entity-wide and Fund financial statements.

An agency fund accounts for assets held by the City as agent for individuals, governmental entities, and non-public organizations. A summary description of the City's fund is as follows:

Assessment Districts Fund – This fund was established to account for funds when the City is acting as an agent. It consists of the following various assessment districts located within the City; Ocean View Plaza Community Services District, Del Monte Beach, New Monterey Business Improvement, Downtown Promotion and the Wharf Promotion.

A private purpose trust fund is used to report all trust arrangements, other than those properly reported in pension trust funds or investment trust funds, under which principal and income benefit individuals, private organizations or other governments. A summary description of the City's fund is as follows:

Redevelopment Obligation Retirement fund – This fund was established to account for assets held by the Redevelopment Successor Agency pending distribution to the appropriate taxing entities after the payment of enforceable obligations that were in effect as of the signing of Assembly Bill X1 26.

CITY OF MONTEREY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUND
JUNE 30, 2012

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Cash and investments	\$ 164,864
Net assets received upon dissolution of redevelopment agency (see Note 14)	<u>4,751,575</u>
Total additions	<u>4,916,439</u>
 DEDUCTIONS	
General and administrative	93,499
Project Costs	<u>80,422</u>
Total deductions	<u>173,921</u>
 CHANGE IN NET ASSETS	
Net assets - beginning	-
Net assets - ending	<u><u>\$ 4,742,518</u></u>

CITY OF MONTEREY
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
JUNE 30, 2012

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012
ASSETS				
Cash and investments	\$ 47,898	\$ 45,470	\$ -	\$ 93,368
Accounts receivable	<u>144,011</u>	<u>159,669</u>	<u>-</u>	<u>303,680</u>
Total assets	<u><u>\$ 191,909</u></u>	<u><u>\$ 205,139</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 397,048</u></u>
 LIABILITIES				
Special assessments	<u>\$ 191,909</u>	<u>\$ 205,139</u>	<u>\$ -</u>	<u>\$ 397,048</u>
Total liabilities	<u><u>\$ 191,909</u></u>	<u><u>\$ 205,139</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 397,048</u></u>

Statistical Section

(Not Covered by Auditor's Report)

STATISTICAL SECTION OVERVIEW

This part of the City's comprehensive annual financial report is not covered by the Independent Auditor's Report, but presents supplemental detailed information for the benefit of readers in understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Financial Trends (pages 99-102)

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

Revenue Capacity (pages 103-108)

These schedules contain information to help the reader assess the City's most significant local revenue sources, transient occupancy tax ("TOT") and property taxes.

Debt Capacity (pages 109-112)

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

Demographic and Economic Information (pages 113-114)

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

Operating Information (pages 115-117)

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

NET ASSETS BY COMPONENT
LAST NINE FISCAL YEARS
(accrual basis of accounting)

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities									
Invested in capital assets, net of related debt	\$ 64,501,666	\$ 70,009,434	\$ 72,531,108	\$ 118,927,030	\$ 121,625,816	\$ 124,462,307	\$ 122,902,447	\$ 123,156,792	\$ 120,401,873
Restricted	25,930,689	26,572,854	28,151,012	32,691,952	32,088,899	31,152,448	35,581,294	37,216,422	33,409,687
Unrestricted	28,884,899	28,340,493	28,168,772	25,278,714	42,676,222	41,506,306	38,282,898	36,206,132	41,130,596
Total governmental activities net assets	\$ 119,317,254	\$ 124,922,781	\$ 128,850,892	\$ 176,897,696	\$ 196,390,937	\$ 197,121,061	\$ 196,766,639	\$ 196,579,346	\$ 194,942,156
Business-type activities									
Invested in capital assets, net of related debt	\$ 9,984,284	\$ 11,353,857	\$ 12,295,576	\$ 13,527,445	\$ 14,415,213	\$ 15,096,311	\$ 16,065,850	\$ 18,360,622	\$ 18,280,879
Restricted	1,777,123	1,756,272	1,756,942	1,758,193	1,758,383	1,696,136	1,697,423	414,540	411,276
Unrestricted	10,661,578	11,904,186	11,811,362	13,306,459	(7,272,774)	(7,440,032)	(8,406,205)	(8,112,222)	(7,072,928)
Total business-type activities net assets	\$ 22,422,985	\$ 25,014,315	\$ 25,863,880	\$ 28,592,097	\$ 8,900,822	\$ 9,352,415	\$ 9,357,068	\$ 10,662,940	\$ 11,619,227
Primary Government									
Invested in capital assets, net of related debt	\$ 74,485,950	\$ 81,363,291	\$ 84,826,684	\$ 132,454,475	\$ 136,041,029	\$ 139,558,618	\$ 138,968,297	\$ 141,517,414	\$ 138,682,752
Restricted	27,707,812	28,329,126	29,907,954	34,450,145	33,847,282	32,848,584	37,278,717	37,630,962	33,820,963
Unrestricted	39,546,477	40,244,679	39,980,134	38,585,173	35,403,448	34,066,274	29,876,693	28,093,910	34,057,668
Total primary Government	\$ 141,740,239	\$ 149,937,096	\$ 154,714,772	\$ 205,489,793	\$ 205,291,759	\$ 206,473,476	\$ 206,123,707	\$ 207,242,286	\$ 206,561,383

The City implemented GASB 34 for the fiscal year ended June 30, 2003. Additional years will be added until 10 years of information is available.

