

CITY OF MONTEREY
JOINT POWERS FINANCING AUTHORITY
COMPONENT UNIT BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

This Page Intentionally Left Blank

CITY OF MONTEREY
JOINT POWERS FINANCING AUTHORITY

Component Unit Financial Statements
For the Year Ended June 30, 2015

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)	3
COMPONENT UNIT BASIC FINANCIAL STATEMENTS:	
Authority-wide Financial Statements:	
Statement of Net Position	6
Statement of Activities	7
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	9
Statement of Revenues, Expenditures and Changes in Fund Balance	10
Reconciliation of the Net Change in Fund Balances - Total Governmental Funds with the Statement of Activities	11
Proprietary Funds:	
Statement of Net Position	13
Statement of Revenues, Expenses and Changes in Net Position.....	14
Statement of Cash Flows.....	15
Notes to the Component Unit Basic Financial Statements	16

CITY OF MONTEREY - JOINT POWERS FINANCING AUTHORITY

(A Component Unit of the City of Monterey, California)

This Page Intentionally Left Blank

CITY OF MONTEREY - JOINT POWERS FINANCING AUTHORITY

(A Component Unit of the City of Monterey, California)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Please read this overview in conjunction your reading of the accompanying Basic Financial statements.

THE PURPOSE OF THE AUTHORITY

The City of Monterey Joint Powers Financing Authority (Authority) was formed in July 1994 by a joint exercise of powers between the City of Monterey (City) and the Redevelopment Agency of the City of Monterey (RDA). On February 1, 2012, the RDA was dissolved by the Dissolution Act (Assembly Bill X1 26) and the Successor Agency to the Redevelopment Agency of the City of Monterey (Successor Agency) assumed control of the former RDA operations and assets. The Authority provides financing of public capital improvements for the City and Successor Agency through the issuance of Lease Revenue Bonds. This form of debt allows investors to participate in a stream of future lease payments.

Improvements financed with Authority debt are leased to the City in return for rental payments which, together with restricted assets of the Authority (See Note 2), will be sufficient to meet the debt service obligations of the Authority. At the termination of the lease, title to the improvements will pass to the City.

The Authority is an integral part of the City. It provides services to the City and its governing body is the City Council. Therefore, the financial data of the Authority has been included as a blended component unit within the City's comprehensive annual financial report since for the year ended June 30, 2014.

FISCAL YEAR 2014-15 FINANCIAL HIGHLIGHTS

Financial highlights of the year include the following:

- The Authority had a net position of \$3,136 at June 30, 2015.
- The Authority's net position decreased \$72,379 in fiscal 2015.

The Basic Financial Statements

The Basic Financial Statements comprise the Authority-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the Authority's financial activities and financial position.

The **Authority-wide Financial Statements** provide a longer-term view of the Authority's activities as a whole, and comprise the Statement of Net Positions and the Statement of Activities. They are prepared on the accrual basis, which means they measure the flow of all economic resources of the Authority as a whole.

The *Statement of Net Position* provides information about the financial position of the Authority as a whole, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The *Statement of Activities* provides information about all the Authority's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each the Authority's programs. It explains in detail the change in net position for the year.

For each of these statements, all of the Authority's activities are grouped into two categories, Government Activities and Business-Type Activities.

CITY OF MONTEREY - JOINT POWERS FINANCING AUTHORITY

(A Component Unit of the City of Monterey, California)

The **Fund Financial Statements** report the Authority's operations in more detail than the Authority-wide statements and focus primarily on the short-term activities of the Authority's two Funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances. The Fund Financial Statements provide detailed information about each of the Authority's most significant funds, called Major Funds. The Authority reports both of its Funds as Major Funds; their purpose is explained in Note 1.C. to the financial statements.

Financial statements for Governmental Major Funds are prepared on the modified accrual basis, which means they measure only current financial resources and uses.

FINANCIAL ACTIVITIES OF THE AUTHORITY AS A WHOLE

This analysis focuses on the net position and changes in net position of the Authority in the Authority-wide *Statement of Net Position* and *Statement of Activities* that follow.

The Authority's net position decreased to \$3,136 in 2015 from \$75,515 in 2014.

Fiscal Year 2013-14 Authority Activities

Authority-wide Financial Statements

The Authority's fiscal 2015 revenue came solely from investment earnings, which amounted to \$123,234. Authority expenses of \$664,396 were for interest expense and other expenses.

