

City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)

Monterey, California

**Basic Financial Statements and
Independent Auditors' Reports**

For the Year Ended June 30, 2021



City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the City of Monterey Joint Powers Financing Authority
Monterey, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of the City of Monterey Joint Powers Financing Authority (the "Authority"), a component unit of the City of Monterey, California (the "City") as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to 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 financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities and each major fund of the Authority as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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To the Board of Directors
of the City of Monterey Joint Powers Financing Authority
Monterey, California
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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 to 7 and Budgetary Comparison Schedule on page 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial Statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2021, on our consideration of the Authority'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 solely 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 effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

The PwC Group, LLP

Santa Ana, California
December 22, 2021



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditors' Report

To the Board of Directors
of the City of Monterey Joint Powers Financing Authority
Monterey, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities and each major fund of the City of Monterey Joint Powers Financing Authority (the "Authority"), a component unit of the City of Monterey, California (the "City") as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 22, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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To the Board of Directors
of the City of Monterey Joint Powers Financing Authority
Monterey, California
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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "The PwC Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California
December 22, 2021

City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Management’s Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2021

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 (the “Authority”) was formed in July 1994 by a joint exercise of powers between the City of Monterey (the “City”) and the Redevelopment Agency of the City of Monterey (the “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 (the “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 3), 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 annual comprehensive financial report since the year ended June 30, 2014.

FISCAL YEAR 2020-21 FINANCIAL HIGHLIGHTS

Financial highlights of the year include the following:

- The Authority had a net position of \$9,219 at June 30, 2021.
- The Authority’s net position increased \$4,792 during the year ended June 30, 2021.

The Basic Financial Statements

The Basic Financial Statements comprise the Government-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 **Government-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, Governmental Activities and Business-Type Activities.

City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2021

The **Fund Financial Statements** report the Authority's operations in more detail than the Government-wide statements and focus primarily on the short-term activities of the Authority's Governmental Fund and on both short-term and long-term activities of the Authority's Enterprise Fund. The Governmental Fund Financial Statements measure only current revenues and expenditures and fund balances. The Enterprise Fund Financial Statements measure with "economic resources" measurement focus. 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 Government-wide *Statement of Net Position* and *Statement of Activities* that follow.

The Authority's net position increased to \$9,219 in 2021 from \$4,427 in 2020.

Fiscal Year 2020-21 Authority Activities

Government-wide Financial Statements

	2021	2020
Total Revenues	\$ 203,835	\$ 216,606
Total Expenses	\$ 199,043	\$ 211,747

The Authority's revenue came from interest 5earnings in the amount of \$203,835.

The Authority's expenses in the amount of \$199,043 were for interest and fiscal agent charges.

Fund Financial Statements

At June 30, 2021, the Authority's governmental fund reported a fund balance of \$4,804,219, which is a decrease of \$337,859 compared with last year.

At June 30, 2021, the Authority's proprietary fund reported a balance of \$0, which is a decrease of \$2,350 compared with last year as a result of closing of the fund.

DEBT ADMINISTRATION

The Authority's debt issuance is discussed in detail in Note 4 to the financial statements. At June 30, 2021, the Authority's debt was comprised of 2013 Refunding Lease Payable issued with interest rates of 3.87% due on May 1, 2032.

City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2021

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.

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, California 93940.

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BASIC FINANCIAL STATEMENTS

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City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Statement of Net Position
June 30, 2021

	Governmental Activities	Business-Type Activities	Total
ASSETS			
#REF!	\$ 26,719	\$ -	\$ 26,719
#REF!	31,019	-	31,019
Notes receivables	4,795,000	-	4,795,000
Total assets	4,852,738	-	4,852,738
LIABILITIES			
#REF!	30,928	-	30,928
#REF!	17,591	-	17,591
#REF!			
#REF!	360,000	-	360,000
#REF!	4,435,000	-	4,435,000
Total liabilities	4,843,519	-	4,843,519
#REF!			
Unrestricted (deficit)	9,219	-	9,219
Total net position	\$ 9,219	\$ -	\$ 9,219

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, 2021

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>		<u>Total</u>
		<u>Governmental Activities</u>	<u>Business-type Activities</u>	
Governmental Activities:	\$ 196,693	\$ (196,693)	\$ -	\$ (196,693)
Business-type Activities:	<u>2,350</u>	<u>-</u>	<u>(2,350)</u>	<u>(2,350)</u>
Total primary government	<u>199,043</u>	<u>(196,693)</u>	<u>(2,350)</u>	<u>(199,043)</u>
General revenues:				
Investment earnings		<u>203,835</u>	<u>-</u>	<u>203,835</u>
Total general revenues		<u>203,835</u>	<u>-</u>	<u>203,835</u>
Changes in net position		7,142	(2,350)	4,792
Net Position:				
Beginning of year		<u>2,077</u>	<u>2,350</u>	<u>4,427</u>
End of year		<u>\$ 9,219</u>	<u>\$ -</u>	<u>\$ 9,219</u>