CITY OF MONTEREY

CHANGES IN NET ASSETS
LAST NINE FISCAL YEARS
(accrual basis of accounting)

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses									
Governmental activities:									
General government	\$ 6,257,134	\$ 6,626,798	\$ 6,749,172	\$ 5,851,972	\$ 7,023,171	\$ 8,500,337	\$ 6,785,765	\$ 7,674,774	\$ 8,727,041
Public safety	16,296,950	18,020,573	18,401,090	19,293,844	22,713,685	24,901,618	25,348,522	24,479,714	24,635,437
Public works	10,268,787	12,890,303	16,522,792	14,870,152	21,322,325	16,758,226	20,876,964	19,706,824	19,662,862
Community development	3,128,914	3,228,628	3,437,964	4,008,139	4,300,953	3,284,107	1,634,501	1,857,119	882,990
Recreation and community service	6,802,459	6,994,395	6,976,882	7,473,490	8,013,728	8,645,530	8,401,272	8,454,787	8,255,901
Library	2,391,949	2,499,250	2,735,681	3,133,434	3,381,103	3,789,795	3,515,397	3,251,530	3,203,459
Public Facilities	4,498,935	4,791,814	4,363,696	4,900,848	4,823,808	4,953,293	4,599,164	4,574,830	4,184,110
Nondepartmental	1,128	104,327	203,594	1,468,406	983,950	320,386	2,728,150	-	-
Interest and fiscal charges	1,025,393	788,297	795,513	581,390	554,904	525,497	498,238	471,315	403,001
Total governmental activities expenses	50,671,649	55,944,385	60,186,384	61,581,675	73,117,627	71,678,789	74,387,973	70,470,893	69,954,801
Business-type activities:									
Marina	2,397,517	1,747,354	1,879,337	1,941,560	1,902,078	1,963,252	1,887,048	2,047,929	2,299,601
Parking	4,374,740	4,539,377	4,659,077	5,573,490	6,588,354	6,596,107	6,491,294	6,836,439	7,299,420
Presidio of Monterey Public Works	4,687,035	5,493,320	11,887,182	8,122,515	11,202,661	11,370,245	10,630,416	13,712,889	13,022,559
Cemetery	319,977	309,373	319,620	338,155	325,867	378,326	358,412	374,530	274,918
Material Recovery	307,885	292,442	287,611	280,824	267,287	263,676	247,095	235,919	221,653
Navy Services	201,764	120,837	459,213	254,330	431,969	406,759	365,194	290,379	280,582
Institutional Network	130,602	-	1,476	-	-	-	-	920	1,479
Total business-type activities expenses	12,419,520	12,502,703	19,493,516	16,510,874	20,718,216	20,978,365	19,979,459	23,499,005	23,400,212
Total primary government expenses	63,091,169	68,447,088	79,679,900	78,092,549	93,835,843	92,657,154	94,367,432	93,969,898	93,355,013
Program revenues									
Governmental activities:									
Charges for services:									
General government	2,701,164	2,698,906	2,929,941	3,070,895	3,364,012	\$ 5,586,347	\$ 3,578,598	\$ 5,672,273	\$ 6,251,417
Public safety	1,356,760	1,389,081	1,487,458	1,406,079	1,232,714	2,917,245	3,953,104	3,772,349	4,430,705
Public works	2,655,453	2,855,366	2,790,258	3,444,687	5,038,075	3,310,527	4,417,728	4,550,785	5,038,460
Community development	1,021,827	941,168	1,010,875	1,322,291	505,402	518,332	1,245,340	(15,584)	94,181
Recreation & community service	3,916,013	4,087,390	4,248,633	4,558,930	4,529,054	5,036,042	5,252,517	5,130,533	5,132,533
Library	130,500	131,277	141,066	118,979	100,328	100,328	113,344	113,609	99,428
Public Facilities	2,188,580	2,380,342	2,154,204	2,130,850	1,918,940	1,628,338	1,622,883	1,328,531	1,531,115
Nondepartmental	1,463,142	1,706,941	2,567,250	2,733,821	1,786,322	320,386	2,447,644	-	-
Operating grants and contributions	837,438	1,099,951	2,590,085	1,985,858	1,822,964	2,092,033	1,304,197	947,647	1,054,621
Capital grants and contributions	2,917,293	1,684,218	127,303	890,640	1,707,277	1,046,005	1,280,919	1,661,932	1,351,930
Total governmental activities program revenues	19,188,170	18,974,640	20,047,073	21,663,030	22,006,950	22,555,583	25,216,274	23,162,075	24,984,390
Business-type activities:									
Charges for services:									
Marina	2,076,275	2,036,127	2,071,047	2,153,152	2,123,947	2,325,725	2,483,526	2,586,778	2,644,373
Parking	5,743,742	6,046,909	5,942,510	6,573,961	6,360,747	6,610,603	7,205,132	7,293,620	7,879,181
Presidio of Monterey Public Works	4,809,496	5,965,791	11,020,401	9,458,892	11,733,919	11,670,716	9,612,860	14,037,989	13,087,837
Cemetery	196,234	243,706	210,191	245,459	181,511	285,375	291,432	228,593	322,825
Material Recovery	307,532	315,115	320,320	331,464	343,171	345,325	351,665	360,298	369,419
Navy Services	229,402	175,867	325,675	244,103	442,361	355,639	424,369	311,136	245,164
Institutional Network	141,855	-	-	-	-	-	-	-	-
Total business-type activities program revenues	13,504,536	14,783,515	19,890,144	19,007,031	21,185,656	21,593,383	20,368,984	24,818,414	24,548,799
Total primary government program revenues	32,692,706	33,758,155	39,937,217	40,670,061	43,192,606	44,148,966	45,585,258	47,980,489	49,533,189
Net revenues (expenses):									
Governmental activities	(31,483,479)	(36,969,745)	(40,139,311)	(39,918,645)	(51,110,677)	(49,123,206)	(49,171,699)	(47,308,818)	(44,970,411)
Business-type activities	1,085,016	2,280,812	396,628	2,496,157	467,440	615,018	389,525	1,319,409	1,148,587
Total net revenues (expenses)	(30,398,463)	(34,688,933)	(39,742,683)	(37,422,488)	(50,643,237)	(48,508,188)	(48,782,174)	(45,989,409)	(43,821,824)
General revenues and other changes in net assets:									
Governmental activities:									
Taxes:									
Property taxes	9,364,163	9,985,536	10,591,813	10,573,107	11,472,173	12,262,633	12,440,413	12,247,862	10,286,705
Sales tax	6,297,243	6,891,464	6,999,447	7,169,050	7,434,164	6,998,648	6,362,466	7,050,150	7,211,793
Transient occupancy taxes	12,839,824	13,627,997	14,191,800	15,171,974	15,870,646	14,796,323	14,702,871	14,655,418	16,536,943
Other taxes	4,885,895	4,785,478	5,096,139	5,306,738	5,549,907	5,312,979	5,240,940	5,635,273	5,912,623
Motor vehicle in lieu, unrestricted	1,385,698	1,809,332	2,155,338	2,216,346	2,327,149	2,401,820	2,394,765	2,391,256	2,234,587
Investment income	3,820,532	4,596,553	4,623,279	5,939,220	3,204,507	5,456,661	5,032,549	4,647,197	5,271,786
Other general revenues	977,175	782,570	429,167	293,032	3,870,156	1,978,604	194,625	249,936	280,134
Transfers	712,731	96,342	(19,561)	469,686	259,053	645,700	737,759	244,433	350,226
Extraordinary Event	-	-	-	-	-	-	-	-	(4,751,575)
Total governmental activities	40,283,261	42,575,272	44,067,422	47,139,153	49,987,755	49,853,368	47,106,388	47,121,525	43,333,222
Business-type activities:									
Investment income	364,113	406,860	433,376	701,746	716,501	482,275	352,887	230,896	157,926
Transfers	(712,731)	(96,342)	19,561	(469,686)	(259,053)	(645,700)	(737,759)	(244,433)	(350,226)
Total business-type activities	(348,618)	310,518	452,937	232,060	457,448	(163,425)	(384,872)	(13,537)	(192,300)
Total primary government	39,934,643	42,885,790	44,520,359	47,371,213	50,445,203	49,689,943	46,721,516	47,107,988	43,140,922
Changes in net assets:									
Governmental activities	8,799,782	5,605,527	3,928,111	7,220,508	(1,122,922)	730,162	(2,065,311)	(187,293)	(1,637,189)
Business-type activities	736,398	2,591,330	849,565	2,728,217	924,888	451,593	4,653	1,305,872	956,287
Total primary government	\$ 9,536,180	\$ 8,196,857	\$ 4,777,676	\$ 9,948,725	\$ (198,034)	\$ 1,181,755	\$ (2,060,658)	\$ 1,118,579	\$ (680,902)