Fund Financial Statements

At June 30, 2015, the Authority's governmental fund reported a fund balance of (\$1,995), which is a decrease of \$72,379 compared with last year. This decrease is primarily related to the use of bond reserves in the defeasance of the 2002 Lease Revenue bonds.

DEBT ADMINISTRATION

Each of the Authority's debt issues are discussed in detail in Note 4 to the financial statements. At June 30, 2015, the Authority's debt was comprised of Lease Revenue Bonds issued with interest rates of 5.5% to 5.75%, and a Lease Revenue Agreement with an interest rate of 3.87%, all secured by Lease revenues.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The Authority's sole revenue source is investment income received from the City of Monterey. The outlook for continued receipt of revenue payments and then subsequent ability to make timely debt service payments is strong. Although the City of Monterey had faced difficult budgeting challenges due to the economic downturn and revenue takeaways from the State of California, the City was proactive in restructuring staffing and services to align General Fund expenditures with anticipated revenue streams. In addition, the City significantly limited the use of reserves or "one-time" in-flows to pay for on-going expenditures.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

These financial statements are intended to provide citizens, taxpayers, investors and creditors with a general overview of the Authority's financial condition and results of operations. Questions should be directed to the Finance Department, 735 Pacific Street, Suite A, Monterey, CA 93940.

CITY OF MONTEREY - JOINT POWERS FINANCING AUTHORITY

(A Component Unit of the City of Monterey, California)

AGENCY-WIDE FINANCIAL STATEMENTS

STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

The Statement of Net Position and the Statement of Activities summarize the entire Authority'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 Authority'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 Authority's transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between Authority funds have been eliminated.

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

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

The Authority's Governmental Activities include the activities of its Debt Service Fund. The Authority's Business-Type Activities include its Enterprise Fund activities.

The Statement of Activities reports increases and decreases in the Authority's net position. It is also prepared on the full accrual basis, which means it includes all the Authority'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 Authority'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 Authority's general revenues are then listed in the Governmental Activities or Business-Type Activities column, as appropriate, and the Change in Net Position is computed and reconciled with the Statement of Net Position.

CITY OF MONTEREY JOINT POWERS FINANCING AUTHORITY
(A Component Unit of the City of Monterey, California)
STATEMENT OF NET POSITION
JUNE 30, 2015

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments available for operations	\$ 15,560	\$ 5,131	\$ 20,691
Interest receivable	44,864	22,712	67,576
Investment in leases	<u>6,680,000</u>	<u>1,110,000</u>	<u>7,790,000</u>
 Total Assets	 <u>6,740,424</u>	 <u>1,137,843</u>	 <u>7,878,267</u>
LIABILITIES			
Interest payable	44,828	22,712	67,540
Arbitrage rebate payable	17,591	-	17,591
Long Term Debt			
Due within one year	285,000	340,000	625,000
Due in more than one year	<u>6,395,000</u>	<u>770,000</u>	<u>7,165,000</u>
 Total Liabilities	 <u>6,742,419</u>	 <u>1,132,712</u>	 <u>7,875,131</u>
NET POSITION			
Restricted for:			
Debt service	<u>(1,995)</u>	<u>-</u>	<u>(1,995)</u>
 Unrestricted	 <u>-</u>	 <u>5,131</u>	 <u>5,131</u>
 Total Net Position	 <u>\$ (1,995)</u>	 <u>\$ 5,131</u>	 <u>\$ 3,136</u>

See accompanying notes to financial statements

CITY OF MONTEREY JOINT POWERS FINANCING AUTHORITY
(A Component Unit of the City of Monterey, California)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

	Net (Expense) Revenue and Changes in Net Position			
Functions/Programs	Expenses	Governmental Activities	Business-type Activities	Total
Governmental Activities:	\$ 586,447	\$(586,447)	\$ -	\$(586,447)
Business-Type Activities:				
Financing Authority	78,130	-	(78,130)	(78,130)
Total	\$ 664,577	(586,447)	(78,130)	(664,577)
General revenues:				
Investment earnings		45,102	78,131	123,234
Transfers from City		468,965	-	468,965
Total general revenues and transfers		514,067	78,131	592,199
Change in Net Position		(72,379)	1	(72,378)
Net Position-Beginning		70,384	5,130	75,514
Net Position-Ending		\$ (1,995)	\$ 5,131	\$ 3,136

See accompanying notes to financial statements

CITY OF MONTEREY - JOINT POWERS FINANCING AUTHORITY

(A Component Unit of the City of Monterey, California)

FUND FINANCIAL STATEMENTS

MAJOR GOVERNMENTAL FUNDS

The fund described below was determined to be a Major Fund. This is the Authority's only Governmental fund, and thus there are no individual non-major funds that would have been found in a Supplemental section.