City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Governmental Fund

GENERAL FUND

This **General Fund** is the operating fund of the Authority and 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 General 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, 2021

	General Fund
ASSETS	
Cash and investments	\$ 26,719
Interest receivable	31,019
Notes receivable	4,795,000
Total assets	\$ 4,852,738
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	
Liabilities:	
Arbitrage rebate payable	\$ 17,591
Total liabilities	17,591
Deferred inflows of resources:	
Unavailable revenue	30,928
Total deferred inflows of resources	30,928
Fund Balance:	
Nonspendable	4,435,000
Unassigned	369,219
Total fund balance	4,804,219
Total liabilities, deferred inflows of resources and fund balance	\$ 4,852,738

City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Reconciliation of the Governmental Fund Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2021

Total fund balance for the governmental fund	\$ 4,804,219
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Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Fund because:

Revenues earned but were not available to pay for current expenditures for governmental fund are reported as unavailable revenue in the governmental fund balance sheet

Unavailable revenue	30,928
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Long-term debt and related payable were not due and payable in the current period, therefore, they were not reported in the governmental fund balance sheet current period and therefore are not reported in the governmental funds:

Long-term debt	(4,795,000)
Interest payable	(30,928)
	(4,825,928)

Total net position of governmental activities	\$ 9,219
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City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Statement of Revenues, Expenditures, and Change in Fund Balance
For the Year Ended June 30, 2021

	General Fund
REVENUES:	
Investment income	\$ 206,060
Total Revenues	206,060
EXPENDITURES:	
Debt services:	
Principal	345,000
Interest and fiscal charges	198,919
Total Expenditures	543,919
NET CHANGE IN FUND BALANCE	(337,859)
FUND BALANCES:	
Beginning of year	5,142,078
End of year	\$ 4,804,219

City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
**Reconciliation of the Governmental Fund Statement of Revenues, Expenditures,
and Change in Fund Balance to the Government-Wide Statement of Activities**
For the Year End June 30, 2021

Net change in fund balance - governmental fund \$ (337,859)

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

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	345,000
Interest expense	2,225

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):

Unavailable revenue	
Interest revenue	<u>(2,225)</u>

Change in net position of governmental activities \$ 7,141

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City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Proprietary Fund

FINANCE AUTHORITY ENTERPRISE FUND

The Financing Authority 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.

City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Statement of Net Position
June 30, 2021

	<u>Financing Authority</u> <u>Enterprise Fund</u>
NET POSITION	<u>\$ -</u>

City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Statement of Revenues, Expenses, and Change in Net Position
For the Year Ended June 30, 2021

	Financing Authority Enterprise Fund
CAPITAL CONTRIBUTION:	
Contribution to the City	\$ (2,350)
Total capital contribution	(2,350)
Change in net position	(2,350)
NET POSITION:	
Beginning of year	2,350
End of year	\$ -

City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Statement of Cash Flows
For the Year Ended June 30, 2021

	Financing Authority Enterprise Fund
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Contribution to the City	\$ (2,350)
Cash flows (used in) capital and related financing activities	(2,350)
Net increase in cash and cash equivalents	(2,350)
CASH AND CASH EQUIVALENTS :	
Beginning of period	2,350
End of period	\$ -

NOTES TO THE BASIC FINANCIAL STATEMENTS

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City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Notes to the Basic Financial Statements
For the Year Ended June 30, 2021

Note 1 – Summary of Significant Accounting Policies

A. Reporting Entity

The City of Monterey Joint Powers Financing Authority (the “Authority”) was formed in July 1994 by a joint exercise of powers between the City of Monterey, California (the “City”) and the former Redevelopment Agency of the City of Monterey (the “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 (the “Successor Agency”) assumed control of the former RDA operations and assets. The Authority provides financing of public capital improvements to 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 3), 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.

In evaluating how to define for financial reporting purposes, management has considered all potential component units. The primary criteria for including a potential component unit within the reporting entity are the governing body’s financial accountability and a financial benefit or burden relationship and whether it is misleading to exclude it. A primary government is financially accountable and shares a financial benefit or burden relationship, if it appoints a voting majority of an organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. A primary government may also be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government.

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, 2021. The General Fund of the Agency is blended with the City’s Debt Service Fund. The Financing Authority Enterprise Fund is blended with the City’s Enterprise Fund.