The City implemented GASB 34 for the fiscal year ended June 30, 2003. Additional years will be added until 10 years of information is available.

CITY OF MONTEREY
 FUND BALANCES OF GOVERNMENTAL FUNDS
 LAST NINE FISCAL YEARS
 (modified accrual basis of accounting)

	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Fund:									
Nonspendable fund balance								\$ 22,682,645	\$ 22,816,967
Restricted fund balance								248,179	-
Committed fund balance								9,726,269	10,090,824
Assigned fund balance								551,473	394,310
Unassigned fund balance								41,108	529,398
Reserved ⁽¹⁾	\$ 1,824,216	\$ 2,709,474	\$ 2,211,156	\$ 3,813,441	\$ 22,181,992	\$ 21,273,435	\$ 21,495,370	-	-
Unreserved ⁽¹⁾	10,512,568	11,697,164	10,053,989	10,887,098	11,137,980	9,669,156	9,083,381	-	-
Total General Fund	\$ 12,336,784	\$ 14,406,638	\$ 12,265,145	\$ 14,700,539	\$ 33,319,972	\$ 30,942,591	\$ 30,578,751	\$ 33,249,674	\$ 33,831,499
All other governmental funds:									
Nonspendable fund balance								\$ 19,299,222	\$ 15,713,621
Restricted fund balance								17,229,293	17,323,244
Committed fund balance								5,770,460	6,870,549
Special revenue funds								(92,711)	-
Debt Service fund								(32,389,795)	(28,206,724)
Reserved ⁽¹⁾	\$ 18,108,500	\$ 13,676,271	\$ 15,770,966	\$ 15,939,983	\$ 23,439,262	\$ 22,922,882	\$ 25,482,962	-	-
Unreserved, reported in: ⁽¹⁾									
Special revenue funds	2,979,557	14,803,070	16,203,868	12,940,996	8,528,382	11,181,765	12,916,637	-	-
Permanent funds - Nonexpendable				2,476,127	2,476,127	2,476,127	2,476,127	-	-
Permanent funds - Expendable				432,598	582,546	565,259	235,188	-	-
Low/Mod Income Housing				3,095,150	1,460,242	(421,594)	2,012,992	-	-
Debt Service fund	(50,005,183)	(54,995,623)	(51,338,921)	(47,181,343)	(42,715,832)	(38,262,965)	(37,070,879)	-	-
Capital projects fund	10,355,313	11,053,863	11,363,281	4,954,215	2,589,374	4,460,818	1,009,947	-	-
Total all other governmental funds	\$ (18,561,813)	\$ (15,462,419)	\$ (8,000,806)	\$ (7,342,274)	\$ (3,639,899)	\$ 2,922,292	\$ 7,062,974	\$ 9,816,469	\$ 11,700,690