DEBT SERVICE FUND

This **Debt Service Fund** is used to account for the accumulation of financial resources for the payment of long-term debt principal, interest, and related costs. As with all governmental funds, the Debt Service Fund is accounted for on a spending or financial flow measurement focus, which means that current assets and current liabilities are generally included on its balance sheet. The reported fund balances represent net current assets, which is considered only to be a measure of *available spendable resources*. Governmental fund operating statements present a summary of sources and uses of *available spendable resources* during a period by presenting increases and decreases in net current assets.

CITY OF MONTEREY JOINT POWERS FINANCING AUTHORITY
(A Component Unit of the City of Monterey, California)
GOVERNMENTAL FUND
BALANCE SHEET
JUNE 30, 2015

	Debt Service
ASSETS	
Cash and investments available for operations	\$ 15,560
Interest Receivable	36
Investment in leases	6,680,000
Total Assets	\$ 6,695,596
LIABILITIES	
Arbitrage rebate payable	17,591
Deferred revenue	6,680,000
Total Liabilities	6,697,591
FUND BALANCES	
Fund balances	
Restricted fund balance	(1,995)
Total Fund Balances	(1,995)
Total Liabilities and Fund Balances	\$ 6,695,596
Total fund balances reported on the governmental fund balance sheet above	\$ (1,995)
<p>Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds above because of the following:</p>	
ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES	
Revenues which are deferred on the Fund Balance Sheet because they are not available currently are taken into revenue in the Statement of Activities.	6,680,000
Interest payable	44,828
Interest receivable	(44,828)
LONG TERM ASSETS AND LIABILITIES	
The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:	
Long-term debt	(6,680,000)
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ (1,995)

See accompanying notes to financial statements

CITY OF MONTEREY JOINT POWERS FINANCING AUTHORITY
(A Component Unit of the City of Monterey, California)
GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Debt Service</u>
REVENUES	
Interest on investment in lease	\$ 275
Total Revenue	275
OPERATING EXPENSE	
Services and supplies	2,474
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,199)
NONOPERATING EXPENSES	
Principal expense	270,000
Interest expense	268,965
Total Nonoperating Expenses	538,965
Income(Loss) before Transfers and Other Financing Sources	(541,164)
OTHER FINANCING SOURCES (USES)	
Transfers in from City	468,965
NET CHANGE IN FUND BALANCE	(72,199)
BEGINNING FUND BALANCE	70,384
ENDING FUND BALANCE	\$ (1,995)

See accompanying notes to financial statements

CITY OF MONTEREY JOINT POWERS FINANCING AUTHORITY
 (A Component Unit of the City of Monterey, California)
 Reconciliation of the
 NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUND
 with the
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2015

The schedule below reconciles the Net Change in Fund Balance 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 Position of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUND \$ (72,199)

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

LONG TERM DEBT PROCEEDS AND PAYMENTS

Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Position the repayment reduces long-term liabilities.

Repayment of debt principal is added back to fund balance	270,000
---	---------

ACCRUAL OF NON-CURRENT ITEMS

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

Deferred revenue	(270,000)
Interest revenue	44,828
Interest expense	<u>(44,828)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (72,199)</u>
---	--------------------

See accompanying notes to financial statements

CITY OF MONTEREY - JOINT POWERS FINANCING AUTHORITY

(A Component Unit of the City of Monterey, California)

MAJOR PROPRIETARY FUNDS

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

The fund identified below is the Authority's only Proprietary fund, and thus there are no individual non-major funds that would have been found in a Supplemental section.

FINANCING AUTHORITY FUND

The **Financing Authority Fund** is an enterprise fund and is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the Authority is the costs and expenses; or (b) where the Authority has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for debt purposes.

