



June 21, 2023

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

We have audited the financial statements of City of Monterey Joint Powers Financing Authority (a Component Unit of the City of Monterey, California) (Authority) as of and for the year ended June 30, 2022, and have issued our report thereon dated June 21, 2023. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and *Government Auditing Standards*

As communicated in our letter dated February 1, 2023, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements 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 the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Authority solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding internal controls during our audit in our Independent Auditor's 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* dated June 21, 2023.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Significant Risks Identified

As stated in our auditor’s report, professional standards require us to design our audit to provide reasonable assurance that the financial statements are free of material misstatement whether caused by fraud or error. In designing our audit procedures, professional standards require us to evaluate the financial statements and assess the risk that a material misstatement could occur. Areas that are potentially more susceptible to misstatements, and thereby require special audit considerations, are designated as “significant risks”. We have identified the following as significant risks.

- Management Override of Controls – professional standards require auditors to address the possibility of management overriding controls. Accordingly, as part of our normal audit procedures, we identified as a significant risk that management of the organization may have the ability to override controls that the organization has implemented.
- Improper Revenue Recognition – professional standards require auditors to presume that revenue recognition is a risk.

Qualitative Aspects of the Entity’s Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management’s current judgments. No such significant accounting estimates were identified.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Authority’s financial statements relate to:

- Note 1 summarizes the Authority’s accounting policies

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit.

The following misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management:

Prior year financial statements contained an error that was discovered during the current year. As a result, the beginning net position of the Authority did not include various balances and activities as required by the economic resources of accounting. The beginning net position was corrected to (\$1,201,382) from \$9,219.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the financial statements or the auditor's report. No such disagreements arose during the course of the audit June 21, 2023.

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report. The following emphasis of matter was included in our report:

Correction of Errors

As discussed in Note 4 to the financial statements, adjustments to the beginning balance of net position and fund balance were made by management for the correction of errors in the previously issued financial statements.

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated June 21, 2023.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Authority, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Authority's auditors.

Other Information Included in Annual Reports

Pursuant to professional standards, our responsibility as auditors for other information, whether financial or nonfinancial, included in the Authority's annual reports, does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards, we have read the other information such as the introductory section and the statistical section and considered whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

Existence of a Material Misstatement that Affects the Financial Statements of a Prior Period in Which There Was a Predecessor Auditor

We have identified the existence of a material misstatement that affects the prior period financial statements on which the predecessor auditor had previously reported without modification.

Interest payable, lease financing payables, and capital asset related accounts were previously unreported. As a result the beginning net position was restated to retroactively to correct the error.

This report is intended solely for the information and use of the city council, and management of the Authority and is not intended to be, and should not be, used by anyone other than these specified parties.



Menlo Park, California



Annual Financial Report
June 30, 2022

City of Monterey Joint Powers Financing Authority

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

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

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of the City of Monterey Joint Powers Financing Authority (A Component Unit of the City of Monterey, California) 's (Authority), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2022, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Correction of an Error

As discussed in Note 4 to the financial statements, certain errors of amounts previously unreported for lease financing payable, interest payable, and capital asset related accounts as of June 30, 2021, were discovered during the current year. Accordingly, a restatement has been made to the net position as of July 1, 2021, to correct the error. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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 June 21, 2023, 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 image shows a handwritten signature in cursive script that reads "Eide Sully LLP".

Menlo Park, California
June 21, 2023

Please read this overview in conjunction your reading of the accompanying basic financial statements.

The Purpose of the Agency

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 2021-22 Financial Highlights

Financial highlights of the years are the following:

- The Authority had a deficit net position of \$1,168,582 at June 30, 2022. This deficit is caused by the lease revenue bonds which will eventually be paid off as the City transfers resources to the Authority to make payment on the bonds.
- The Authority's net position increased by \$32,800 from the deficit net position of \$1,201,382 during the year ended June 30, 2022.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements consist of single enterprise fund financial statements, and the notes to financial statements.

Basic Financial Statements

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

The statement of net position presents financial information on all of the Authority’s assets, deferred outflows of resources, liabilities with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of revenues, expenses and change in net position presents information showing how the Authority’s net position changed during the most recent fiscal year. All changes in net position 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 for some items that will only result in cash flows in future fiscal periods.

The Statement of Cash Flows reports inflows and outflows of cash and is classified into three major components:

- Cash flows from operating activities which includes transactions and events reported as components of operating income in the statement of revenues, expenses and changes in net position.
- Cash flows from investing activities which arises from cash generated or spent relating to investment activities.
- Cash flows from capital and related financing activities which arise from the borrowing and repayment (principal and interest) of capital-related debt, the acquisition and construction of capital assets and the proceeds of capital grants and contributions.