The City implemented GASB 34 for the fiscal year ended June 30, 2003. Additional years will be added until 10 years of information is available.
 The City implemented GASB 54 for the fiscal year ended June 30, 2011. Fund balances are reported in previous categories for prior fiscal years ⁽¹⁾

CITY OF MONTEREY
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST NINE FISCAL YEARS
(modified accrual basis of accounting)

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues:									
Taxes	\$ 33,387,125	\$ 35,290,475	\$ 36,879,200	\$ 38,220,869	\$ 40,326,890	\$ 39,370,583	\$ 38,746,690	\$ 39,588,703	\$ 39,948,064
Licenses and permits	3,237,232	3,260,190	3,480,028	4,535,708	4,726,272	4,209,088	3,705,052	3,654,304	4,047,893
Fines and forfeitures	422,907	414,174	414,828	341,163	461,314	479,684	444,167	376,857	293,276
Investment income	2,026,114	2,227,152	2,083,615	3,312,367	3,438,071	2,659,946	2,101,934	1,808,808	1,739,735
Rental income	6,613,307	7,710,161	6,716,126	7,252,913	7,642,805	8,074,287	3,412,445	3,339,846	3,885,566
Intergovernmental	4,904,686	4,903,585	4,268,796	5,421,614	6,047,826	6,254,226	5,834,202	10,166,960	7,477,815
Charge for services	10,586,923	11,448,258	12,790,494	12,430,149	12,521,579	14,164,052	16,191,553	15,302,794	17,075,415
Other	1,297,320	977,748	1,096,658	758,198	910,227	1,343,214	2,237,064	1,000,811	976,999
Total revenues	62,475,614	66,231,743	67,729,746	72,272,981	76,074,984	76,555,080	72,673,107	75,239,083	75,444,763
Expenditures:									
Current:									
General government	6,241,122	6,368,453	6,490,180	5,644,097	6,303,274	6,596,881	8,328,786	6,850,243	6,498,691
Public safety	16,111,604	17,666,518	18,849,523	19,238,349	22,781,983	23,731,900	24,950,815	24,106,242	24,869,532
Public works	10,030,797	10,313,147	11,535,467	12,938,457	14,408,540	17,060,180	15,629,131	16,016,944	15,934,668
Community development	3,100,561	3,173,133	3,451,867	3,982,360	4,275,923	3,281,264	1,606,658	1,816,472	859,647
Recreation and community service	6,063,555	6,200,750	6,394,130	6,740,696	7,307,666	7,701,164	7,562,605	7,620,535	7,545,025
Library	2,346,840	2,413,220	2,746,158	3,093,084	3,361,421	3,630,813	3,425,637	3,162,508	3,213,515
Public facilities	4,223,896	4,338,982	4,055,288	4,269,259	4,131,226	4,104,587	3,933,253	3,928,470	3,638,093
Capital outlays	8,623,007	6,285,694	6,476,625	11,013,491	10,557,068	4,731,862	4,301,127	4,183,799	4,865,244
Debt Service									
Principal retirement	1,553,463	3,351,283	602,485	616,166	636,007	961,373	648,728	1,490,511	269,347
Interest and fiscal charges	864,284	749,107	709,866	563,983	541,033	515,314	488,699	466,441	396,053
Total expenditures	59,159,129	60,860,287	61,311,588	68,099,942	74,304,141	72,315,338	70,875,439	69,642,165	68,089,815
Excess (deficiency) of revenues over (under) expenditures	3,316,485	5,371,456	6,418,158	4,173,039	1,770,843	4,239,742	1,797,668	5,596,918	7,354,948
Other financing sources (uses):									
Transfers in	5,811,739	4,414,971	7,619,572	12,383,701	10,939,205	4,976,300	8,429,696	8,633,095	3,563,688
Transfers out	(5,263,356)	(4,617,179)	(8,717,608)	(13,462,715)	(11,004,403)	(5,031,194)	(8,161,411)	(8,805,595)	(3,701,014)
Extraordinary event	-	-	-	-	-	-	-	-	(4,751,575)
Total other financing sources (uses)	548,383	(202,208)	(1,098,036)	(1,079,014)	(65,198)	(54,894)	268,285	(172,500)	(4,888,901)
Net change in fund balances	\$ 3,864,868	\$ 5,169,248	\$ 5,320,122	\$ 3,094,025	\$ 1,705,645	\$ 4,184,848	\$ 2,065,953	\$ 5,424,418	\$ 2,466,047
Debt service as a percentage of noncapital expenditures	4.8%	7.5%	2.4%	2.1%	1.8%	2.2%	1.7%	3.0%	1.1%

The City implemented GASB 34 for the fiscal year ended June 30, 2003. Additional years will be added until 10 years of information is available.