CITY OF MONTEREY JOINT POWERS FINANCING AUTHORITY
(A Component Unit of the City of Monterey, California)
PROPRIETARY FUND
BUSINESS-TYPE ACTIVITIES; ENTERPRISE FUND
STATEMENT OF NET POSITION
JUNE 30, 2015

	<u>Financing Authority</u>
ASSETS	
Cash and investments available for operations	\$ 5,131
Interest receivable	22,712
Investment in leases	<u>1,110,000</u>
Total Assets	<u>1,137,843</u>
LIABILITIES	
Interest payable	22,712
Long Term Debt	
Due within one year	340,000
Due in more than one year	<u>770,000</u>
Total Liabilities	<u>1,132,712</u>
NET POSITION	
Unrestricted	<u>5,131</u>
Total Net Position	<u>\$ 5,131</u>

See accompanying notes to financial statements

CITY OF MONTEREY JOINT POWERS FINANCING AUTHORITY
 (A Component Unit of the City of Monterey, California)
 PROPRIETARY FUND
 BUSINESS-TYPE ACTIVITIES; ENTERPRISE FUND
 STATEMENT OF REVENUE, EXPENSES
 AND CHANGES IN FUND NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2015

	<u>Financing Authority</u>
OPERATING REVENUES	
Interest on investment in lease	<u>\$ 78,131</u>
OPERATING EXPENSES	
Amortization of cost of issuance	<u>3,147</u>
Operating Income (Loss)	<u>74,984</u>
NONOPERATING EXPENSES	
Interest expense	<u>74,983</u>
Change in net position	<u>1</u>
BEGINNING NET POSITION	<u>5,130</u>
ENDING NET POSITION	<u><u>\$ 5,131</u></u>

See accompanying notes to financial statements

CITY OF MONTEREY JOINT POWERS FINANCING AUTHORITY
(A Component Unit of the City of Monterey, California)
PROPRIETARY FUND
BUSINESS-TYPE ACTIVITIES; ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

	Financing Authority
CASH FLOWS FROM OPERATING ACTIVITIES	
Interest received	\$ 78,131
Investment in lease	306,852
Cash Flows from Operating Activities	384,983
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Interest paid	(74,983)
Principal payments on capital debt	(310,000)
Cash Flows from Capital and Related Financing Activities	(384,983)
Net Cash Flows	-
Cash and investments at beginning of period	5,131
Cash and investments at end of period	\$ 5,131
Reconciliation of Operating Income (Loss) to Cash Flows from Operating Activities:	
Operating income (loss)	\$ 74,984
Adjustments to reconcile operating income to cash flows from operating activities:	
Amorization of issuance costs	3,147
Change in assets and liabilities:	
Investment in leases	306,852
Cash Flows from Operating Activities	\$ 384,983

See accompanying notes to financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Reporting Entity*

The City of Monterey Joint Powers Financing Authority (Authority) was formed in July 1994 by a joint exercise of powers between the City of Monterey (City) and the Redevelopment Agency of the City of Monterey (RDA). On February 1, 2012, the RDA was dissolved by the Dissolution Act (Assembly Bill X1 26) and the Successor Agency to the Redevelopment Agency of the City of Monterey (Successor Agency) assumed control of the former RDA operations and assets. The Authority provides financing of public capital improvements for the City and Successor Agency through the issuance of Lease Revenue Bonds and other debt consisting of private placement, lease revenue agreements. This form of debt allows investors to participate in a stream of future lease payments.

Improvements financed with Authority debt are leased to the City in return for rental payments which, together with restricted assets of the Authority (See Note 2), will be sufficient to meet the debt service obligations of the Authority. At the termination of the lease, title to the improvements will pass to the City.

The Authority is an integral part of the City. It provides services to the City and its governing body is the City Council. Therefore, the financial data of the Authority has been included as a blended component unit within the City's comprehensive annual financial report for the year ended June 30, 2015.

B. *Basis of Presentation*

The Authority'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.

The accompanying financial statements are presented on the basis set forth in Government Accounting Standards Board Statements No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, No. 36, *Recipient Reporting for Certain Non-exchange Revenues, an Amendment of GASB Statement No. 33*, No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments; Omnibus*, No. 38, *Certain Financial Statement Note Disclosures*, No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and No. 68, *Accounting & Financial Reporting for Pensions*.

These Statements require that the financial statements described below be presented.