Notes to the Financial Statements

The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found after the financial statements of this report.

Financial Activities of the Authority as A Whole

This analysis focuses on the net position and changes in net position of the Authority. The Authority’s deficit net position decreased to \$1,168,582 in 2022 from the deficit net position of \$1,201,382 in 2021.

Fiscal Year 2021-22 Authority Activities

	June 30, 2022	June 30, 2021
Total Revenues	\$ 544,711	\$ 551,060
Total Expenses	\$ 511,911	\$ 527,585

The Authority’s revenue came from lease revenues in the amount of \$541,689 and interest earnings in the amount of \$3,022. The Authority’s expenses in the amount of \$511,911 were for depreciation expense and interest and fiscal agent charges.

Debt Administration

The Authority's debt issuance is discussed in detail in Note 3 to the financial statements. At June 30, 2022, the Authority's debt was comprised of 2013 Refunding Lease Payable issued with interest rates of 3.87% due on May 1, 2032.

Economic Outlook and Major Initiatives

The Authority's sole revenue source are lease revenues, and 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.

City of Monterey Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Statement of Net Position
June 30, 2022

Assets

Current assets		
Cash and cash equivalents	\$	25,868
Interest receivables		87
		25,955
 Total current assets		 25,955
 Noncurrent assets		
Capital Assets		
Buildings and improvements		9,860,000
Less accumulated depreciation		(6,573,340)
		3,286,660
 Total noncurrent assets		 3,286,660
 Total assets		 3,312,615

Liabilities

Current liabilities		
Interest payable		28,606
Arbitrage rebate payable		17,591
Financing agreement		370,000
		416,197
 Total current liabilities		 416,197
 Noncurrent liabilities		
Financing agreement		4,065,000
		4,065,000
 Total liabilities		 4,481,197
 Net Position		
Unrestricted (deficit)	\$	(1,168,582)

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
Year Ended June 30, 2022

Operating Revenues	
Lease revenue	\$ 541,689
Operating Expenses	
Depreciation	<u>328,667</u>
Operating Income	<u>213,022</u>
Nonoperating Revenues (Expenses)	
Interest Income	3,022
Interest expense	<u>(183,244)</u>
Change in Net Position	32,800
Net Position (Deficit), Beginning, as Restated	<u>(1,201,382)</u>
Net Position (Deficit), Ending	<u><u>\$ (1,168,582)</u></u>

City of Monterey Joint Powers Financing Authority
(A Component Unit of the City of Monterey, California)
Statement of Cash Flows
Year Ended June 30, 2022

Cash Flows from Operating Activities	
Lease revenue receipts	\$ 541,689
Cash Flows from Capital and Related Financing Activities	
Principal paid on lease financing	(360,000)
Interest paid on lease financing	(185,566)
Net Cash Provided by (Used For) Capital and Related Financing Activities	(545,566)
Cash Flows from Investing Activities	
Interest income received	3,026
Net Increase (Decrease) in Cash and Cash Equivalents	(851)
Cash and Cash Equivalents Beginning Balance	26,719
Cash and Cash Equivalents Ending Balance	\$ 25,868
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ 213,022
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation expense	328,667
Total adjustments	328,667
Net Cash Provided by (Used For) Operating Activities	\$ 541,689

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

Notes to Financial Statements

June 30, 2022

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Monterey Joint Powers Financing Authority (A Component Unit of the City of Monterey, California) (Authority) conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Financial 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 (City) and the former 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 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, 2022. The Enterprise Fund of the Agency is blended with the City's Debt Service Fund.

Basis of Presentation and Accounting

All activities of the Authority are reported using the economic resources measurement focus and the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America, as applicable to governmental agencies. With this measurement focus, all assets and liabilities associated with operations are included on the Statement of Net Position. Revenues are reported when earned and expenses are reported when the related liabilities are incurred.

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

Notes to Financial Statements

June 30, 2022

Operating Revenues and Expenses

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing lease operations.

Net Position

As of June 30, 2022, the net position is classified as unrestricted. This category represents net position of the Authority that is not restricted for any project or other purpose. In order to calculate the amounts to report as restricted net position and unrestricted net position, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Cash and Cash Equivalents

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.

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.

Debt Issuance Costs, Premiums and Discounts

Long-term liabilities are reported as liabilities in the statement of net position. Debt premiums and discounts, as well as issuance costs related to prepaid insurance costs are amortized over the life of the bonds using the straight-line method, which approximates the effective interest method.