CITY OF MONTEREY
TRANSIENT OCCUPANCY TAX BY CATEGORY

LAST TEN FISCAL YEARS
(in thousands)

CATEGORY	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Full Service	\$ 7,710	\$ 7,902	\$ 8,464	\$ 8,591	\$ 9,227	\$ 9,782	\$ 9,415	\$ 9,292	\$ 9,382	\$ -
Cannery Row	1,085	1,108	1,153	1,280	1,370	1,398	1,207	1,207	1,249	4,685
Downtown	-	-	-	-	-	-	-	-	-	4,125
Fremont Street	971	939	951	999	1,043	1,091	995	965	881	1,057
Munras Avenue / Abrego Street	1,737	1,772	1,847	2,015	2,121	2,168	1,892	2,010	1,994	2,294
Other	1,028	1,108	1,213	1,295	1,409	1,428	1,247	1,191	1,137	4,374
Totals	\$ 12,531	\$ 12,829	\$ 13,628	\$ 14,180	\$ 15,170	\$ 15,867	\$ 14,756	\$ 14,665	\$ 14,643	\$16,535

The City's Transient Occupancy Tax rate has remained at 10% over the last ten years.

Source: City of Monterey Finance Department

Notes:
TOT base information by individual establishment is confidential and therefore is not available to the public.
TOT is the City's largest "own source" revenue, as defined by GASB Statement No. 44.
"Full Service" is defined as all lodging facilities having in-house restaurants and are categorized regardless of location. Use of this category for reporting was discontinued in FY12 and all lodging establishments are reported in FY12 by geographic location or summarized as "Other"
Totals do not include interest and penalties

CITY OF MONTEREY
PRINCIPAL TRANSIENT OCCUPANCY TAX GENERATORS
June 30, 2012

<u>Fiscal Year 2012</u>	<u>Fiscal Year 2003</u>
Casa Munras Garden Hotel	Casa Munras Garden Hotel
Hilton Inn	Doubletree Inn (now Portola Plaza Hotel)
Hotel Pacific	Hilton Inn
Hyatt Regency	Hotel Pacific
Intercontinental the Clement	Hyatt Regency
Monterey Bay Inn	Monterey Beach Hotel
Monterey Beach Hotel	Monterey Marriott Hotel
Monterey Marriott Hotel	Monterey Plaza Hotel
Monterey Plaza Hotel	Spindrift Inn
Portola Plaza Hotel	Victorian Inn

Note: All tax generators are listed in alphabetical order; tax generators above account for over 50% of transient occupancy tax

Sources: City of Monterey Finance Department

CITY OF MONTEREY

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

Fiscal Year	Secured	Unsecured	Total	Estimated Actual Value	Total Direct Rate	Estimated Actual Taxable Value	Taxable Assessed Value as a % of Actual Taxable Value
2011-12	\$ 4,041,986,257	\$ 324,842,877	\$ 4,366,829,134	\$ 4,366,829,134	1.00	\$ 4,366,829,134	100%
2010-11	4,095,770,713	332,917,437	4,428,688,150	4,428,688,150	1.00	4,428,688,150	100%
2009-10	4,178,070,884	356,925,673	4,534,996,557	4,534,996,557	1.00	4,534,996,557	100%
2008-09	4,169,257,808	336,975,505	4,506,233,313	4,506,233,313	1.00	4,506,233,313	100%
2007-08	4,008,632,240	313,282,743	4,321,914,983	4,321,914,983	1.00	4,321,914,983	100%
2006-07	3,674,285,037	295,332,694	3,969,617,731	3,969,617,731	1.00	3,969,617,731	100%
2005-06	3,396,501,367	280,032,114	3,676,533,481	3,676,533,481	1.00	3,676,533,481	100%
2004-05	3,139,002,712	259,990,859	3,398,993,571	3,398,993,571	1.00	3,398,993,571	100%
2003-04	2,959,464,492	265,188,423	3,224,652,915	3,224,652,915	1.00	3,224,652,915	100%
2002-03	2,916,031,097	278,097,859	3,194,128,956	3,194,128,956	1.00	3,194,128,956	100%

Note: In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an “inflation factor” (limited to a maximum increase of 2%). With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with the respect to the actual market value or taxable property and is subject to the limitations described above.

Source: Monterey County Auditor-Controller

CITY OF MONTEREY
PROPERTY TAX RATES - DIRECT
AND OVERLAPPING GOVERNMENTS
(PER \$100 OF ASSESSED VALUE)
LAST TEN FISCAL YEARS

Fiscal Year	City Direct Rates			Overlapping Rates	
	Basic Levy	General Obligation Debt Service	Total Direct Rate	Monterey Peninsula Community College	Total
2011-12	1.00	-	1.00	0.01052	1.01052
2010-11	1.00	-	1.00	0.02146	1.02146
2009-10	1.00	-	1.00	0.022410	1.02241
2008-09	1.00	-	1.00	0.019780	1.01978
2007-08	1.00	-	1.00	0.019940	1.01994
2006-07	1.00	-	1.00	0.02066	1.02066
2005-06	1.00	-	1.00	0.01800	1.01800
2004-05	1.00	-	1.00	0.02062	1.02062
2003-04	1.00	-	1.00	0.02319	1.02319
2002-03	1.00	-	1.00	0.00000	1.00000