Authority-wide Statements: The Statement of Net Position and the Statement of Activities include the financial activities of the overall Authority. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Authority. 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 function of the business-type activities of the Authority and for each function of the

Authority'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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund Financial Statements: The fund financial statements provide information about the Authority's funds. Separate statements for each fund category—*governmental and proprietary*—are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. The Authority considers all its funds to be major funds.

Proprietary fund *non-operating* revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

C. Major Funds

GASB Statement 34 defines major funds and requires that the Authority's major governmental and business-type funds be identified and presented separately in the fund financial statements. The Authority considers all its funds to be major funds.

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their corresponding totals for all governmental or enterprise funds and at least five percent of the aggregate amount for all governmental and enterprise funds for the same item. The Authority reported the following major governmental fund in the accompanying financial statements:

Debt Service Fund – This Fund is used to account for the accumulation of financial resources for the payment of long-term debt principal, interest, and related costs. As with all governmental funds, the Debt Service Fund is accounted for on a spending or financial flow measurement focus which means that current assets and current liabilities are generally included on its balance sheet. The reported fund balances represents net current assets, which is considered only to be a measure of *available spendable resources*. Governmental fund operating statements present a summary of sources and uses of *available spendable resources* during a period by presenting increases and decreases in net current assets.

The Authority reported the following enterprise fund as a major fund in the accompanying financial statements:

Financing Authority Fund – This enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the Authority is the costs and expenses; or (b) where the Authority has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for debt purposes.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

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

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 Authority considers all revenues reported in the governmental fund to be available if the revenues are collected within thirty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for claims and judgments and principal and interest on long-term debt. Revenues susceptible to accrual are interest revenue, certain other intergovernmental revenues, and certain charges for services.

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

Non-exchange transactions, in which the Authority gives or receives value without directly receiving or giving equal value in exchange, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Authority 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.

E. Cash Equivalents

The Authority considers all highly liquid restricted investments with a maturity of three months or less when purchased to be cash equivalents.

NOTE 2 - CASH AND INVESTMENTS

A. Deposits and Investments

The Authority 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.

NOTE 2 - CASH AND INVESTMENTS (Continued)

As of June 30, 2015, the Authority had the following investments:

	Total Fair Value	1 Year or less	Rating at June 30, 2015
Investment Agreement	\$ <u> -</u>	\$ <u> -</u>	Not Rated
Total Investments	-	\$ <u> -</u>	
Cash (overdraft) in bank and on hand	<u> 20,691</u>		
Total cash and investments	\$ <u> 20,691</u>		

Cash and investments as of June 30, 2015 are classified in the accompanying financial statements as follows:

Statement of Net Position		
Cash & investments available for operations		\$ 20,691
Restricted cash & investments		<u> -</u>
Total cash and investments		\$ <u> 20,691</u>

B. Authorized Investments

The Authority’s investment policy (same as 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 Deposit) placed with commercial banks and/or savings and loan companies
- Negotiable Certificates of Deposit
- Bankers’ Acceptances
- Commercial Paper rate A-1 by Standard and 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 Authority’s investments are carried at fair value, as required by generally accepted accounting principles. The Authority 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.

NOTE 2 - CASH AND INVESTMENTS (Continued)

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. One of the ways that the Authority manages its exposure to interest rate risk is 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 Authority's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the table in Section A (Deposit and Investments) that shows the distribution of the Authority's investments by maturity date.

D. *Credit Risk*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligations to the holder of an investment. 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 Authority'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 deposit 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 value of 110% of the Authority'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 of Monterey's name and places the City and therefore the Authority ahead of general creditors of the institution. The Authority has waived collateral requirements for the portion of deposits covered by federal deposit insurance. The carrying amount of the Authority's cash deposit (part of the City of Monterey's deposit) is \$20,691 at June 30, 2015.

Please refer to the City of Monterey's Comprehensive Annual Financial Report for more information.

NOTE 3 – INVESTMENTS IN LEASES

The assets financed by the Authority are leased to the City for their estimated useful lives and will become the City's property at the conclusion of the leases. The Authority therefore records the present value of the leases receivable and considers the assets to have been sold for these amounts when leased.