Capital Assets

Capital assets are stated at historical cost. Donated capital assets are recorded at estimated acquisition value at the date of donation plus ancillary charges, if any. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	40 years
Building improvements	20 years

The cost of normal maintenance and repairs that do not add to the value of the asset, nor materially extend its life is not capitalized. The Authority's policy is to capitalize all capital assets with a cost greater than \$5,000 and a useful life of more than one year.

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

Notes to Financial Statements

June 30, 2022

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 2 - Capital Assets

A schedule of changes in capital assets for the year ended June 30, 2022 is shown below:

	Balance July 1, 2021 as restated	Additions	Deductions	Balance June 30, 2022
Capital assets being depreciated				
Buildings and improvements	\$ 9,860,000	\$ -	\$ -	\$ 9,860,000
Accumulated depreciation				
Buildings and improvements	<u>(6,244,673)</u>	<u>(328,667)</u>	<u>-</u>	<u>(6,573,340)</u>
Net depreciable capital assets	<u>\$ 3,615,327</u>	<u>\$ (328,667)</u>	<u>\$ -</u>	<u>\$ 3,286,660</u>

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

Notes to Financial Statements
June 30, 2022

Note 3 - Long-Term Debt

Summary

The changes in the Authority's long-term liabilities during the year consisted of the following:

	Balance July 1, 2021 as restated	Additions	Deductions	Balance June 30, 2022	Due in One Year
Financing agreement	\$ 4,795,000	\$ -	\$ (360,000)	\$ 4,435,000	\$ 370,000

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, 2022, annual debt service requirements to maturity and carrying value of the lease payable were as follows:

Fiscal Year	Principal	Interest	Total
2023	\$ 370,000	\$ 171,634	\$ 541,634
2024	385,000	157,316	542,316
2025	400,000	142,416	542,416
2026	420,000	126,936	546,936
2027	430,000	110,682	540,682
2028-2032	2,430,000	289,089	2,719,089
Total	\$ 4,435,000	\$ 998,073	\$ 5,433,073

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

Notes to Financial Statements

June 30, 2022

Note 4 - Correction of an Error

As of July 1, 2021, the Authority discovered in the current year that certain account balances were not reflected on the financial statements. The Authority discovered for interest payable, lease financing payables, and capital asset related accounts were previously unreported. This change reflects the current understanding of accounting practices and ensures alignment with GASB Guidance going forward. Beginning net position was restated to retroactively to correct the error as follows:

Net Position - Beginning	\$ 9,219
Adjustment for increase in buildings and improvements	9,860,000
Adjustment for (increase) in accumulated depreciation	(6,244,673)
Adjustment for recognition of interest payable	(30,928)
Adjustment for recognition of Financing agreement	<u>(4,795,000)</u>
Net Position - Beginning as Restated	<u>\$ (1,201,382)</u>



Independent Auditor's Report
June 30, 2022

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



**Independent Auditor's 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***

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

We have audited, 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, the financial statements of the City of Monterey Joint Powers Financing Authority (Authority) , a component unit of City of Monterey (City), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Authority's basic financial statements and have issued our report thereon June 21, 2023. Our report included an emphasis of matter relating to a correction of an error.

Report on 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2022-001 that we consider to be a material weakness.

Report on 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 statements. 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*.

Authority's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Authority's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. The Authority's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Menlo Park, California
June 21, 2023

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

Financial Statement Findings

June 30, 2022

The following finding represents a material weakness related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The findings have been coded as follows:

2022-001 Restatement of the Authority's Beginning net Position (30000)

Criteria

Management is responsible for the design, implementation, and maintenance of internal controls to ensure the financial statements are free from material misstatement, whether due to error or fraud. Such internal controls should ensure that basis of accounting presented by the Authority are consistent with Generally Accepted Accounting Principles (GAAP).

Condition

The prior year financial statements contained an error that was discovered during the current year. The financial statements of the Authority were not presented as an enterprise fund as required by the Governmental Accounting Standards Board. Accordingly, the beginning net position of the Authority did not include various balances and activities as required by the economic resources' basis of accounting.

Effect

An audit adjustment and our drafting the financial statements were necessary to present the financial statements in accordance with GAAP.

Cause

The separately issued financial statements of the Authority were improperly identified as a governmental debt service rather than as an enterprise fund.

Recommendation

We recommend that management performs an evaluation of the financial statements to ensure all activities presented in the Authority's financial statements are in accordance with GAAP.

Repeat Finding

No.

Views of Responsible Officials

The Authority and the City agreed with the finding and the accompanying financial statements reflected this change.