Source: Monterey County Auditor-Controller

CITY OF MONTEREY
PRINCIPAL PROPERTY TAXPAYERS
 June 30, 2012

Fiscal Year 2012		Taxable Secured Assessments	Secured Taxable Value	Taxable Unsecured Assessments	Unsecured Taxable Value	Combined Taxable Value	Pct. Of Total City Assessed Value
<u>Taxpayer</u>	<u>Type of Business</u>						
Cannery Row Company	Commercial/Industrial Property	23	\$ 93,448,501	4	\$ 599,895	\$ 94,048,396	2.17%
Cannery Row Hotel Dev	Commercial Property	7	65,665,296	1	185,841	65,851,137	1.52%
Comcast Group	Industrial Property	1	1,346,023	4	23,047,775	24,393,798	0.56%
Custom House Hotel Co Ltd.	Lodging/Visitor Services	4	32,642,330	1	6,034	32,648,364	0.75%
Muller-Ryan LLC	Commercial/Office Property	4	40,538,327	0	-	40,538,327	0.93%
P Monterey LP	Residential, Apartments	1	42,134,491	0	-	42,134,491	0.97%
Pacific Holdings LP	Commercial/Industrial Property	1	94,243,583	0	-	94,243,583	2.17%
Pebble Beach Co	Commercial/Industrial Property	15	23,818,241	0	-	23,818,241	0.55%
RB Monterey LLC	Com Hotels & Motels	1	26,802,155	0	-	26,802,155	0.62%
San Carlos Associates	Commercial/Industrial Property	1	39,208,170	0	-	39,208,170	0.90%
Top 10 Totals		<u>58</u>	<u>\$ 459,847,117</u>	<u>10</u>	<u>\$ 23,839,545</u>	<u>\$ 483,686,662</u>	
2011/12 CITY-WIDE TOTALS			4,169,257,808		336,975,505	4,506,233,313	
Fiscal Year 2003							
Boulder Publishing Inc.	Commercial/Industrial Property	n/a	n/a	n/a	n/a	n/a	n/a
Cannery Row Company	Commercial Property	n/a	n/a	n/a	n/a	n/a	n/a
Classic Park Lane Partnership	Lodging/Visitor Services	n/a	n/a	n/a	n/a	n/a	n/a
CTB Macmillan McGraw Hill Co.	Residence/Apartments	n/a	n/a	n/a	n/a	n/a	n/a
Custom House Hotel Co Ltd.	Lodging/Visitor Services	n/a	n/a	n/a	n/a	n/a	n/a
Del Monte Regional Mall LLC	Printing/Publishing	n/a	n/a	n/a	n/a	n/a	n/a
Pebble Beach Company	Commercial/Industrial Property	n/a	n/a	n/a	n/a	n/a	n/a
PW Acquisitions XI LLC	Lodging/Visitor Services (Secured)	n/a	n/a	n/a	n/a	n/a	n/a
PW Acquisitions XI LLC	Lodging/Visitor Services (Unsecured)	n/a	n/a	n/a	n/a	n/a	n/a
San Carlos Associates	Commercial/Industrial Property	n/a	n/a	n/a	n/a	n/a	n/a
		<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>	
2002/03 CITY-WIDE TOTALS			0		0	0	

Note: Listed in alphabetical order
 Source: MBIA MuniServices Company, Municipal Resource Consultants

CITY OF MONTEREY
PROPERTY TAX LEVIES AND COLLECTIONS (1)
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections (3)</u>	<u>Percent of Levy Collected</u>	<u>Supplemental Tax Collections (3)</u>	<u>Delinquent Tax Collections (2)</u>	<u>Total Tax Collections</u>
2011-12	\$ 5,874,312	\$ 5,611,550	95.5	\$ 78,928	\$ 182,008	\$ 5,872,486
2010-11	5,946,732	5,565,321	93.6	86,038	275,096	5,926,455
2009-10	6,063,231	5,254,071	86.7	68,622	674,160	5,996,853
2008-09	6,076,909	5,598,032	92.1	159,006	333,331	6,090,369
2007-08	5,837,582	5,406,080	92.6	249,295	169,684	5,825,059
2006-07	5,126,812	4,857,749	94.8	340,165	111,724	5,309,638
2005-06	4,943,077	4,746,076	96.0	516,085	87,991	5,350,152
2004-05	4,485,332	4,368,588	97.4	294,097	87,107	4,749,792
2003-04	4,229,154	4,186,435	99.0	175,082	89,295	4,450,812
2002-03	4,005,927	3,897,972	97.3	166,929	35,042	4,099,943

Sources:

- (1) Monterey County Auditor-Controller
- (2) Monterey County reports collections as current period, irregardless of original levy year.
- (3) Fiscal years 2001-2010 have been restated in FY10/11 to separate supplemental assessments from Current Tax Collections

CITY OF MONTEREY
 COMPUTATION OF DIRECT AND OVERLAPPING
 BONDED DEBT
 JUNE 30, 2012

2011-12 Assessed Valuation: \$3,642,142,763 (after deducting \$724,686,371 redevelopment incremental valuation) (3)

OVERLAPPING TAX AND ASSESSMENT DEBT:	<u>% Applicable</u>	<u>Debt 6/30/12</u>
DIRECT AND OVERLAPPING BONDED DEBT:		
Monterey County General Fund Obligations (2)	8.870% **	11,457,379
TOTAL DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		<u>11,457,379</u>
COMBINED TOTAL DEBT		<u><u>\$11,457,379</u></u> *

Ratios to Assessed Valuation:

Total Overlapping Tax and Assessment Debt	0.31%
Combined Total Debt.....	0.31%

* Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

** Percentages calculated with assessed property values of applicable entities

Sources

- (1) City of Monterey Finance Department
- (2) Monterey County CAFR
- (3) Monterey County Auditor-Controller

*Percentages calculated with property values

CITY OF MONTEREY
RATIO OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

Governmental Activities				
Fiscal Year			Loans	Total Governmental Activities
	Bonds			
2011-12	\$ 7,880,000	\$	1,626,299	\$ 9,506,299
2010-11	8,115,000		490,574	8,605,574
2009-10	9,582,450		272,541	9,854,991
2008-09	10,208,350		388,235	10,596,585
2007-08	10,825,900		498,774	11,324,674
2006-07	11,441,700		604,373	12,046,073
2005-06	12,037,650		706,472	12,744,122
2004-05	12,610,400		814,725	13,425,125
2003-04	15,927,300		924,401	16,851,701
2002-03	17,441,150		1,036,214	18,477,364

Sources: City of Monterey Finance Department
State Department of Finance (population included in calculation)
U.S. Department of Commerce (per capita income included in calculation)

CITY OF MONTEREY
RATIO OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

Business-Type Activities			Total Primary Government		
Bonds	Marina Loans	Total Business-type Activities	Total Primary Government	Debt Per Capita	Percent of Personal Income
\$ 1,970,000	\$ 3,348,165	\$ 5,318,165	\$ 14,824,464	521	1.5%
2,210,000	3,600,547	5,810,547	14,416,121	490	1.0%
4,952,550	3,842,066	8,794,616	18,649,607	633	1.5%
5,976,650	4,073,186	10,049,836	20,646,421	706	2.2%
6,989,100	4,294,352	11,283,452	22,608,126	771	2.4%
8,008,300	4,557,873	12,566,173	24,612,246	667	2.2%
8,972,350	4,810,045	13,782,395	26,526,517	879	2.6%
9,894,600	5,068,179	14,962,779	28,387,904	926	2.7%
11,312,700	5,315,200	16,627,900	33,479,601	1,107	3.4%
12,658,850	5,551,582	18,210,432	36,687,796	1,210	3.9%

CITY OF MONTEREY
LEGAL DEBT MARGIN INFORMATION
JUNE 30, 2012

Total assessed value of all real/personal property	\$ 4,366,829,134
Debt limit percentage (per Government Code)	<u>15%</u>
Total debt limit	655,024,370
Amount of debt applicable to debt limit	<u>-</u>
Legal debt margin	<u><u>\$ 655,024,370</u></u>

Section 43605 of the Government Code of the State of California limits the amount of general bonded indebtedness for public improvements to 15% of the assessed valuation of all real and personal property in the City.

The City of Monterey has no general bonded indebtedness.

Source: Monterey County Auditor-Controller

CITY OF MONTEREY
DEMOGRAPHIC INFORMATION
JUNE 30, 2012

	Population (1)	Per Capita Income (2)	Total Personal Income (000's) (3)	Estimated Labor Force (4)	Estimated Unemployment Rate (4)
2012	28,460	\$ 35,283	\$ 1,004,154	19,400	4.8%
2011	29,440	48,305	1,422,099	17,700	4.8%
2010	29,455	42,857	1,262,353	18,000	4.7%
2009	29,244	32,792	958,969	18,300	3.0%
2008	29,322	32,503	953,053	17,700	2.4%
2007	30,121	36,877	1,110,772	17,300	2.4%
2006	30,161	34,177	1,030,812	18,000	2.4%
2005	30,641	33,952	1,040,323	17,350	3.4%
2004	30,241	32,469	981,895	17,600	3.4%
2003	30,329	30,800	934,133	17,630	3.3%

Sources:

- (1) State Department of Finance estimates
- (2) U.S. Department of Commerce (FY2010 dollars)
- (3) Estimated by combining items (1) and (2)
- (4) State of California Employment Development Department estimates

CITY OF MONTEREY
SUMMARY OF MAJOR EMPLOYERS
JUNE 30, 2012

Employer	Product/Function	FY 2012 Employee Size Range	FY 2003 Employee Size Range
PRIVATE SECTOR			
Community Hospital of Monterey Peninsula	Health Care	1000 to 4999	N/A
Ctb Mc Graw-Hill LLC	Educational Consultants	500 to 999	N/A
Dole Fresh Vegetables Co	Agricultural Growers & Shippers	250 to 499	N/A
Hyatt Regency-Monterey	Lodging/Visitor Services	250 to 499	N/A
Macy's	Department Stores	250 to 499	N/A
Mc Graw-Hill Co	Publishers	500 to 999	N/A
Monterey Plaza Hotel & Spa	Lodging/Visitor Services	250 to 499	N/A
Portola Hotel & Spa	Lodging/Visitor Services	250 to 499	N/A
Robert Talbott Inc	Men's Clothing Manufacturers	250 to 499	N/A
Trancredi Enterprises	Real Estate Investments	250 to 499	N/A
PUBLIC SECTOR			
City of Monterey	Government	250 to 499	N/A
Monterey Institute-Intl Study	Education	250 to 499	N/A
Monterey Peninsula College	Education	500 to 999	N/A
Monterey-Salinas Transit	Public Transportation	250 to 499	N/A
Naval Postgraduate School	Education	1000 to 4999	N/A

Source: Reference USA, City of Monterey Finance Department
As of FY2012, employer size is reported as a range instead of an actual amount, due to source data available
No amounts were reported in the FY2003 CAFR for comparison