B. Financial Statements Presentation, Basis of Accounting and Measurement Focus

The Authority’s basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The Government Accounting Standards Board (“GASB”) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

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

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about. These statements include the financial activities of the overall Authority. These statements distinguish between the governmental and business-type activities of the Authority.

City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2021

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Financial Statements Presentation, Basis of Accounting and Measurement Focus (Continued)

Government-Wide Financial Statements (Continued)

The government-wide financial statements are reported using the “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all of the Authority’s assets and liabilities, including long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents a comparison between direct expenses and program revenues for the business-type activities of the Authority and 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. 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 investment earnings, 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.

Governmental Fund Financial Statements

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 sixty days after year-end. Expenditures are recorded when the related fund liability is incurred and when principal and interest are due. Financial resources usually are appropriated in other funds for transfer to the debt service fund in the period in which maturing debt principal and interest must be paid. Such amounts are not current liabilities of the governmental fund as their settlement will not require expenditure of existing fund assets. Issuance of governmental long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Major funds are defined as funds that have either assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses equal to ten percent of their 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:

General Fund – This fund is the operating fund of the Authority and is used to account for the accumulation of financial resources for the payment of long-term debt principal, interest, and related costs. It is accounted for on a spending or financial flow measurement focus which means that current assets and current liabilities are included on its balance sheet. The reported fund balances represent net current assets, net of deferred outflows and inflows of resources, 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 fund balance.

City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2021

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Financial Statements Presentation, Basis of Accounting and Measurement Focus (Continued)

Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

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.

The concept of major funds extends to Proprietary Funds. The Authority reported the following enterprise fund as a major fund in the accompanying financial statements:

Financing Authority Enterprise Fund – This fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises; or (b) where the Authority has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for debt purposes. Financing Authority Enterprise Fund was closed during the year ended June 30, 2021.

C. Cash and Investments

The Authority's cash are cash on hand and demand deposits pooled with the City.

The Authority's investments are pooled with the City and are considered as cash equivalents since the Authority is able to withdraw the investments at any time without prior notice or penalty. It has the general characteristics of demand deposit accounts. 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.

D. Cash Equivalents

For purposes of the statement of cash flows, the Authority considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2021

Note 1 – Summary of Significant Accounting Policies (Continued)

E. Deferred Outflows of Resources and Deferred Inflows of Resources

The Statement of Net Position and the Balance Sheet report separate sections for Deferred Outflows of Resources and Deferred Inflows of Resources, when applicable.

Deferred Outflows of Resources represent outflows of resources (consumption of net position) that apply to future periods; therefore, will not be recognized as an expense until that time.

Deferred Inflows of Resources represent inflows of resources (acquisition of net position) that apply to future periods and; therefore, will not be recognized as revenue until that time.

F. Net Position

Net position is measured on the full accrual basis of accounting as compared to fund balance, which is measured on the modified accrual basis of accounting. Net position is the excess of all the Authority's assets and deferred outflows of resources over all its liabilities and deferred inflows of resources, regardless of source. Net position is classified as follows:

Net Investment in Capital Assets describes the portion of net position which is represented by the current net book value of the Authority's capital assets, less the outstanding balance of any debt issued to finance these assets, net of unspent debt proceeds. At June 30, 2021, the Authority did not have net investment in capital assets.

Restricted describes the portion of Net Position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Authority cannot unilaterally alter. At June 30, 2021, the Authority did not have restricted net position.

Unrestricted describes the net position for the amount of the assets, deferred outflows of resources, net of liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets and the restricted component of the net position.

The Authority's policy is to first apply restricted resources to such programs, followed by the unrestricted component of net position as needed.

G. Fund Balances

In the Governmental Fund Financial Statements, fund balances are displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable – nonspendable fund balances are items that are not expected to be converted to cash associated with inventories, prepaid expenses, long- term portion of loans and notes receivable, and property held for resale (unless the proceeds will be restricted, committed, or assigned once they do become available) or items that are required to be maintained intact, such as principal of an endowment.

Restricted – 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.

City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2021

Note 1 – Summary of Significant Accounting Policies (Continued)

G. Fund Balances (Continued)

Committed – committed fund balances can be used only for specific purposes determined by formal resolution adopted by the Board of Directors (the Authority’s highest level of decision-making authority) and use of these funds requires the same formal Board action. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.

Assigned – assigned fund balances are intended by the Board 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. The Board of Directors adopts the Authority’s Financial Policies as part of the adoption of the annual budget. The Financial Policies include policies on the assignment of fund balance.

Unassigned – 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 nonspendable, restricted, committed and assigned fund balances for specific purposes exceed the positive fund balance for that fund.