The following is a summary of the investments in leases as of June 30, 2015:

	<u>Material Recovery Lease</u>	<u>Police/Fire Stations Lease</u>
Total minimum lease payments to be received under the Lease agreement	\$ 1,240,930	\$ 9,240,393
Less unearned interest income (based on the imputed Interest rate implicit in the lease)	<u>(130,930)</u>	<u>(2,560,393)</u>
Present value of investment in leases	<u>\$ 1,110,000</u>	<u>\$ 6,680,000</u>

NOTE 4 - LONG TERM DEBT

On February 15, 1994, \$4,045,000 of City of Monterey Joint Powers Financing Authority lease Revenue Bonds, Series 1994, were issued to finance the construction of a Materials Recovery Facility. The bonds bear interest at 5.50% 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 Authority upon payment of a redemption price equal to the outstanding principal and accrued interest, plus a premium of .25%. The bonds will be repaid from lease revenues from the City for the materials recovery facility.

On October 24, 2013, the Lease Revenue Bonds, Series 2002, were fully refunded with proceeds from a privately placed bank financing and a new lease agreement with Capital One Public Funding, LLC at an interest rate of 3.87% through May 1, 2032. Lease payments will be made from lease revenues from the City for the Police/Fire Department and Fire Station #3.

On November 19, 2013, the City Council adopted a resolution of formation to create the Conference Center Facilities District No. 2013-1 (CCFD) and a resolution deeming it necessary to incur bonded indebtedness of up to \$50,000,000. On March 4, 2014, the CCFD was finalized following a vote of qualified electors, which authorized the Council to levy a special tax on hotel properties within the City of Monterey, and to issue debt to fund a renovation of the Conference Center. The special tax becomes effective on July 1, 2014. No debt has been issued as of June 30, 2015.

NOTE 4 - LONG TERM DEBT (Continued)

The following summarizes the City's long-term debt transactions and balances at June 30, 2015:

	Balance June 30, 2014	Additions	Retirements	Balance June 30, 2015	Due Within One Year
GOVERNMENTAL ACTIVITIES					
Loans Payable:					
2013 Refunding-2002 Joint Powers Financing Authority, 3.87% due 5/01/32	6,950,000	-	270,000	6,680,000	285,000
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 6,950,000</u>	<u>\$ -</u>	<u>\$ 270,000</u>	<u>\$ 6,680,000</u>	<u>\$ 285,000</u>
BUSINESS TYPE ACTIVITIES					
Lease Revenue Bonds Payable:					
1994 Materials Recovery Facility, 5.50-5.75%, due 3/1/18	\$ 1,420,000	\$ -	\$ 310,000	\$ 1,110,000	\$ 340,000
TOTAL BUSINESS TYPE ACTIVITIES	<u>\$ 1,420,000</u>	<u>\$ -</u>	<u>\$ 310,000</u>	<u>\$ 1,110,000</u>	<u>\$ 340,000</u>

As of June 30, 2015, annual debt service requirements to maturity and carrying value of the Lease Revenue Bonds were as follows:

For the Year Ending June 30	Long Term Debt		
	Principal	Interest	Totals
Governmental			
2016	\$ 285,000	\$ 258,516	\$ 543,516
2017	295,000	247,487	\$ 542,487
2018	310,000	236,070	\$ 546,070
2019	320,000	224,073	\$ 544,073
2020	330,000	211,689	\$ 541,689
2021-2025	1,860,000	855,851	\$ 2,715,851
2026-2030	2,255,000	466,722	\$ 2,721,722
2031-2035	1,025,000	59,985	\$ 1,084,985
TOTAL	<u>\$6,680,000</u>	<u>\$2,560,393</u>	<u>\$ 9,240,393</u>
Business Type			
2016	\$ 340,000	\$ 63,655	\$ 403,655
2017	370,000	44,275	\$ 414,275
2018	400,000	23,000	\$ 423,000
2019	-	-	\$ -
2020	-	-	\$ -
2021-2025	-	-	\$ -
TOTAL	<u>\$1,110,000</u>	<u>\$ 130,930</u>	<u>\$ 1,240,930</u>

NOTE 5 – NET POSITION AND FUND BALANCES

A. *Net Position*

Net Position is the excess of all the Authority's assets over all its liabilities, regardless of fund. Net Position is divided into two captions; these captions apply only to Net Position, which is determined only at the Government-wide level, and are described as follows:

Restricted describes the portion of Net Position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Authority cannot unilaterally alter. This includes debt service requirements.

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

B. *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, 2014. 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.
3. Committed fund balances can be used only for specific purposes determined by formal action of 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.

This Page Intentionally Left Blank