CITY OF MONTEREY
 AUTHORIZED POSITIONS BY DEPARTMENT
 FULL-TIME AND PART-TIME
 LAST TEN FISCAL YEARS

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Police	86.00	82.00	81.00	79.00	79.00	79.00	72.00	72.00	69.00	68.50
Fire	52.00	51.00	51.00	51.00	54.00	54.00	66.00	66.00	65.00	72.00
Plans & Public Works*,**	177.75	168.75	159.75	159.75	163.75	145.75	162.00	162.75	158.00	144.75
Recreation	65.00	63.50	61.00	57.75	58.75	59.25	55.25	55.25	54.50	51.83
Library and Museum	32.25	28.00	25.50	25.50	27.25	27.50	22.50	23.25	22.75	21.83
Public Facilities	68.25	66.00	62.25	62.25	65.25	65.25	63.00	63.00	60.25	58.34
General Government*	51.00	45.75	45.75	47.00	46.00	46.00	46.00	48.75	48.25	46.00
Total	<u>532.25</u>	<u>505.00</u>	<u>486.25</u>	<u>482.25</u>	<u>494.00</u>	<u>476.75</u>	<u>486.75</u>	<u>491.00</u>	<u>477.75</u>	<u>463.25</u>

* includes positions related to Internal Service divisions

** Planning and Public Works departments combined in 2008/09

Source: City of Monterey Budget Document

CITY OF MONTEREY
OPERATING INDICATORS BY FUNCTION
JUNE 30, 2012
LAST NINE FISCAL YEARS

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Police (calendar year)									
Adult Arrests - Felony	377	427	395	356	351	343	343	369	340
Adult Arrests - Misdemeanor	1,668	1,574	1,313	1,606	1,698	1,733	1,733	1,286	1,242
Juvenile Arrests - Felony	60	52	59	60	46	64	61	58	43
Juvenile Arrests - Misdemeanor	207	164	125	146	169	121	142	122	161
DUI Arrests	530	n/a	389	309	339	342	305	255	275
Traffic Citations	7,512	n/a	6,421	5,769	8,177	7,995	8,653	5,635	3,539
Fire (calendar year)									
Rescue and Emergency Medical Calls	2,711	2,855	3,146	3,044	3,252	4,241	4,241	4,095	4,057
Fire & Explosion Calls	136	118	118	119	128	196	196	129	140
False Alarm Calls	398	449	413	481	500	475	475	515	489
Other Calls	1,095	814	861	949	857	1,399	1,399	1,494	1,547
Finance									
Accounts Payable Checks Issued	12,373	11,520	10,655	10,862	11,269	10,180	7,738	7,862	7,315
Payroll Checks Issued	n/a	17,661	17,913	18,177	18,997	18,998	18,579	17,875	17,319
Purchase Orders Issued	464	482	507	617	637	792	563	395	425
Recreation									
Monterey Sports Center:									
Average Daily Attendance*	n/a	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Number of programs offered (2)	n/a	1,143	1,063	972	748	1,004	925	934	1,152
Number of program participants **	n/a	6,967	6,463	5,031	4,084	6,231	4,853	5,075	7,427
Community Center, sports & camp Programs:									
Number of programs offered	n/a	544	605	509	525	448	525	545	721
Number of program participants **	n/a	4,883	5,684	5,174	4,927	3,959	5,057	5,451	8,073
Activity Guide editions published	n/a	3	2	2	2	2	2	2	2
Activity Guide copies distributed	n/a	53,000	36,000	34,000	34,000	24,550	24,000	15,000	14,000
Library									
Visitors	n/a	306,407	331,607	354,254	383,591	388,653	355,606	333,274	329,800
Reference questions answered	n/a	32,976	36,660	32,624	39,104	30,124	42,213	30,903	31,800
Items checked out	n/a	419,814	418,943	447,333	498,177	556,324	533,661	540,515	549,933
Volunteer hours worked	n/a	3,313	3,441	1,636	1,893	2,169	1,959	3,368	3,543

Source - internal records of City Departments:

Police Department

Fire Department

Finance Department

Recreation & Community Services (*last average daily attendance taken in 2008)

** Summer and Fall program statistics added in 2012

Monterey Public Library

The City implemented GASB 34 for the fiscal year ended June 30, 2003. Additional years will be added until 10 years of information is available.

CITY OF MONTEREY
CAPITAL ASSET STATISTICS
JUNE 30, 2012

General

Founded	1770
Date of incorporation	1850
Form of government.	Council/Manager
Area.	8.67 square miles
Water area	3.64 square miles

Fire Protection

Number of stations.	5 **
Number of commissioned fire personnel (actual)	69 **

** Includes Fire Services provided to the City of Pacific Grove and the City of Carmel by contract. One PG fire station and one Carmel station included in above total. All employees are now employed by the City of Monterey .

Police Protection

Number of stations.	1
Number of sworn police personnel (actual).	51

Infrastructure Facilities *

Miles of streets (centerline).	107
Miles of sewers	112
Storm Drain (miles).	41.18

* Does not include Presidio of Monterey or Naval Postgraduate School

Recreation and Culture

Number of community centers.	4
Sports centers.	1
Museums	4
Parks.	545 acres
City beaches.	2.5 miles/36 acres

Libraries

Number of libraries	1
Number of bookmobiles	1
Number of items (books, videos, tapes, etc)	118,509

Source: City of Monterey