Fund balance are reported as restricted, committed, assigned or unassigned categories depending upon the intended use of the balances. Fund balance amounts for governmental funds are classified as restricted or committed depending upon the purpose and restrictions imposed on each specific fund. The Authority applies expenditures to the most restrictive available balances first, and then less restricted funds as required in the order of committed, assigned, and then unassigned.

H. Use of Estimates

The preparation of the financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Note 2 – Cash and Investments

As of June 30, 2021, the Authority had the following cash and investments as follows:

	Government-Wide Financial Statement		Total
	Governmental Activities	Business-Type Activities	
Cash and investments	\$ 26,719	\$ -	\$ 26,719

The Authority pools all cash and investment with the City. Cash and investments are deposited in the City’s investment pool. Interest income is allocated based on average cash balances. Investment policies and associated risk factors applicable to the Authority are those of the City and are included in the City’s basic financial statements.

Please refer to the City’s Comprehensive Annual Financial Report for more information.

City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2021

Note 2 – Cash and Investments (Continued)

Authorized Investments

The Authority’s investment policy (same as the City’s investment policy) and the California Government Code allow the following investments:

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investments in One Issuer
U.S. government obligations	5 years	None	N/A
U.S. government sponsored enterprise securities	5 years	None	N/A
Bankers’ Acceptances	180 days	40%	N/A
Commercial Paper*	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	N/A
Repurchase Agreements	90 days	N/A	N/A
Reverse repurchase agreement	90 days	20%	N/A
California Local Agency Investment Fund	N/A	N/A	N/A
Certificates of Deposit (or Time Deposits)	N/A	25%	N/A
Medium Term Corporate Notes**	5 years	30%	5%

* Rated A-1 by Standard & Poor’s Corporation or P-1 by Moody’s

** Rated A or better by Standard & Poor’s Corporation or Moody’s

N/A - Not Applicable

Note 3 – Notes Receivables

The Authority entered into Facility Lease agreement on September 1, 2013 with the City, in conjunction with the issuance of 2013 Lease Financing Agreement with Capital One Public Funding LLC, as a financing vehicle to refund the Authority’s 2002 Lease Revenue Bonds. In substance, the proceeds in the amount of \$7,170,000 from the 2013 Lease Financing Agreement was given to the City to refund the prior lease arrangement with the Authority in the form of notes receivables. The outstanding balance of the notes receivable from the City at June 30, 2021 was in the amount of \$4,795,000.

Note 4 – Long-Term Debt

The summary of changes in the Authority’s long-term debt for the year ended June 30, 2021 is as follows:

	Balance July 1, 2020	Additions	Retirements	Balance June 30, 2021	Due Within One Year
Governmental Activities:					
Lease Financing Payable:					
2013 Refunding - 2002 Joint Powers Financing Authority, 3.87% due May 1, 2032	\$ 5,140,000	\$ -	\$ 345,000	\$ 4,795,000	\$ 360,000

City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2021

Note 4 – Long-Term Debt (Continued)

Lease Financing Payable

On October 24, 2013, the Authority entered into a \$7,170,000 Lease Financing Agreement with Capital One Public Funding, LLC to refund 2002 Lease Revenue Bonds, which were originally issued to provide funds for the expansion of the Monterey Sports Center and the purchase of the Catellus East parcel. The 2002 Lease Revenue Bonds were refunded with proceeds from a privately placed bank financing with Capital One Public Funding, LLC at an interest rate of 3.87% through May 1, 2032.

As of June 30, 2021, annual debt service requirements to maturity and carrying value of the lease payable were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2022	\$ 360,000	\$ 185,567	\$ 545,567
2023	370,000	171,635	541,635
2024	385,000	157,316	542,316
2025	400,000	142,416	542,416
2026	420,000	126,936	546,936
2026-2030	1,835,000	339,786	2,174,786
2031-2032	1,025,000	59,985	1,084,985
Total	<u>\$ 4,795,000</u>	<u>\$ 1,183,641</u>	<u>\$ 5,978,641</u>

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REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

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City of Monterey
Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2021

	Original Budget	Final Budget	Actual	Variance with Final Budget Over/(Under)
REVENUES:				
Investment income	\$ 205,918	\$ 205,918	\$ 206,060	\$ 142
Total Revenues	205,918	205,918	206,060	142
EXPENDITURES:				
Debt services:				
Principal	345,000	345,000	345,000	-
Interest and fiscal charges	202,418	202,418	198,919	3,499
Total expenditures	547,418	547,418	543,919	3,499
NET CHANGE IN FUND BALANCE	\$ (341,500)	\$ (341,500)	\$ (337,859)	\$ 3,641
FUND BALANCES:				
Beginning of year			5,142,078	
End of year			\$ 4,804,219	

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